Uganda

Starting from a modest launch in 2006. 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 catalyses 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 across the world, with staff and BRAC-trained entrepreneurs numbering in the hundreds of thousands – a global movement bringing change to 11 countries in Asia, Africa and the Caribbean.

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 the 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 2012.

This year, we saw massive expansion of our youth programme to address Uganda's fast-growing youth population. Our empowerment and livelihood for adolescents (ELA) programme has opened 500 new clubs to accommodate the increasing interest of young girls to associate with their peer groups. In the upcoming year, we will be piloting an innovative project, 'Building Young Futures', to continue enhancing youth inclusivity that their needs are fulfilled. This programme will complement ELA by introducing advanced courses on life-skills and financial literacy. Under our Karamoja Initiative, we provided vocational training to 50 boys and girls, and monitored them after the training, which yielded positive results. Most were self-employed, while a number of them were employed by local companies as carpenters and masons.

In addition, BRAC and The MasterCard Foundation entered a partnership to implement a scholarship programme that aims to assist young Ugandans to access quality secondary education. This scholarship will be given to 5,000 young and talented adolescents over an eight year period, providing talented yet financially disadvantaged young people with access to quality secondary and higher education. Students selected for the programme receive a holistic set of financial, social, and academic supports throughout their education and during their post-graduate transitions. The scholars are expected to acquire leadership qualities, work skills, social and emotional competencies and experience in community service.

Through our agriculture and food security programme, we trained a total of 40,000 general farmers and 200 community agriculture promoters, while 300 model farmers were selected and trained at the new expansion branches.

Lack of access to proper healthcare services remains one of the biggest issues plaguing the country, and we have expanded in 15 new branches in Uganda, reaching approximately 1,444,202 people through health forums and providing services to 2,606,258 community members.

Microfinance programme remains one of the key gateways to alleviating poverty. This year, to maintain the portfolio quality in a period of rapid growth, we established the loan review unit, which works as a quality controller for the microfinance programme. This unit's work ensures that borrowers take loans within their reach, preventing future indebtedness. BRAC's microfinance programme in Uganda will ease up the lending procedures for new borrowers through a workable balance between strong growth and prudent lending. Achieving this balance in the near future will be a key measure of success for the programme. This year we disbursed USD 44.53 million to 118,150 borrowers as small loans.

The new Community Connector project is funded by USAID and is one of Uganda's leading food security projects, has established a partnership with UNICEF to increase the impact of our community nutritional activities. Under the partnership, the project will provide community based nutrition education in our targeted communities while UNICEF will improve the quality of nutrition services provided at local health care facilities.

Our research and evaluation unit (REU) in Uganda has contributed in generating knowledge of effective programming through impact evaluations and action research. We are already using the findings of ELA evaluation to facilitate better practices on youth interventions in Uganda and beyond. REU has also provided impetus to innovations in programmes to improve our effectiveness. Combining health and adolescent programme to develop adolescent health promoter is one example of such innovations. I believe lessons from such pilot initiatives will strengthen our approaches in scaling up.

I would like to take this opportunity to thank our team in Uganda who have worked diligently under difficult circumstances. I extend my sincere thanks to the members of the governing body, whose leadership and foresight has been of great value. As situation continues to evolve, BRAC will continue to re-evaluate its strategy. I thank the Ugandan government and our development partners in Uganda for their continued support as we strive to create greater value in our services to contribute towards the progress and prosperity of Uganda.

Sir Fazle Hasan Abed, KCMG
Founder and Chairperson
BRAC & BRAC International

BRAC International
Governance and Management

1. Governance

1.1 The legal status of BRAC International

BRAC International is registered as Stichting BRAC International, a foundation registered under the laws of The Netherlands, with its seat in The Hague. All of BRAC International's development entities operate under this umbrella. Development programmes include health, education, agriculture, livelihoods, targeting the ultra poor, human rights & legal services programmes. BRAC International Holdings B.V. is a wholly owned subsidiary of Stichting BRAC International. BRAC International's microfinance, programme supporting enterprises and finance company are consolidated under this wing. Programme supporting enterprises currently include seed production, feed mill, training centres and tissue culture lab.

BRAC International has introduced programmes in Afghanistan, Haiti, Sri Lanka, Pakistan, Uganda, Tanzania, South Sudan, Sierra Leone, Liberia and Philippines. In each of these countries, BRAC International is legally registered with the relevant authorities.

1.2 Governing Body

BRAC International is governed by a governing body. The governing body is elected from among distinguished individuals with sound reputations in social development, business or the professions who have demonstrated their personal commitment to pro-poor causes. These individuals are elected to the governing body to bring their diverse skills, knowledge and experiences to the governance of BRAC International. At present, there are 10 members on the governing body. The governing body usually meets four times a year, in accordance with the rules of Stichting BRAC International. The composition of the present governing body of Stichting BRAC International is as follows:

Members of the Governing Body

Chairperson	:	Sir Fazle Hasan Abed
Member	:	Dr Mahabub Hossain
		Muhammad A (Rumee) Ali
		Ms Susan Davis
		Ms Sylvia Barren
		Dr Debopriya Bhattacharya
		Ms Shabana Azmi
		Mr Shafiq ul Hassan
		Ms Parveen Mahmud
		Ms Irene Zubaida Khan

The composition of the present Governing body of BRAC International Holdings B.V. is as follows:

Chairperson	:	Sir Fazle Hasan Abed
Member	:	Dr Mahabub Hossain
		Muhammad A (Rumee) Ali
		Ms Susan Davis
		Ms Sylvia Borren
		Orangefield Trust (Netherlands) B.V.

Details about the roles of governing body are available in the Deed of Incorporation of Stichting BRAC International and BRAC International Holdings B.V.

1.3 Local Boards

Each country entities have a local board. We have aimed to pursue microfinance and non-microfinance activities through separate entities in most of our countries. The local board members are appointed by the Stichting BRAC International board. The business of the local entities is managed by these local boards. Further details of the roles of the local board are available in the respective incorporation documents of these entities.

1.4 Accountability and Transparency

The internal audit department normally conducts audits at all our cost centres on a sample basis. All departments or units in which irregularities are detected through the course of normal internal audit are then audited. Audits take place at least once a year and twice or more in locations and on programmes where a closer watch is warranted.

External audit of Stichting BRAC International, BRAC International Holdings B.V. and all of our legal entities are undertaken annually. Financial transparency is ensured by BRAC International's finance and accounts division, which prepares financial statements following the International Financial Reporting Standards (IFRS) and relevant countries' laws.

BRAC International strives for excellence and transparency in financial reporting. In Uganda, BRAC has been recognised as the Best NGO in the Financial Reporting Awards in both 2011 and 2012, for its preparation, disclosure and maintenance of a commendable financial reporting platform.

2. Management

At all levels of BRAC International management, there is a clear-cut policy regarding the authority of each level of staff, and staff are adequately equipped and empowered to act as effective managers. This is clearly set out in BRAC International's Human Resources Policies and Procedures (HRPP) and Table of Authority. The appropriate staff are empowered to take decisions with respect to all levels and areas of management, including: recruitment, deployment, capacity-building, transfer, leave, financial transactions, purchase and procurement. These are spelled out in detail with respect to staff at the Area, regional and country office levels. The HRPP also contains all policies relating to staff salary, benefits, recruitment and promotion procedures and payments. Every staff member receives orientation on HRPP.

The Stichting board appoints officers, namely the Senior Directors, Group CFO and Director Finance to manage affairs from the secretariat in Dhaka. BRAC International's management policies clearly define the authority of each level of staff. The appropriate staffs are empowered to take decisions at area, regional, country and Head Office levels. Procedural manuals and policy documents are made available to staff; these detail organisational policies and procedures. Day-to-day decisions are taken by area managers, regional coordinators and programme heads as appropriate, while larger policy decisions involve Country Representatives, Senior Directors, Group CFO, Director Finance and, in particular cases, the Executive Director, the Chairperson and the governing body.

2.1 Financial Management

All matters relating to finance and accounts from branch offices to head office are supervised and controlled by the finance and accounts department. The branch offices prepare project wise monthly cash requisitions, which are sent to the area/regional office. The area/regional office checks and monitors the accuracy of the requisition and then sends it to country office. After checking, the Country Office disburses funds as per the requisition. The Area I Branch Offices send monthly Expenditure Statements along with bank statements to the Country Office Finance and Accounts Department. The country office then consolidates all the expenditure statements and prepares monthly financial statements and reports to the BRAC International Head Office and donors, as required. A comprehensive accounting manual and statement of standard operating procedure guides accounts personnel in preparing financial statements and reports following accounting standards, and in running other financial activities in a systematic and efficient way.

In consultation with different level of stakeholders, the country office prepares project-wise budgets, which are then sent to the Head Office. The head office checks the project-budgets of its country offices, which is recommended by the Director Finance and finally approved by the Group CFO. The head office also consolidates and prepares a country budget, prepares budget variances and submits these to the governing body in the quarterly board meetings of BRAC International's Governing Body. The budget is therefore prepared with the participation of programme and finance staff.

Further details can be found within BRAC International's accounts and finance manual.

2.2 Human Resource Management

The Human Resources Department (HRD) in both head office and within each country in which BRAC International operates is chiefly responsible for recruitment, deployment, staff appraisal, and all aspects of Human Resource Management (HRM) from head office. One of the central roles of the HRD is to establish and disseminate a clear-cut policy regarding the authority of each level of staff, in the form of the Human Resources Policies and Procedure (HRPP). The HRPP also contains all policies relating to staff salary, benefits, recruitment and promotion procedures, payments, and a detailed code of conduct etc. Every staff member receives orientation on HRPP.

2.3 Staff training and capacity-building

BRAC International places high priority on the training and capacity-building of staff. To date, there are BRAC Training Centres in Liberia, Uganda and Afghanistan. In other countries BRAC hires training facilities near the areas offices.

After recruitment and before deployment, new staff is sent for orientation training by the training division, in which they are introduced to BRAC International's programmes, its objectives and mission. After this, they are deployed in the respective programme areas in the field. According to the needs of the different programmes, staffs are then given programme specific training. Most programmes also have separate training units within the programme unit, for more specialised training. BRAC International also sends staff on short and longer-term international training courses.

In line with its commitment to investing in its staff, BRAC International is continually seeking to improve its human resource management practices, in order to deliver better services to the poor, in particular women. Recent initiatives include:

- Strengthening communication systems within and beyond the organisation, in part to improve learning mechanisms within BRAC International
- Efforts to address gender relations, anti-bribery and corruption, data protection, child protection, conflicts of interest, and culture within the organisation
- Introducing performance appraisal
- A mentoring programme to support junior staff in their personal and professional development.

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.

Assisting Ugandan farmers to improve productivity

Our agriculture programme in Uganda aims to improve the livelihood and food consumption of rural populations by improving productivity. This often involves changing subsistence agriculture to more commercial farming as these practices generate greater income, create more jobs, especially in rural areas, and ensure food security for the poor. Through training and access to information on crop production, providing credit services through our microfinance programme, and supplying high quality inputs – disease resistant seeds, fertilisers and pesticides at affordable cost, BRAC is helping farmers in Uganda improve their productivity.

We are able to reach a large number of farmers with our services by leveraging the microfinance platform and its vast network throughout the country. Each branch office has project assistants who oversee the agriculture programme. At the community level, the agricultural services are delivered through self-employed entrepreneurs called 'community agriculture promoters' who serve as outreach agents. These entrepreneurs are typically farmers who are women, selected from among BRAC's microfinance members. This approach is a synergy between the microfinance platform and crosscutting of agriculture services, an example of microfinance multiplied at work.

BRAC also started a social enterprise in Uganda by establishing an in-house seed production and processing centre at Nakaseke. A variety of research activities take place at the centre, in conjunction with National Agricultural Research Organisation and National Crop Resources Research Institute for evaluating the yield and adaptability of maize and rice.

Namubira runs a small fruit shop by the main highway leading to Kampala in village Lukaya, Masaka region

Josephine, in her garden at the outskirts of the city of Masaka

Beyond 2012

In its continued effort to address food security, the agriculture programme will begin implementing the Japan Social Development Fund project titled "Innovative and Integrated Approach to Enhance Smallholder Family Nutrition" in Western Uganda. The project will be crosscutting between the agriculture and health programmes, and will address vitamin A and iron deficiency.

BRAC's social enterprises in Uganda will establish a fully automated seed processing plant at Nakaseke to produce high quality seeds for rural farmers.

The reuse of planting materials like vines, tubers, and suckers can cause diseases, an issue that has plagued the agriculture sector in Uganda. We will establish a tissue culture lab to provide clean and disease-free planting materials at an affordable cost to smallholder farmers to encourage better yield, reduce crop failure and improve agro-nutrition.

2012 Highlights

In 2012, the agriculture programme expanded its services to 20 new branches, covering 64 districts in Uganda. In total, 40,000 general farmers were trained during the year and 200 community agriculture promoters and 300 model farmers were trained at the expansion branches. Our agriculture extension programme and the social enterprises distributed seeds worth more than USD 230,000.

