brac

BRAC 40 YEARS OF REALISING POTENTIAL

# Uganda

## The pearl of Africa

Independent since 1962, Uganda is a nation known for the hospitality of its people and its rich wildlife, including the famous mountain gorillas. Uganda is also the site of BRAC's largest and fastest scale-up in Africa, starting from a modest launch in 2006, and celebrating their fifth year of operations in 2011. BRAC's programmes in Uganda are halfway toward its goal of reaching 4.2 million people, or 12 per cent of the population, by 2016.

What started out in 1972 in a remote village of Bangladesh as a limited relief operation, turned into the largest development organisation in the world. Of major non-governmental organisations, BRAC is one of the few based in the global south.

Today, BRAC is a development success story, spreading solutions born in Bangladesh to 10 other countries around the world – a global leader in creating opportunity for the world's poor. Organising the poor using communities' own human and material resources, it catalyzes lasting change, creating an ecosystem in which the poor have the chance to seize control of their own lives. We do this with a holistic development approach geared toward inclusion, using tools like microfinance, education, healthcare, legal services, community empowerment and more.

Our work now touches the lives of an estimated 126 million people, with staff and BRAC-trained entrepreneurs numbering in the hundreds of thousands – a global movement bringing change to 10 countries in Asia, Africa and the Caribbean, with operations in our 11th country, Philippines, being launched in 2012.

Annual Report

2011

Uganda

BRAC 40 YEARS OF REALISING POTENTIAL

# Harnessing **the past**
# Enriching **the future**

## Contents

# Vision, Mission and Values

## Vision

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

## Mission

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

## Values

### Innovation

For forty years, BRAC has been an innovator in the creation of opportunities for the poor to lift themselves out of poverty. We value creativity in programme 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. We hold these to be the most essential elements of our work ethic.

### Inclusiveness

We are committed to engaging, supporting and recognising 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 programme targets, and to improve and deepen the impact of our interventions.

# Chairperson's Statement

It gives me great pleasure to present the annual report and the audited financial statements for the year ended 31 December 2011.

While Uganda has been one of the few long-term success stories of Africa, its continued economic prosperity requires sustaining macroeconomic stability while boosting economic productivity and integrating all regions into the development process. Equal access to quality social services, particularly to education, health, and clean water, remains a challenge.

Uganda's overriding development challenge is to manage its resources, notably the fast-growing youth population. In our empowerment and livelihood for adolescents programme, over 30,000 girls and young women were reached this year through our 785 adolescent clubs spread across the country. Harnessing the potential of these young girls including teenage mothers through life skills and livelihood training and access to financial services is expected to create a critical mass within their communities having wider socio-economic impact. Our youth-based programme demonstrates achievements of young girls when they are given the opportunity to take control of their lives and form a concrete foundation for themselves. From our programme, 109 girls were elected during the youth elections conducted during the parliamentary elections in February; out of them, 19 were at the district level.

Going forward, new needs in terms of education are being identified, particularly in relation to ensuring the continuation of education and facilitating the transition from primary to secondary levels. New programmes are being designed to encourage meritorious but vulnerable students to continue their education at the secondary level and beyond.

For Ugandans, agriculture is the most important sector of the economy, employing over 80 per cent of the work force in the country. People in rural areas of Uganda depend on farming as the main source of income and 90 per cent of all rural women work in the agricultural sector. In our agriculture programme, we have made great strides in encouraging our clients to adopt modern technology in farming, which has resulted in the use of improved seeds, such practices as line sowing, and appropriate dose of fertiliser usage. We have also expanded our programme this year to cover 20 new branches, reaching more than 73,000 farmers.

As per our mission of poverty alleviation, our microfinance programme continues to innovate with loan products that respond to the market demands, such as agriculture loan, which started as a pilot in February 2011 for rice block-farms. Furthermore, education loan and poultry and livestock loans have been designed and implemented since November.

In recognition of our achievements in microfinance, we were awarded the prestigious Gold Award for Social Performance Management organised by AMFIU (Association of Microfinance Institutions of Uganda).

The expansion of our partnership with The MasterCard Foundation this year has allowed us to deepen the outreach of our current microfinance and livelihoods programme in Uganda, improving skills and livelihoods options of young people, and extending our network to 91 branches. We are striving towards the continuation of our efforts to document and disseminate results on long-term programme impact, and implementing a plan for long-term sustainability.
This year, we achieved a milestone in our development efforts in the country, celebrating five years of services to our clients in numerous fields. I would like to take this opportunity to commend our team in Uganda who have worked with enduring commitment to take advantage of every opportunity that has come BRAC's way. The quality of our performance is attributed to this remarkably competent team, their knowledge and skills. I extend my sincere thanks to the governing body, whose leadership and foresight has steered the organisation to success. I thank the Ugandan government and our development partners in Uganda, particularly, The MasterCard Foundation for their continued support as we strive to create greater value in our services to contribute towards the progress and prosperity of the Ugandan people.

**Sir Fazle Hasan Abed, KCMG**
Founder and Chairperson
BRAC

# Agriculture and Food Security

Operating in eight countries, BRAC's agriculture programmes work with governments to ensure food security. We build systems of production, distribution and marketing of quality seeds at fair prices; conduct research to develop better inputs and practices for the agricultural sector; offer credit support to poor farmers; and promote the use of efficient farming techniques and proven technologies. Using environmentally sustainable practices, we are helping our partner countries become self-sufficient in food production.

## A boost to Uganda's farmers

BRAC's agriculture, poultry and livestock programme is now operating across 80 branches. According to Uganda's national development plan, 75.1 per cent of the Ugandan labour force is involved in agriculture, while 70 per cent of the agriculture work force is made up of women. BRAC supports the agriculture sector by training community agriculture promoters and general farmers, all of whom are women.

The agriculture programme expanded into 20 new branches in 2011. With this expansion, the programme continues to train community agriculture promoters, community poultry and livestock promoters and artificial inseminator workers. They in turn have been able to reach 73,299 general farmers, distributed 113 metric tonnes of seeds and 15 million doses of poultry vaccines and inseminated 5,014 cattle.

During 2011, the agriculture programme expanded further with the establishment of the social enterprise, producing high-yield, open pollinated seeds. This enterprise was established in Nakaseke and is partnering with local farmers who are contracted to grow seeds. The seeds collected from these contract growers as well as seeds produced at the Nakaseke farm are then processed, packaged and sold.

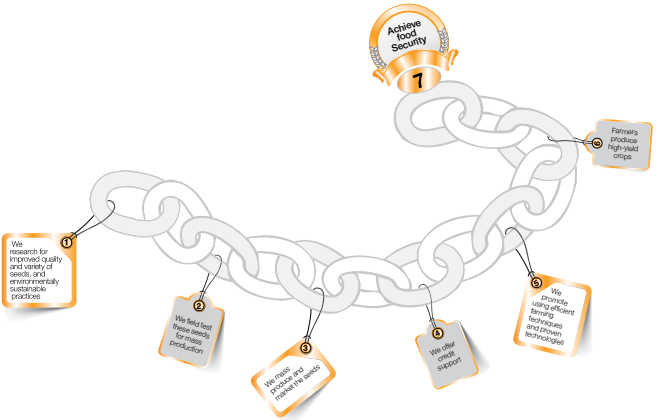
The enterprise produced 75 tonnes of maize seeds last season. Breeder seeds of beans and other varieties of maize were also sourced for production during the next season. The programme also has a number of adaptive trials, including drought resistant maize seeds.

The agriculture programme also received a boost through an agriculture loan product. The product is currently piloted in rice blocks, which are smallholder plots of farmland grouped together to maximise efficiency. This initiative is set to continue in the future. More rice blocks are currently being selected for this expansion.

The programme is also exploring the possibility of expanding into nutrition through nutrient-rich food crops, particularly working with orange-fleshed sweet potatoes and beans enriched with iron. Consultations at the national and international level are ongoing to explore how this important component could be added to the programme. Two pilot programmes are set to start in early 2012.

A farmer working on a plot in Ingana district, Eastern Uganda.

# Our approach:
## Value chain interventions




> We have only three seed companies in a country of over 30 million people, 80% of whom depend on agriculture. The few seed companies are monopolistic and therefore charge high prices. So BRAC will offer competition and thus lower prices.

**Syda Bhumba**
Finance Minister
Uganda

### 2011 by the numbers

800 community agriculture promoters and 73,299 general farmers trained, all of whom are women

1,600 community poultry and livestock promoters trained

470 metric tonnes of seed distributed

15.7 million doses of poultry vaccines distributed and 5,014 cattle inseminated

Mid-term evaluation conducted by BRAC's internal research and evaluation Division highlights higher adoption of modern technology by beneficiaries, who were 27 per cent more likely to use improved seeds, 7 per cent more likely to follow line sowing and 11 per cent less likely to follow mixed cropping practices.

Edith, a BRAC model farmer, is now helping to train other farmers on proper farming methods.

## EDITH KITIYO: A farmer's journey

"Since I learnt these new farming techniques, my farm yields are good and high. Now I have enough food to eat and surplus to sell."

A mother of six, 46-year-old Edith Kitiyo from Wobulenzi has always been a farmer. She used to grow food crops and coffee and reared pigs and chicken. Her husband traded matooke. Despite their hard work, they could not afford to give their children a proper education. In 2008, anxious to change their lives, Edith joined BRAC and became a model farmer.

Since joining the programme, her farm yields have more than doubled. Instead of 300kg of maize per acre, she now harvests 700kg. She has received three loans from the microfinance programme, along with training and other provisions such as seeds and tools from the agriculture programme.

With the improved income, Edith bought a motorcycle and employs a young man to transport and sell her products for her. Her income has now allowed her to enrol her children in good boarding schools, including one daughter in Gayaza High School, one of the most renowned girls' secondary schools in the country.

She is also teaching and training over 50 other farmers in her village. She noted that there is now enough food and also that more women in the village are interested in the trainings.

Phiona Businge, a general farmer in the same village, received training from Edith. She cultivates vegetables to earn a living. Before, she and her husband were able to cultivate only one-and-a-half acres of their land, which did not yield much. "I get knowledge from the model farmer who gathers the general farmers in her home to train us on spacing, applying fertilisers and manure, as well as weeding," Phiona said. With the loans and new farming skills she has received from BRAC, Phiona has increased her vegetable cultivation to four acres. This has allowed her to pay for their children's education and to complete building a house for her family.

# Education

With education programmes in six countries, BRAC has built the largest secular private education system in the world, with more than 38,000 schools giving disadvantaged youth a second chance at learning. Complementing mainstream school systems with innovative teaching methods and materials, BRAC opens primary schools in communities unreached by formal education systems, bringing joyful learning to millions of children, particularly those affected by extreme poverty, violence, displacement or discrimination. At the pre-primary level, we target underprivileged children to prepare them for mainstream primary school entry. At the secondary level, we provide need-based trainings, student mentoring initiatives, and e-learning materials to improve the mainstream secondary education system.

The unaugural WISE Prize for Education was awarded to BRAC Founder Sir Fazle Hasan Abed in recognition of his 40-year career dedicated to alleviating poverty through education.

## Second-chance education for Ugandan children

The BRAC Uganda education programme has fulfilled a critical role in bringing children who have been affected by the conflict in the Northern Region into the education system, and continues to provide second chance education to thousands. While Uganda's net enrolment rate in primary school remains at 81.8 per cent, a majority of students do not complete primary education; and only 16.3 per cent enrol in secondary level school. Moreover, there are also significant regional variations in educational achievement. Primary enrolment in northern Uganda is only 50 per cent, for instance, with less than 2 per cent completing primary school and a majority of them dropping out before third grade.

BRAC Uganda currently operates 100 second-chance schools in the North, with approximately 3,000 students enrolled. Close to 60 per cent of the students are girls and half of these girls are already mothers. In addition, 174 students currently enrolled in the schools have reported to have been abducted during the 20-year rebellion of the Lord's Resistance Army and 79 students are former child soldiers.

Most of the students in the BRAC second-chance schools have never enrolled in school before and are first time learners. Thus, the program compresses three years of primary school education into a two-year course, so that on completion of the bridge course the students will be ready to enroll in government schools, having gained basic literacy and numeracy skills.

The staff also continues to track the performance of the 10,800 students who have graduated from BRAC schools to date. About 3,000 of these students were successfully admitted to government schools and many of the older adolescent girls joined the BRAC-operated empowerment andlivelihood for adolescents (ELA) clubs within their villages. Through regular visits and monitoring, the staff ensures that the students get the support they need to stay in school and that those who are out of school have access to training and livelihood opportunities.

### Beyond 2011

Going forward, new needs in terms of education are being identified, particularly in relation to ensuring the continuation of education and facilitating the transition from primary to secondary levels. New programmes are being designed to encourage meritorious but vulnerable students to continue their education at the secondary level and beyond. A scholarship programme could play a vital role in ensuring that young people can continue having access to education.

> Sir Fazle Hasan Abed's life and career embody the values of WISE. He recognised that education is a passport to social inclusion and opportunity. He discovered a successful formula, and he adapted and expanded it – first in Bangladesh and then in other countries. As a direct consequence, millions of people around the world lead healthier, happier and more productive lives. His vision, resourcefulness and determination are vital ingredients of the innovation process and he stands as an example to all of us who believe that education, more than anything else, determines the destiny of individuals and societies.

**H.E. Dr. Abdulla bin Ali Al-Thani**
WISE (World Innovation Summit for Education) Chairman

A student at a BRAC school, Lucy (first on the left) is well on her way to realising her dream of becoming a teacher.

## LUCY ABBE: Dreaming to become a teacher

"Teacher Agnes, she taught us a lot, especially mathematics."

In 2007, when a learning centre was established in Okido, Lucy was living in a camp for internally displaced persons with her parents and sister. She had not started school because of the displacement, but soon after hearing about the opening of a learning centre, she started her education. When she was asked what she liked about BRAC's learning centre, she said, "I liked the books, the pencils and the sharpeners." Now Lucy is in Primary 5 and when asked what she wants to be when she grows up, Lucy said, "I want to be a teacher."

# Empowerment and Livelihood for Adolescents

BRAC's programmes for adolescents are designed to socially and financially empower teenage girls, providing safe spaces for them to socialise and receive mentoring and life skills training. With networks of these girls' clubs active in five countries, we combine this approach with financial literacy training, offering customised micro-loans that contribute to the social and financial empowerment of adolescent girls. This in turn helps prevent early marriages and leads to a more stable future for the next generation.

## Innovative interventions for girls

BRAC's girls' empowerment programme, called Empowerment and Livelihood for Adolescents (ELA), is set to continue expanding with the opening of 200 new clubs at the beginning of 2012. This will also take the programme to 20 new branches. Along with the expansion in terms of outreach, the programme has also been focusing on improving the quality of the various trainings and constantly innovating interventions to further empower adolescents. This focus on both scale and depth has contributed to the success of the girls' empowerment programme.

Another key knowledge generated within the programme's work has been how to incorporate the heterogeneity among youth. The programme was quick to identify that different youths had different needs in their transition to adulthood: while some required training on life skills to cope with their own changing bodies and the community around them, others required access to finances in a youth-responsive environment. Yet again some others simply wanted the sense of belonging that was offered by the community level clubs. The programme was quick to adapt in its design to accommodate these different youths by offering a wide selection of interventions.

This focus on extending its services to different groups of youth has also initiated an inclusion of boys. The programme has started to work with boys, particularly through vocational training. Under this initiative, 278 boys have been provided with vocational training and have been assisted with finding jobs.

Using the strong youth platform that has been created through the programme, the ELA programme has been collaborating with a number of organisations to pilot innovations. One example is the recent partnership with InsightShare, through which 11 ELA members have been trained on participatory video for monitoring and evaluation. The ELA programme is also collaborating with UNICEF on the U-report initiative to connect its members to larger policy debates.

The programme has also managed to incorporate youth into the programme as staff. More than half of the programme assistants have been recruited from the adolescent leaders or mentors. This not only ensures a further avenue of youth empowerment, it has also ensured that the programme is highly aware of youth needs in Uganda.

The programme had provided knowledge used extensively in starting the Karamoja programme, an early childhood and youth development campaign by BRAC which focuses on water, sanitation and hygiene.

A study by BRAC's internal research and evaluation division found that ELA has had an effect on lowering pregnancy rates, and on increasing the use of contraception and savings. Over a two-year period, among a cohort in which about 10-12 per cent of girls have children, childbearing was 20-25 per cent lower in Ugandan villages with an ELA program versus similar villages without one. Self-reported condom usage was significantly higher, too – even among non-participants, suggesting a healthy spill-over effect of family planning knowledge that was shared with ELA members. The randomised evaluation also found that average savings of girls living in ELA intervention villages increased by over 70 per cent.

The [microfinance multiplied] programme achieved remarkable scale, providing microfinance loans to approximately 110,000 borrowers, access to high quality agricultural inputs to 50,000 farmers, productivity enhancing services to 124,000 poultry and livestock rearers, and access to basic health services to more than 1.5 million people. BRAC is also empowering 32,000 adolescent girls and young people from poor and marginalised households, providing them with education, training and access to financial services. Uganda now serves as the model country for BRAC to inform its Africa strategy.

**MasterCard Foundation**

## 2011 by the numbers

785 clubs operating, through which 31,378 youths are being reached

25,742 youths provided with life skills and livelihood training

7,680 youths provided with micro-loans amounting to USD 1.1 million

Impact evaluation done by the Research and Evaluation Division highlights that ELA members are 29 per cent more likely to use condoms

109 members were elected for various posts during the national youth elections

## Beyond 2011

Going forward, the programme will expand further in scope and depth. The vocational training pilot will be expanded in 2012. In addition, the programme will continue its work with technology through setting up digital kiosks in partnership with UNICEF. This future outlook will also be guided by the youth policy being drafted by BRAC, making youth a key organisational focus in the coming years.

A group of girls enjoying a basketball game in Bugabwe village of Iganga district, Eastern Uganda.

Training on financial literacy has helped Brenda successfully manage her business

## BRENDA MASIKA: Back to school

"I got interested in joining the club when I heard that adolescents were to be trained on tailoring,"

Sixteen-year old Brenda Masika lives with her father, step-mother and seven siblings in Bembe village, north of Bombo town. Her hopes for getting an education were dashed in 2010 when she was in the first term of secondary three (equivalent of tenth grade). Her father, a boda boda (motorcycle hire) transporter, failed to earn enough income to cover the school fees for her. She was already a member of BRAC's Empowerment and Livelihood for Adolescents club, which she had joined in 2009.

Brenda first heard about BRAC from her step mother who is a member of a BRAC microfinance group and a model farmer in her village.

In the club, Brenda and other members were taught life skills and had the opportunity to play indoor and outdoor games. Her life took a positive turn when she received training on financial literacy, savings and investment. This made her interested in making money and having dropped out of school because of financial constraints further reinforced that desire. "Before joining BRAC, I did not have the desire to work for money. Now, I have the desire," Brenda said.