The agriculture programme received approval for USD 3 million from the Japan Social Development Fund through World Bank to initiate a three-year project to improve nutrition of women and children in Western Uganda. The objective of the project is to improve nutrition security of children, adolescent girls and women of childbearing age in targeted vulnerable small holder households. The project will develop and deliver an integrated package of interventions aimed at the principal outcomes of increased measures of food consumption and dietary diversity of targeted beneficiaries. It will explore the possibility of sequential rollout of the interventions for measuring effectiveness. Process evaluation will utilise qualitative indicators and intermediate measures of delivery and intake including: agriculture productivity and income, nutrient-rich food crop cultivation, awareness and demand for nutrient-rich food, and improved child and maternal care and feeding practices.

We took initiatives to involve the youth in the agriculture value chain as community agriculture promoters to promote small-scale entrepreneurial activity. Pilots are planned for implementation in early 2013, in collaboration with other partners.

Research collaboration between Japan International Cooperation Agency (JICA) Uganda and BRAC was initiated.

We also undertook the first trial of drought tolerant maize.

CASE STUDY

Margaret, a former microfinance borrower, is now an empowered community agriculture promoter

MARGARET: A beacon of hope in the community

"We used to cultivate a lot but our yield was low, but now that we have received training, we are using good farming practices and our incomes are increasing."

Margaret, 42, is a married mother of seven from Katedde parish in Wakiso district. She joined BRAC as a community agriculture promoter in 2009, after first serving as a model farmer. Margaret is also a BRAC microfinance borrower and an example of BRAC's community mobilisation network at work.

As a community agriculture promoter, Margaret supplies free information and makes high quality agro-inputs available to farmers in her community. Margaret is part of BRAC's efforts to increase agricultural output and boost farm income and rural employment across Uganda.

One of 800 community agriculture promoters in BRAC's arsenal of 'franchised entrepreneurs', Margaret received training, access to information on crop production, cost effective agro-inputs (seeds, fertilisers, insecticides, small agro tools and machineries) and technical support regarding modern agricultural practices. She shares this knowledge and expertise with farmers in her community, assisting them on technical issues and selling improved agro-inputs.

"Whenever a farmer comes to buy seeds, they ask for advice and I teach them the farming practices I learned from BRAC," Margaret said, discussing her status as a counselor to farmers in her community.

Margaret received one week of training from BRAC staff before beginning her activities and she receives refresher training courses on a monthly basis.

Margaret is reaping financial benefits from her involvement as community agriculture promoter. As a promoter, Margaret buys seeds from BRAC and sells them to farmers in her community for an average 15 per cent margin, typically netting UGX 25,000-40,000 (USD 10-16) per month in profit. "Whenever your income increases, your life changes," said Margaret. "Before, my children were in poor schools, but now I am able to send them to better schools." She continued, "I have become popular. People in my village, even the nearby villages say, 'If you want to improve your seeds, go to Margaret.'"

In addition to her activities as a promoter, Margaret is a farmer. Though she has four acres of land, Margaret's farm yields used to be just enough for home consumption. However, since practicing the modern farming methods learned from BRAC, Margaret is experiencing higher than expected yields.

She is able to feed her children and husband from the yields of her farm and have a large surplus to sell in the market, generating even more income.

Community Connector

Integrated assistance for Ugandan farmers

Community Connector (CC) is one of Uganda's leading food security projects, an integrated agriculture and nutrition project designed and funded by USAID to improve the food security and nutrition of women and children under five in Uganda's poorest and most vulnerable communities.

The project improves food security and nutrition in rural, underserved communities in northern and south-western Uganda through agriculture training, nutrition education and behaviour change, and savings group and microfinance activities. CC also increases access to agricultural inputs, healthcare items, poultry and livestock medicine, and other socially beneficial goods in underserved communities by selling these at subsidised prices.

The overall approach of the programme is to support community-based groups to develop plans and articulate their needs for services from the local government; support community groups to improve their own situations by growing more nutritious crop, and increasing their savings and incomes through growing cash crops and microfinance; and build the capacity of local government to provide important agriculture, nutrition and livelihoods services for the overall health and well-being of the community.

CC is implemented by eight organisations, including NGOs, universities and foundations. FHI 360 is the lead organisation, nutrition partner, and receives all funds from USAID Uganda. BRAC in Uganda is the savings and livelihoods partner for the project, which started in July 2012.

A community health promoter is examining a child's upper arm circumference to identify if the child is malnourished during his training in Ruhijja sub county

Beyond 2012

In the future, BRAC plans to establish 200-500 community-based savings and loan groups among our targeted communities, establish a low-interest loan product specifically targeting very poor and vulnerable populations. We will provide a basket of low-cost seeds, tools, health and solar power products that Community Connector promoters (volunteer entrepreneurs) can sell in their communities at subsidised prices in order to increase the access of the communities to quality products whille providing promoters with a sustainable business. In the medium-term, the project will scale up to six more districts.

2012 Highlights

The project has recorded the following achievements since its inception in July 2012:

- Completed detailed situational analysis of each of our project districts to identify the poorest and most vulnerable communities we could work with, determine the specific needs, challenges, and resources of these target communities, and tailor our activities to meet these needs
- Recruited 20 staff and 18 field-based Community Connector officers who live and work in our target communities
- Recruited 109 community-based trainers (CBT) and 1,463 community promoters from the communities. CBT's are being trained by the project to train community groups in agriculture, nutrition, and savings group activities. Community promoters are volunteers who promote key behavioural change messages to the communities and sell high-quality agriculture, health, solar power, and other products to the communities at subsidised prices through BRAC's proven promoter approach
- Registered 1,463 community-based farmers groups, women's groups, savings and loan groups and other groups who will be trained and supported through our project. This represents 25,921 people reached by our project
- Trained groups in hygiene and sanitation; promoted a healthy 'model home' in terms of women and men's joint role in decision-making, food and health, and developing small backyard gardens for income generation for women and youth in the households
- Trained CBT's to encourage the development of healthy and beneficial nutrition, savings, and agriculture practices among our target households through interactive group discussions, activities and role-plays
- Established a partnership with UNICEF to increase the impact of our community nutritional activities. Under the partnership, CC will provide community-based nutrition education in our targeted communities while UNICEF will improve the quality of nutrition services provided at local healthcare facilities
- Worked with the office of the Prime Minister to establish food security and nutrition committees incorporating government agriculture, nutrition and health officials, local government representatives, and NGO stakeholders in our target districts

Education

With education programmes in seven 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.

Comprehensive support for young Ugandan scholars

BRAC and the MasterCard Foundation entered a partnership to implement a scholarship programme that aims to assist young Ugandans to access quality secondary education. This is particularly relevant to the context of Uganda, as a transition from primary to secondary schooling remains a major barrier to educational attainment in Uganda.

Estimates vary in terms of the number of students enrolled in the primary and secondary level nationally. However, evidence points to a significant level of student drop-out, both before the completion of primary school as well as during secondary school. The most reliable indicator of enrolment, available on a periodic basis, is the number of students appearing for the national-level exams. In 2011, 535,900 students appeared in the Primary Level Examinations (PLE), 220,000 students enrolled in the Uganda Certificate Examinations (UCE, equivalent to O-Level), and 100,300 students enrolled in the Uganda Advance Certificate Examinations (UACE equivalent to A-Level). This data points to a roughly 50 per cent drop-out at each examination level. Thus, of the students who enter primary school at Grade 1, only about 10 per cent of them manage to graduate from high school.

The scholarship programme, supported by the MasterCard Foundation, provides talented yet financially disadvantaged young people in developing countries, particularly from Africa, with access to quality and relevant secondary and university education. Students selected for the programme receive a holistic set of financial, social, and academic supports throughout their education and during their post-graduate transitions. The programme consists of a global network of education institutions and non-profit organisations, who believe that education is a catalyst for social and economic betterment. The programme aims to educate 5,000 young people, and enable them to contribute to the economic growth and social development in their countries of origin.

Scholars Intake and Graduation

	2012	2013	2014	2015	2016	2017	2018	2019	2020	
		O-Level Intake Years								
S1		500	1300	1600						3400
S2			500	1300	1600					
S3				500	1300	1600				
S4					500	1300	1600			
			A-Level Intake Years							
S5		200	400	500	500	500	1300	1600		1600
S6			200	400	500	500	500	1300	1600	
			A-Level Scholars Graduate				O-Level Scholars Graduate			
TOTAL		**700**	**1700**	**2100**	**500**					**5000**

Beyond 2012

We will be implementing the scholarship programme, which started in late 2012 till 2020, reaching 5,000 Ugandan scholars directly. We aim to provide girls with 60 per cent of the scholarships. Efforts will also be made to ensure that hard-to-reach districts are included. With this programme, we will also be working closely with the families and communities of the scholars and also the schools where the scholars will be enrolled.

2012 Highlights

Scholarship programme roll-out
Though the scholarship programme started in late 2012, by the end of the year selection processes were already ongoing. We received nearly 14,000 applications for the 700 scholarships being offered this year. Of the 700 scholarships, 500 were for the Uganda Certificate Examination (UCE)/ O-Level and 200 were for the Uganda Advance Certificate Examination (UACE)/ A-Level. To secure these applications, the programme rolled out into 50 districts and reached out to 800 primary and secondary schools. The programme is also working very closely with the Ministry of Education, and Sports and the local governments.

Consolidation of second-chance schools
BRAC's education programme for northern Uganda is wrapping up and the existing 100 schools are scheduled to close in 2013.

A class in Paloba's non-formal school in Oram sub-county, Kitgum branch

Nancy is well on her way to realising her dream of becoming a nurse

NANCY: A 'second chance' at a quality education

"At BRAC, I learned how to write and get new friends, plus the teachers were very good to me. They always had time for us."

Nancy is a twelve-year-old girl in Lukung village of Lamwo district, one of the northern-most cities of Uganda. A remote area, Lamwo is lacking in amenities that more accessible cities in Uganda enjoy, including easy access to schools. Because the nearest government school is far from her home, Nancy, along with her sister, 13-year-old Lajara Sharon, enrolled in a BRAC 'second chance' school.

"The BRAC learning centre was near my home and it was easy for me to commute back home early," Nancy said. This was important to Nancy as well as her mother, Ladu Cidarine, who manages the family of nine alone since her husband died two years ago. After school, Nancy helps her mother with housework, including fetching water, washing dishes and cooking.

At 12, Nancy is in Primary 3. Had her education proceeded smoothly, Nancy would have been in Primary 6. Such is the case for many of the students at BRAC 'second chance' schools. The schools take in students who are older, are child-mothers or have had significant disruptions in their education due to a number of factors, including war and displacement.
Nancy has been mainstreamed to Ayago primary school, where she is continuing her education. When asked what she wants to be when she grows up, Nancy said, "I hope to become a nurse someday."

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 the 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

Future development of Uganda depends on how prepared its large adolescent and youth populations are to make a smooth transition to adulthood. However, Ugandan adolescents, especially the girls, face multifaceted vulnerabilities. These include lack of key life skills, limited economic opportunities, lack of voice, and adverse social attitudes towards them. Recognising the severity of the situation, BRAC has responded with its empowerment and livelihood for adolescents (ELA) programme.

The ELA programme targets adolescent girls between the ages of 13 and 21, especially those who are out of school. The primary goal of the programme is to assist the girls in achieving greater economic and social empowerment and becoming agents of change in their families and communities. The programme combines safe-spaces with innovative livelihood and life skill training, and a customised microfinance programme for older adolescent girls. Community and parent participation is another major tenant of the programme.

BRAC understands that the needs vary according to age groups: younger girls are different from older ones, school-going girls have different needs and aspirations from out-of-school girls and teen mothers require different information from others. These varying needs are considered in the designing of every programme component.

During club hours, a group of adolescent girls play an indoor game

Adolescents club members are reading books at a club in Rukoki branch, Fortportal district, Western Uganda

Beyond 2012

In 2013, we will focus on increasing the programme's depth and scale. At the same time, innovative pilots will be continued to enhance inclusiveness so that further youth needs are fulfilled. This will include the start of the 'Building Young Futures' programme. This programme will complement the ELA programme by introducing updated and advanced courses on life-skills and financial literacy and providing vulnerable adolescents with start-up capital. The programme could potentially reach 10,000 vulnerable youth.

Going forward in 2013, the pilot to introduce adolescent health promoters will provide valuable knowledge that could deepen and build on ELA's success on reproductive health indicators. The pilot will also generate further knowledge for the programme by extending engagement with boys, who will be trained on life skills under this pilot.

2012 Highlights

2012 was a year of expansion for our ELA programme with the opening of 500 new clubs, bringing the number of clubs to 1,285, and establishing the programme in 49 districts reaching more than 50,000 girls across Uganda. Our microfinance for adolescents also continued to expand with the establishment of an additional 136 groups and disbursement increased to USD 1.5 million.