Having dropped out of school, Brenda asked for UGX 10,000 (about USD 4) from her father to start making mats and baskets for sale. It took her one week to make one mat and three baskets. She managed to sell her mat for UGX 9,000 and her baskets for UGX 2,000 each. Since then, customers have come to know about Brenda's business through her grandmother who has been in the handicrafts trade for many years.

Initially, her business was small because of low capital. Then Brenda took a loan from the ELA microfinance club. With her loan of UGX 200,000 (about USD 80) she bought bulk material for making the mats and baskets. This saved her from frequent visits to her suppliers, whose prices always seemed to increase.

Alongside handicrafts, Brenda invested half of the loan in growing vegetables. She bought 50 kg of cow peas and planted 2kg of the seeds every two weeks and harvests its leaves, to then sell them in the nearby army barracks.

In one year, she has managed to save enough money not only to expand her business, but also to enable her go back to school next year.

# Karamoja Initiative

BRAC's Karamoja programme completed its first year in 2011, with a wide range of activities using an integrated approach that includes youth development, education, and water, sanitation and hygiene.

The remote Karamoja region in northeastern Uganda is lagging behind in its development in comparison with the rest of the country. The literacy rate in the region is 21 per cent, compared to the national average of 68 per cent, with 60.3 per cent of those between the ages of six to 25 having never been to school. Only 46 per cent of the population have access to safe drinking water and only 8% have access to sanitation. Infant mortality stands at 178 per 1,000, compared to 88 per 1,000 nationwide.

BRAC's Karamoja programme, through the expansion of early childhood development, offers potential in the area of education. The youth development component has also shown success within a short time, particularly by drawing lessons from the girls' empowerment programme. Already the programme, with its focus on youth, has broken myths about the Karamoja region: contrary to belief that savings are difficult to mobilise in the region, the youth participants of the programme have mobilised a large sum through an income generating fund. Furthermore, training youth on agriculture with 409.5 acres of land brought under cultivation runs contrary to the notion that agriculture interventions are also challenging.

The scope for innovation is also a key feature of the programme. The income generating fund is an innovation that is now generating lessons for the wider youth programmes in Uganda. The inclusion of boys through boys' forums is generating knowledge on engaging with boys. The innovation with technology is also a key feature of the programme, which includes establishing digital kiosks and water purification systems.

While the programme continues to establish interventions in a new area of operation for BRAC, the lessons learnt are already significant. Harnessing that knowledge is a key element for going forward.

## Growth in 2011

120 youth development centres and 100 early childhood development centres established, reaching out to 2,993 girls and 3,096 children, respectively.

760 youths trained through livelihood training and a further 51 adolescents receiving vocational training.

2,993 youths provided with life skills. Their financial literacy training is currently underway, with all 120 mentors having received training.

USD 29,000 has been saved by the youths to set up income-generating fund.


John is receiving vocational training, empowering him both socially and economically.

## JOHN LUKOKI: Finding ways to help the community

"Now I can make some chairs and doors. There are no carpenters in Tapac. Maybe with this I can manage to make some money and help my community."

John Lukoki comes from a family of six. He is the second born and has two brothers and one sister. John, who finished school up to senior four (the equivalent of grade X), was the only one who had received any education. That by itself took him out of Tapac, a remote sub-county in the Karamoja region, as there are no secondary schools there. He saved money from brick breaking to go to secondary school in Amudat. However, he returned to Tapac after completing his education and has had little to do since then. He spends his time with his parents and siblings farming. They have two acres of land where they grow maize, sorghum and beans, which is not always sufficient for the whole family. John learned about BRAC through his sister, a member of the Segel A youth development centre. John's sister received livelihood training on agriculture and seeds from the programme. The Karamoja programme is running 120 youth development centres (adolescent clubs). In August, when the programme expanded to include boys, John signed up to join the boys' forum. These forums are located at each centre so that boys also receive skills to go through life empowered, both socially and economically. The inclusion of boys and the resulting success helped BRAC Uganda realise that true empowerment of youth will only happen with a focus on both boys and girls. In September, the programme started selecting boys from these forums to receive vocational training. John was selected to participate, and he walked for five hours all the way from Tapac to Moroto, where the training was conducted.

John is joining 49 other boys and girls from Karamoja who are being provided with vocational training. Three courses are being organised at this stage: brick laying, carpentry and tailoring. John has chosen carpentry.

# Microfinance

Innovative, client-focused and sustainable, the BRAC microfinance programme is a critical component of our holistic approach to support livelihoods. Over the course of the last four decades, we have grown to become one of the world's largest providers of financial services to the poor, providing tools that millions can use to better manage their lives.

## Building entrepreneurship

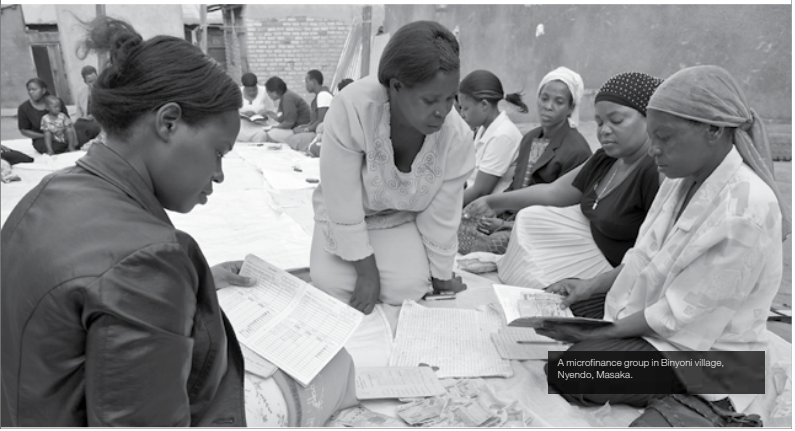
The microfinance programme is at the core of BRAC's interventions. Within six years, the programme has expanded across Uganda, and the further establishment of 20 new branches in 2011 has allowed the programme to further extend its outreach. Currently 114 branches offer micro-loans to women across Uganda.

Only 28 per cent of Ugandans have access to formal financial services. A majority of them rely on informal providers. BRAC Uganda is the largest microfinance institution in regards to the number of borrowers, accounting for 38 per cent of all active microfinance borrowers in the country.

BRAC's ability to scale up rapidly is reflected by the performance of the new 20 branches. Having been set up in July this year, the branches were able to disburse loans by September, and by the end of the year, USD 800,000 had already been disbursed to 8,502 borrowers.

Along with expanding its outreach, the programme is constantly innovating to ensure that the loan products are serving the needs of its clients. These innovations range from introducing new loan products to experimenting with loan repayment schemes. One of the new loan products introduced in 2011 was the agriculture loan product that allows clients to repay loans after the harvest. The programme is also testing out new monthly loan repayment schemes. The combination of expanding outreach and deepening services is a key element for the success of the programme.

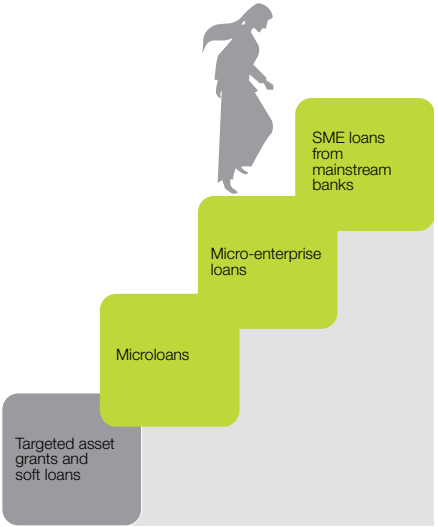
While expanding, the programme is also continuing to keep the clients at the centre of the programme. Social performance management has been a key area of focus. In recognition, BRAC was awarded the Gold Award by the Association of Microfinance Institutions of Uganda in 2011.



A microfinance group in Binyoni village, Nyendo, Masaka.

BRAC has set up a global record for establishing world class development programmes. They are very successful in microfinance and they are considered to be one of the most successful organisations globally.

**Syda Bhumba**
Finance Minister
Uganda




## 2011 by the numbers

USD 31.07 million disbursed as microloans to 108,470 women

20 new branches established in 2011 to expand microfinance services across Uganda

140,426 women now members of 7,524 groups

USD 5,058,064 disbursed to 4,791 borrowers under the small enterprise programme

## Future outlook

Going forward, BRAC Uganda would like to continue to expand and increase the range of its services. There is already a plan for establishing a further 20 branches offering microfinance services.

BRAC's small enterprise programme is also set to expand into the new branches. Mobilising savings also features strongly in the programme's future outlook. Under the current government policies, BRAC is unable to mobilise savings and needs to explore opportunities to transform into a microfinance deposit-taking institution.

Future opportunities also include the heightened use of technology, such as using mobile technology for cash transfer and information management.

With the loans she took out from BRAC, Sophia is now operating a successful business.

## SOPHIA NALUBANGA: Supporting five children

"From the business, I have been able to buy a piece of land in Iganga. I am able to easily pay school fees for my children, some of whom have completed university by now. I never expected to buy land so soon, but the BRAC loans have made it possible. I am no longer stressed, and a very happy woman because I can get anything I want. Now, I have money which can sustain my family."

In 2002, 32-year old Sophie Nalubanga separated from her husband and took on the responsibility for her five children. She moved back to her father's home in Kitegalwa village, Iganga district and began farming to pay the school fees for her children. However, this was not enough to support her family. "Sometimes my children would fall sick, but I had to wait for the harvest to get enough money for treatment," she said. Sophie realised that she needed to start another business. In 2004, she started a business of hawking clothes.

She used the money she got from the sale of her harvest to start up her business. She even moved to Kampala to access a better market. "The business was good, but most customers took the clothes on credit and delayed paying me back. I took a loan from BRAC Uganda to increase my capital and stock," to diversify her existing customer base, Sophie said.

She took a first loan of UGX 200,000 (USD 87) in December 2006, added it to her existing capital of UGX 750,000 (USD 326) and expanded her business. With more capital, she was able to increase her stock and began supplying to garment shops in Kampala.

Sophie is now on her fifth loan cycle with BRAC and is proud to share her success. Sophie is no longer worried about feeling unable to treat anyone who falls sick in her family.

Her business has also increased her standing in her community. Some people in her community even want her to run for election. Sophie now wants to set up a shop, as hawking is becoming too tiring for her. She hopes that she will be able to open that shop with her savings and with further support from BRAC.

# Health

Working in eight countries, BRAC's health programmes promote sustainable and accessible healthcare for the poor in collaboration with both state and private healthcare providers. Working in their own slums and villages, BRAC's army of self-employed community health promoters helps whole communities stay healthy, with a groundbreaking door-to-door approach. These workers create a cost-effective bridge between under-served poor communities and formal healthcare systems. BRAC also organises health meetings to encouraging an exchange of knowledge, thus empowering people to take care of themselves, their families and neighbours.

## Training community caregivers

The health programme has managed to scale its operations given its careful selection of community health promoters (CHPs). BRAC puts much emphasis on training to ensure the CHPs are qualified and continue to be respected in their communities. The evolution of the health products being sold by the CHPs has also ensured that the programme has been relevant and responsive to community needs.

The infant mortality rate in Uganda remains high at 76 per 1,000, and the under-five mortality rate is 137 per 1,000 with major causes of death being malaria, neonatal causes (severe infection, birth asphyxia), pneumonia and diarrhoea. Maternal mortality also remains high at 550 per 100,000, with low ante-natal care coverage of 47 per cent. The contraceptive prevalence rate is also low at 24 per cent, with high fertility rate of about 6.7 children per women. This is one of the highest among the African countries.

At the operational level, the health programme has also been testing performance-based salary systems. This system, while requiring intensive monitoring, has managed to improve performance significantly in 2011. The programme has also been able to adapt its approach to serve different health needs. While the programme has been focusing heavily on maternal health and under-five mortality, CHPs are also playing an active role in tuberculosis treatments in the West Nile region.

> Within our generation we have seen a worldwide sharp reduction from deaths related to treatable diseases. We owe a lot of this to BRAC.
>
> **Jeffrey Sachs**
> Director
> Earth Institute, Columbia University


A CHP conducts a community health forum meeting on the outskirts of Masaka in Central Uganda.


Nalongo is proud to be providing essential services in health to her community.

## NALONGO TOMUSANGE: Improving health begins at home

"I have managed to save money. I have used that to educate my children; my triplets are now in Form One. I have bought a piece of land and I am now saving to build a house."

Nalongo Tomusange, 41, is a single mother of six living in Kitemu village, Kyengera in Wakiso district. She was dependent on her father, who helped her raise her children. Unfortunately, in 2009 her father died. "I did not like asking other people for money after my father died, so I resorted to fetching water and brick making," she said. Nalongo first learned about BRAC last year when a BRAC staff talked to her about the health programme. Though she had never been a microfinance borrower, her community and the village Local Council supported her to be selected as a CHP.

Nalongo was provided with two weeks of training by BRAC where she was trained on the causes and treatments of common illnesses, including the use of basic medicines. Now, Nalongo works in her community to raise awareness about these illnesses. She conducts health forums during the microfinance group meetings. She also makes door-to-door visits to offer health advice, particularly focusing on antenatal and postnatal advice. Furthermore, as a CHP, Nalongo has been able to earn a living. Nalongo proudly said,

Having lost three children, Nalongo believes that improving health begins at home. She wants everyone in her area to take their share of responsibility in improving the health of their families and is happy to support them to achieve that.

### Growth in 2011

2,308 community health promoters (CHPs) trained

1,070,144 health meeting participants

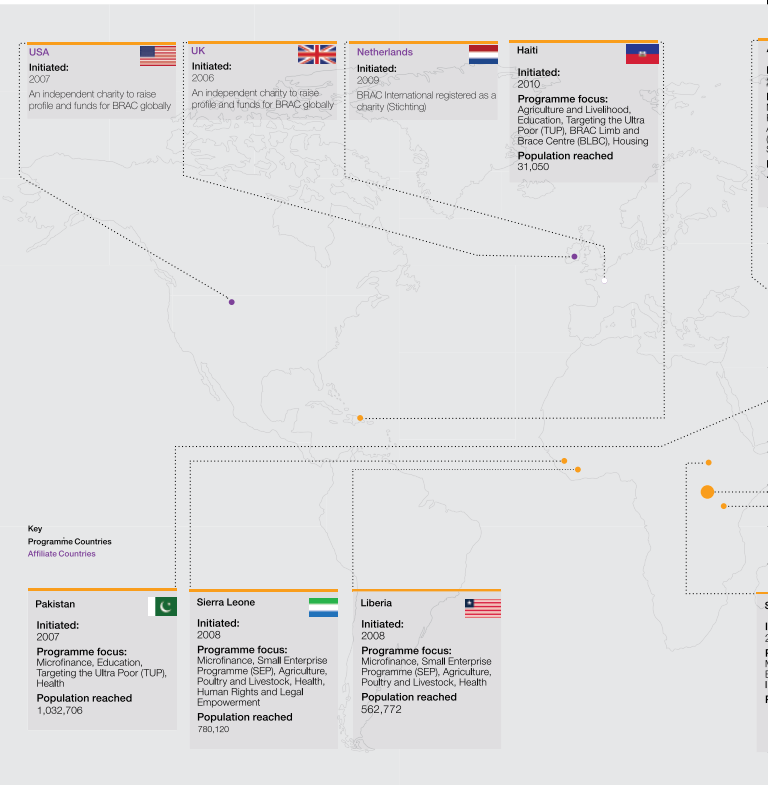
103,738 health meetings

10,152 TB patients referred

290,239 malaria cases treated by CHPs

70,500 oral rehydration solution and 3,629 family planning products distributed in communities through CHPs

# BRAC across the world



### Afghanistan

**Initiated:**
2002

**Programme focus:**
Microfinance, Small Enterprise Programme (SEP), Education, Adolescent Reading Centers (ARCs), Health, National Solidarity Programmes

**Population reached**
4,739,877

### Bangladesh

**Initiated:**
1972

**Programme focus:**
Microfinance, Education, Health, Ultra Poor, Community Empowerment, Human Rights, Advocacy, Agriculture, Disaster Management, WASH, Gender Equality

**Population reached**
Over 113 million

### Sri Lanka

**Initiated:**
2005

**Programme focus:**
Microfinance

**Population reached**
527,946

### Uganda

**Initiated:**
2006

**Programme focus:**
Microfinance, Small Enterprise Programme (SEP), Agriculture, Poultry and Livestock, Education, Empowerment and Livelihood for Adolescents (ELA), Health, Karamoja Initiative

**Population reached:**
2,827,392

| | |
|---|---|
| 122,[illegible] | microfinance, SEP and ELA borrowers |
| 103,137,5[illegible] | million each disbursed in 2011 |
| 74,[illegible] | farmers trained |
| 1,794 | health promoters |
| 283,[illegible] | malaria patients cured |
| 283,114 | women served with anti-natal care |
| 341,[illegible] | children immunised |
| 16,[illegible] | primary school graduates |

### South Sudan

**Initiated:**
2007

**Programme focus:**
Microfinance, Agriculture, Education, Adolescent Girls Initiative (AGI), Health

**Population reached**

### Tanzania

**Initiated:**
2006

**Programme focus:**
Microfinance, Small Enterprise Programme (SEP), Agriculture, Poultry and Livestock, Empowerment and Livelihood for Adolescents (ELA)

**Population reached**
1,332,187

### Philippines

**Initiated:**
2012

**Programme focus:**
Education

# Harnessing the Past:

## Our innovations in the last four decades

## 1970s

### Functional education

Life skills development education for adults that helps to build solidarity, create a savings mentality and prepare people for new income generation

### Village organisations (VOs)

The most effective medium for catalysing change in disadvantaged communities

### Para-professionals

Pioneering models for vaccinators, community health workers and 'barefoot lawyers' that provide incentive based jobs for those ready to serve their own communities

## 1980s

### Homemade oral rehydration solution campaign

A groundbreaking campaign in which 13 million households in Bangladesh learned how to make oral saline at home – a lesson that continues to save millions of lives from diarrhoea

### Incentive salary system

A result oriented incentive package that measures effectiveness of and compensates our community workers and volunteers accordingly

### Education for dropouts and non entrants

Our own primary schools that help disadvantaged children make successful transitions to formal schools

### Enterprises for value chain support

An integrated network of our development programmes, enterprises and investments that result in a unique synergy that supports our holistic approach for alleviating poverty

### Directly observed treatment (DOT) for TB control

An effective treatment method for tuberculosis, a result of our incentive based salary system for community health workers, ensuring patients' daily intake of medicine for six months or more

### Credit ++ approach

An integrated set of services for the landless poor, marginal farmers and small entrepreneurs working together to strengthen the supply chain of the enterprises in which our microfinance borrowers invest

# 1990s

## Empowerment and livelihood for adolescents

A range of initiatives to empower adolescents including skills training, social development and micro-loans for their future businesses.

## Adolescent clubs

Safe spaces where peer driven intervention for adolescents enhance their personal growth and social skills

## Pre primary schools

Our own pre primary schools where we prepare underprivileged children to enter mainstream primary schools

## Hybrid maize

A pioneer venture to commercialise corn harvesting, which plays a key role in making farmers shift from traditional single cropping to multiple cropping to maximise land usage during idle seasons

## Popular theatre

A traditional platform became an effective communication medium to advocate for social changes in rural communities, particularly to the illiterate

## Artificial inseminators

We transformed over 2,000 rural poor into entrepreneurs with an innovative livelihood opportunity; providing fee based 'door to door' artificial insemination and education services for livestock farmers

# 2000s

## Sharecroppers scheme

A phenomenal initiative to offer soft loans for tenant farmers (sharecroppers) with a specially tailored recovery plan

## Challenging the frontiers of poverty reduction

A unique model focusing on extremely deprived women to improve their economic and social situations, allowing ultra poor households to graduate from extreme poverty and enter mainstream development programmes

## Birthing huts

Safe and culturally accepted childbirth places with appropriate services for mothers in urban slums

## M-health services

A mobile based platform that community health workers use to collect data and provide a range of real time automated services such as storing patient records, categorising and assessing medical risks, prioritising medical responses and monitoring referrals

## Unique management model

A unique management model that focuses on internal control without suffocating creativity, runs our large scale interventions cost effectively, and enables us to constantly learn from the communities we serve across the world

# Governance

## BRAC Uganda (NGO)

**Sir Fazle Hasan Abed**
Founder and Chairperson, BRAC

Sir Fazle is recognised by Ashoka as one of the "global greats" and is a founding member of its prestigious Global Academy for Social Entrepreneurship. He was also appointed Knight Commander of the Most Distinguished Order of St. Michael and St. George (KCMG) by the British crown in 2010 in recognition of his services to reducing poverty in Bangladesh and internationally. He has received numerous national and international awards for his achievements in leading BRAC, including WISE Prize – the world's first major international prize for education by Qatar Foundation (2011), the David Rockefeller Bridging Leadership Award (2008), the Conrad N. Hilton Humanitarian Prize (2008) – the world's largest humanitarian prize, the Inaugural Clinton Global Citizen Award (2007), the Henry R. Kravis Prize in Leadership (2007)

**Dr. Mahabub Hossain**
Executive Director, BRAC and BRAC International (Ex-officio)

A renowned agricultural economist, Dr. Hossain is former head of Social Sciences Division of the International Rice Research Institute (IRRI), Philippines and former director General of the Bangladesh Institute of Development Studies (BIDS). He was awarded the first Gold Medal from the Bangladesh Agricultural Economist Association in 1985, in recognition of outstanding contribution to understanding the operation of rural economy in Bangladesh.

**Muhammad A. (Rumee) Ali**
Managing Director, BRAC (Ex-officio)

Mr. Rumee is the vice chairman of Bangladesh Association of Banks and a member of the Global Steering Committee of the 'Performance Based Grants Initiative' of the International Finance Corporation and the Technical Advisory Committee of Bangladesh Investment Climate Fund. He served as the deputy governor of Bangladesh Bank, and country head and general manager of Grindlays Bangladesh. He was appointed the CEO of the Standard Chartered Group in Bangladesh, heading both Standard Chartered Bank and Standard Chartered Grindlays Bank. He also served as a member of the Governing Body of PKSF.

**Imran Matin**
Deputy Executive Director International Programmes

Dr. Matin joined BRAC as a senior economist in the research & evaluation division in 2001. Prior to joining BRAC, Dr. Matin worked as a poverty specialist at the Consultative Group to Assist the Poor (CGAP), World Bank. He was also a research Fellow at the Poverty Research Unit in Sussex, and a research consultant at the Springfield Centre for Business Development in Darham, UK. Dr. Matin was the recipient of the ESCOR Research Grant in 1997, and the Over Research Scheme (ORS) Award in 1995.

**Tanwir Rahman**
Director, Finance, BRAC and BRAC International

Previously, Mr. Rahman was the Divisional Controller for HBG (Hollandsche Beton Groep) Royal BAM, Assistant Controller for Mitchell engineering, Senior Project Accounting Manager for Bovis Lend Lease. Before joining BRAC he worked as Controller for Allied Container System.

## BRAC Uganda Microfinance Ltd

| | |
|---|---|
| Sir Fazle Hasan Abed | Chairperson |
| Dr. Mahabub Hossain | Executive Director, BRAC and BRAC International (ex-officio) |
| Imran Matin | Deputy Executive Director International Programmes |

# Management

**Md. Abul Kashem Mozumder,** Country Representative, Uganda

Mr Mozumder currently serves as country representative to Uganda, a position he's held since October 2011. In his current position, Mr. Mozumder is responsible for overseeing the day-to-day operations of the Uganda programmes, which cover agriculture, health, education, youth empowerment, small enterprise management and microfinance. Previously, Mr. Mozumder was programme manager for the education, Karamoja, and empowerment and livelihood for adolescent (ELA) programmes, implementing adult education and youth education programmes in Uganda. His experience spans community development, resource mobilisation, programme monitoring and evaluation, portfolio and delinquency management, budgeting and staff development. Mr. Mozumder joined BRAC in February 1990 and has held various positions of increasing responsibility with the organisation.
Mr. Mozumder completed his M.Com in Management from the University of Chittagong, Bangladesh in 1989. He was born in Feni, Bangladesh in 1964.

| | |
|---|---|
| Munshi Sulaiman | PhD Research Coordinator, International Programme |
| Mozammel Huq | PhD - Programme Manager, Agriculture |
| Dr. Prodip Chandra Baishnab | Livestock Coordinator, Poultry and Livestock Programme |
| Dr. Wali Ahmed Fateh | Programme Manager/ Senior Medical Officer, Health |
| Dr. Gulshan Ara Khanom | Technical Manager, Health |
| Md. Rafiqul Islam | Programme Manager, Microfinance |
| Md. Abul Hossain | Senior Regional Manager, Microfinance |
| Md. Abdus Samad | Senior Regional Manager, Microfinance |
| Umbareen Kuddus | Programme Manager, Youth Programme |
| Md. Abdur Razzak Molla | District Manager, Education Programme |
| Anupam Sengupta | Programme Manager, Empowerment and Livelihood for Adolescents Programme |
| Jonathan A. Maraka | Manager, Karamoja Programme |
| Proloy Barua | Senior Research Associate, Research and Evaluation Unit |
| Ricardo Morel | Research Associate, Research and Evaluation Unit |
| Daniel Businge | Principal Accountant, Accounts and Finance |
| Md. Asaduzzaman | Senior Accounts Officer, Accounts and Finance |
| Shahe Alam | Manager, HR and Training |
| Cathy Anna Akoth | HR Officer, Human Resources |
| Md. Abu Sufian | Senior Trainer and In-charge, Learning Division |
| Veronica Omuut Ndagire | Senior Trainer, Learning Division |
| Rafiqul Islam | Senior Software Engineer, IT In-charge, IT Department |
| Carol Namatovu | Software Engineer, IT Department |
| Syed Abul Bashar | Manager, Monitoring |
| Gopal Chandra Pramanik | Senior Monitoring Officer, Monitoring |
| Kanchan Shil | Sector Specialist, Monitoring |
| Md. Afjal Hossain | Country Head of Internal Audit, Internal Audit |
| Md. Asaduzzaman | Manager, Internal Audit |
| Alhaj Md. Shahjahan | Manager, Branch and Loan Review Unit |
| Betty Suzanne Kimera | Assistant Review Analyst, Branch and Loan Review Unit |
| Md. Saiful Islam Khan Nahid | Financial Analyst, SPM and Finance |
| Albert Ssimbwa | Assistant Financial Analyst, SPM and Finance |
| Md. Shamim Hossain | Programme Manager, Small Enterprise Programme |
| Md. Faridul Islam | Regional Manager, Small Enterprise Programme |
| Bandele Adeyemi | Manager, Communications |

# Development Partners

BRAC USA

THE WORLD BANK

UNHCR

unicef

The MasterCard Foundation

KIVA

# Notes

# Notes

# BRAC UGANDA MICROFINANCE LIMITED financial statements

For the year ended December 31, 2011

# BRAC UGANDA MICROFINANCE LIMITED

**Directors' Report and financial statements**
**For the year ended 31 December 2011**
**DIRECTORS, OFFICERS AND ADMINISTRATION**

**DIRECTORS**

| | | |
|---|---|---|
| Sir Fazle Hassan Abed | - | Chairman |
| Dr. Mahabub Hossain | - | Member |
| Dr. Imran Matin | - | Member |

**ADMINISTRATORS**

| | | |
|---|---|---|
| Mr. Abul Kashem Mozumder | - | Country Representative |

**PRINCIPAL PLACE OF BUSINESS:**
Off Entebbe Road, Nyanama
Plot 90, Busingiri Zone
P O Box 31817
Kampala Uganda

**REGISTERED OFFICE:**
Off Entebbe Road, Nyanama
Plot 90, Busingiri Zone
P O Box 31817
Kampala, Uganda

**COMPANY SECRETARY:**
Tanwir Rahman
Director of Finance,
BRAC and BRAC International
BRAC International
BRAC Centre, 75 Mohakhali, Dhaka 1212, Bangladesh

**AUDITORS**

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

**BANKERS**

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

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

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

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

Barclays Bank (U) Limited
Plot 4 Hannington Road
P O Box 2750
Kampala, Uganda

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

# BRAC UGANDA MICROFINANCE LIMITED
## Directors' Report and financial statements
## For the year ended 31 December 2011
## DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2011

The directors have pleasure in submitting their report and the audited financial statements of the company for the year ended 31 December 2011, which disclose the state of affairs of BRAC Uganda Microfinance Limited, in accordance with section 157 of the Ugandan Companies Act (CAP 110).

**(a) Incorporation**

BRAC Uganda Microfinance Limited got incorporated as a company limited by guarantee on 27th August, 2008 as an independent company. 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 30th day of September 2009, at a duly convened meeting of the Governing Board, BRAC transferred all Assets and Liabilities that relate to or are in any way connected with the Microfinance activity it has been operating in Uganda to BRAC Uganda microfinance limited.

The Company effectively commenced trading independently on 01st January 2010 as BRAC Uganda Microfinance Limited.

**(b) Principal activities**

The Company provides Microfinance activities to improve the livelihood of poor people in over 62 districts in Uganda including extending loan facilities.

**(c) Results from operations**

The results for the Company for the year ended 31 December 2011 are set out on page 7.

**(d) Directors**

The directors who served during the year are set out on page 2.

**(e) Directors benefits**

No director has received or become entitled to receive any benefits during the financial year.

**(f) Auditors**

The auditors, KPMG being eligible for reappointment, have indicated their willingness to continue in office in accordance with Section 159(2) of the Uganda Companies Act (CAP 110).

**(g) Approval of the financial statements**

The financial statements were approved by the directors at a meeting held on 4-6-2012.

By order of the Board

Signed…… Date: 4.6.12

**SECRETARY**

## BRAC UGANDA MICROFINANCE LIMITED
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The company's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors' responsibilities include: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. They are also responsible for safe guarding the assets of the company.

Under the Companies Act of Uganda, the directors are required to prepare financial statements for each 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 the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records that disclose with reasonable accuracy the financial position of the company.

The directors accept responsibility for the financial statements set out on pages 7 to 40 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Financial Reporting Standards and the Companies Act of Uganda. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the profit and cash flow for the year ended 31 December 2011. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the company will not be a going concern for the next twelve months from the date of this statement.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the International Financial Reporting Standards and Republic of Companies' Act of Uganda.

**Approval of the financial statements**

The financial statements, as indicated above, were approved by the board of directors on ……. 2012 and were signed on its behalf by:

Directors' : ……

Directors' : ……

Date:……..2012

# BRAC UGANDA MICROFINANCE LIMITED

**Directors' Report and financial statements**
**For the year ended 31 December 2011**
**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BRAC UGANDA MICROFINANCE LIMITED**

## Report on the Financial Statements

We have audited the financial statements of BRAC Uganda Microfinance Limited which comprise the Statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set on pages 7 to 40. We have not audited the memorandum figures reported in United States Dollars (US$) and accordingly we do not express an opinion on them.

## Directors' Responsibility for the Financial Statements

As stated on page 3, the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 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.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of BRAC Uganda Microfinance Limited as at 31 December 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act of Uganda.

**BRAC UGANDA MICROFINANCE LIMITED**
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BRAC UGANDA MICROFINANCE LIMITED**

**Report on other legal requirements**

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

(i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose 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; and

(iii) The statement of financial position and the statement of comprehensive income are in agreement with the books of account.

**KPMG**
Certified Public Accountants
P O Box 3509
Kampala, Uganda

Date: ----------2012

## BRAC UGANDA MICROFINANCE LIMITED
### Directors' Report and financial statements
### For the year ended 31 December 2011
### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|---|
| Interest income | 4 | 20,911,449 | 15,309,782 | 8,317,999 | 6,865,373 |
| Interest expense | 5 | (4,931,109) | (4,727,965) | (1,961,459) | (2,120,164) |
| **Net interest income** | | **15,980,340** | **10,581,817** | **6,356,540** | **4,745,209** |
| Fee and commission income | 6 | 1,215,555 | 960,995 | 483,514 | 430,939 |
| Foreign exchange gains | 7 | 265,600 | 273,444 | 105,648 | 122,620 |
| Grant income | 21.1&21.2 | 2,576,215 | 5,606,444 | 1,024,747 | 2,514,100 |
| **Total operating income** | | **20,037,710** | **17,422,700** | **7,970,449** | **7,812,868** |
| Impairment losses on loans and advances to customers | 8 | (1,348,404) | (1,315,916) | (536,358) | (590,097) |
| **Operating income after impairment charges** | | **18,689,306** | **16,106,784** | **7,434,091** | **7,222,771** |
| Staff costs | 9 | (7,302,860) | (6,293,654) | (2,904,877) | (2,822,266) |
| Other operating expenses | 10 | (4,813,768) | (4,094,426) | (1,914,784) | (1,836,065) |
| Depreciation | 17 | (220,615) | (210,022) | (87,755) | (94,180) |
| **Profit before tax** | | **6,352,063** | **5,508,682** | **2,526,675** | **2,470,260** |
| Income tax expense | 11(a) | (1,400,733) | (1,132,108) | (557,173) | (507,672) |
| **Net profit for the year** | | **4,951,330** | **4,376,574** | **1,969,502** | **1,962,588** |
| Other comprehensive income | | - | - | - | - |
| **Total comprehensive income** | | **4,951,330** | **4,376,574** | **1,969,502** | **1,962,588** |

The notes are an integral part of these financial statements.

## BRAC UGANDA MICROFINANCE LIMITED
### Directors' Report and financial statements
### For the year ended 31 December 2011
### STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

| | Note | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Bank | 12 | 5,533,346 | 4,012,525 | 2,231,187 | 1,799,338 |
| Short term deposits | 13 | 11,069,175 | 15,108,783 | 4,463,377 | 6,775,239 |
| Loans and advances to customers | 14 | 40,995,553 | 31,874,349 | 16,549,290 | 14,293,430 |
| Other assets | 16 | 422,416 | 635,497 | 170,329 | 284,976 |
| Deferred tax asset | 11(b) | 416,604 | 230,092 | 164,359 | 103,180 |
| Property and equipment | 17 | 1,165,849 | 1,169,755 | 470,101 | 524,554 |
| **Total assets** | | **59,602,943** | **53,031,001** | **24,048,643** | **23,780,717** |
| | | | | | |
| **LIABILITIES AND CAPITAL FUND** | | | | | |
| **Liabilities** | | | | | |
| Loan security fund | 18 | 8,168,518 | 6,229,521 | 3,293,757 | 2,793,507 |
| Related party payables | 15 (a) | 273,436 | 228,244 | 110,256 | 102,351 |
| Borrowings | 19 | 35,810,322 | 35,113,309 | 14,439,646 | 15,745,879 |
| Other liabilities | 20 | 641,457 | 741,108 | 258,652 | 332,335 |
| Tax payable | 11(c) | 168,415 | 1,751,684 | 59,253 | 785,507 |
| **Total liabilities** | | **45,062,148** | **44,063,866** | **18,161,564** | **19,759,579** |
| | | | | | |
| **Capital fund** | | | | | |
| Donor funds | 21 | 3,937,048 | 3,314,718 | 1,601,568 | 1,486,423 |
| BRAC contribution | 22 | 835,000 | 835,000 | 438,320 | 438,320 |
| Retained earnings | | 9,768,747 | 4,817,417 | 4,129,778 | 2,160,276 |
| Currency translation | | - | - | (282,587) | (63,881) |
| **Total capital fund** | | **14,540,795** | **8,967,135** | **5,887,079** | **4,021,138** |
| **Total liabilities and Capital fund** | | **59,602,943** | **53,031,001** | **24,048,643** | **23,780,717** |

The financial statements on pages 7 to 40 were approved by the board of directors on ..... 2012 and were signed on its behalf by:

Director : ..... Director : .....

The notes are an integral part of these financial statements.

## BRAC UGANDA MICROFINANCE LIMITED
### Directors' Report and financial statements
### For the year ended 31 December 2011
### CAPITAL FUND FOR THE YEAR ENDED 31 DECEMBER 2011

| | Donor funds Ushs '000 | Retained earnings Ushs '000 | BRAC contribution Ushs '000 | Total capital fund Ushs '000 | Total capital fund USD |
|---|---|---|---|---|---|
| At 1 January 2010 | 3,759,350 | 440,842 | 835,000 | 5,035,192 | 2,321,815 |
| Donations received during the year | 5,161,812 | - | - | 5,161,812 | 2,314,714 |
| Transfers to SOFP/SOCI | (5,606,444) | - | - | (5,606,444) | (2,514,100) |
| Profit for the year | - | 4,376,575 | - | 4,376,575 | 1,962,590 |
| Currency translation | - | - | - | - | (63,881) |
| **At 31 December 2010** | **3,314,718** | **4,817,417** | **835,000** | **8,967,135** | **4,021,138** |
| At 1 January 2011 | 3,314,718 | 4,817,417 | 835,000 | 8,967,135 | 4,021,138 |
| Donations received during the year | 3,198,545 | - | - | 3,198,545 | 1,289,736 |
| Transfers to SOFP/SOCI | (2,576,215) | - | - | (2,576,215) | (1,024,747) |
| Profit for the year | - | 4,951,330 | - | 4,951,330 | 1,969,503 |
| Currency translation | - | - | - | - | (368,549) |
| **At 31 December 2011** | **3,937,048** | **9,768,747** | **835,000** | **14,540,795** | **5,887,081** |

The notes are an integral part of these financial statements.