As the programme scaled up, innovations also continued. The programme selected a further 493 adolescents (283 boys and 210 girls) for vocational training and apprenticeship. Of them, 319 started their training in various trades, and 207 were boys continuing BRAC's engagement with boys. This activity is part of a research intervention, which will continue into 2013.

Continuing the programme's focus on capacity development of staff, all baseline surveys of the participants were conducted by ELA programme assistants and based on their performance, they were certified by the research and evaluation unit.

2012 also saw the start of our adolescent health programme integrated into ELA programme. This pilot builds on the positive reproductive health outcomes of the ELA programme. A study by BRAC's research and evaluation unit in partnership with the World Bank and London School of Economics found that ELA has had an effect on lowering pregnancy rates, and on increasing the use of contraception.

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 villages with an ELA programme 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. Through the adolescent health programme, 70 adolescents have been selected from 70 ELA clubs as adolescent health promoters, who received in-depth training on adolescent health issues to be rolled out in their clubs.

Nabukeera, an ELA member of Ssanga Village, Wakiso District, Matugga Town

NABUKEERA: Saving for a brighter future

"The training I got from BRAC helped me in my business, including how to save money and how to develop good relationships with the customer. It expanded my thinking."

Though Nabukeera, 22, barely finished high school and dropped out in senior four because of lack of funds, she has a thirst for knowledge and business acumen that is serving her family well.

Seeking knowledge to better run her business, a retail shop of household provisions, Nabukeera headed to her local club for empowerment and livelihood for adolescents (ELA) training, having heard from friends that she could receive financial literacy and customer care training from the club mentors. There, she received the education she was seeking, including family planning information, livelihood training and microfinance services. "I had not even known about the microfinance programme, and that was an added bonus," said Nabukeera.

Since joining ELA in 2012, Nabukeera has received three loans from the programme and used them to expand her retail shop to include a fridge and stocks of rice and beans. She also sells home-made juices and boiled water, which she refrigerates and sells in this booming town of Matugga, a major stop along the Gulu-Kampala highway. "Selling cold drinks is very profitable. Refrigerated beverages alone can bring me UGX 500,000 (approximately USD 200) in profit every month," she said. "But it's the customer care I've learned that keeps my customers coming back because I'm not the only one selling beverages in this area."

With her profits, Nabukeera is reinvesting in her business, saving and helping her family. "I come from a family of 15 children, that's why school fees were a problem. But now, I can afford to help my relatives and my husband in sustaining our family without begging."

Along with her husband, Nabukeera runs the business. With her third loan from BRAC, Nabukeera and her husband rented land, paid for its cultivation and are now growing a type of cabbage that is typically imported and sells at a premium in the marketplace.

Now the mother of a one-and-a-half year old, Nabukeera wants to presist expanding to other businesses, to continue to save, and to ensure her child and future offsprings would not have to drop out of school as she did. "I want my son to go to university and become a doctor. But before that, I will be returning to school myself. I'm a business lady now, but school will improve me even further."

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 the entire whole communities stay healthy, with a groundbreaking door-to-door approach. These promoters create a cost-effective bridge between under-served poor communities and formal healthcare systems. BRAC also organises health meetings to encourage an exchange of knowledge, thus empowering people to take care of themselves, their families and neighbours.

Healthcare at door-steps through community caregivers

BRAC's health programme aims to improve the health status of the population in its intervention areas, with a special focus on pregnant women and children under five. This involves community-based health interventions that focus on preventive, basic curative and health promotional components.

The three main objectives of the health programme are to lower morbidity and mortality among children under five from preventable diseases, and treat them at a low cost at the community level by local volunteers called community health promoters (CHPs). Secondly, the programme aims to improve access to a wide range of basic health products in poor, rural areas. Thirdly, the programme attempts to improve the micronutrient intake of children under five. Parallel to these health objectives, an economic goal was integrated into the programme to make CHPs economically viable. This involves providing CHPs with livelihood opportunities and improved standards of living.

Leveraging our microfinance platform, the health programme reaches a large population in 128 branches nationwide. At the community level, CHPs work on prevention of malaria, pregnancy-related care (ante-natal care and post-natal care), basic curative care, family planning, immunisation, health and nutrition education (includes safe water, sanitation, personal hygiene, nutrition, HIV/AIDS, tuberculosis and acute respiratory infections). The CHPs are all women and selected from the communities. This cross-cutting approach to development – providing door-step health services for the microfinance borrowers and their respective communities – has a synergistic effect on the overall BRAC development outcomes as it provides a platform for meaningful and positive changes in the lives of poor people.

Using a flipchart, Kalema is educating women in her community on hygiene at Luanyi Village on the outskirts of Masaka

Beyond 2012

Currently, our health programme is providing services through 128 branches covering 64 districts in Uganda. In 2013, an integrated Japan Social Development Fund project cross-cutting agriculture and health will be implemented in western Uganda. This project, titled "Innovative and Integrated Approach to Enhance Smallholder Family Nutrition", will address food security in Uganda. Working closely with the agriculture programme, the health programme will contribute to the implementation of health-related activities for this project targeting children under two, and adolescents and women of childbearing age to address vitamin A and iron deficiency.

Also, we plan to work on financial self-sufficiency of our essential healthcare programme while improving efficiency and effectiveness of the health services provided by the CHPs.

2012 Highlights

The health programme expanded in 15 new branches in several regions in 2012. In total, 300 CHPs were selected and trained for the 15 new branches. Reaching approximately 1,379,004 through health forums and providing services to 2,529,739 community members by CHPs, our health programme is well on-track to meet health targets of treating malaria and diarrhoea among children under five and also meet its targets of sales by CHPs per month.

In addition, through the tuberculosis reach programme, implemented from October 2010 till September 2012, we identified and treated 7,907 tuberculosis patients, with a treatment success rate of 84 per cent, which is much higher than the national average of 71 per cent.

Consequently, we received an extended funding from Living Goods (LG) for 24 branches till the end of 2013 with possibility of extension beyond 2013. Impact evaluation of the health programme on the LG-supported branches is scheduled to be conducted by the third quarter of 2013.

A community health promoter conducting a regular household visit in Matugga branch, Luwero area, Wakiso district

CASE STUDY

Escar is measuring blood pressure of a patient during her regular household visits as a BRAC community health promoter

ESCAR: Bringing affordable health care to neighbours

"I go door-to-door and tell people to sleep under mosquito nets and teach them about proper nutrition."

Escar is an embodiment of BRAC's microfinance multiplied approach. A microfinance borrower since 2008, Escar joined BRAC's health programme as a volunteer after a nomination by her microfinance group members.

As a community health promoter, Escar delivers life-saving drugs and free medical information to her community, going door-to-door to identify and treat common childhood diseases and monitor pregnant women to ensure they have healthy pregnancy.

In her five years as a health volunteer, Escar is seeing a reduction in cases of diarrhoea, malaria and worms-diseases that once ran rampant in her community. "Poor management by parents of their children causes poor sanitation and hygiene, causing these problems," Escar said. "But now parents are earning and we are seeing a positive impact." Part of this is credited to Escar, who conducts health forums in her community and teaches people about hygiene and nutrition.

Escar is happy that she can bring life-saving medicines to her community and that she and her grandchildren benefit from them as well. She said prices of medicines have dropped since 2008, meaning people can afford the correct dosage to treat their ailments. "Government hospitals are far from here, so people appreciate the medicine they can find in their own community."

Karamoja Initiative

Youth-centred sustainable development for north-east Uganda

BRAC's Karamoja initiative is a holistic programmatic response to the significant challenges faced by this disadvantaged north-eastern sub-region of Uganda. Just one example of this disadvantage comes across in the literacy rates, which in the region (21 per cent) is less than one third the national literacy rates of 68 per cent.

The programme revolves around youth development and education, believing that changing the outlook of the younger generation of Karamojongs is critical to sustainable development of the sub-region.

Education is addressed through BRAC's 100 existing early childhood development (ECD) centres. At the centres, three to five year olds are provided with learning opportunities according to the Ministry of Education and Sports' guidelines. A young caregiver is selected from the community to manage the centre. Upon reaching the age of five, the children are mainstreamed into primary schools.

In addition, the Karamojong youth, especially girls between the ages of 13-21 are reached through our youth development centres (YDCs) which are set up drawing from the lessons of the ELA programme. The programme is in partnership with UNICEF is providing girls with life-skills, financial literacy and a range of livelihood trainings. Aside from YDC members established an income generating fund, a saving scheme, where they have been saving and creating a loan fund that they can subsequently borrow from to establish their businesses.

The programme has also pioneered BRAC's work with boys in Uganda by establishing boys' forums and providing boys with life-skills and vocational training.

Youths dancing in Matany branch, Karamoja

Youths dancing in Matany branch, Karamoja

Beyond 2012

The Karamoja initiative has generated significant knowledge for BRAC on programming in Karamoja in particular and youth programmes in general. Particularly with mobilising savings through the income generating funds, the hidden potential of young Karamojongs has been uncovered. The future outlook for the programme is to try realising that potential, while leveraging on knowledge generated and existing capacity. This would require strengthening the programme's available resources.

2012 Highlights

The programme in 2012 focused on consolidating outreach in Karamoja. Membership at both ECD centres and YDCs increased. By the end of the year, the 120 YDCs were reaching 3,243 girls. 3,192 girls received life skills and 2,993 received financial literacy. 1,976 girls were provided with various livelihood training, while 50 received intensive vocational training.

1,891 girls saved a total of UGX 49,236,600 (USD 18,937) in their income generating funds. 2012 saw girls start borrowing from these funds with 227 girls loaning UGX 13,786,000 (USD 5,301) and investing in small businesses.

The programme also continued to monitor the 50 boys and girls who had completed vocational training and found positive results. Most were self-employed and few were employed by local companies as masons and carpenters, earning between UGX 10,000 to 20,000 (USD 3-7) per day. The self-reliant potential of Karamojongs was further demonstrated when the 1,240 girls who had received agriculture training and provided with seeds on loan, repaid UGX 2,227,000 (USD 856) after their harvests.

With ECD centres, the programme worked with communities to explore how the centres could be made more sustainable. Of the 100 centres, 47 were given land from the community to construct permanent structures. The programme is also making efforts to have the centres inspected to receive license from the local government.

Earlier in the year, 936 children (419 boys and 517 girls) aged five were mainstreamed into primary schools. Currently there are 3,112 children (1,395 boys and 1,717 girls) enrolled in the 100 centres. 855 were identified to be mainstreamed in 2013.

Aleper's income from building contracts helps to provide for his whole family

ALEPER: A second chance and a new beginning

"I am very happy with the skills and tools I received, but I request BRAC to sponsor me for more training that will enable me to support our huge family as everyone of them now looks up to me and treat me like their father."

Aleper, from Ariamakot village in Iriiri Parish, Iriiri sub-county, Napak district comes from a poor family of 20 children of a father who had two wives. He was lucky to be one of only two children that his father managed to educate. Unfortunately, he did not complete senior four due to lack of financial support to pay his school fees. His parents never had any money after the cattle rustlers took all their cows, so Aleper had to drop out of school in second term of senior four.

Life became difficult for Aleper after he dropped out of school. He resorted to hunting and cultivating in the morning as a means of survival, and moved to Iriiri trading centre in the afternoon to meet friends while looking for opportunities to go back to school or look at NGO job advertisements. One day, he met a friend, Gideon, who told him about a training opportunity with BRAC for youths who had dropped out of school.

Gideon directed Aleper to the BRAC offices in Iriiri trading centre where he met the branch manager, Harriet Ileka. She explained to him the details of the training opportunity, and also interviewed and advised him to bring his application form and primary certificate. The next day, he took the application to the branch office, and was told to wait to see if he had been selected. When Harriet informed that he had indeed been selected for the programme, Aleper was ecstatic.

On September 25, 2011, Aleper travelled to Moroto Technical Institute in Ngoleriet sub-county, Napak District and joined others who were selected from other districts. He was trained for six months on brick-laying and concrete. When the training concluded, BRAC gave start-up tools to all sponsored students. The training and tools has changed Aleper's prospects dramatically. He is now fully equipped, and is able to get building contracts from friends, and also on his own accord.

Now, Aleper earns UGX 5,000 –10,000 (approximately USD 2-4) a day, which he uses to pay rent for the house at the trading centre. He also helps his parents, striving to give them at least UGX 35,000 (approximately USD 14) every month for their necessities. Aleper also tries to help his sister's children, buying them clothes, books and other basic necessities.

Microfinance

Innovative, client-focused and sustainable, BRAC's 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.

A year of growth

BRAC's microfinance programme in uganda is primarily conducted through a network of 130 branches across the country. The programme also operates four additional branches in northern Uganda, providing specialised microfinance services to returning refugees. The branches are managed through a hub and spoke model – BRAC operates 25 area offices and seven regional offices to supervise and monitor its microfinance programme portfolio in Uganda.

As of December 2012, we served 104,086 borrowers with a principal loan outstanding of USD 13.8 million.

The programme expanded by 25 branches in 2012. Maintaining the portfolio quality in a period of such rapid growth tends to be a challenge for any microfinance institution and BRAC Uganda is no exception.