## BRAC UGANDA MICROFINANCE LIMITED
### Directors' Report and financial statements
### For the year ended 31 December 2011
### CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | 23 | **8,020,559** | **8,750,695** | **3,190,171** | **3,924,077** |
| Loan disbursements | | (93,019,920) | (71,390,650) | (37,508,032) | (32,013,743) |
| Loan collection | | 83,713,941 | 62,321,190 | 33,755,621 | 27,946,723 |
| Loan write off | | (948,292) | (868,417) | (377,204) | (389,425) |
| Interest receivable write-off | | (22,229) | (98,581) | (8,842) | (44,207) |
| **Net cash flow from operating activities** | | **(2,255,941)** | **(1,285,763)** | **(948,286)** | **(576,575)** |
| **Cash flow from investing activities** | | | | | |
| Acquisition of fixed assets | | (350,672) | (336,993) | (141,400) | (151,118) |
| Short term deposits | | 4,039,608 | (14,078,332) | 1,628,874 | (6,313,153) |
| **Net cash flow from investing activities** | | **3,688,936** | **(14,415,325)** | **1,487,474** | **(6,464,271)** |
| **Cash flow from financing activates** | | | | | |
| Term loans | | 697,013 | (461,960) | 281,054 | (207,157) |
| Loan security fund | | 1,881,180 | 505,335 | 758,541 | 226,608 |
| Loan security fund written off | | 57,817 | 40,607 | 22,998 | 18,209 |
| Income tax paid | | (3,170,514) | - | (1,278,433) | - |
| Donor fund increase/(decrease) | | 622,330 | (444,632) | 250,940 | (199,387) |
| **Net cash flow from financing activities** | | **87,826** | **(360,650)** | **35,100** | **(161,727)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **1,520,821** | **(16,061,738)** | **574,288** | **(7,202,573)** |
| **Cash and cash equivalents at beginning of the year** | | **4,012,525** | **20,074,263** | **1,617,954** | **9,001,911** |
| Currency translation | | | | | |
| **Cash and cash equivalents at end of the year** | 12 | - **5,533,346** | - **4,012,525** | 38,945 **2,231,187** | - **1,799,338** |

The notes are an integral part of these financial statements.

# BRAC UGANDA MICROFINANCE LIMITED
## Directors' Report and financial statements
## For the year ended 31 December 2011
## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following principal accounting policies have been adopted in the preparation of these financial statements:

### 1. THE REPORTING ENTITY

BRAC Uganda Microfinance Limited got incorporated as a company limited by guarantee on 27th August, 2008 as an independent company. 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 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 in the microfinance industry in Africa.

On 30th day of September 2010, at a duly convened meeting of the Governing Board, BRAC transferred all Assets and Liabilities that relate to or are in any way connected with the Microfinance activity it has been operating in Uganda to BRAC Uganda microfinance limited.

BRAC Uganda Microfinance Limited's vision is in line with the vision for BRAC Bangladesh that they develop into a just, enlightened, healthy and democratic society free from hunger, poverty, environmental degradation and all forms of exploitation based on age, sex and ethnicity. In order to achieve this vision, BRAC uses a comprehensive approach to poverty reduction which strategically links programs in Economic Development (Micro Finance), 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 Microfinance Limited from other microfinance operators in Africa, are apparent in the way BRAC has designed its operations.

### 2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the requirements of the Ugandan Companies Act.

**(i) Basis of measurement**

The financial statements are prepared under the historical cost convention.

**BRAC UGANDA MICROFINANCE LIMITED**
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***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**(ii) Basis of preparation**
The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reported period. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

**(ii) Functional and presentation currency**
These financial statements are presented in thousands of Uganda shillings (Ushs '000), which is the entity's functional currency.

The financial statements include figures, which have been translated from Uganda Shillings (Ushs) to United States Dollars (US $) at the year end rate of US$ 1: Ushs 2,480. These figures are for memorandum purposes only and do not form part of the audited financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**(i) Use of estimates and judgment**
The preparation of financial statements in conformity with IFRS 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. In particular, information about significant areas of estimation, uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 27.

**a) 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 labour, 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 capitalised as part of that equipment.

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***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

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 line basis over the expected useful lives of the assets concerned, and intangible assets on a straight line basis. Land is not depreciated

The estimated useful lives for the current and comparative periods are as follows: -

| | % Percentage |
|---|---|
| Motor vehicles, motor cycles and bicycles | 20% |
| Furniture and Fixtures | 10% |
| Equipments | 15% |

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.

**b) 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 foreign exchange rate applicable for settlement. The foreign currency gain or loss on the monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period. 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.

**c) Advances to customers**

Loans originated by the company by providing finance directly to borrowers is categorized as loans to group members and is carried at amortised cost, which is defined as fair value of the cash consideration given to originate those loans as is determinable by reference to market prices at origination date and subsequently measured at the original effective interest rate at reporting date. All loans and advances are recognized when cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the company will not be able to collect all amounts due, according to the original contractual terms of loans. The amount of the impairment is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective interest rate of loans.

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The loss impairment provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These are estimated based upon historical patterns of losses in each component, the credit ratings allocated to borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan loss impairment in the income statement. If the amount of the impairment subsequently decreases due to an event occurring after write-down, the release of the impairment provision is credited as a reduction of the impairment provision for loan losses.

**d) Impairment**

***(i) Financial assets***

At each balance sheet date BRAC Uganda Microfinance Limited assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are considered to be impaired when objective evidence indicates that one or more events that have a negative effect on the estimated future cash flows of an asset.

An impairment loss in respect of financial assets measured at amortized cost is calculated as the difference between its carrying value and present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

All impairment losses are recognized in profit or loss and Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available for sale securities is recognized in profit or loss. For available for sale securities that are equity securities the reversal is recognized directly in equity.

***(ii) Non financial assets***

The carrying amounts of BRAC Uganda Microfinance Limited's non financial assets other than inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such condition exists, the assets recoverable amount is estimated and an impairment loss recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount that would have been determined net of deprecation or amortization if no impairment loss was recognized.

## BRAC UGANDA MICROFINANCE LIMITED
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### (e) Other receivables

Other receivables comprise prepayments, deposits and other recoverable which arise during the normal course of business, they are carried at original invoice amount less provision made for impairment losses. A provision for impairment of trade receivable is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of the provisions is the difference between the carrying amount and the recoverable amount.

### (f) Other payables

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

### (g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the balance sheet date and include: cash in hand, deposits held at call with banks, net of bank overdraft facilities subject to sweeping arrangements

### (h) Provisions

A provision is recognised if, as a result of a past event, BRAC Uganda Microfinance 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where BRAC Uganda Microfinance Limited expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain

### (i) 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.

### (j) Revenue recognition

Revenue is recognized on an accruals basis.

#### *(i) Interest income*

Service charges on regular loans that is, loans where no amounts are overdue as at the end of the reporting period are recognized on an accrual basis as income. The recognition of service charges ceases when the loan is transferred to non-interest bearing loan. These loans are referred to as "non- performing" loans.

Service charge previously accrued but not received on loans subsequently classified as non-performing is reversed. Service charge is included in income thereafter only when its receipt becomes probable, generally when it is realized. Loans are returned to the accrual basis only when the full amounts of the outstanding arrears of loans are received and future collectability is reasonably assured.

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***(ii) Fee and commission income***
Fees and commissions are recognized on an accrual basis when the service has been provided.

***(iii) Other income***

Other income comprises gains less losses related to trading assets and liabilities, and includes gains from disposal of BRAC Uganda Microfinance Limited assets and all realised and unrealised foreign exchange differences.

**(k) Grants**

***(i) Donor Grants***
All donor grants received are initially recognized as deferred income at fair value and recorded as liabilities in the Grants Received in Advance Account for the period.

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

Grants utilized to reimburse program related expenditure, the amounts are recognized as Grant Income for the period.

Donor grants received in kind, through the provision of gifts and /or services, are recorded at fair value (excluding situations when BRAC Uganda Microfinance 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 Microfinance 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.

A Substantially portion of BRAC Uganda Microfinance Limited's donor grants are for the funding of Not-for-profit projects and programs, and for these grants, income recognized is matched to the extent of actual expenditures incurred on projects and programs for the period.

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

**(l) Interest from bank and short term deposits**

Interest income on BRAC Uganda Microfinance Limited bank deposit is earned on an accruals basis at the agreed interest rate with the respective financial institution.

**(m) Loans and borrowings**

Loans and Borrowings are recognised initially as the proceeds are received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between the proceeds and the redemption value is amortised to the income statement over the period of the borrowings.

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### (n) Employee benefits

Employee entitlements to annual leave are recognised 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 company does not operate any retirement benefit fund. However severance pay is provided for in accordance with the Ugandan statute. The company also operates an employee bonus incentive scheme. The provision for employee bonus incentive is based on a predetermined company policy and is recognised in other accruals. The accrual for employee bonus incentive is expected to be settled within 12 months.

### (o) Payroll administration costs

Administration costs are charged by employers for payroll deduction facilities. These costs are set-off against recoveries made from clients. Where the company is not able to recover in full such administration costs, they are recognised in the income statement as incurred.

### (p) Contingent liabilities

The company recognises 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 company, 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.

### (q) Related party transactions

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

### (r) New standards and interpretations not yet adopted

In 2011 new and revised standards and interpretations listed below became effective for the first time and have been adopted by the Company. The adoption of these new and revised standards and interpretations had no material effect on the Company's accounting policies.

- **IAS 1, 'Presentation of financial statements' (effective 1 January 2011):** The amendment to IAS 1, 'Presentation of financial statements' clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Company was already disclosing the analysis of other comprehensive income on its statement of changes in equity.

- **IAS 24, 'Related party disclosures' (effective 1 January 2011):** The amendment to IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amended definition means that the Company is required to make additional disclosures. The Company is now required to disclose transactions it carries out with entities that are controlled by an individual that is part of the directors or key management personnel.

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• **IFRS 7, 'Financial instruments: Disclosures' (effective 1 January 2011):** The amendments to IFRS 7, 'Financial Instruments - Disclosures' emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendments have also removed the requirement to disclose the following;

- Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
- Fair value of collaterals; and
- Renegotiated loans that would otherwise be past due but not impaired.

The application of the above amendment has simplified financial risk disclosures made by the Company.

Other amendments and interpretations to standards became mandatory for the year beginning 1 January 2011 but had no significant effect on the Company's financial statements.

**Standards and interpretations issued but not yet effective**

The Company has chosen not to early adopt the following standards and interpretations that were issued but not effective for accounting periods beginning on 1 January 2011.

- **IAS 1, 'Presentation of financial statements' (applicable beginning on or after 1 July 2012) -** The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The Company will be required to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. If the Company chooses to present OCI items before tax, it will be required to show the amount of tax related to the two groups separately. The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income', though IAS 1 still permits entities to use other titles.

  **IAS 19, 'Employee benefits' (applicable beginning on or after 1 January 2013) -** The amendment to IAS 19, 'Employee benefits' makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. Key features are as follows:

  - Actuarial gains and losses are renamed 'remeasurements' and can only be recognized in 'other comprehensive income' without any recycling through profit or loss in subsequent periods.
  - Past service costs will be recognized in the period of a plan amendment and curtailment occurs only when an entity reduces significantly the number of employees.
  - The amendment clarifies the definition of termination benefits. Any benefit that has a future service obligation is not a termination benefit.
    Annual benefit expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability.
    This amendment is not expected to have any impact as the Company does not operate a defined benefit fund.

- **IFRS 9, 'Financial instruments' part 1: Classification and measurement and part 2: Financial liabilities and Derecognition of financial instruments –** (applicable beginning on or after 1 January 2013)

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- IFRS 9, part 1 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Company is considering the implications of the Standard, the impact on the Company and the timing of its adoption by the Company.

  IFRS 9, part 2 was issued in October 2010 and includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and Measurement', without change except for financial liabilities that are designated at fair value through profit or loss.

  Under the new standard, entities with financial liabilities at fair value through profit or loss recognise changes in the liability's credit risk directly in other comprehensive income. There is no subsequent recycling of the amounts in other comprehensive income to profit or loss, but accumulated gains or losses may be transferred within equity.

- **IFRS 13, 'Fair value measurement'** (applicable beginning on or after 1 January 2013) - IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

  The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity. The guidance includes enhanced disclosure requirements that could result in significantly more work for the Company. The requirements are similar to IFRS 7, 'Financial instruments: Disclosures' but apply to all assets and liabilities measured at fair value, not just financial ones.

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Other new standards include the following

| | | |
|---|---|---|
| IFRS 10 | Consolidated Financial Statements | Effective 1 January 2013 |
| IFRS 11 | Joint Arrangements | Effective 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | Effective 1 January 2013 |
| IFRS 13 | Fair Value Measurement | Effective 1 January 2013 |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | Effective 1 January 2013 |

**(s) Comparatives**

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

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***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

### 4. INTEREST INCOME

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Group guaranteed scheme | 15,714,671 | 12,118,601 | 6,250,864 | 5,434,350 |
| Small Enterprises program | 2,794,537 | 1,842,331 | 1,111,590 | 826,157 |
| Internally Displaced Persons (IDP) | 131,770 | 98,024 | 52,414 | 43,957 |
| Empowerment and Livelihood of Adolescents (ELA ) | 487,904 | 149,729 | 194,075 | 67,143 |
| Short term deposits | 1,721,280 | 1,101,097 | 684,678 | 493,766 |
| Current accounts | 61,287 | - | 24,378 | - |
| | **20,911,449** | **15,309,782** | **8,317,999** | **6,865,373** |

### 5. INTEREST EXPENSE

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Brac Africa Loan Fund | 4,382,252 | 4,227,692 | 1,743,139 | 1,895,826 |
| Tripple Jump | 285,073 | 283,519 | 113,394 | 127,139 |
| BRAC | 263,784 | 216,754 | 104,926 | 97,199 |
| **Total** | **4,931,109** | **4,727,965** | **1,961,459** | **2,120,164** |

### 6. FEE AND COMMISSION INCOME

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Membership fee | 283,598 | 213,122 | 112,807 | 95,570 |
| Loan appraisal fee | 926,244 | 742,412 | 368,434 | 332,920 |
| Loan application fee | 5,713 | 5,461 | 2,273 | 2,449 |
| **Total** | **1,215,555** | **960,995** | **483,514** | **430,939** |

### 7. FOREIGN EXCHANGE GAINS

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Foreign exchange gains | 265,600 | 273,444 | 105,648 | 122,620 |
| **Total** | **265,600** | **273,444** | **105,648** | **122,620** |

The exchange gains 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 rate ruling at balance sheet date.

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## 8. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Impairment losses | 1,348,404 | 1,315,916 | 536,358 | 590,097 |
| **Total** | **1,348,404** | **1,315,916** | **536,358** | **590,097** |

## 9. STAFF COSTS

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Salaries | 6,571,584 | 5,479,776 | 2,613,995 | 2,457,299 |
| Bonus | 191,228 | 172,170 | 76,065 | 77,206 |
| NSSF 10% | 540,048 | 419,435 | 214,817 | 188,087 |
| Accumulated tax arrears | - | 222,273 | - | 99,674 |
| **Total** | **7,302,860** | **6,293,654** | **2,904,877** | **2,822,266** |

## 10. OTHER OPERATING EXPENSES

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Occupancy expenses (see below) | 523,141 | 391,561 | 208,091 | 175,588 |
| Staff training and development | 225,126 | 383,172 | 89,549 | 171,826 |
| Travel and transportation | 1,391,887 | 1,351,241 | 553,654 | 605,937 |
| Maintenance and general expenses | 1,031,477 | 758,748 | 410,293 | 340,246 |
| Printing and office stationery | 316,146 | 201,029 | 125,754 | 90,147 |
| Insurance Claim | 92,848 | 76,000 | 36,932 | 34,081 |
| Provision for Audit fees | 102,424 | 83,170 | 40,741 | 37,296 |
| Internet cost | 20,829 | 26,605 | 8,285 | 11,930 |
| Estimated audit/ legal & other services | 70,041 | 87,211 | 27,860 | 39,108 |
| Radar accounting package cost | 228,000 | 151,122 | 90,692 | 67,768 |
| Write off of overstated PPE | 133,963 | - | 53,287 | - |
| Provision for stolen cash | 155,961 | 115,896 | 62,037 | 51,971 |
| HO logistics and management expenses | 521,925 | 468,671 | 207,609 | 210,167 |
| **Total** | **4,813,768** | **4,094,426** | **1,914,784** | **1,836,065** |

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**Occupancy expenses are analysed as follows;**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Rent | 318,136 | 253,163 | 126,546 | 113,526 |
| Utilities | 205,005 | 138,398 | 81,545 | 62,062 |
| **Total** | **523,141** | **391,561** | **208,091** | **175,588** |

**11. TAXATION**

**a) Income tax expense**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Corporation tax –charge for the year | 1,587,245 | 1,282,250 | 631,362 | 575,000 |
| Deferred tax | (186,512) | (150,142) | (74,189) | (67,328) |
| **Tax (Credit)/ expense** | **1,400,733** | **1,132,108** | **557,173** | **507,672** |

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

The tax charge on the company's profit before tax differs from the theoretical amount using the basic tax rate as follows.

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Operating profit/surplus before taxation | 6,352,063 | 5,508,682 | 2,561,315 | 2,470,261 |
| Tax calculated at 30% | 1,905,618 | 1,652,605 | 768,395 | 741,078 |
| Tax effect of non deductible expense and non taxable income | (504,885) | (520,497) | (203,583) | (233,407) |
| **Tax charge for the year** | **1,400,733** | **1,132,108** | **564,812** | **507,671** |

**b) Deferred tax**

Deferred tax is calculated on all temporary differences under the balance sheet liability method using the principal tax rate of 30%.

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Property and equipment | 827,597 | 1,063,576 | 333,708 | 476,940 |
| Provisions | (2,481,875) | (2,103,992) | (987,222) | (943,494) |
| Unrealized gains | 265,600 | 273,444 | 105,648 | 122,620 |
| | **(1,388,678)** | **(766,972)** | **(547,866)** | **(343,934)** |
| **Deferred tax asset @ 30%** | **(416,604)** | **(230,092)** | **(164,359)** | **(103,180)** |

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**c) Tax payable**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Balance b/f | 1,751,684 | 469,434 | 706,324 | 210,507 |
| Charge for the period | 1,587,245 | 1,282,250 | 631,362 | 575,000 |
| Paid during the year | (3,170,514) | - | (1,278,433) | - |
| **Tax payable** | **168,415** | **1,751,684** | **59,253** | **785,507** |

**12. CASH AND BANK**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Cash in hand | 61,513 | 202,184 | 24,804 | 90,666 |
| Standard Chartered Bank Uganda | 2,624,854 | 670,838 | 1,058,409 | 300,824 |
| Bank of Africa Uganda Limited | 227,912 | 107,522 | 91,900 | 48,216 |
| Barclays Bank Uganda Limited | 166,697 | 163,228 | 67,216 | 73,196 |
| Centenary Bank Uganda Limited | 174,488 | 150,342 | 70,358 | 67,418 |
| Equity Bank Uganda Limited | 246,164 | 106,409 | 99,260 | 47,717 |
| Post Bank Uganda Limited | 119,089 | 129,624 | 48,020 | 58,127 |
| Uganda Microfinance | 26,494 | 25,014 | 10,683 | 11,217 |
| Pride Microfinance Limited | 10,025 | 39,376 | 4,042 | 17,657 |
| Tropical Bank Uganda Limited | 17,686 | 15,646 | 7,131 | 7,016 |
| Global Trust Bank | 4,036 | - | 1,627 | - |
| Stanbic Bank Uganda Limited | 1,854,388 | 2,402,342 | 747,737 | 1,077,284 |
| **Cash and bank** | **5,533,346** | **4,012,525** | **2,231,187** | **1,799,338** |

**13. SHORT TERM DEPOSITS AT AMORTISED COST**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Bank of Africa Uganda Limited | 11,069,175 | 15,108,783 | 4,463,377 | 6,775,239 |
| **Total** | **11,069,175** | **15,108,783** | **4,463,377** | **6,775,239** |
| **The maturity of the short term deposits is analyzed as follows;** | | | | |
| Within 3 months | 10,453,699 | - | 4,215,201 | - |
| After 3 months | 615,476 | 15,108,783 | 248,176 | 6,775,239 |
| **Total** | **11,069,175** | **15,108,783** | **4,463,377** | **6,775,239** |

The weighted average effective interest rates on deposits due from banks were 23.0% and 3.5 % for deposits in Uganda shillings (Ushs) and Euros (Eur) respectively. (2010: 5.0% for Ushs and 6.1 % for deposits in USD). The carrying book values of the deposits with banks equal the fair value.

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## 14. LOANS AND ADVANCES TO CUSTOMERS

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Group Guaranteed Scheme | 34,701,618 | 27,681,668 | 13,992,588 | 12,413,304 |
| Small Enterprises Program | 7,539,848 | 5,859,109 | 3,040,261 | 2,627,403 |
| ELA loans | 1,274,622 | 703,074 | 513,960 | 315,280 |
| IDP Loans | 385,092 | 245,570 | 155,279 | 110,121 |
| Loan Write Off | (970,521) | (868,417) | (386,047) | (389,425) |
| Interest receivable | 546,769 | 357,337 | 220,471 | 160,241 |
| Impairment loss on loans advance | (2,481,875) | (2,103,992) | (987,222) | (943,494) |
| | **40,995,553** | **31,874,349** | **16,549,290** | **14,293,430** |

**The movement on the loan accounts is analyzed as shown below;**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| At 1 January | 33,621,005 | 24,639,167 | 13,556,857 | 11,048,954 |
| Loans disbursed | 93,019,920 | 71,390,650 | 37,508,032 | 32,013,744 |
| Loans repayments | (82,743,420) | (61,540,396) | (33,364,282) | (27,596,590) |
| Gross advances to customers | **43,897,505** | **34,489,421** | **17,700,607** | **15,466,108** |
| Less WriteOff | (970,521) | (868,417) | (386,047) | (389,425) |
| Interest receivable | 550,444 | 357,337 | 221,952 | 160,241 |
| Impairment loss on loans advance | (2,481,875) | (2,103,992) | (987,222) | (943,494) |
| **Net advances to customers** | **40,995,553** | **31,874,349** | **16,549,290** | **14,293,430** |

**Analysis of impairment provision on loans**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| At 1 January | (2,103,992) | (1,914,655) | (836,910) | (858,590) |
| Charge for the year | (1,348,404) | (1,315,916) | (536,358) | (590,097) |
| Loan write-off | 948,292 | 868,416 | 377,204 | 389,425 |
| Interest receivable - write-off | 22,229 | 258,163 | 8,842 | 115,768 |
| At 31 December | **(2,481,875)** | **(2,103,992)** | **(987,222)** | **(943,494)** |

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

| | 2011 | 2010 |
|---|---|---|
| Average interest rate on loan to customers per month | 1.83% | 1.83% |
| Highest loan amount (Ushs) | 10,000,000 | 10,000,000 |
| Lowest loan amount (Ushs) | 200,000 | 200,000 |
| Average loan term (months) | 40 | 40 |
| Total number of customers | 120,901 | 114,477 |

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Economic Sector Risk Concentrations within the customer loan portfolios were as follows:

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Agriculture | 6,145,651 | 4,828,519 | 2,478,085 | 2,165,255 |
| Education | 6,584,626 | 5,173,413 | 2,655,091 | 2,319,916 |
| Health | 438,975 | 344,894 | 177,006 | 154,661 |
| Non-farm business | 24,143,628 | 18,969,182 | 9,735,334 | 8,506,360 |
| Housing | 1,755,900 | 1,379,577 | 708,024 | 618,644 |
| Consumption | 1,755,900 | 1,379,577 | 708,024 | 618,644 |
| Other | 3,072,825 | 2,414,259 | 1,239,043 | 1,082,628 |
| | **43,897,505** | **34,489,421** | **17,700,607** | **15,466,108** |

**15. RELATED PARTY DISCLOSURE**
**(a) RELATED PARTY PAYABLES**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| BRAC Bangladesh | 150,170 | 228,244 | 60,552 | 102,351 |
| Stichting BRAC International | 123,266 | - | 49,704 | - |
| | **273,436** | **228,244** | **110,256** | **102,351** |

Related party payables relate to amounts owing to BRAC Bangladesh for the settlement of staff costs and operating expenditures on behalf of BRAC Uganda Microfinance Limited.

**(b) OTHER RELATED PARTY TRANSACTIONS DURING THE YEAR:**

**i) Interest expense paid on related party loans**

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| BRAC Africa Microfinance Limited | 4,382,252 | 4,227,692 | 1,743,139 | 1,895,826 |
| BRAC Bangladesh | 263,784 | 216,754 | 104,926 | 97,199 |
| **Total** | **4,646,036** | **4,444,446** | **1,848,065** | **1,993,025** |

**ii) Related party loans as disclosed in note 19**

| **Non Current portion** | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| BRAC Africa Microfinance Limited. | 30,489,921 | 30,614,734 | 12,294,323 | 13,728,580 |
| BRAC Bangladesh | 2,451,449 | 2,187,916 | 988,488 | 1,099,305 |
| **Total non current loan** | **32,941,370** | **32,802,650** | **13,282,811** | **14,827,885** |

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## 16. OTHER ASSETS

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Advance to suppliers | 243,915 | 256,748 | 98,353 | 115,133 |
| Security deposits | - | 105 | - | 47 |
| WHT receivable | 178,501 | - | 71,976 | - |
| MCF field receivable | - | 378,644 | - | 169,796 |
| **Total** | **422,416** | **635,497** | **170,329** | **284,976** |

## 17. PROPERTY AND EQUIPMENT

| | Furniture Ushs '000 | Equipments Ushs '000 | Motorvehicles Ushs '000 | Total Ushs '000 | Total USD |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2010 | 459,163 | 691,998 | 107,188 | 1,258,349 | 507,399 |
| Reclassification | (2,999) | 1,146 | 1,853 | - | - |
| Additions | 208,999 | 127,659 | 335 | 336,993 | 135,884 |
| **At 31 December 2010** | **665,163** | **820,803** | **109,376** | **1,595,342** | **643,283** |
| Writeoff of overstated assets | (39,911) | (84,645) | (9,407) | (133,963) | (53,287) |
| Reclassification | (16,210) | (41,250) | 57,460 | - | - |
| Additions | 138,729 | 208,812 | 3,131 | 350,672 | 141,400 |
| Currency translation | - | - | - | - | (730) |
| **At 31 December 2011** | **747,771** | **903,720** | **160,560** | **1,812,051** | **730,666** |
| **Depreciation** | | | | | |
| At 1 January 2010 | 70,282 | 97,159 | 48,124 | 215,565 | 86,921 |
| Charge for the year | 69,073 | 118,436 | 22,513 | 210,022 | 84,686 |
| **At 31 December 2010** | **139,355** | **215,595** | **70,637** | **425,587** | **171,607** |
| Charge for the year | 82,469 | 106,252 | 31,894 | 220,615 | 87,755 |
| Currency translation | - | - | - | - | 1,203 |
| **At 31 December 2011** | **221,824** | **321,847** | **102,531** | **646,202** | **260,565** |
| **At 31December 2011** | **525,947** | **581,873** | **58,029** | **1,165,849** | **470,101** |
| **At 31December 2010** | **525,808** | **605,208** | **38,739** | **1,169,755** | **524,554** |

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## 18. LOAN SECURITY FUND

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Loan Security Fund | 8,168,518 | 6,229,521 | 3,293,757 | 2,793,507 |
| | **8,168,518** | **6,229,521** | **3,293,757** | **2,793,507** |

The Loan Security Fund acts as collateral for the customers' loan obligations to BRAC Uganda Microfinance Limited. This is computed as 10% of the customers' approved loan. In the event of any default, the clients forfeit all or part of the Loan Security Fund to the extent of the amount at risk.

## 19. BORROWINGS

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Kiva | 773,054 | 355,356 | 311,715 | 159,352 |
| Triple Jump | 2,095,898 | 1,955,304 | 845,120 | 876,818 |
| BRAC Africa Microfinance Limited | 30,489,921 | 30,614,734 | 12,294,323 | 13,728,581 |
| BRAC Bangladesh | 2,451,449 | 2,187,915 | 988,488 | 981,128 |
| **Total** | **35,810,322** | **35,113,309** | **14,439,646** | **15,745,879** |

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

Loan received from Tripple Jump B.V. of Uganda shillings 1,955,303,750 equivalents to US $ 1,056,920 was obtained for support to microfinance program and bears interest at 14.5% per annum. The borrower shall repay the loan in one installment, 60 months after the commencement date. This loan is not secured.

Loan received from KIVA of US$331,322.80 equivalent to Uganda Shillings 534,020,792 was obtained for support to microfinance program. It is repayable in monthly installments. This loan does not bear any interest. This loan is not secured.

Loan received from BRAC of US$ 1,305,965 equivalent to Uganda Shillings 2,187,915,685 was obtained for support to microfinance program and is repayable within 12 months after five years of disbursement. It bears interest at 8% per annum. This loan is not secured.

Loan received from BRAC Africa Microfinance Limited of Uganda shillings 30,613,644,432 was obtained to support to microfinance program and bears interest at 12% per annum. It is repayable in 16 quarterly installments, starting from December 2012. This loan is not secured.

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## 20. OTHER LIABILITIES

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Accrual for expenses | 20,119 | 165,944 | 8,113 | 74,414 |
| Bonus provision | 11,946 | 21,449 | 4,817 | 9,618 |
| Provision for audit fees | 102,424 | 82,170 | 41,300 | 36,848 |
| Provision for NSSF | 115,321 | 122,943 | 46,500 | 55,131 |
| Provision for cash shortage | 77,464 | 115,896 | 31,235 | 51,971 |
| Salary provision | 94,792 | 71,166 | 38,223 | 31,913 |
| Stamp duty provision | 30,492 | 10,240 | 12,295 | 4,592 |
| Provision for PAYE | 188,899 | 151,300 | 76,169 | 67,848 |
| **Total** | **641,457** | **741,108** | **258,652** | **332,335** |

## 21. DONOR FUNDS

| | Note | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|---|
| Donor funds received in advance | 21.1 | 1,412,818 | 952,123 | 583,163 | 426,961 |
| Donor funds investment in fixed assets | 21.2 | 1,075,543 | 913,908 | 434,257 | 409,825 |
| Donor funds investment in loans to group members | | 1,448,687 | 1,448,687 | 584,148 | 649,637 |
| **Total** | | **3,937,048** | **3,314,718** | **1,601,568** | **1,486,423** |

### 21.1 Donor funds received in advance

| | Note | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|---|
| Opening balance | | 952,123 | 1,398,732 | 383,921 | 627,234 |
| Donations received during the year | 21.1a | 3,198,545 | 5,161,812 | 1,289,736 | 2,314,714 |
| Transferred to deferred income - investment in fixed assets | | (266,202) | (211,999) | (107,340) | (95,067) |
| Transferred to statement of income and expenses | | (2,471,648) | (5,396,422) | (983,154) | (2,419,920) |
| **Closing balance** | | **1,412,818** | **952,123** | **583,163** | **426,961** |

### 21.1a Donations received during the year

| **Name of donor** | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| MasterCard Foundation | 2,916,029 | 5,161,812 | 1,175,818 | 2,314,714 |
| UNHCR | 282,516 | - | 113,918 | - |
| | **3,198,545** | **5,161,812** | **1,289,736** | **2,314,714** |

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## 21.2 DEFERRED INCOME – FIXED ASSETS

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| Opening balance | 913,908 | 911,931 | 368,511 | 408,938 |
| Transferred from donor funds received in Advance | 266,202 | 211,999 | 107,340 | 95,067 |
| Depreciation charged during the year | (104,567) | (210,022) | (41,594) | (94,180) |
| **Closing balance** | **1,075,543** | **913,908** | **434,257** | **409,825** |

## 22. BRAC CONTRIBUTION

This fund of Ushs 835,000,000 (USD: 438,320) relates to the initial contribution towards the establishment of BRAC Uganda and was used for starting up the Microfinance programme.

## 23. CASHFLOW FROM OPERATING ACTIVITIES

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| **Profit before tax** | **6,352,063** | **5,508,682** | **2,526,676** | **2,470,260** |
| Depreciation | 220,615 | 210,022 | 87,755 | 94,180 |
| Writeoff of overstated PPE | 133,963 | - | 53,287 | - |
| Loan loss provision | 1,348,404 | 1,315,916 | 536,358 | 590,097 |
| **Cash flow before changes in working capital** | **8,055,045** | **7,034,620** | **3,204,076** | **3,154,537** |
| **Changes in working capital** | | | | |
| Decrease/(increase) of receivables and other current assets | 19,974 | (595,078) | 8,054 | (266,851) |
| Decrease/(increase) of related party Receivables | - | 3,530,080 | - | 1,582,995 |
| Increase/(decrease) of current Liabilities | (99,652) | (504,360) | (40,182) | (226,170) |
| Increase/(decrease) of related party payables | 45,192 | (714,567) | 18,223 | (320,434) |
| **Net cash from operations** | **8,020,559** | **8,750,695** | **3,190,171** | **3,924,077** |

## 24. SUBSEQUENT EVENTS

There were no significant subsequent events occurring in periods after the report date that came to our attention with a material effect on the financial statements at 31 December 2011.

## 25. CURRENCY

The financial statements are expressed in Uganda Shillings which is the entities functional currency.

## 26. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2011 (2010: Nil).

## 27. USE OF ESTIMATES AND JUDGMENT

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reported period.

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 and in any future periods affected. 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.

BRAC 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.

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

### *(i) Impairment*

The Fund 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 company regularly reviews its loan portfolio and other assets and makes judgments in determining whether an impairment loss should be recognized in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### *(ii) Provisions and contingencies*

A provision is recognized if as a result of past events, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. For provisions included in the financial statements see note 28.

**BRAC UGANDA MICROFINANCE LIMITED**
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

## 28. CONTINGENT LIABILITIES

**Tax Claim**

The company received a claim of Ushs 843 million in August 2010 from Uganda Revenue Authority in respect of un remitted stamp duty during the period May 2006 - May 2010. These taxes were never collected by the company from the clients due to lack of a proper tax administration system. The company has objected to this claim on the basis that it's not liable and the amounts were not correctly determined. The tax authority subsequently responded to the company's objection on 14th April 2010 and the claim has been revised to 824 million. Another reminder was sent from Uganda Revenue Authority to Brac Uganda Microfinance Limited on 8th June 2010 regarding the same payment. This issue is an industry issue and all the microfinance players in the industry are going through the same. There is a combined effort by the industry players to the ministry of finance for a waiver of such taxes. Some of the players have resorted to taking legal action against the revenue authority.

The Company responded to the second claim and they maintain that the company is not liable. The outcome of management's response to Uganda Revenue Authority can not be determined at the moment and as such, no provisions have been made in the financial statements.

There are no any other known contingent liabilities as at 31 December 2011 (2010: nil).

## 29. FINANCIAL RISK MANAGEMENT

### a) Introduction and overview

The Company has exposure to the following risks from financial instruments:

i) credit risk
ii) interest rate risk iii) liquidity risk
iv) market risk
v) operational risk

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

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Board of BRAC Bangladesh International, the parent company, has established the Group Audit and Risk Committee, Remuneration Committee, Investment Committee, Group Executive Committee and Subsidiary Companies Executive Committee which are responsible for developing and monitoring Group risk management policies in their respective areas. All Board committees have both executive and non-executive members, apart from the Group Executive Committee which comprises of executive directors and senior management and report regularly to the Board of Directors on their activities.

BRAC financial risk management policy seeks to identify, appraise and monitor the risks facing BRAC whilst taking specific measures to manage its interest rate, foreign exchange, liquidity and credit risks. BRAC does not however, engage in speculative transactions or take speculative positions, and where affected by adverse movements, BRAC has sought the assistance of donors.

**BRAC UGANDA MICROFINANCE LIMITED**
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**(b) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. The Credit policy of BRAC Uganda Microfinance 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 Company considers and consolidates all elements of credit risk exposure.

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

The provision of unsecured loans to group members is the main aspect of the Company's business. As such, exposure to credit risk and the management of this risk is a key consideration for the board.

The model that the Company uses to mitigate this risk is arrangements with the respective Group members of BRAC Uganda Microfinance Limited customers to contribute for a group member who has defaulted the weekly loan repayment. This model is used exclusively by the Company.

**Management of credit risk**

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

**Loan application process**

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

The Branch Manager (BM) confirms that the VO was properly and appropriately trained and have assessed the feasibility of all member loan applications.

## BRAC UGANDA MICROFINANCE LIMITED
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

The Loan appraisal work is done by the credit officer (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 Area Manager will approve the loan or recommend i.e. to the final authority for approval.

All loans are repayable in equal weekly installments that are collected by the credit officers during the weekly group meetings through direct cash payments. The collections by the credit officers are subsequently paid directly to Branch Managers on a weekly basis. Loan proceeds are manually transferred to the employee's bank accounts to eliminate the risk of keeping cash.

The main criteria considered by the Company are the loan applicant's ability 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.

### Monitoring of weekly Collections

In the event that a customer does not have sufficient funds for their weekly installment, the group members contribute on behalf of the member.