However, the management team acted with strong foresight, putting in place robust systems and processes to closely monitor loan disbursement and collection by establishing the loan review and branch review units.

A microfinance group meeting in Mattugga branch, Wakiso district

Beyond 2012

The management is aware that the stringent borrower authentication processes put in place in 2010 resulted in slower than projected borrower growth rate. However, lending to new borrowers is expected to pick up speed once again in the coming months whereby BRAC's microfinance programme in Uganda will ease up the lending procedures for new borrowers through achieving a workable balance between strong growth and prudent lending. Achieving this balance in the near future will be a key measure of success for the programme.

2012 Highlights

To maintain the portfolio quality in a period of rapid growth, we established the loan review and branch review units in 2012. When faced with repayment-related issues in early stages of the scale-up phase, the management undertook swift measures to address the problems. Such changes included a reduction in the number of branches overseen by each area manager, allowing them additional time to coach and train the branch managers; a requirement that area managers or an equivalent level of supervisor must observe all major disbursements, in order to increase supervisory control over lending procedures and develop improved verification procedures in relation to borrower identities; and the introduction of a regional management structure, including an additional supervisory layer of strong microfinance specialist managers whose role is to oversee area managers and who report directly to the programme manager.

Owing to the above measures aimed at strengthening the borrower vetting procedures, improving the monitoring and internal audit functions, and swift, decisive actions taken in cases of mismanagement and misappropriation by staff, the programme managed to retain a strong and healthy portfolio during a period of remarkable growth. The Portfolio at risk (measured as PAR 30, the percentage of loans that are on arrears for more than 30 days) has remained under five per cent ever since BRAC started microfinance operations in Uganda and at 1.58 per cent as of close of December 2012.

Additionally, the programme recruited more credit officers to assist in the collection of past due loans, as well as additional monitors and area accountants to ensure that policies and procedures are being followed.

This year, we disbursed USD 44.5 million to our 118,150 borrowers. Cumulatively, by 2015, we are expected to serve more than 135,000 members and 122,410 borrowers through 135 branches.


A microfinance borrower of Matugga branch, Luwero district

Prossy has extended her business from selling second hand clothes to bags and shoes.

PROSSY: A prosperous entrepreneur

"Before, I used to go to different local markets to pick nice looking secondhand clothes, but now I go to Dubai for my purchases."

Having access to BRAC's low-interest microfinance loans has brought much freedom to the life of Kalerma Prossy, 38, a mother of six from Kitto, a village in Wakiso district.

A long-term BRAC borrower, Prossy joined BRAC's microfinance programme when it came to her village in 2007 and now she hosts her microfinance group at her home every week.

Initially, Prossy was selling secondhand clothes, but with each subsequent loan from BRAC – she is on her ninth, she has expanded to bags, shoes, bed sheets, menswear, Recently, she opened a boutique in Kampala, the capital city, selling newly made clothes, and where she employs a woman to run her shop.

Such is the freedom her loans have brought her. And the impact is evident in her life. Prossy has a gated three-bedroom house in the village, complete with indoor bathroom and kitchen. She has also put her oldest son through university and he's making the family proud as an accountant for a major firm in Uganda.

Though Prossy concluded her education at Senior 2 and got married very young, she is proud of what she has been able to achieve, thanks to a development organisation that brought microfinance to her village and helped widen her opportunity.

Small Enterprise Programme

Assisting entrepreneurs in Uganda

We run an individual loan platform, small enterprise programme (SEP), which is operating in 74 branches country wide. SEP is supported by the main microfinance platform, which is managed through a hub and spoke model. We operate 16 area offices and six regional offices to supervise and monitor our microfinance programme portfolio.

We initiated SEP programme to reach entrepreneurs seeking to expand their small businesses and who would otherwise have limited access to the formal financial sector. These entrepreneurs are too large for microloans, but are without enough collateral to access loans from commercial banks. Our SEP borrowers are men, women and youth, and together they have accessed USD 16.69 million of funds at low, competitive rates since the programme's inception in 2008.

Beyond 2012

Similar to microfinance programme, the stringent borrower authentication processes put in place in 2010 has resulted in slower than projected growth rate in SEP programme.

However, lending to new borrowers is expected to pick up speed once again in the coming months where by our SEP programme will ease up the lending procedures for new borrowers in Uganda through achieving a workable balance between strong growth and prudent lending. Achieving this balance in the near future will be a key measure of success for the SEP programme's success.

SEP intends to open 10 new branches in an effort to actively reach more disadvantaged people in Uganda.

2012 Highlights

As of December 2012, our small enterprise programme actively serviced 4,943 borrowers with a principal loan outstanding of USD 3.3 million.

The internal controls put in place for the microfinance programme also extend to the small enterprise programme. Though the two programmes have separate management and staff, the microfinance structure supports SEP.

A small enterprise borrower in Luwero branch, Luwero district

CASE STUDY

Naluggwa, an SEP borrower, took out loans to purchase products which has boosted her business

NALUGGWA: Defying life's challenges

"After that big setback I have started generating income again and I can improve my standards of living."

Naluggwa, 29, has faced some adversity in her life, but she knows there are second chances, and she's pursuing hers. In 2010, Naluggwa, a wholesaler of beverages and household provisions, went to Kampala to purchase products to restock her inventory. A long time customer of the importer, she made her biggest purchase to date, UGX 53 million (USD 21,000). She did not get a receipt. Instead, her order was recorded in a stock book and marked, "undelivered." A short while later and before the goods could be delivered, the importer died.

In 2011, faced with a collapsing business, Naluggwa looked to BRAC's SEP loan to help her restock and continue working. BRAC's SEP loans are offered to small business owners whose financial needs are too big for the microfinance programme, but who are often too small to be courted by commercial banks. She was attracted to the annual repayment plan that the SEP loan offered. It was just what she needed to get back on her feet.

With subsequent loans, Naluggwa has built her inventory gradually and now assesses her business worth at UGX 7.5 million (USD 3,000). With her customers gradually returning, Naluggwa is looking to sell to business owners who run small retail shops in her community.

Poultry and Livestock

Improving genetic potential of livestocks in Uganda

Poultry and livestock is a key source of livelihood and social protection for the underprivileged in Uganda. Nearly 30 per cent of farming households depend on livestock for a significant portion of their income and poultry rearing is a common source of income for many poor households in the country. Yet Uganda has one of the highest poultry mortality rates in the world.

BRAC's poultry and livestock programme exists to improve the productivity of farm animals and birds through reducing poultry mortality, and improving rearing practices and the genetic potential of livestock in Uganda.

Improving livestock productivity requires proper animal husbandry practices in terms of feeding, housing, health and breeding practices. More importantly, it requires improvement in cattle breeds. 93.6 per cent of Uganda's entire cattle herd is comprised of indigenous cattle, and livestock production in Uganda contributes five per cent and 14.6 per cent to the country's total GDP and agricultural GDP, respectively.

Through technical assistance and capacity building at the community level, BRAC's poultry and livestock programme is improving the quality and productivity of poultry and livestock. BRAC is aiming to improve the income of farmers through training, and supporting the franchised entrepreneurs who provide free information at the same time ensure vaccination services, artificial insemination services with nominal charge, and make essential inputs accessible and available for livestock farmers within the community.

The programme educates rural farmers through community level demonstrations with the help of BRAC-supported model poultry and livestock rearers. Our community livestock promoters (CLPs) and livestock artificial insemination promoters support the programme by delivering services to the community.

Patrick, his son Bernard, and daughter Jennifer Kainza feeding the family's cow at Buwanyanga Village, Sironko

A community livestock promoter vaccinating birds for community members in Matugga branch, Luwero area, Wakiso district

Beyond 2012

The programme will continue to invest in the volunteers who help carry out its services to the community. Promoters of livestock artificial insemination will be trained in conjunction with National Animal Genetic Resource Centre and Data Bank to help improve the production of milk and meat produced by indigenous cattle in Uganda.

Model livestock rearers, all women, will be trained to encourage women in rural communities to adopt income generating activities. They will receive training in rearing and management of livestock, modern housing, nutrition, and disease prevention and control. They will act as model demonstration units for other livestock farmers in their villages.

Our CLPs, also women, receive regular training on poultry vaccination, modern management practices, livestock management and disease prevention. They will be tasked with vaccinating rural scavenging birds to reduce their mortality.

2012 Highlights

BRAC's poultry and livestock programme added 19 new branches to its operations in 2012, training additional volunteers in these areas, and bringing its branch coverage in Uganda to 99.

Volunteers who received training included 84 livestock artificial insemination promoters, 1,600 model poultry readers and 1,600 model livestock rearers. 940 community livestock promoters were active during the year and together, they used 19,291,033 vaccine doses to vaccinate poultry in their communities against New Castle Disease, Gumboro and Fowl Pox diseases in the existing and expansion branches.

We inseminated 1,036 cows during the year and the volunteers vaccinated roughly 300 birds on average, leading to an average monthly income of USD 65 and USD 13, respectively for these volunteers. We also focused on sensitising farmers about artificial insemination so as to increase their response to the insemination programme.

Christine enjoys serving her community as a poultry and livestock promoter

CHRISTINE: Proud promoter of healthy livestock farming

"I now have many friends from going house to house to vaccinate birds. I've gained knowledge and I now earn some money from these activities."

Christine, 32, joined BRAC when the organisation came to her village in 2008. Initially a microfinance member, Christine jumped at the opportunity to become a community poultry and livestock promoter when BRAC added extension services to the offering in her village.

She used to give her birds local herbs to keep them well, but many birds died young. But with the modern vaccines, her birds grew at the same time and in large numbers. Besides using the vaccines for the farm animals she bought with her microfinance loans, Christine is providing vaccination services in her community, helping reduce the mortality of her neighbour's birds and cattle, and earning some money in the process.

Christine also uses BRAC's artificial insemination services to impregnate the cow she keeps for milk production and sale. Before BRAC came to her village, she had to take her cow very far to a bull to impregnate her. Now, she doesn't have to do that anymore. BRAC's poultry and livestock programme brings medicine and artificial insemination services to local communities, helping to improve the productivity of animals and the genetic potential of livestock in Uganda.

A mother of five, Christine, once a self-described farmer with "not much to do aside from digging," she is now sought after in her community.

Support Programmes

Finance and Accounts Unit

The finance and accounts unit plays a vital role in budget preparation, funding negotiation, cost management, fund management, financial recording and financial reporting. For a large development organisation such as BRAC in Uganda, good accounting and financial management helps to keep the organisation under control and achieve its objectives with efficiency and transparency. The unit has piloted 'Enterprise Resource Project' (ERP) software in four branches with plans of full implementation in 2013. The project will ensure interconnectivity of all BRAC branches in Uganda, addressing the challenge of real time access to reports at different levels.

New initiatives

This year a comprehensive Finance and Accounts Manual was launched in the finance and accounts convention held in Bangladesh.

2012 Highlights

In 2012, BRAC's finance team in Uganda won the top prize in financial reporting awards, under the NGO category, organised by the Institute of Chartered Public Accountants of Uganda. Sustainability is being guaranteed through significant improvement in internally generated funds in the microfinance programme and the agriculture social business enterprise. There was also an increase in the inflow of donor funds to scale up new projects.

Internal Audit Department

Internal audit department (IAD) is an independent, objective assurance and consulting support designed to add value and improve BRAC International's operations. It helps BRAC International to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of control and governance processes. Internal auditing is a catalyst for improving BRAC International's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, the internal audit department provides value to governing bodies and executive management as an objective source of independent advice. The department also assists the management by providing Risk Based Audit for efficiency and effectiveness.

In 2012, in BRAC Uganda seventeen auditors (one expatriate and sixteen local - female) audited 914 cost centres and highlighted several issues for management action.

New initiatives

In 2013, the department will conduct surprise audit and produce quarterly report on non-responded internal audit report; provide support for professional development (CPD) for IAD staff, and draft a staff development plan.

Monitoring Department

The monitoring department in Uganda ensures transparency and accountability of programmes. It conducts periodic analysis using selected indicators and is a part of BRAC's internal control mechanism, to enable managers to determine whether key activities are being carried out as planned and having the expected impact on the target population.

A separate microfinance monitoring unit in Uganda plays a fundamental role in the flow of fair and authentic information. The aim of the unit is to interpret data in such a way that helps management in identifying problems and taking prompt action to attain the microfinance programme's goal.

Human Resources

The human resources department in Uganda assists programmes in recruiting and selecting candidates. The department also conducts orientation of staff on BRAC values, and provides basic staff development services, and works on improving employee relations by encouraging departmental meetings, and staff dialogue in resolving conflicts and differences that arise.

New initiatives

The human resources department is currently working on a comprehensive and detailed human resource policy and procedures manual.

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Training and Capacity Building

The BRAC learning centre develops the competencies of BRAC staff as well as that of the companies and organisations in Uganda. Considering the training needs of different local, national and international development organisations, different courses have been introduced.