If 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 branch manager follows up with the guarantor for any possibility of recovery.

### Approval of new groups

The women form a group of 20-35 team members called the Village Organizations (VO) and co- guarantee each other to access the loans on individual basis. The Village Organization first meet for a month at the village area where they are trained by credit officers in regard to the loan application process and the Various programmes of BRAC Uganda Microfinance Limited.

### Impaired loans

Impaired loans and securities are loans and advances on 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.

### Past due but not impaired loans

Past due but not impaired loans are those for where contractual repayments are past due date but the Company believes that impairment is not appropriate on the basis of the specific case

### Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for collections of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

## BRAC UGANDA MICROFINANCE LIMITED
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**Write-off policy**

The Company writes off a loan balance, and any related allowances for impairment losses, when Credit determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or upon death of the borrower.

**The determined the Company's maximum expose to credit risk is as shown below;**

| | Gross advances Ushs '000 | Specific provision Ushs '000 | Portfolio provision Ushs '000 | Net advances Ushs '000 |
|---|---|---|---|---|
| 31 December 2011 | 42,926,984 | 851,557 | 1,630,319 | 40,445,108 |
| 31 December 2010 | 33,621,005 | 119,802 | 992,095 | 32,509,107 |

An analysis of the categorization of the credit quality of the advances to customers according to the different credit risks characteristics displayed.

| **Advances to customers that are past due or impaired** | **2011 Ushs '000** | **2010 Ushs '000** |
|---|---|---|
| Neither past due or impaired | 41,558,547 | 32,767,407 |
| Past due but not impaired | 659,074 | 733,796 |
| Impaired | 709,363 | 119,802 |
| **Total gross advances to customers** | **42,926,984** | **33,621,005** |
| Less: impairment provision | (2,481,875) | (2,103,992) |
| **Net advances to customers at 31 December** | **40,445,109** | **31,517,013** |

| **Other exposures to credit risk** | **2011 Ushs '000** | **2010 Ushs '000** |
|---|---|---|
| Other receivables | 422,416 | 635,497 |
| | **422,416** | **635,497** |

**Value of security held**

All loans and advances are un secured

**Cash and cash equivalents**

All cash at banks is held with reputable financial institutions with good credit history and are regulated by the Central Bank of Uganda. As a result, the probability of loss of cash held at banks due to credit risk is assessed as low.

## BRAC UGANDA MICROFINANCE LIMITED
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**(c) Interest rate risk**

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

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

**Year ended 31 December 2011**

| | Up to 1 month Ushs '000 | From 1 to 12 months Ushs '000 | From 1 year to 2 years Ushs '000 | From 2 years and above Ushs '000 | Non interest bearing Ushs '000 | Total Ushs '000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and bank | - | - | - | - | 5,533,346 | 5,533,346 |
| Short term deposits | - | 11,069,175 | - | - | - | 11,069,175 |
| Loans and advances to customers | 7,386,641 | 33,608,912 | - | - | - | 40,995,553 |
| Other Assets | - | - | - | - | 422,416 | 422,416 |
| Deferred tax asset | - | - | - | - | 416,604 | 416,604 |
| Property and equipment | - | - | - | - | 1,165,849 | 1,165,849 |
| | **7,386,641** | **44,678,087** | **-** | **-** | **7,538,215** | **59,602,943** |
| **Capital fund and liabilities** | | | | | | |
| Loan Security fund | - | - | - | - | 8,168,518 | 8,168,518 |
| Related party payables | - | - | - | - | 273,436 | 273,436 |
| Borrowings | 140,594 | | 12,195,968 | 22,700,706 | 773,054 | 35,810,322 |
| Other liabilities | - | - | - | - | 641,457 | 641,457 |
| Tax payable | - | - | - | - | 168,415 | 168,415 |
| Capital fund | | - | | - | 14,540,795 | 14,540,795 |
| | **140,594** | **-** | **12,195,968** | **22,700,706** | **24,565,675** | **59,602,943** |
| **Net (liabilities)/assets** | **7,246,047** | **44,678,087** | **(12,195,968)** | **(22,700,706)** | **(17,027,460)** | **-** |

**BRAC UGANDA MICROFINANCE LIMITED**
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**Year ended 31 December 2010**

| | Up to 1 month Ushs '000 | From 1 to 12 months Ushs '000 | From 1 year to 2 years Ushs '000 | From 2 years and above Ushs '000 | Non interest bearing Ushs '000 | Total Ushs '000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and bank | - | - | - | - | 4,012,525 | 4,012,525 |
| Short term deposits | - | 15,108,783 | - | - | - | 15,108,783 |
| Loans and advances to customers | 5,718,470 | 25,238,057 | - | - | - | 30,956,527 |
| Loans and advances relating to managed funds | - | 917,822 | | - | - | 917,822 |
| Other Assets | - | - | - | - | 635,497 | 635,497 |
| Deferred tax asset | - | - | - | - | 230,092 | 230,092 |
| Property and equipment | - | - | - | - | 1,169,755 | 1,169,755 |
| | **5,718,470** | **41,264,662** | **-** | **-** | **6,047,868** | **53,031,001** |
| **Capital fund and liabilities** | | | | | | |
| Loan Security fund | - | - | - | - | 6,229,521 | 6,229,521 |
| Related party payables | - | - | - | - | 228,244 | 228,244 |
| Borrowings | - | - | 1,955,304 | 32,801,560 | 356,445 | 35,113,309 |
| Other liabilities | - | - | - | - | 741,108 | 741,108 |
| Tax payable | - | - | - | - | 1,751,684 | 1,751,684 |
| Capital fund | - | - | - | - | 8,967,135 | 8,967,135 |
| | **-** | **-** | **1,955,304** | **32,801,560** | **18,274,137** | **53,031,001** |
| **Net (liabilities)/assets** | **5,718,470** | **41,264,662** | **(1,955,304)** | **(32,801,560)** | **(12,226,269)** | **-** |

The previous tables show the undiscounted cash flows on the Company's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Company's expected cash flows on these instruments may vary from this analysis.

**(d) Liquidity risk**

Liquidity risk is the risk that operations cannot be funded and financial commitments cannot be met timeously 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 Company 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 Company and also from available financial institutions facilities.

BRAC Uganda Microfinance 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 Microfinance Limited maintains sufficient levels of cash or fixed deposits to meet its working capital requirements. In addition, BRAC Uganda Microfinance Limited maintains banking facilities of a reasonable level.

**BRAC UGANDA MICROFINANCE LIMITED**
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**Exposure to Liquidity risk**

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2011 to the contractual maturity date.

| | Matured | Less than 3 months | 3 months to 1 year | 1 to 5 years | Above 5 years | Total |
|---|---|---|---|---|---|---|
| | Ushs '000 | Ushs '000 | Ushs '000 | Ushs '000 | Ushs '000 | Ushs '000 |
| **ASSETS** | | | | | | |
| Cash and bank | 5,533,346 | - | - | - | - | 5,533,346 |
| Short term deposits | - | 10,453,699 | 615,476 | - | - | 11,069,175 |
| Loans and advances to customers | - | 22,159,922 | 18,835,631 | - | - | 40,995,553 |
| Other assets | - | 422,416 | - | - | - | 422,416 |
| Deferred tax asset | - | - | 416,604 | - | - | 416,604 |
| Property and equipment | - | - | - | 1,165,849 | - | 1,165,849 |
| | **5,533,346** | **33,036,037** | **19,867,711** | **1,165,849** | **-** | **59,602,943** |
| **Capital Fund and Liabilities** | | | | | | |
| Loan Security Fund | | | | | | |
| | 680,710 | 2,042,130 | 5,445,678 | - | - | 8,168,518 |
| Related party payables | - | 273,436 | - | - | - | 273,436 |
| Borrowings | - | - | - | 35,810,322 | - | 35,810,322 |
| Other liabilities | - | 641,457 | - | - | - | 641,457 |
| Tax payable | - | - | 168,415 | - | - | 168,415 |
| Capital fund | - | - | - | 13,705,795 | 835,000 | 14,540,795 |
| | **680,710** | **2,957,023** | **5,614,093** | **49,516,117** | **835,000** | **59,602,943** |
| **Net (liabilities)/assets** | **4,852,636** | **30,079,014** | **14,253,618** | **(48,350,268)** | **(835,000)** | **-** |

**e) Market risk**

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

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

**Management of market risks**

Overall responsibility for managing market risk rests with the Country Representative. Management is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

**BRAC UGANDA MICROFINANCE LIMITED**
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**Currency risk**

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

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.

**(f) 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 Company'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 authorisation 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

Compliance with Company standards is supported by a programme of periodic reviews undertaken by the monitoring 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 Company.

**BRAC UGANDA MICROFINANCE LIMITED**
**Directors' Report and financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**(g) Financial assets and liabilities**

**Accounting classifications and fair values**

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

| 31 December 2011 | Loans and receivables Ushs '000 | Other amortised cost Ushs '000 | Total carrying amount Ushs '000 | Fair value Ushs '000 |
|---|---|---|---|---|
| Cash and bank | - | 5,533,346 | 5,533,346 | 5,533,346 |
| Short term deposits | - | 11,069,175 | 11,069,175 | 11,069,175 |
| Loans and advances to customers | 40,995,553 | - | 40,995,553 | 40,995,553 |
| Other assets | - | 422,416 | 422,416 | 422,416 |
| | **40,995,553** | **17,024,937** | **58,020,490** | **58,020,490** |
| Other liabilities | - | 641,458 | 641,458 | 641,458 |
| Borrowings | - | 35,810,322 | 35,810,322 | 35,810,322 |
| | **-** | **36,451,780** | **36,451,780** | **36,451,780** |

| 31 December 2010 | Loans and receivables Ushs '000 | Other amortised cost Ushs '000 | Total carrying amount Ushs '000 | Fair value Ushs '000 |
|---|---|---|---|---|
| Cash and bank | - | 4,012,524 | 4,012,524 | 4,012,524 |
| Short term deposits | - | 15,108,783 | 15,108,783 | 15,108,783 |
| Loans and advances to customers | 30,956,527 | - | 30,956,527 | 30,956,527 |
| Loans and advances relating to managed funds | 917,822 | - | 917,822 | 917,822 |
| Other assets | - | 635,497 | 635,497 | 635,497 |
| | **31,874,349** | **19,756,804** | **51,631,153** | **51,631,153** |
| Other liabilities | - | 741,108 | 741,108 | 741,108 |
| Borrowings | - | 35,113,309 | 35,113,309 | 35,113,309 |
| | **-** | **35,854,417** | **35,854,417** | **35,854,417** |

The fair value of the company's financial assets and liabilities is equal to the carrying book values at the balance sheet date.

# BRAC UGANDA LIMITED (BRAC UGANDA) financial statements

For the year ended December 31, 2011

# BRAC UGANDA LIMITED (BRAC UGANDA)

**Financial statements**
**For the year ended 31 December 2011**
**DIRECTORS AND OFFICERS**

## DIRECTORS

| | | |
|---|---|---|
| Sir Fazle Hassan Abed | - | Chairman |
| Dr. Mahabub Hossain | - | Member |
| Mr. Muhammad A. (Rumee) Ali | - | Member |
| Dr. Imran Matin | - | Member |
| Mr. Tanwir Rahman | - | Member |

## ADMINISTRATORS

| | | |
|---|---|---|
| Mr. Abul Kashem Mozumder | - | Country Representative |

**PRINCIPAL PLACE OF BUSINESS:**
Off Entebbe Road, Nyanama
Plot 90, Busingiri Zone
P O Box 31817
Kampala Uganda

**REGISTERED OFFICE:**
Off Entebbe Road, Nyanama
Plot 90, Busingiri Zone
P O Box 31817
Kampala, Uganda

**COMPANY SECRETARY:**
Tanwir Rahman
Director Finance
BRAC and BRAC International
BRAC Centre, 75 Mohakhali
Dhaka 1212, Bangladesh

## AUDITORS

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

## BANKERS

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

# BRAC UGANDA LIMITED (BRAC UGANDA)
## Financial statements
## For the year ended 31 December 2011
## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011

The directors have pleasure in submitting their report and the audited financial statements of the company for the year ended 31 December 2011, which disclose the state of affairs of BRAC Uganda, in accordance with section 157 of the Ugandan Companies Act (CAP 110).

### (a) Incorporation

BRAC Uganda Ltd got incorporated as a company limited by guarantee on 18th September 2009 as an independent company. The organisation 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. The organistation was duly registered under non-governmental organisation's registration statute (1989) on 19th march 2010 as BRAC Uganda. On 30th day of September 2009, at a duly convened meeting of the Governing Board, BRAC transferred all Assets and Liabilities that relate to or are in any way connected with the Microfinance activity it has been operating in Uganda to BRAC Uganda microfinance limited.

The two entities effectively commenced trading separately on 01st January 2010 and separate financial statements have been prepared for BRAC Uganda and BRAC Uganda Microfinance Ltd. BRAC Uganda registered with the registrar of companies on 18th March 2010 as company limited by guarantee under the names of BRAC Uganda Limited. The organistation was then duly registered under non-governmental organisation's registration statute (1989) on 19th march 2010 as BRAC Uganda.

### (b) Principal activities

The organization provides charitable and welfare activities on non-profit basis, engage in poverty eradication, promoted women empowerment in rural areas, provide sanitation and clean water and provide basic education for school dropouts in rural areas in over 64 districts in Uganda.

### (c) Results from operations

The results for the entity for the year ended 31 December 2011 are set out on page 8.

### (d) Directors

The directors who served during the year are set out on page 2.

### (e) Directors benefits

No director has received or become entitled to receive any benefits during the financial year.

### (f) Auditors

The auditors, KPMG being eligible for reappointment, have indicated their willingness to continue in office in accordance with Section 159(2) of the Uganda Companies Act (CAP 110).

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
**REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)**

**(g) Approval of the financial statements**

The financial statements were approved by the directors at a meeting held on ……4 June……. 2012.

By order of the Board

Signed…… Date: ……4.6.12……

**SECRETARY**

## BRAC UGANDA LIMITED (BRAC UGANDA)
**Financial statements**
**For the year ended 31 December 2011**
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The company's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors' responsibilities include: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the Companies Act of Uganda, the directors are required to prepare financial statements for each 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 the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records that disclose with reasonable accuracy the financial position of the company.

The directors accept responsibility for the financial statements set out on pages 8 to 33 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Financial Reporting Standards and the Companies Act of Uganda. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the profit and cash flow for the year ended 31 December 2011. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the company will not be a going concern for the next twelve months from the date of this statement.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the International Financial Reporting Standards and Republic of Companies' Act of Uganda.

**Approval of the financial statements**

The financial statements, as indicated above, were approved by the board of directors on 4. 6. 2012 and were signed on its behalf by:

Directors' : .....

Directors' : .....

Date: 4. 6. 2012

# BRAC UGANDA LIMITED (BRAC UGANDA)

**Financial statements**
**For the year ended 31 December 2011**
**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BRAC UGANDA LIMITED**

## Report on the Financial Statements

We have audited the financial statements of BRAC Uganda which comprise the Statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the period then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set on pages 8 to 33. We have not audited the memorandum figures reported in United States Dollars (US$) and accordingly we do not express an opinion on them.

## Directors' Responsibility for the Financial Statements

As stated on page 5, the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 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.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of BRAC Uganda Limited as at 31 December 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Ugandan Companies Act.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BRAC UGANDA LIMITED**

As required by the Ugandan Companies Act, 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 purpose 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; and

(iii) The statement of financial position and the statement of comprehensive income are in agreement with the books of account.

**KPMG**
Certified Public Accountants
P.O. Box 3509
Kampala, Uganda

Date: 11 Fr. 12

## BRAC UGANDA LIMITED (BRAC UGANDA)
### Financial statements
### For the year ended 31 December 2011
### STATEMENT OF COMPREHENSIVE INCOME
### FOR THE YEAR ENDED 31 DECEMBER 2011

| | Notes | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|---|
| Grant income | 3 | 13,817,303 | 11,348,247 | 5,496,233 | 5,088,899 |
| Other income | 4 | 1,538,703 | 466,836 | 612,065 | 209,344 |
| Foreign exchange loss | 5 | 404,761 | (1,269) | 161,005 | (569) |
| Total income | | **15,760,767** | **11,813,814** | **6,269,303** | **5,297,674** |
| Staff costs and other benefits | 6 | (3,537,686) | (3,130,960) | (1,407,218) | (1,404,018) |
| Training, Workshops Seminars | 7 | (1,654,862) | (2,284,154) | (658,269) | (1,024,284) |
| Occupancy expenses | 8 | (775,684) | (768,799) | (308,550) | (344,753) |
| Other general & Administrative expenses | 9 | (6,833,835) | (5,231,888) | (2,718,357) | (2,346,138) |
| Depreciation | 11 | (237,875) | (176,066) | (94,622) | (78,953) |
| **Operating surplus** | | **2,720,825** | **221,947** | **1,082,287** | **99,528** |
| Taxation | 10 | - | - | - | - |
| **Surplus for the year** | | **2,720,825** | **221,947** | **1,082,287** | **99,528** |

The notes are an integral part of these financial statements.

## BRAC UGANDA LIMITED (BRAC UGANDA)
**Financial statements**
**For the year ended 31 December 2011**
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011**

| | Notes | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property and equipment | 10 | 961,898 | 880,846 | 387,862 | 394,998 |
| **Current assets** | | | | | |
| Cash and bank | 12 | 10,611,419 | 9,148,820 | 4,278,798 | 4,102,610 |
| Inventory | 13 | 279,175 | 550,626 | 112,571 | 246,917 |
| Other receivables | | 36,908 | 15,209 | 14,882 | 6,820 |
| Related party receivables | 15 | - | 82,980 | - | 37,211 |
| | | **10,927,502** | **9,797,635** | **4,406,251** | **4,393,558** |
| **Total assets** | | **11,889,400** | **10,678,481** | **4,794,113** | **4,788,556** |
| **LIABILITIES AND CAPITAL FUND** | | | | | |
| **Liabilities** | | | | | |
| Other payables | 14 | 514,117 | 614,088 | 207,306 | 275,376 |
| Due to related parties | 15 | 95,176 | 373,981 | 38,377 | 167,704 |
| | | **609,293** | **988,069** | **245,683** | **443,080** |
| **Capital fund** | | | | | |
| Donor funds | 16 | 7,567,169 | 8,698,299 | 3,519,741 | 3,900,582 |
| Retained surplus | | 3,712,938 | 992,113 | 1,527,181 | 444,894 |
| Currency translation | | - | - | (498,492) | - |
| | | **11,280,107** | **9,690,412** | **4,548,430** | **4,345,476** |
| **Total liabilities and capital fund** | | **11,889,400** | **10,678,481** | **4,794,113** | **4,788,556** |

The financial statements on pages 8 to 33 were approved by the board of directors on ……. 2012 and were signed on its behalf by:

Director : Director :

The notes are an integral part of these financial statements.