Capacity building training ranges from operational and account management courses for the microfinance and small enterprise programme, to communication skills development and pregnancy-related care courses for the health programme and life skills, as well as financial literacy training for the empowerment and livelihood for adolescents programme.

A staff development unit (SDU) have been established in 2012 to create a favourable work environment for all BRAC microfinance employees in Uganda, helping the management achieve its objectives, and to reduce staff attrition. The unit discusses various problems with management and finds appropriate solutions, ensuring the satisfaction of staff.

New initiatives

The BRAC learning centre helped organise training on bottom-up storytelling for BRAC staff to encourage a culture of storytelling in the organisation. The centre also began putting together training on participatory video for the monitoring and evaluation unit. The learning centre also conducted a training of trainers on Village Saving and Lending Associations.

2012 Highlights

In 2012, the BRAC learning centre trained 1,900 BRAC staff across four programmes. The learning centre also provided microfinance training to 16 Congolese heads of microfinance institutions in 2012.

Risk Management

Risk management relates to how BRAC International sets its objectives, then identifies, analyses, and responds to those risks which could potentially impact the organisation's ability to realise its objectives. The concept of managing risk is an integral part of the accountability requirements at all levels in the organisation. An effective risk management system will safeguard BRAC International's interests and ensure the best use of its resources. Recognition of risk management as a central element of good corporate governance, and as a tool to assist in strategic and operational planning, has many potential benefits in the context of the changing operating environment of BRAC International's core business. The internal audit department of BRAC International provided extensive training and workshops on risk management policy to BRAC Uganda staff and facilitated the preparation of risk registers in all programmes.

Information Technology

The IT department offers support to all departments and programmes for BRAC in Uganda to ensure the smooth running of online operations. IT functions in the area of data management, MIS and accounts report preparation, application management, network administration, hardware trouble shooting, and field office support, ensuring smart and efficient business operations. In 2012, the ERP piloting in four branches was successfully completed. During the pilot, continuous comparison of the process and reports, produced from both the ERP and the RADAR system, was carried out to wipe out any bugs in the upcoming implementation.

New initiatives

The IT department will begin a full phase implementation of an online ERP solution to all branches, including the country office. The solution integrates all functional areas like microfinance, accounts, HR, procurement, inventory, budgeting, and donor management. This will introduce a single platform for staff to work together, enhancing management decision making process, on-time reporting, and transparent programme operation. As part of this implementation, IT is rolling out internet connectivity to all branches, upgrading computers and user training to develop capacity, ensuring faster operations and improved productivity. The department is also improving IT infrastructure for improved user accessibility and security.

Research and Evaluation Unit

At BRAC, evaluation and research are closely related and both contribute to the knowledge agenda for improving practices. Focusing on the substantive rationale, value and performance of programmes, evaluation serves to improve results and stakeholder satisfaction. The research and evaluation unit (REU), an independent unit within BRAC, follows its guiding principles of rigour and transparency for impact evaluation, documents lessons learned and disseminates knowledge which are essential for organisational learning and accountability. At the country level, evaluation serves to assess BRAC's performance against the objectives and targets set in the long term work plan. Evaluation is also conducted to analyse the contribution of BRAC in global strategies of collaboration with key research partners.

2012 Highlights

In 2012, the research and evaluation unit began a number of studies, including a vocational training, RCT, which addresses a series of research questions with the objective of informing the youth in Uganda of BRAC's strategy. The microfinance multiplied RCT was initiated to evaluate the effect of microfinance, agriculture, and poultry and livestock extension services on the productivity of the beneficiaries. BRAC and the Centre for Effective Global Action (CEGA) at the University of California, Berkeley launched the learning partnership to bring together academic economists in CEGA's network with researchers from BRAC.

Loan Review Unit

The loan review unit is a support unit for the microfinance programme, acting as a quality controller for the programme. The unit's work ensures that borrowers take loans within their reach, preventing future indebtedness. The unit began operations in BRAC Uganda in November 2012, working in five branches.

Procurement

The procurement department purchases goods, equipment and related services. As BRAC expands its operations in Uganda, the level of goods procured is increasing in volume and value, making it necessary for the procurement department to sharpen its audit trail through the maintenance of necessary documents, files and records as stipulated by national and international procurement norms and standards. The department aims to operate in a timely manner with the minimum number of steps and layers, while being responsive to the end users.

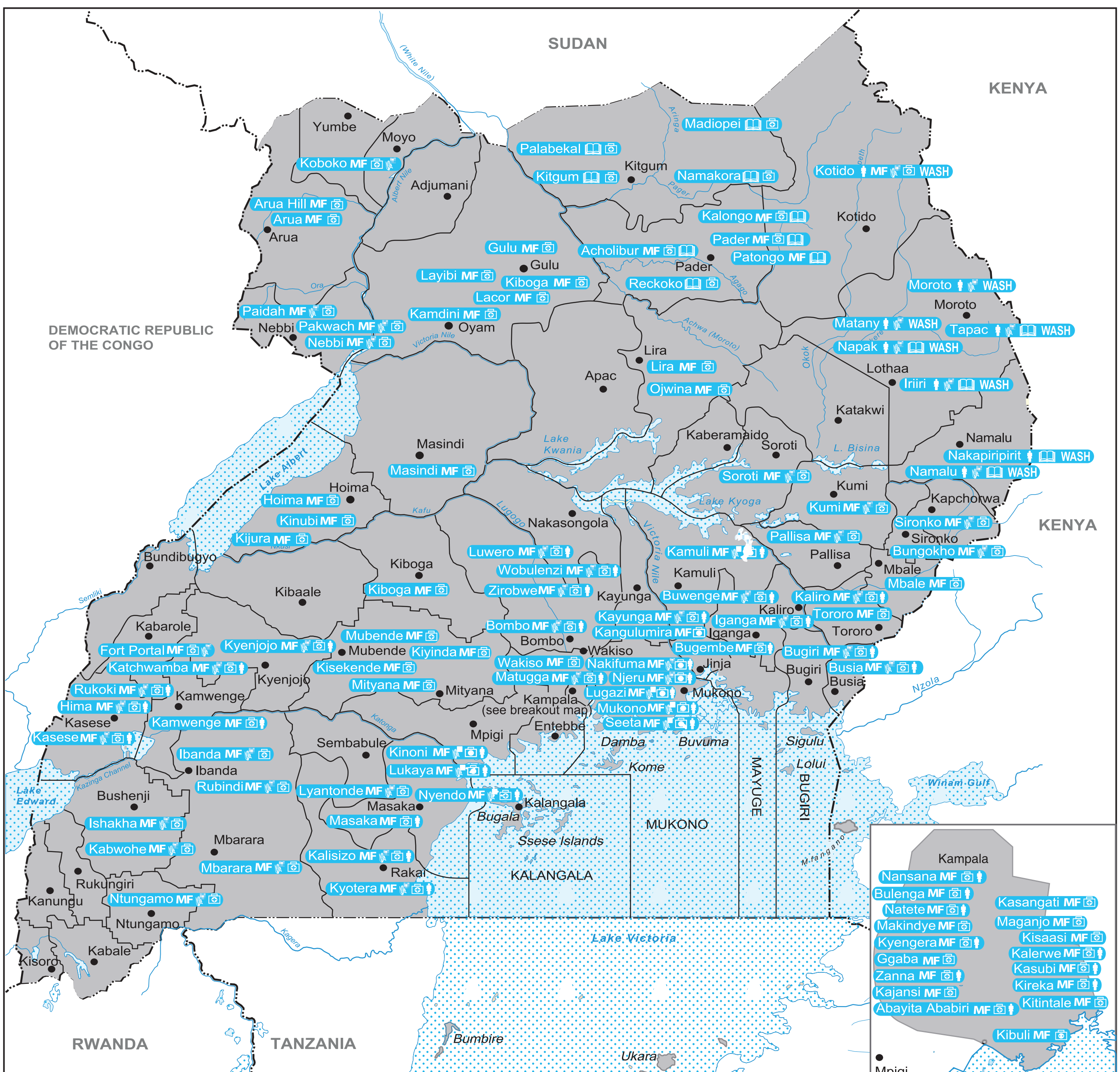
The procurement department introduced an improved documentation system in 2012 to enable a proper audit trail. The department also began making procurement plans based on department requirements to ensure improved order response and better service.

BRAC in Uganda

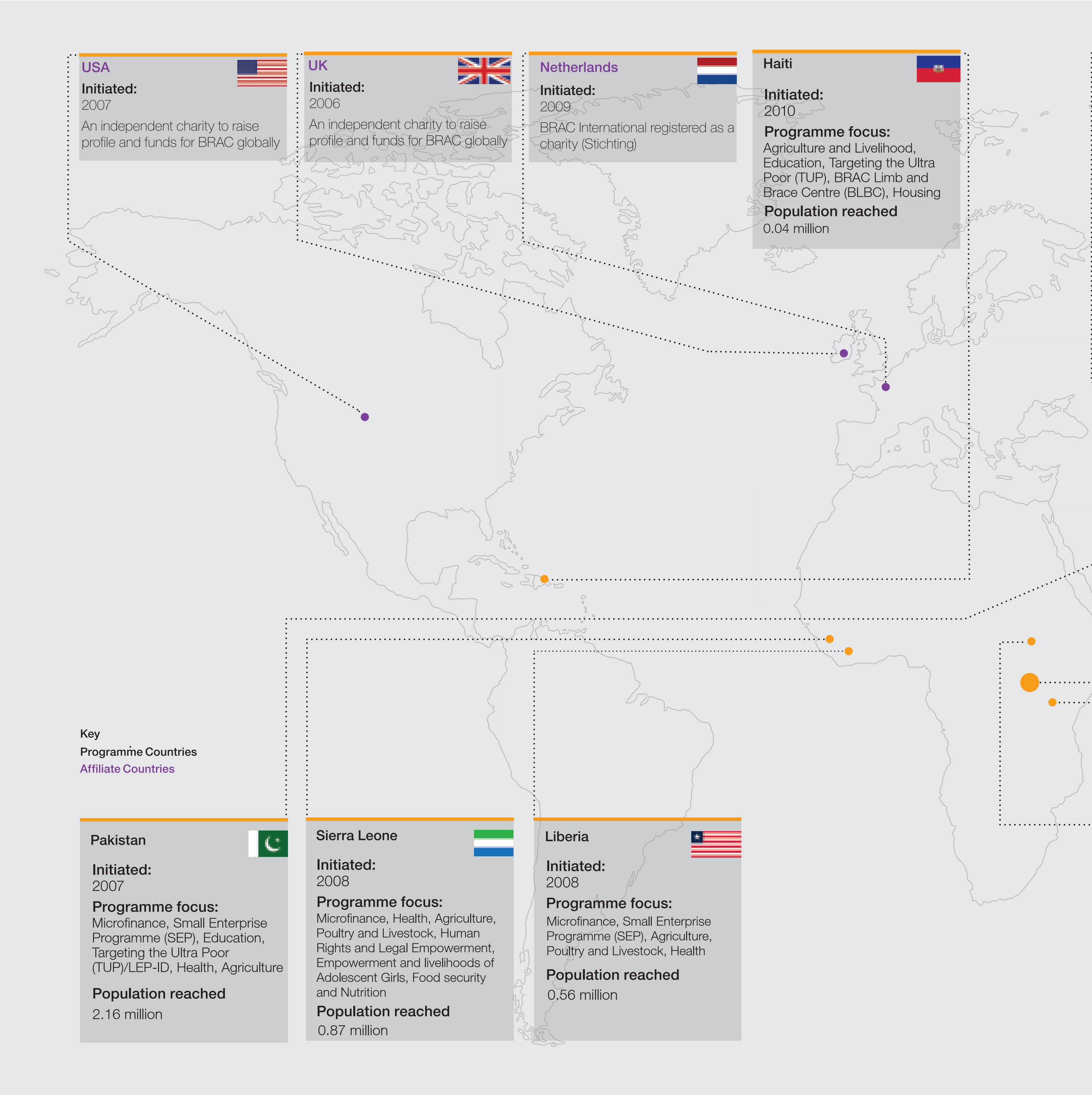
Branch Locations

Branch Programmes

- MF Microfinance
- Agriculture, Poultry & Livestock
- Health
- Education
- ELA (Adolescents)
- WASH Water, Sanitation and Hygiene



BRAC across the world



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

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

Netherlands
Initiated:
2009
BRAC International registered as a charity (Stichting)

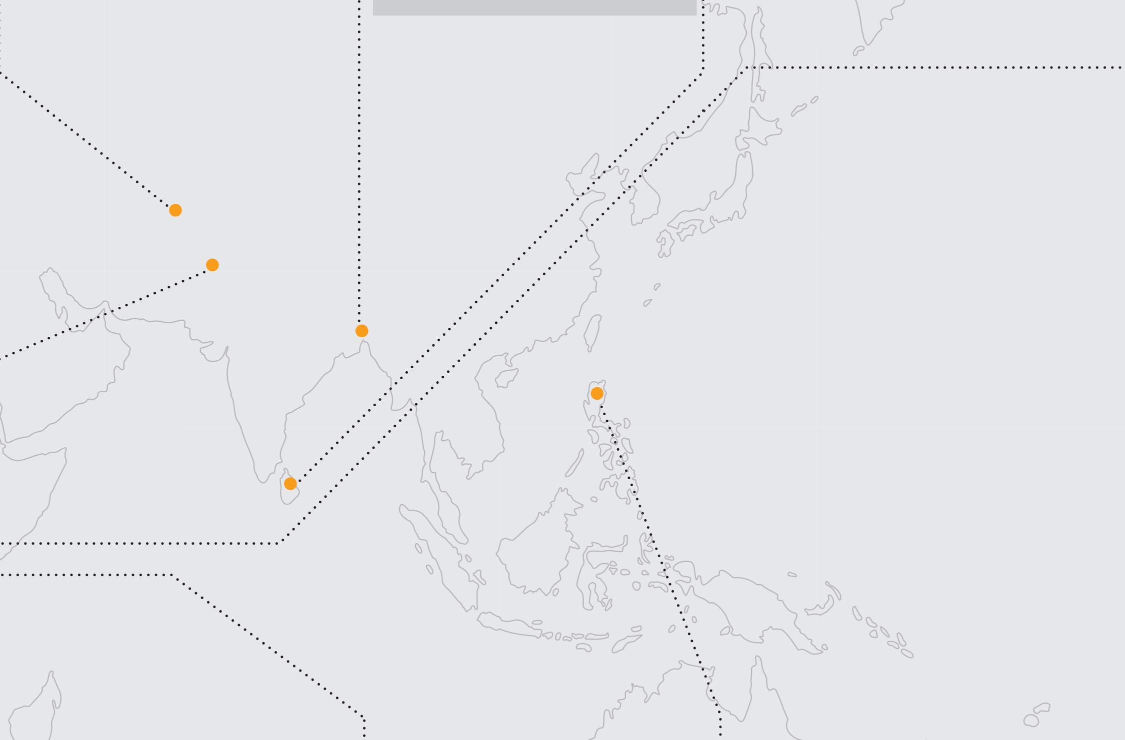
Haiti
Initiated:
2010
Programme focus:
Agriculture and Livelihood, Education, Targeting the Ultra Poor (TUP), BRAC Limb and Brace Centre (BLBC), Housing
Population reached
0.04 million

Key
Programme Countries
Affiliate Countries

Pakistan
Initiated:
2007
Programme focus:
Microfinance, Small Enterprise Programme (SEP), Education, Targeting the Ultra Poor (TUP)/LEP-ID, Health, Agriculture
Population reached
2.16 million

Sierra Leone
Initiated:
2008
Programme focus:
Microfinance, Health, Agriculture, Poultry and Livestock, Human Rights and Legal Empowerment, Empowerment and livelihoods of Adolescent Girls, Food security and Nutrition
Population reached
0.87 million

Liberia
Initiated:
2008
Programme focus:
Microfinance, Small Enterprise Programme (SEP), Agriculture, Poultry and Livestock, Health
Population reached
0.56 million



Afghanistan

Initiated:
2002

Programme focus:
Microfinance, Small Enterprise Programme (SEP), Education, Adolescents Reading Centres (ARCs), Health, National Solidarity Programme (NSP), Targeting the Ultra Poor (TUP)

Population reached
4.72 million

Bangladesh

Initiated:
1972

Programme focus:
Microfinance, Education, Health, Nutrition and Population Ultra Poor, Integrated Development, Water Sanitation and Hygiene, Human Rights and Legal Services, Community Empowerment, Agriculture and Food Security, Disaster Management and Climate Change, Gender Justice and Diversity, Migration

Population reached
Over 120 million

Sri Lanka

Initiated:
2005

Programme focus:
Microfinance

Population reached
0.59 million

South Sudan

Initiated:
2007

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

Population reached
0.93 million

Tanzania

Initiated:
2006

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

Population reached
1.33 million

Philippines

Initiated:
2012

Programme focus:
Education

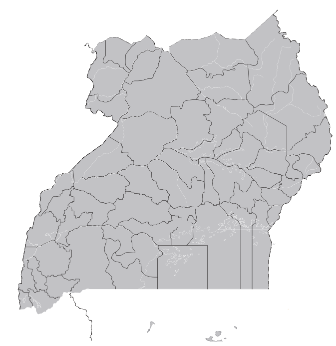
Population reached
11,868 learners

Uganda

Initiated:
2006

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

Population reached:
4.04 million



118,150	microfinance borrowers
USD 138.4	million loans disbursed (Cumulative)
890	community agriculture promoters trained (Cumulative)
1,600	community livestock and poultry promoter trained (Cumulative)
65,236	TB patients referred (Cumulative)
607,253	women served with ante-natal care (Cumulative)
1,040,061	children immunized (Cumulative)
2,308	community health promoters trained (Cumulative)
10,823	graduated Students (Cumulative)
50,495	ELA clubs members (Cumulative)

Governance

BRAC UGANDA

BOARD MEMBERS

Dr A M R Chowdhury	Chairperson
Faruque Ahmed	Member
Tanwir Rahman	Member
Ishtiaq Mohiuddin	Member

BRAC UGANDA MICROFINANCE LTD

DIRECTORS

Dr A M R Chowdhury	Chairperson
Faruque Ahmed	Member
Tanwir Rahman	Member
Ishtiaq Mohiuddin	Member

BRAC SOCIAL BUSINESS ENTERPRISE UGANDA LTD

DIRECTORS

Dr A M R Chowdhury	Chairperson
Faruque Ahmed	Member
Tanwir Rahman	Member

Management

Md Abul Kashem Mozumder	Country Representative, BRAC Uganda
Munshi Sulaiman PhD	Research Coordinator, BRAC Africa
Mozammel Huq PhD	Programme Manager, Agriculture
Dr Prodip Chandra Baishnab	Livestock Coordinator, Poultry and Livestock Programme
Daniel Businge	Country Head of Accounts
Md Rafiqul Islam	Programme 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
Catherin Anna Akoth	HR Officer, Human Resources
Md Asadduzzaman	Country Head of Internal Audit, Internal Audit
Md Shamim Hossain	Programme Manager, Small Enterprise Programme
Bindi Jhaveri	Programme Manager, Community Connector

Development Partners

Operational and Financial highlights of BRAC Uganda

Operational and Financial highlights of BRAC Uganda (NGO)

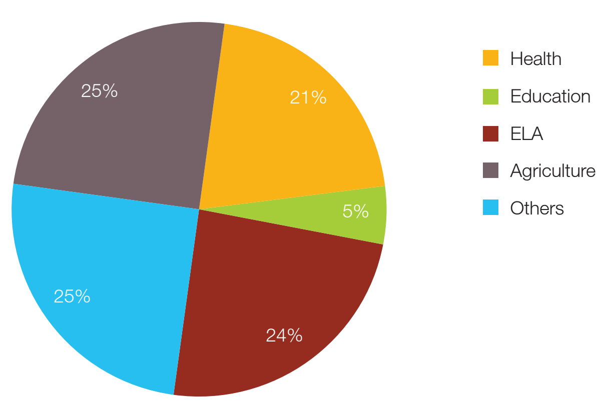
BRAC Uganda completed another eventful year with grants received amounting to USD 7,884,544 as compared to USD 5,115,392 in 2011. Total Project expenses for the year were USD 5,415,577 (USD 5,187,016 in 2011) which represents 4.4 % increase. Out of the total expenses, majority are expensed in development programs supported by MasterCard Foundation. The cost for the major development programs are as shown below. Almost 91 % of total expenditure is being used for program service with only 9% as admin expenses.

Total Equity as at 31 December 2012 stands at USD 7,662,469 as against USD 4,548,430 in 2011.

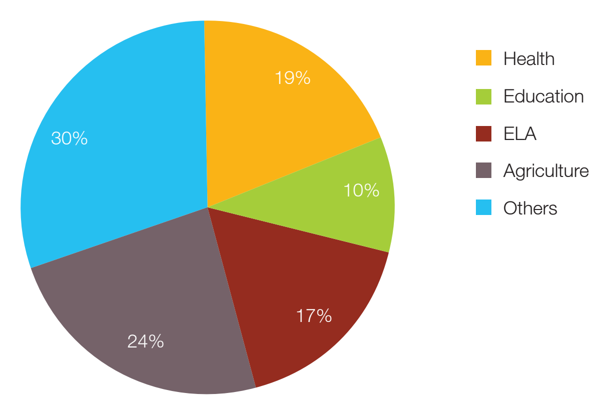
Programme Cost by nature of Programme

In USD

Programmes	2012	2011
Health	1,134,775	1,006,864
Education	293,749	514,206
ELA	1,270,024	903,533
Agriculture and Live Stock	1,363,467	1,225,887
Others	1,353,562	1,536,526
Total	**5,415,577**	**5,187,016**



2012

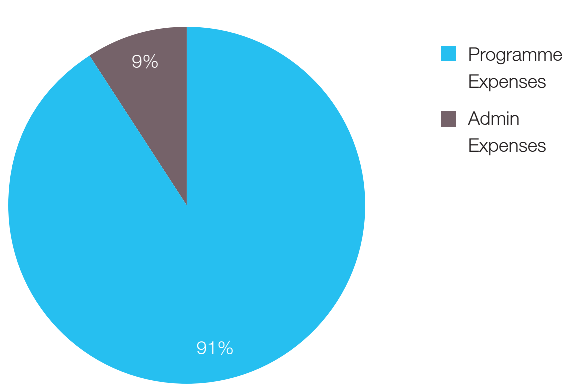


2011

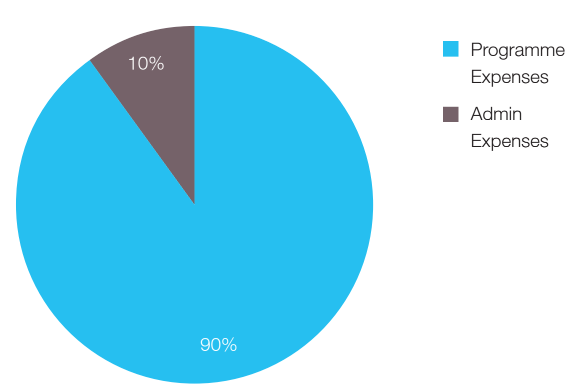
Programme Cost by nature of expenses

In USD

Expenses	2012	2011
Programme expenses	4,928,175	4,677,079
Admin expenses	487,402	509,937



2012



2011

Awards and Recognition in 2012

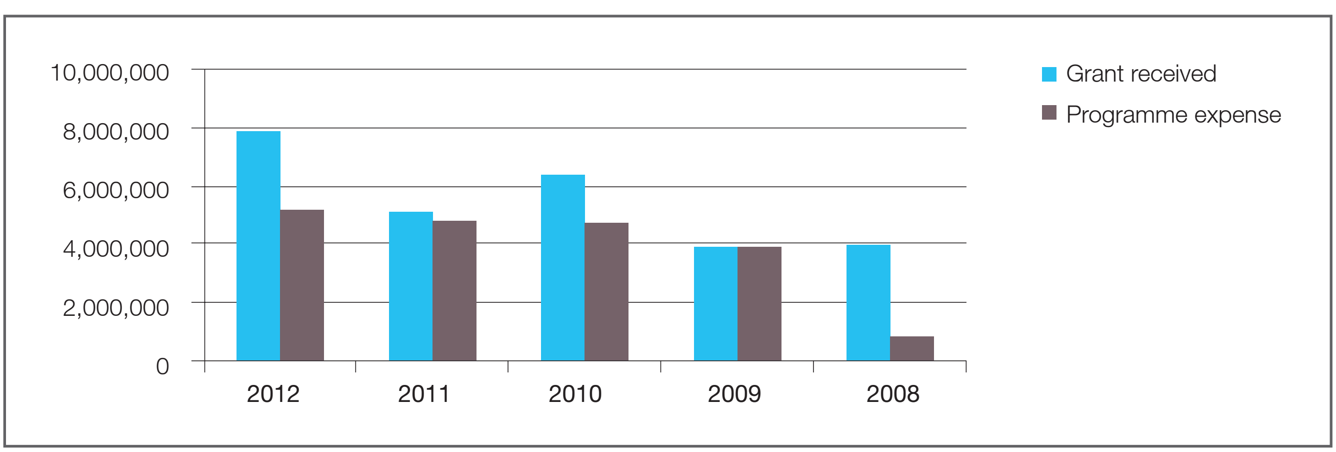
For the second consecutive year, BRAC Uganda won the Financial Reporting (FiRe) Award in the Non-Governmental Organizations category in 2012. The FiRe Awards committee determines the winners based on criteria such as the level of transparency, corporate governance, compliance with IFRS, and sustainability. Among the 47 organizations that submitted copies of their latest annual reports for review, BRAC Uganda emerged as the winner in the NGO category.