## BRAC UGANDA LIMITED (BRAC UGANDA)
**Financial statements**
**For the year ended 31 December 2011**
**STATEMENT OF CHANGES IN CAPITAL FUND FOR THE YEAR ENDED 31 DECEMBER 2011**

| | Donor funds Shs '000 | Retained surplus Shs '000 | Total capital fund Shs '000 | Total capital fund US$ |
|---|---|---|---|---|
| At 1 January 2010 | 5,799,330 | 770,166 | 6,569,496 | 2,945,962 |
| Donations received during the year | 14,247,216 | - | 14,247,216 | 6,388,886 |
| Transfers to SOFP/SOCI | (11,348,247) | - | (11,348,247) | (5,088,900) |
| Surplus for the year | - | 221,947 | 221,947 | 99,528 |
| **At 31 December 2010** | **8,698,299** | **992,113** | **9,690,412** | **4,345,476** |
| At 1 January 2011 | 8,698,299 | 992,113 | 9,690,412 | 4,345,476 |
| Donations received during the year | 12,686,173 | - | 12,686,173 | 5,115,392 |
| Transfers to SOFP/SOCI | (13,817,303) | - | (13,817,303) | (5,496,233) |
| Surplus for the year | - | 2,720,825 | 2,720,825 | 1,082,287 |
| Currency translation | - | - | - | (498,492) |
| **At 31 December 2011** | **7,567,169** | **3,712,938** | **11,280,107** | **4,548,430** |

The notes are an integral part of these financial statements.

## BRAC UGANDA LIMITED (BRAC UGANDA)
**Financial statements**
**For the year ended 31 December 2011**
**STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2011**

| | Notes | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$'00 |
|---|---|---|---|---|---|
| **Net cash provided by/(used in) operating activities** | 17 | 2,930,033 | (265,633) | 1,165,255 | (119,118) |
| **Cash flow from investing activities** | | | | | |
| Acquisition of fixed assets | | (336,304) | (368,669) | (135,606) | (165,322) |
| **Net cash provided by/(used in) investing activities** | | **(336,304)** | **(368,669)** | **(135,606)** | **(165,322)** |
| **Cash flow from financing activities** | | | | | |
| Increase/(decrease) in deferred income | | - | - | - | - |
| Increase/(decrease) in grants received in advance | | (1,131,130) | 2,898,970 | (456,101) | 1,299,986 |
| **Net cash provided by/(used in) financing activities** | | **(1,131,130)** | **2,898,970** | **(456,101)** | **1,299,986** |
| **Net increase in cash and cash equivalents** | | **1,462,599** | **2,264,668** | **573,548** | **1,015,546** |
| Currency Translation | | - | - | 16,210 | - |
| Cash in hand and at banks, beginning of the year | | 9,148,820 | 6,884,152 | 3,689,040 | 3,087,064 |
| **Cash and cash equivalents, at year end** | **11** | **10,611,419** | **9,148,820** | **4,278,798** | **4,102,610** |

The notes are an integral part of these financial statements.

# BRAC UGANDA LIMITED (BRAC UGANDA)
**Financial statements**
**For the year ended 31 December 2011**
**NOTES TO THE FINANCIAL STATEMENTS**

The following principal accounting policies have been adopted in the preparation of these financial statements:

## 1. THE REPORTING ENTITY

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 in the microfinance industry in Africa.

The Organization was 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 2010 respectively but were still trading during the year under the umbrella of BRAC.

On 30th day of September 2010, at a duly convened meeting of the Governing Board, BRAC transferred all Assets and Liabilities that relate to or are in any way connected with the Microfinance activity it has been operating in Uganda to BRAC Uganda microfinance limited and all Assets and Liabilities that relate to or are in any way connected with the non Microfinance activities it has been operating in Uganda to BRAC Uganda.

BRAC Uganda effectively commenced operations as an independent entity on 1st January 2010. 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 from other microfinance operators in Africa, are apparent in the way BRAC has designed its operations.

## 2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the requirements of the Ugandan Companies Act.

### (i) Basis of measurement

The financial statements are prepared under the historical cost convention.

### (ii) Basis of preparation

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reported period.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

**(ii) Functional and presentation currency**

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

The financial statements include figures, which have been translated from Uganda Shillings (Ushs '000) to United States Dollars (US$) at the yearend rate of US$ 1: Ushs 2,480. These figures are for memorandum purposes only and do not form part of the audited financial statements.

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

The preparation of financial statements in conformity with IFRS 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. In particular, information about significant areas of estimation, uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 19.

**a) 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 labour, 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 capitalised 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.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

**(ii) Depreciation**

Depreciation is recognized in profit or loss and calculated to write off the cost of the property and equipment on a straight line basis over the expected useful lives of the assets concerned, and intangible assets on a straight line basis. Land is not depreciated

The estimated useful lives for the current and comparative periods are as follows: -

| | % Percentage |
|---|---|
| Motor vehicles, motor cycles and bicycles | 20% |
| Furniture and Fixtures | 10% |
| Equipments | 15% |

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.

**b) 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 foreign exchange rate applicable for settlement. The foreign currency gain or loss on the monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period. 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 statement of comprehensive income.

**c) Impairment**

**(i) Financial assets**

At each balance sheet date BRAC UGANDA assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are considered to be impaired when objective evidence indicates that one or more events that have a negative effect on the estimated future cashflows of an asset.

An impairment loss in respect of financial assets measured at amortized cost is calculated as the difference between its carrying value and present value of the estimated future cash flows discounted at the original effective interest rate.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

All impairment losses are recognized in profit or loss and Impairment losses on available-for- sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available for sale securities is recognized in profit or loss. For available for sale securities that are equity securities the reversal is recognized directly in equity.

**(ii) Non financial assets**

The carrying amounts of BRAC's non financial assets other than inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such condition exists, the assets recoverable amount is estimated and an impairment loss recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount that would have been determined net of depreciation or amortization if no impairment loss was recognized.

**(e) Other receivables**

Other receivables comprise prepayments, deposits and other recoverable which arise during the normal course of business, they are carried at original invoice amount less provision made for impairment losses. A provision for impairment of trade receivable is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of the provisions is the difference between the carrying amount and the recoverable amount.

**(f) Other payables**

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

**(g) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the balance sheet date and include: cash in hand, deposits held at call with banks, net of bank overdraft facilities subject to sweeping arrangements

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED***

**(h) Provisions**

A provision is recognised if, as a result of a past event, BRAC UGANDA 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where BRAC expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

**(i) Revenue recognition**

Revenue is recognized on an accruals basis.

**Other income**

Other income comprises other project incomes from Agriculture, Training, Research and Health projects, and all realised foreign exchange differences. Agriculture incomes arise from sale of agricultural inputs, Training income is income received by the training centre in respect of various training facilities extended to the projects, Research income relates to research and evaluation on project effectiveness in implementation areas where as Health related income arises from sale of health products which also form the inventory of Brac Uganda.

**(j) Grants**

**(i) Donor Grants**

All donor grants received are initially recognized as deferred income at fair value and recorded as liabilities in the Grants Received in Advance Account for the period.

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

Grants utilized to reimburse program related expenditure, the amounts are recognized as Grant Income for the period.

Donor grants received in kind, through the provision of gifts and /or services, are recorded at fair value (excluding situations when BRAC Uganda Ltd 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.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

**(ii) Grant income**

Grant income is recognized on a cash basis to the extent that BRAC Uganda 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.

A Substantially portion of BRAC's donor grants are for the funding of Not-for-profit projects and programs, and for these grants, income recognized is matched to the extent of actual expenditures incurred on projects and programs for the period.

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) Interest from bank and short term deposits**

Interest income on BRAC UGANDA bank deposit is earned on an accruals basis at the agreed interest rate with the respective financial institution.

**(l) Employee benefits**

Employee entitlements to annual leave are recognised 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 company does not operate any retirement benefit fund. However severance pay is provided for in accordance with the Ugandan statute. The company also operates an employee bonus incentive scheme. The provision for employee bonus incentive is based on a predetermined company policy and is recognised in other accruals. The accrual for employee bonus incentive is expected to be settled within 12 months.

**(m) Payroll administration costs**

Administration costs are charged by employers for payroll deduction facilities. These costs are set-off against recoveries made from clients. Where the company is not able to recover in full such administration costs, they are recognised in the income statement as incurred.

**(n) Segment reporting**

An operating segment is a component of the company that engages in business activities providing products and services from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of BRAC's other component programmes. All operating segments' operating results are reviewed regularly by BRAC's Country Programme Coordinator to make decisions about resources to be allocated to the segments and assess its performance, and for which discrete financial information is available.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

The company's primary format for segmentation is based on 8 thematic programmes being operated by BRAC UGANDA; these Programmes are listed below;

- Education Program;
- Research Program;
- Training Program;
- Agriculture, livestock and Poultry Program;
- Health Program;
- Internally Displaced People (IDP) Project;
- Empowerment and Livelihood for Adolescents (ELA) project;
- Karamoja (UNICEF) Project

**(o) Contingent liabilities**

The company 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 company, 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.

**(p) Related party transactions**

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

**(q) New standards and interpretations**

For accounting periods beginning 1 January 2011, new and revised standards and interpretations listed below became effective for the first time and some have been adopted by the Bank. The adoption of these new and revised standards and interpretations had no material effect on the Banks accounting policies.

**IAS 1, 'Presentation of financial statements' (effective 1 January 2011):** The amendment to IAS 1, "Presentation of financial statements" clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Bank was already disclosing the analysis of any other comprehensive income on its statement of income and finally in statement of changes in equity.

**IAS 24, „Related party disclosures" (effective 1 January 2011):** The amendment to IAS 24, „Related party disclosures" clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amended definition means that the bank is required to make additional disclosures.

**IFRIC 14: „Prepayments of a minimum funding requirement (effective 1 January 2011).** The amendment removes the unintended consequence arising from the treatment of prepayments where there is a minimum funding requirement. This interpretation does not have any impact on the Bank's financial statements.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

**Standards and interpretations issued but not yet effective**

The Bank has chosen not to early adopt the following standards and interpretations that were issued but not effective for accounting periods beginning on 1 January 2011.

**IAS 1, „Presentation of financial statements (applicable beginning on or after 1 July 2012) -** The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The bank will be required to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. If the bank chooses to present OCI items before tax, it will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to„statement of profit or loss and other comprehensive income", though IAS 1 still permits entities to use other titles.

**IAS 19, „Employee benefits" (applicable beginning on or after 1 January 2013) -** The amendment to IAS 19, „Employee benefits" makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. Key features are as follows: Actuarial gains and losses are renamed „remeasurements" and can only be recognized in„other comprehensive income" without any recycling through profit or loss in subsequent periods

Past service costs will be recognized in the period of a plan amendment and curtailment occurs only when an entity reduces significantly the number of employees.

The amendment clarifies the definition of termination benefits. Any benefit that has a future service obligation is not a termination benefit.

Annual benefit expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This amendment is not expected to have any impact as the bank does not operate a defined benefit fund.

**IFRS 13, „Fair value measurement" (applicable beginning on or after 1 January 2013) -** IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity. The guidance includes enhanced disclosure requirements that could result in significantly more work for the Bank. The requirements are similar to IFRS 7, „Financial instruments: Disclosures" but apply to all assets and liabilities measured at fair value, not just financial ones.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

**Other new standards include the following**

| | | |
|---|---|---|
| IFRS 10 | Consolidated Financial Statements | Effective 1 January 2013 |
| IFRS 11 | Joint Arrangements | Effective 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | Effective 1 January 2013 |
| IFRS 13 | Fair Value Measurement | Effective 1 January 2013 |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | Effective 1 January 2013 |

**(r) Comparatives**

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

## BRAC UGANDA LIMITED (BRAC UGANDA)
**Financial statements**
**For the year ended 31 December 2011**
***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

### 3. GRANT INCOME

| | 2 011<br>Shs '000 | 2010<br>Shs '000 | 2011<br>US$ | 2010<br>US$ |
|---|---|---|---|---|
| Agriculture, poultry & Livestock | 2,951,002 | 2,929,713 | 1,173,847 | 1,313,773 |
| Education | 1,295,393 | 1,305,550 | 515,280 | 585,448 |
| Health | 3,081,185 | 2,537,292 | 1,225,631 | 1,137,799 |
| ELA | 2,587,797 | 2,489,184 | 1,029,371 | 1,116,226 |
| Research & Evaluation | 1,554,075 | 699,014 | 618,178 | 313,459 |
| Regional Training centre | 379,787 | 980,495 | 151,071 | 439,684 |
| Karamoja | 1,968,064 | 11,777 | 782,855 | 5,280 |
| IDP | | 395,222 | | 177,230 |
| | **13,817,303** | **11,348,247** | **5,496,233** | **5,088,899** |

Grant income relates to the operating expenses incurred by the different projects that are transferred from grants received in advance to the statement of comprehensive income.

### 4. OTHER INCOME

| | 2011<br>Shs '000 | 2010<br>Shs '000 | 2011<br>US$ | 2010<br>US$ |
|---|---|---|---|---|
| Other project income | 1,428,593 | 416,576 | 568,265 | 186,806 |
| Bank interest income | 110,110 | 50,260 | 43,800 | 22,538 |
| | **1,538,703** | **466,836** | **612,065** | **209,344** |

Other project income relates to the income from the sale of the agricultural seeds and poultry program as well as other incomes generated from sale of Health products.

### 5. FOREIGN EXCHANGE GAINS

| | 2011<br>Ushs '000 | 2010<br>Ushs '000 | 2011<br>USD | 2010<br>USD |
|---|---|---|---|---|
| Foreign exchange gains | 404,761 | (1,269) | 161,005 | (569) |
| **Total** | **404,761** | **(1,269)** | **161,005** | **(569)** |

The exchange gains 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 rate ruling at balance sheet date.

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***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

### 6. STAFF COSTS AND OTHER BENEFITS

| | 2 011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Salary | 3,212,773 | 2,740,067 | 1,277,974 | 1,228,730 |
| Bonus | 96,699 | 76,696 | 38,465 | 34,393 |
| 10% employer NSSF contribution | 228,214 | 184,265 | 90,779 | 82,630 |
| Other arrears | - | 129,932 | - | 58,263 |
| | **3,537,686** | **3,130,960** | **1,407,218** | **1,404,018** |

### 7. TRAINING, WORKSHOPS AND SEMINARS

| | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| External member trainings | 1,252,710 | 1,691,621 | 498,302 | 758,574 |
| Staff training | 402,152 | 592,533 | 159,967 | 265,710 |
| | **1,654,862** | **2,284,154** | **658,269** | **1,024,284** |

### 8. OCCUPANCY EXPENSES

| | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Rental charges | 685,512 | 657,844 | 272,682 | 294,998 |
| Utilities | 90,172 | 110,955 | 35,868 | 49,755 |
| | **775,684** | **768,799** | **308,550** | **344,753** |

### 9. OTHER GENERAL & ADMINISTRATIVE EXPENSES

| | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Legal fees & audit fees | 68,693 | 136,271 | 27,325 | 61,108 |
| Maintenance &general expenses | 1,326,577 | 588,814 | 527,685 | 538,829 |
| Printing, stationary and supplies | 222,344 | 142,696 | 88,444 | 63,989 |
| Telephone expenses | 37,269 | 49,531 | 14,825 | 22,211 |
| Program supplies | 2,793,710 | 1,953,403 | 1,111,279 | 875,965 |
| Other general expenses | 521,881 | 149,810 | 207,593 | 67,180 |
| Provision for stock shortages | 73,016 | - | 29,044 | - |
| Radar accounting package cost | 228,000 | 151,123 | 90,694 | 67,768 |
| HO logistics expenses | 325,301 | 279,205 | 129,398 | 125,204 |
| Travel and transportation | 1,237,044 | 1,781,035 | 492,070 | 523,884 |
| | **6,833,835** | **5,231,888** | **2,718,357** | **2,346,138** |

**BRAC UGANDA LIMITED (BRAC UGANDA)**
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***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

## 10. TAXATION

BRAC Uganda is registered as an NGO, which is involved in charitable activities and therefore falls within the definition of exempt organizations for tax purposes as described in the income tax act, section 2 (bb)-interpretation. Under section 2(bb) (ii), the income tax act states that for an organization to be tax exempt, it should have been issued with a written ruling by the Commissioner stating that it is an exempt organization.

BRAC Uganda was granted tax exemption as required by Income Tax Act by the Commissioner domestic taxes on 10th February 2011 for a period of two years effective 1st January 2011.

## 11. PROPERTY AND EQUIPMENT

| | Furniture Shs '000 | Equipments Shs '000 | Motor vehicles Shs '000 | Total Shs '000 | Total US$ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2010 | **176,218** | **223,725** | **467,302** | **867,245** | **388,899** |
| Additions | 106,165 | 215,352 | 47,152 | 368,669 | 165,322 |
| **At 31 December 2010** | **282,383** | **439,077** | **514 454** | **1,235,914** | **554,221** |
| Reclassified | 44,944 | (23,769) | (21,175) | - | - |
| Provision for overstated assets | - | - | (17,377) | (17,377) | (6,912) |
| Currency translation | - | - | - | - | 96 |
| Additions | 107,686 | 64,415 | 164,203 | 336,304 | 135,606 |
| **At 31 December 2011** | **435,013** | **479,723** | **640,105** | **1,554,841** | **683,010** |
| **Depreciation** | | | | | |
| At 1 January 2010 | 19,382 | 39,499 | 120,121 | 179,002 | 80,270 |
| Charge for the year | 24,611 | 54,932 | 96,523 | 176,066 | 78,953 |
| **At 31 December 2010** | **43,993** | **94,431** | **216,644** | **355,068** | **159,223** |
| Currency translation | - | - | - | - | 41,303 |
| Charge for the year | 41,354 | 60,896 | 135,625 | 237,875 | 94,622 |
| **At 31 December 2011** | **85,347** | **155,327** | **352,269** | **592,943** | **295,148** |
| **At 31December 2011** | **349,666** | **324,396** | **287,836** | **961,898** | **387,862** |
| **At 31December 2010** | **238,390** | **344,646** | **297,810** | **880,846** | **394,998** |

## 12. CASH AND BANK

| | 2 011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Cash in hand | - | 117 | - | 53 |
| Standard Chartered Bank Uganda Limited | 10,611,419 | 9,148,703 | 4,278,798 | 4,102,557 |
| | **10,611,419** | **9,148,820** | **4,278,798** | **4,102,610** |

**BRAC UGANDA LIMITED (BRAC UGANDA)**
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***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

## 13. INVENTORY

| | 2 011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Stock and consumables | 352,191 | 550,626 | 142,013 | 247,917 |
| Provision for stock shortages | (73,016) | - | (29,442) | - |
| | **279,175** | **550,626** | **112,571** | **247,917** |

Stock and consumables includes the amount of the stock of health materials that were not yet sold as at 31 December 2011. These materials are normally sold at subsidized rates to low income earners people in communities.