Five Year Performance Review

Figures in USD

	2012	2011	2010	2009	2008
Income Statement					
Grant Income	5,364,579	5,496,233	5,088,899	4,069,929	982,674
Other Income	945,946	773,070	208,775	498,189	84,421
Programme expenses	5,185,552	4,771,700	4,762,885	3,925,665	794,343
Admin expenses	230,024	415,316	435,261	297,087	272,751
Financial Position					
Net equity	7,662,469	4,548,430	4,345,476	2,945,962	3,537,772
Cash at bank	7,482,055	4,278,798	4,102,610	3,087,064	4,089,934
Operational Statistics					
No of Projects	8	8	8	6	6

Last five years Grant Received vs. Programme expenses (in USD)



Operational and Financial highlights of BRAC Uganda Microfinance Limited

Net Income

BRAC Uganda Microfinance Ltd. completed a strong year in 2012 by registering pretax profit of USD 4,411,187 compared to USD 2,526,675 in 2011. Interest income increased by 32% in 2012.

Operating expenses

Total operating expenses for the year were USD 6,714,477 against USD 4,907,416 in 2011 showing an increase of 37%.

Provisions for Impairment losses

In 2012, amount charged for impairment on loans was USD $ 637,594 compared to USD $ 536,358 in 2011, an increment of 19 %. This is due to the increase in the loan portfolio. Total impairment reserve in 2012 was USD $ 893,798 compared to USD $ 987,222 in 2011, which represents 5% of Gross portfolio. Portfolio Risk (PAR>30) is 1.9% as against 2.5% in 2011.

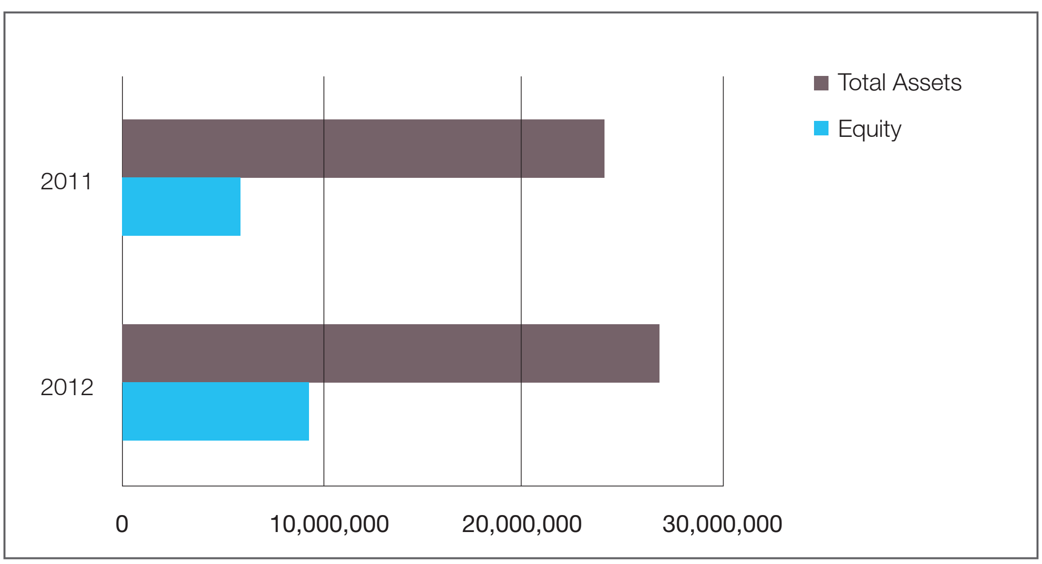
Financial Position

In 2012, BRAC Uganda's total assets grew by 11.6 % to USD 26,838,503 compared to the previous year's total assets of USD $ 24,048,643 further consolidating its position in the market.

Loans and advances to customers in USD increased by 4.8% and is now 64.6% of total assets.

Security deposits increased by 9.3% and net equity grew to USD 9,301,535 from USD 5,887,079 in 2011, the percentage growth for equity is 58%. The growth of shareholders' equity is a direct result of earnings and capital grants.

Total Assets vs Equity (in USD)

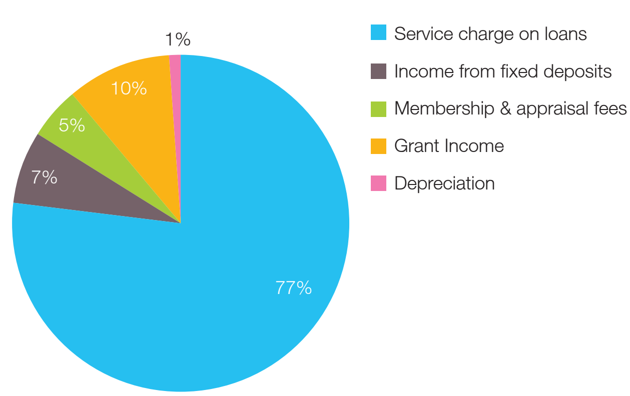


Value Added Statements

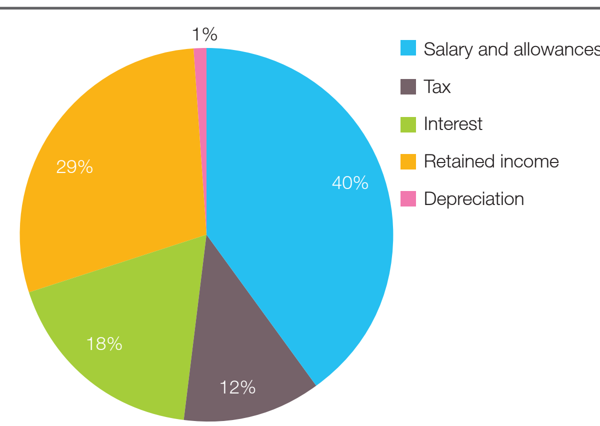
A value added statement provides a detail account of total value addition and the distribution of value created by the organization. BRAC Uganda Microfinance Ltd contributes positively to overall economic development by empowering the poor people (especially females) through micro-credit and employees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

Figures in USD	2012		2011	
	Amount	%	Amount	%
Value added:				
All Incomes		--	----	--
Service Charge on loans	10,068,205	94%	7,608,943	102%
Income from fixed deposits	1,026,909	10%	709,056	9%
Membership & Appraisal fees	551,519	5%	483,514	7%
Grant Income	1,958,258	18%	1,024,747	14%
Foreign Exchange Gains	104,399	1%	105,648	1%
Operating Expenses	(2,337,478)	-22%	(1,914,784)	-26%
Loan Loss Provision	(637,594)	-6%	(536,358)	-7%
Total value added	**10,734,218**	**100%**	**7,480,766**	**100%**

Figures in USD	2012		2011	
	Amount	%	Amount	%
Distribution of Value Addition				
Employees				
Salary and allowances	4,269,098	40%	2,904,877	40%
Local Authorities				
Government taxes (Income tax)	1,301,467	12%	557,173	7%
Creditors				
Interest	1,946,031	18%	1,961,459	26%
Growth				
Retained income	3,109,721	29%	1,969,502	26%
Depreciation	107,901	1%	87,755	1%
Total value added	**10,734,218**	**100%**	**7,480,766**	**100%**



Value Created 2012



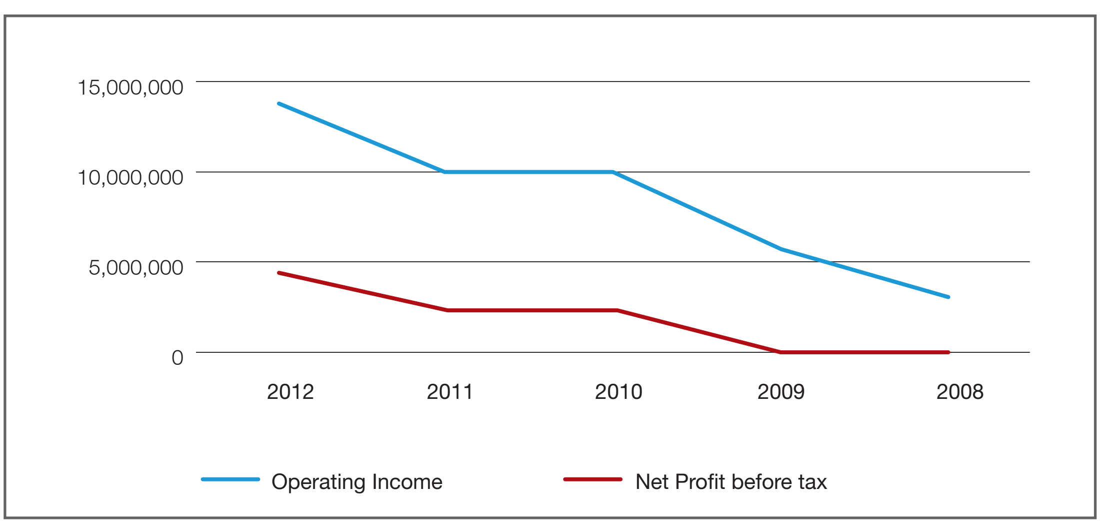
Value Distributed 2012

Five Year Performance Review

Figures in USD

	2012	2011	2010	2009	2008
Income Statement					
Operating Income	13,709,289	9,931,908	9,933,032	5,749,904	3,161,645
Net Profit before tax	4,411,187	2,526,675	2,470,260	170,871	4,673
Financial Position					
Total Asset	26,838,503	24,048,643	23,780,717	21,951,459	14,744,653
Loans to Customers (net)	17,343,327	16,549,290	14,293,430	10,382,873	7,814,971
Cash at Bank	4,429,780	2,231,187	1,799,338	9,001,912	6,567,628
Returns and ratio					
Return on Asset	42%	34%	32%	23%	3%
Cost to Income	68%	75%	75%	97%	99%
Operational Statistics					
Total borrowers	118,150	120,901	107,686	103,489	62,224
Cost per Loan	41	33	33	14	18
PAR>30	1.90%	2.53%	2.20%	4.30%	5.40%

Operating Income vs Net Profit (In USD)



Sustainability Report

This report highlights BRAC Uganda commitment to its different stake holders on sustainable development of its programs in Uganda.

Program Approach

BRAC's multifaceted, microfinance multiplied approach is based on a recognition of the hetegeneity of the poor and their needs. We strategically linked our programs with Economic Development through Microfinance and with essential services such as Health, Education and other Livelihood developments to create and protect the livelihoods of poor people. Our social enterprises integrated with the various development programs form crucial linkages that increase the productivity of our member's assets and labor and generate surplus for the organization, allowing both those we support and ourselves to be increasingly self-reliant. Our financial performances for the last five years are clearly a sign of that.

Partnerships with External Stake Holders

a) Working with the Government of Uganda on realizing its vision of "Prosperity for All'. Operating under a memorandum of understanding signed with the government in 2008. We have undertaken several partnership initiatives for example BRAC's livestock artificial insemination promoters have been trained at the Entebbe Livestock training centre. Our Agriculture and Poultry programs have scaled up due to this partnership. BRAC Uganda is also in final stages of signing 8 years partnership with Ministry of Education in implementation of MasterCard Scholars Program at BRAC. This will achieve 5,000 poor but bright students' access secondary education. Ministry of Health formally gave BRAC support for Primary Health Care Program.

b) BRAC's tremendous growth in Uganda has been possible due to strong partnerships with foundations, UN agencies and other NGO's in addition to the Government. In 2012 we signed partnership agreements with The MasterCard Scholars Program at BRAC that will realize USD 46 million in a period of 8 years. In the same year BRAC Uganda signed an agreement with Family Health International USAID community Connector Project that will realize USD 3.1 million in a period of 4 years.

Staff Development and Motivation

BRAC Uganda in 2012 focused more in developing and promoting its national staff in Senior Management positions. Very many national staff were promoted as Regional Managers, Program Managers and Assistant Program Managers. This is in line with BRAC vision of ensuring national staff take full management of its Country operations. Currently 96% of staff have been recruited from Uganda which clearly shows national staff are leading the way.

Staff performance incentive schemes were introduced in Microfinance Program, this has ensured staff motivation and ultimately performance has tremendously improved. In the same year BRAC introduced the Self Insurance fund that help to cover liabilities arising out of death, and other permanent injuries suffered by all local employees.

Capacity Development of BRAC Uganda staff is a priority in its two established Training and Resource Centre's (TARCs) in Uganda. The goal behind establishing these TARCs is to improve the management competencies of development practitioners and enhance inter – personal and operational skills of program participants and development professionals.

BRAC Uganda
Financial Statements

For the year ended 31 December 2012

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

DIRECTORS AND OFFICERS

DIRECTORS

Sir Fazle Hasan Abed	-	Chairperson (Resigned on 15 January 2013)
Dr. A M R Chowdhury	-	Chairperson (Appointed on 15 January 2013)
Dr. Mahabub Hossain	-	Member (Resigned on 15 January 2013)
Mr. Muhammad A. (Rumee) Ali	-	Member (Resigned on 15 January 2013)
Dr. Imran Matin	-	Member (Resigned on 19 July 2012)
Mr. Faruque Ahmed	-	Member (Appointed on 19 July 2012)
Mr. Tanwir Rahman	-	Member (Appointed on 15 November 2010)
Mr. Ishtiaq Mohiuddin	-	Member (Appointed on 15 January 2013)

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

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

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

The directors have pleasure in submitting their report and the audited financial statements of the company for the year ended 31 December 2012, which disclose the state of affairs of BRAC Uganda Limited, in accordance with section 157 of the Ugandan Companies Act (CAP 110).