## 14. OTHER PAYABLES

| | 2 011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Accrual for expenses | 332,941 | 420,809 | 134,251 | 188,703 |
| Bonus provision | 17,774 | 7,587 | 7,167 | 3,402 |
| Provision for NSSF | 26,229 | 30,136 | 10,576 | 13,514 |
| Provision for audit fees | 48,874 | 49,060 | 19,707 | 22,000 |
| Salary provision | 50,259 | 103,949 | 20,266 | 46,614 |
| Provision for PAYE | 38,040 | 2,547 | 15,339 | 1,143 |
| | **514,117** | **614,088** | **207,306** | **275,376** |

## 15. RELATED PARTY DISCLOSURE

### (a) RELATED PARTY RECEIVABLE

| | 2 011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Brac Bangladesh | - | 82980 | - | 37211 |
| | **-** | **82980** | **-** | **37211** |

Related party receivables relate to Head office costs which are recoverable from various donor agreements.

### (b) RELATED PARTY PAYABLE

| | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| BRAC Bangladesh | 67,957 | 373,981 | 27,402 | 167,704 |
| Stitching BRAC International | 27,219 | - | 10,975 | - |
| | **95,176** | **373, 981** | **38,377** | **167,704** |

Related party payables relate to amounts owing to BRAC Bangladesh for the settlements of staff costs and operating expenditures on behalf of BRAC Uganda Ltd.

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***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

**Cash balances**

As at 31 December 2011, BRAC Bangladesh held cash balance amounting to Ushs 3.435 million (2010: Ushs 1,010 million) in Citibank Uganda and standard Chartered Bank Uganda Limited. Both accounts are in the names of BRAC Uganda. The balance relates to reimbursed expenses initially paid by BRAC Bangladesh on behalf of BRAC Uganda. BRAC Uganda has no control over this money and as such it is not recorded in its books.

## 16. DONOR FUNDS

| | Note | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|---|
| Donor funds received in advance | 16.1 | 6,587,894 | 7,817,453 | 3,083,758 | 3,505,584 |
| Donor funds investment in fixed assets | 16.1b | 979,275 | 880,846 | 435,983 | 394,998 |
| | | **7,567,169** | **8,698,299** | **3,519,741** | **3,900,582** |

### 16.1 Donor funds received in advance

| | Note | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|---|
| Opening balance | 16.1a | 7,817,453 | 5,111,087 | 3,505,584 | 2,291,967 |
| Donations received during the year | | 12,686,173 | 14,247,216 | 5,115,392 | 6,388,886 |
| Transferred to deferred income - investment in fixed assets | | (336,304) | (368,669) | (135,606) | (165,322) |
| Transferred to statement of income and expenses | | (13,579,428) | (11,172,181) | (5,401,612) | (5,009,947) |
| Closing balance | | **6,587,894** | **7,817,453** | **3,083,758** | **3,505,584** |

### 16.1(a) Donations received during the year

| | 2011 Ushs '000 | 2010 Ushs '000 | 2011 USD | 2010 USD |
|---|---|---|---|---|
| MasterCard Foundation | 7,936,160 | 11,000,957 | 3,200,064 | 4,933,165 |
| BRAC USA | 200,667 | 467,776 | 80,914 | 209,765 |
| Living Goods | 1,306,614 | 901,149 | 526,861 | 404,103 |
| World Bank | 1,569,245 | 177,178 | 632,760 | 79,452 |
| UNICEF | 1,364,442 | 822,460 | 550,178 | 368,816 |
| UNHCR | - | 646,168 | - | 289,762 |
| World Health Organisation | 183,661 | 215,428 | 74,057 | 96,603 |
| Insight Share | 125,384 | - | 50,558 | - |
| BRAC Bangladesh | - | 16,100 | - | 7,220 |
| | **12,686,173** | **14,247,216** | **5,115,392** | **6,388,886** |

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**16.1(b) Donations –investments in fixed assets**

| | 2 011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Opening balance | 880,846 | 688,243 | 394,998 | 308,629 |
| Transferred from donor funds received in Advance | 336,304 | 368,669 | 135,606 | 165,322 |
| Depreciation charged during the year | (237,875) | (176,066) | (94,621) | (78,953) |
| Closing balance | 979,275 | 880,846 | 435,983 | 394,998 |

17. CASHFLOW FROM OPERATING EXPENSES

| | 2 011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Excess of income over expenditure | 2,720,825 | 221,947 | 1,082,287 | 99,528 |
| Depreciation | 237,875 | 176,066 | 94,622 | 78,953 |
| Fixed Assets provision for overstated assets | 17,377 | - | 6,912 | - |
| **Cash flow before changes in working capital** | **2,976,077** | **398,013** | **1,183,821** | **178,481** |
| **Changes in working capital** | | | | |
| (Increase)/decrease in inventory | 271,451 | (199,183) | 109,456 | (89,320) |
| (Increase)/decrease in receivables | (21,699) | 31,429 | (8,750) | 14,094 |
| (Increase)/decrease in related party receivables | 82,980 | (859,968) | 33,460 | (385,636) |
| Increase/(decrease) in related party payables | (278,805) | - | (112,421) | - |
| Increase/ (decrease) of other payables | (99,971) | 364,076 | (40,311) | 163,263 |
| **Net cash from operations** | **2,930,033** | **(265,633)** | **1,165,255** | **(119,118)** |

## 18. SUBSEQUENT EVENTS

There were no significant subsequent events occurring in periods after the report date that came to our attention with a material effect on the financial statements at 31 December 2011.

## 19. CURRENCY

The financial statements are expressed in Uganda Shillings which is the entities functional currency.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
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***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

## 20. USE OF ESTIMATES AND JUDGMENT

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reported period.

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 and in any future periods affected. 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.

BRAC 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.

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 Fund 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 company regularly reviews its loan portfolio and other assets and makes judgments in determining whether an impairment loss should be recognized in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### (ii) Provisions and contingencies

A provision is recognized if as a result of past events, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. For provisions included in the financial statements see note 11.

## 21. CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. The Credit policy of BRAC Uganda requires all credit exposures to be measured, monitored and managed proactively.

**BRAC UGANDA LIMITED (BRAC UGANDA)**
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***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

**Management of the risk**

As set out above, the main activity of the Company is the provision of unsecured loans to group members. The Board of Directors has delegated responsibility for the oversight of credit risk to the Country Representative and the Monitoring department.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was;

| | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Other receivables | 36,908 | 15,209 | 14,882 | 6,820 |
| Related party receivables | - | 82,980 | - | 37,211 |
| | **36,908** | **98,189** | **14,882** | **44,031** |

The aging of trade receivables as at the reporting date was:

| | 2011 Shs '000 | 2010 Shs '000 | 2011 US$ | 2010 US$ |
|---|---|---|---|---|
| Between 0-30 days | - | 15,209 | - | 6,820 |
| Between 31-60 days | 36,908 | - | 14,882 | - |
| Over 90 days | - | 82,980 | - | 37,211 |
| | **36,908** | **98,189** | **14,882** | **44,031** |

**Liquidity risk**

Liquidity risk is the risk that operations cannot be funded and financial commitments cannot be met timeously 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 Company 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 Company and also from available financial institutions facilities.

BRAC Uganda Ltd 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 Ltd maintains sufficient levels of cash or fixed deposits to meet its working capital requirements. In addition, BRAC Uganda Ltd maintains banking facilities of a reasonable level.

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***NOTES TO THE FINANCIAL STATEMENTS CONTINUED***

**Exposure to Liquidity risk**

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2011 to the contractual maturity date.

| | Matured<br>Ushs '000 | Less than 30 days<br>Ushs '000 | Between 31 to 60 days<br>Ushs '000 | Over 60 days<br>Ushs '000 | Total<br>Ushs '000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and bank | 10,611,419 | - | - | - | 10,611,419 |
| Other receivables | - | - | 36,908 | - | 36,908 |
| Related party receivables | - | - | - | - | - |
| Property and equipment | - | - | - | 979,275 | 979,275 |
| | **10,611,419** | **-** | **36,908** | **979,275** | **11,627,602** |
| **Capital fund and liabilities** | | | | | |
| Other current liabilities | - | (114,528) | (66,648) | (332,941) | (514,117) |
| Due to related parties | - | - | - | - | - |
| | - | - | (95,176) | - | (95,176) |
| Donor funds | - | (2,536,368) | (4,051,526) | (979,275) | (7,567,169) |
| | **-** | **(2,650,896)** | **(4,213,350)** | **(1,312,216)** | **(8,176,462)** |
| **Net (liabilities)/ assets** | **10,611,419** | **(2,650,896)** | **(4,176,442)** | **(332,941)** | **3,451,140** |

BRAC UGANDA LIMITED (BRAC UGANDA)
Financial statements
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*NOTES TO THE FINANCIAL STATEMENTS CONTINUED*

## 22. SEGMENTAL REPORTING

**Statement of comprehensive income for the year ended 31 December 2011 (Amount in Uganda Shillings)**

| | Agriculture & Poultry | Education Program | Health Program | ELA Program | Regional Training Centre | Research & Evaluation | (UNICEF) Karamoja-Project | IDP Project | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **Income** | | | | | | | | | |
| Grant income | 2,951,002 | 1,295,393 | 3,081,185 | 2,587,797 | 379,787 | 1,554,075 | 1,968,064 | - | 13,817,303 |
| Other income | 768,641 | 11,510 | 40,171 | 25,929 | 637,001 | 55,451 | - | - | 1,538,703 |
| Exchange gains/losses | 62,486 | 68,490 | 68,446 | 68,446 | 68,446 | 68,447 | - | - | 404,761 |
| **Total income** | **3,782,129** | **1,375,393** | **3,189,802** | **2,682,172** | **1,085,234** | **1,677,973** | **1,968,064** | **-** | **15,760,767** |
| **Expenditure** | | | | | | | | | |
| Manpower and compensation | 1,015,305 | 162,634 | 979,287 | 628,434 | 87,638 | 314,316 | 350,072 | - | 3,537,686 |
| Travelling & transportation | 376,412 | 71,870 | 329,555 | 188,642 | 34,696 | 104,979 | 130,889 | - | 1,237,043 |
| Training, workshops and seminars | 267,793 | 52,726 | 130,237 | 336,235 | 205,124 | 197,027 | 465,720 | - | 1,654,862 |
| Occupancy expenses | 203,869 | 65,977 | 197,714 | 103,685 | 139,840 | 21,175 | 43,424 | - | 775,684 |
| Other general & administrative expenses | 1,099,513 | 939,488 | 783,009 | 1,014,448 | 124,508 | 750,179 | 885,647 | - | 5,596,792 |
| Depreciation | 118,937 | - | 111,412 | - | - | - | 7,526 | - | 237,875 |
| **Total expenses** | **3,081,829** | **1,292,695** | **2,531,214** | **2,271,444** | **591,806** | **1,387,676** | **1,883,278** | **-** | **13,039,942** |
| **Surplus/ reserve** | **700,300** | **82,698** | **658,588** | **410,728** | **493,428** | **290,297** | **84,786** | **-** | **2,720,825** |
| Taxation | - | - | - | - | - | - | - | - | - |
| **Net surplus for the year** | **700,300** | **82,698** | **658,588** | **410,728** | **493,428** | **290,297** | **84,786** | **-** | **2,720,825** |

# BRAC UGANDA LIMITED (BRAC UGANDA)

Financial statements

For the year ended 31 December 2011

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED*

**Statement of financial position as at 31 December 2011 (Amount in Uganda Shillings)**

| | Agriculture & Poultry | Education Program | Health Program | ELA Program | Regional Training Centre | Research & Evaluation | (UNICEF) Karamoja-Project | IDP Project | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **Assets** | | | | | | | | | |
| Cash and bank | 2,498,033 | 316,095 | 1,683,413 | 2,012,480 | 1,135,374 | 1,523,805 | 671,488 | 770,731 | 10,611,419 |
| Inventories | | | 279,175 | | | | | | 279,175 |
| Receivables and other current Assets | 600 | | 359 | | 17,000 | 5,268 | 13,681 | - | 36,908 |
| Property and equipment | 310,315 | 149,536 | 197,207 | 16,960 | 108,664 | 78,625 | 96,838 | 3,753 | 961,898 |
| **Total property and assets** | **2,808,948** | **465,631** | **2,160,154** | **2,029,440** | **1,261,038** | **1,607,698** | **782,007** | **774,484** | **11,889,400** |
| **Liabilities and capital fund** | | | | | | | | | |
| **Liabilities** | | | | | | | | | |
| Other current liabilities | 43,820 | 19,536 | 102,768 | 21,842 | 10,088 | 33,761 | 275,720 | 6,582 | 514,117 |
| Due to related parties | - | 4,799 | 76,602 | - | - | - | 13,775 | - | 95,176 |
| **Total liabilities** | **43,820** | **24,335** | **179,370** | **21,842** | **10,088** | **33,761** | **289,495** | **6,582** | **609,293** |
| **Capital fund** | | | | | | | | | |
| Donor funds | 1,435,442 | 286,737 | 1,746,570 | 1,347,063 | 448,013 | 1,131,801 | 407,726 | 763,817 | 7,567,169 |
| Retained surplus | 1,329,686 | 154,559 | 234,214 | 660,535 | 802,937 | 442,136 | 84,786 | 4,085 | 3,712,938 |
| **Total capital fund** | **2,765,128** | **441,296** | **1,980,784** | **2,007,598** | **1,250,950** | **1,573,937** | **492,512** | **767,902** | **11,280,107** |
| **Total liabilities and capital** | **2,808,948** | **465,631** | **2,160,154** | **2,029,440** | **1,261,038** | **1,607,698** | **782,007** | **774,484** | **11,889,400** |

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*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED*

**Statement of comprehensive income for the year ended 31 December 2011 (Amount in United States Dollars)**

| | Agriculture & Poultry | Education Program | Health Program | ELA Program | Regional Training Centre | Research & Evaluation | (UNICEF) Karamoja-Project | IDP Project | Total |
|---|---|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| **Income** | | | | | | | | | |
| Grant income | 1,173,847 | 515,280 | 1,225,631 | 1,029,371 | 151,071 | 618,178 | 782,855 | - | 5,496,233 |
| Other income | 305,749 | 4,578 | 15,979 | 10,314 | 253,386 | 22,058 | - | - | 612,065 |
| Exchange gains/losses | 24,855 | 27,243 | 27,226 | 27,226 | 27,226 | 27,229 | - | - | 161,005 |
| **Total income** | **1,504,426** | **547,093** | **1,268,815** | **1,066,894** | **431,675** | **667,558** | **782,842** | **-** | **6,269,303** |
| **Expenditure** | | | | | | | | | |
| Manpower and compensation | 403,868 | 64,692 | 389,540 | 249,978 | 34,861 | 125,028 | 139,251 | - | 1,407,218 |
| Travelling & transportation | 149,729 | 28,588 | 131,090 | 75,038 | 13,801 | 41,758 | 52,065 | - | 492,069 |
| Training, workshops and Seminars | 106,522 | 20,973 | 51,806 | 133,747 | 81,594 | 78,373 | 185,254 | - | 658,269 |
| Occupancy expenses | 81,095 | 26,244 | 78,646 | 41,244 | 55,625 | 8,423 | 17,273 | - | 308,550 |
| Other general & administrative expenses | 437,363 | 373,704 | 311,465 | 403,526 | 49,527 | 298,406 | 352,292 | - | 2,226,288 |
| Depreciation | 47,310 | - | 44,317 | - | - | - | 2,995 | - | 94,622 |
| **Total expenses** | **1,225,887** | **514,206** | **1,006,864** | **903,533** | **235,408** | **551,988** | **749,130** | **-** | **5,187,016** |
| **Surplus/ reserve** | **278,565** | **32,896** | **261,972** | **163,379** | **196,275** | **115,475** | **33,725** | **-** | **1,082,287** |
| Taxation | - | - | - | - | - | - | - | - | - |
| **Net surplus for the year** | **278,565** | **32,896** | **261,972** | **163,379** | **196,275** | **115,475** | **33,725** | **-** | **1,082,287** |

# BRAC UGANDA LIMITED (BRAC UGANDA)

Financial statements

For the year ended 31 December 2011

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 CONTINUED*

**Statement of financial position as at 31 December 2011 (Amount in United States Dollars)**

| | Agriculture & Poultry | Education Program | Health Program | ELA Program | Regional Training Centre | Research & Evaluation | (UNICEF) Karamoja-Project | IDP Project | Total |
|---|---|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| **Assets** | | | | | | | | | |
| Cash and bank | 1,007,271 | 127,458 | 678,796 | 811,484 | 457,812 | 614,438 | 270,760 | 310,779 | 4,278,798 |
| Inventories | - | - | 112,571 | - | - | - | - | - | 112,571 |
| Receivables and other current assets | 242 | - | 145 | - | 6,855 | 2,124 | 5,516 | - | 14,882 |
| Property and equipment | 125,127 | 60,297 | 79,519 | 6,839 | 43,816 | 31,704 | 39,047 | 1,513 | 387,862 |
| **Total property and assets** | **1,132,640** | **187,755** | **871,031** | **818,323** | **508,483** | **648,266** | **315,323** | **312,292** | **4,794,113** |
| **Liabilities and capital fund** | | | | | | | | | |
| **Liabilities** | | | | | | | | | |
| Other current liabilities | 17,669 | 7,877 | 41,439 | 8,807 | 4,068 | 13,613 | 111,179 | 2,654 | 207,306 |
| Due to related parties | - | 1,935 | 30,888 | - | - | - | 5,554 | - | 38,377 |
| **Total liabilities** | **17,669** | **9,812** | **72,327** | **8,807** | **4,068** | **13,613** | **116,733** | **2,654** | **245,683** |
| **Capital fund** | | | | | | | | | |
| Donor funds | 667,672 | 133,371 | 812,388 | 626,564 | 208,385 | 526,438 | 189,646 | 355,277 | 3,519,741 |
| Retained surplus | 546,918 | 63,572 | 96,335 | 271,687 | 330,259 | 181,857 | 34,873 | 1,680 | 1,527,181 |
| Currency Translation | (99,619) | (19,000) | (110,019) | (88,735) | (34,229) | (73,642) | (25,929) | (47,319) | (498,492) |
| **Total capital fund** | **1,114,971** | **177,943** | **798,704** | **809,516** | **504,415** | **634,653** | **198,590** | **309,638** | **4,548,430** |
| **Total liabilities and capital** | **1,132,640** | **187,755** | **871,031** | **818,323** | **508,483** | **648,266** | **315,323** | **312,292** | **4,794,113** |

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