(a) Registration

BRAC Uganda Ltd got incorporated as a company limited by guarantee on 18 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 organisation was duly registered under non-governmental organisation's registration statute (1989) on 19th march 2010 as BRAC Uganda.

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

(b) Vision

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

(c) Mission

The Company's 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.

(d) Our Values

Innovation- the Company 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- the Company values transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. The Company holds these to be the most essential elements of our work ethic.

Inclusiveness- the Company is 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- the Company values 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.

(e) 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.

(f) Results from operations

The results for the entity for the year ended 31 December 2012 are set out on page 11.

(g) Composition of Directors

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

(h) Directors benefits

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

(f) Corporate Governance

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

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

In 2012 the Board of Directors had five directors. The Board continued to carry out its role of formulating policies and strategies of the Company, reviewing the business plan, ensure that the accounting system is maintained in accordance with acceptable standards, the books of the Company are kept properly, and that accounts are checked by authorised auditors, as well as recruitment and development of key personnel.

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

(g) Risk Management

The board accepts final responsibility for the risk management and internal control system of the Company
The management ensures that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviours towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures.

There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the risk Company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

(h) Management Structure

The Company is under the supervision of the Board of Directors and the day to day management is entrusted to the Country Representative who is assisted by the heads of divisions, departments and units. The organisation structure of the Company comprises of the following divisions:

- Agriculture and Poultry
- Education
- Health
- Empowerment and Livelihood for Adolescents (ELA)
- Research and Evaluation
- Training
- Accounts and Finance
- Internal Audit
- Monitor
- Branch Review
- IT and MIS
- Human resources
- Procurement, Logistics and Transportation

(i) Related Party Transactions

Related party transactions are disclosed in Note 16 to the financial statements

(j) Corporate Social Responsibility

BRAC is a development Company dedicated to alleviating poverty by empowering the poor to bring about change in their own lives.

(k) Future Development and Outlook

Agriculture Program

- To start a nutrition project for a small holder productivity.

Community Connector Project

- The project will expand to 21 sub counties in 2013.

MasterCard Foundation scholars program at BRAC

- In 2013 to admit 700 students in 100 top secondary schools in Uganda. For a period of 8 years, the program targets to admit 5,000 students in secondary schools.

General Developments and outlook

- To roll out Enterprise Resource Planning (ERP) software. This would enhance on reporting and internal controls
- Training is integral to improve efficiency in management and program delivery. Rigorous staff training in aspect of occupational and functional skills and techniques of community participation and development management will be organised to improve and maintain quality.
- Staff drop out is being addressed through regular recruitment of qualified personnel. Capacity building of staff will continue through ongoing training. Staff morale will be raised by highlighting their contribution through appreciation and recognition.

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

(l) Key Achievement in 2012

The following are the key achievements for the year:

- In 2012, 500 new clubs were established for the Adolescents Program.
- In 2012, USAID Uganda community connector project was established.
- 952 mentor and staff trainings were carried out in various aspects including life skill and financial literacy and management training.
- ELA impact evaluation report was produced.
- Innovative research initiative on youth population in Uganda carried out through vocational training.
- In 2012, BRAC Uganda received the top award for Financial Reporting in NGO category

(m) Solvency

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

(n) Employee's Welfare

Management/employee relationship

There were continuous good relation between employees and management for the year 2012.There were no unresolved complaints received by management from the employees during the year.

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

Training

Training and development of staff capacity is one of the key priorities of the Company.

Medical assistance

The Company reimburses medical expenses incurred by employees for medical treatment.

Retirement benefits

All eligible employees are members of the National Social Security Fund (NSSF) which is an approved pension fund. The Company contributes 10% where as the employee contributes 5% of the gross salary.

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

(o) Gender Parity

The Company had 988 employees in 2012 with being 851 female and 137 male, whilst in 2011 the Company, had 782 employees with being 644 female and 138 male.

(i) Auditors

The auditors, KPMG who were appointed during the year, 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 31.3. 2013.

By order of the Board

Signed…………………………………………… Date: 31.03.2013

SECRETARY

BRAC UGANDA
Financial Statements
For the year ended 31 December 2012

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 2012, 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 11 to 35 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 2012. 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 Companies' Act of Uganda.

Approval of the financial statements

The financial statements, as indicated above, were approved by the board of directors on 31.03.2013 and were signed on its behalf by:

Director :

Director :

Date: 31.03.2013

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BRAC UGANDA

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 2012, the statements of comprehensive income, changes in equity and 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 out on pages 11 to 35. 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 as at 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act of Uganda.

Report on other legal requirements

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: 31.03.2013

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012	2011	2012	2011
		Shs '000	Shs '000	US$	US$
Grant income	3	13,325,619	13,817,303	5,364,579	5,496,233
Other income	4	2,270,173	1,538,703	913,918	612,065
Foreign exchange gains	5	79,552	404,761	32,028	161,005
Total income		**15,675,344**	**15,760,767**	**6,310,525**	**6,269,303**
Staff costs and other benefits	6	(5,058,391)	(3,537,686)	(2,036,389)	(1,407,218)
Training, Workshops &Seminars	7	(1,538,013)	(1,654,862)	(619,168)	(658,269)
Occupancy expenses	8	(806,599)	(775,684)	(324,718)	(308,550)
Other general & Administrative expenses	9	(5,796,778)	(6,833,835)	(2,333,647)	(2,718,357)
Depreciation	11	(252,511)	(237,875)	(101,655)	(94,622)
Operating surplus		**2,223,052**	**2,720,825**	**894,948**	**1,082,287**
Taxation	10	-	-	-	-
Surplus reserve		**2,223,052**	**2,720,825**	**894,948**	**1,082,287**

The notes are an integral part of these financial statements.

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Notes	2012	2011	2012	2011
		Shs '000	Shs '000	US$	US$
ASSETS					
Non-current assets					
	11	825,018	961,898	312,507	387,862
Current assets					
Cash and bank	13	19,752,627	10,611,419	7,482,055	4,278,798
Inventory	14	369,188	279,175	139,844	112,571
Other receivables	12	91,647	36,908	34,715	14,882
		20,213,462	**10,927,502**	**7,656,614**	**4,406,251**
Total assets		**21,038,480**	**11,889,400**	**7,969,121**	**4,794,113**
LIABILITIES AND CAPITAL FUND					
Liabilities					
Other payables	15	761,678	514,117	288,515	207,306
Due to related parties	16	47,882	95,176	18,137	38,377
		809,560	**609,293**	**306,652**	**245,683**
Capital fund					
Donor funds	17	14,292,930	7,567,168	5,413,989	3,519,741
Retained surplus		5,935,990	3,712,939	2,422,129	1,527,181
Currency translation		-	-	(173,649)	(498,492)
		20,228,920	**11,280,107**	**7,662,469**	**4,548,430**
Total liabilities and capital fund		**21,038,480**	**11,889,400**	**7,969,121**	**4,794,113**

The financial statements on pages 11 to 35 were approved by the board of directors on 31.03.2013 and were signed on its behalf by:

Director: ______________________ Director: ______________________

The notes are an integral part of these financial statements.

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

STATEMENT OF CHANGES IN CAPITAL FUND FOR THE YEAR ENDED 31 DECEMBER 2012

	Donor funds Shs '000	Retained surplus Shs '000	Total capital fund Shs '000	Total capital fund US$
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**
At 1 January 2012	**7,567,169**	**3,712,938**	**11,280,107**	**4,548,430**
Transfer to Microfinance	(763,817)	-	(763,817)	(289,325)
Donations received during the year	20,815,197	-	20,815,197	7,884,544
Transfers to SOFP/SOCI	(13,325,619)	-	(13,325,619)	(5,364,581)
Surplus for the year	-	2,223,052	2,223,052	894,948
Currency translation	-	-	-	(11,547)
At 31 December 2012	**14,292,930**	**5,935,990**	**20,228,920**	**7,662,469**

The notes are an integral part of these financial statements.

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

		2012	2011	2012	2011
	Notes	**Shs '000**	**Shs '000**	**US$**	**US$**
Net cash provided by/(used in) operating activities	**18**	2,531,078	2,930,033	1,017,632	1,165,255
Cash flow from investing activities					
Acquisition of fixed assets		(115,631)	(336,304)	(43,800)	(135,606)
Net cash provided by/(used in) investing activities		**(115,631)**	**(336,304)**	**(43,800)**	**(135,606)**
Cash flow from financing activities					
Increase/(decrease) in grants received in advance		6,725,761	(1,131,130)	2,547,637	(456,101)
Net cash provided by/(used in) financing activities		**6,725,761**	**(1,131,130)**	**2,547,637**	**(456,101)**
Net increase in cash and cash equivalents		**9,141,208**	**1,462,599**	**3,521,469**	**573,548**
Currency Translation		-	-	(58,890)	16,210
Cash in hand and at banks, beginning of the year	**13**	10,611,419	9,148,820	4,019,477	3,689,040
Cash and cash equivalents, at year end		**19,752,627**	**10,611,419**	**7,482,056**	**4,278,798**

The notes are an integral part of these financial statements.

BRAC UGANDA
Financial Statements
For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012

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.

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.

(iii) 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 2,640. These figures are for memorandum purposes only and do not form part of the audited financial statements.

(iv) 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 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 may differ from the 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 21.

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012

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.

(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 amortized cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortized 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.

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 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

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012

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.

d. Inventory

Inventory is stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost comprises direct item cost that has been incurred in bringing the inventories to their present location and condition.

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. 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

g. Provisions and Other Liabilities

A provision is recognized 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.

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

Other liability also includes a self insurance fund. BRAC Uganda started to set aside a monthly amounts equivalent to 1% of the basic salary of local employees from November 2012 to constitute this fund. This fund is to cover liabilities arising out of death and other permanent injuries suffered by all the local employees.

The payment in the event of death or permanent injury is ranging from 12 months' equivalent of basic salary in the first year of employment, up to 50 months' equivalent of basic salary for 10th year of employment onwards.

h. Revenue recognition

Revenue is recognized on an accruals basis.

Other income

Other income comprises other project incomes from Agriculture, Training, Research and Health projects, interest from short term deposits, gains less losses related to trading assets and liabilities, and includes gains from disposal of BRAC Uganda assets and all realized foreign exchange differences.

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

i. 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.

Grant income is classified as temporarily restricted or unrestricted depending upon the ex istence 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.

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).

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012

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 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 portion of BRAC Uganda donor grants are for the funding of 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

j. 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.

k. Employee benefits

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. The 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 recognized in other accruals. The accrual for employee bonus incentive is expected to be settled within 12 months.

l. 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 Representative to make decisions about resources to be allocated to the segments and assess its performance, and for which discrete financial information is available.

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 and livestock (Poultry) Program;
- Health Program;
- Empowerment and Livelihood for Adolescents (ELA);
- Karamoja Project
- Community Connector Project

m. 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.

n. 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.

o. Fund Raising Costs

BRAC Uganda normally raises its fund through discussion with various donors and stake holders. It also follows a competitive process where it submits its proposal to multinational donor organizations and get selected based on the merit. BRAC Uganda does not incur any additional costs for fund raising purpose other than over heads which is recorded under HO logistic and management expenses.

p. New standards and interpretations

The following new standards, amendments to standards and interpretations are effective for the first time from the year ended 31 December 2012;

BRAC UGANDA

Financial Statements

For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012 continued

International Financial Reporting Standards and amendments effective for the first time for 31 December 2012 year-end			
Number	**Title**	**Effective date**	**Executive summary**
Amendment to IAS 1	Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income	1-Jul-12	The company will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately. This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements. The amendment will be applied retrospectively and the comparative information will be restated. However, this has had no impact on the Company.

The following standards and interpretations were issued but not effective for the year ended 31 December 2012;

International Financial Reporting Standards and amendments issued but not effective for 31 December 2012 year-end			
Number	**Title**	**Effective date**	**Executive summary**
IAS 32	Offsetting Financial Assets and Financial Liabilities	1-Jan-14	The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Company no longer offsetting two of its master netting arrangements.
IFRS 7 amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities	1-Jan-13	The amendments contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position; or are subject to enforceable master netting arrangements or similar agreements. The Company applies offsetting in the financial statements and will be required to provide additional disclosures in this regard.
IFRS 9	Financial instruments	1-Jan-13	IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for) financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
IFRS 13	Fair value measurement	1-Jan-13	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.
IFRS 9 (2009)	Financial Instruments	1-Jan-15	The standard introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.
IFRS 9 (2010)	Financial Instruments	1-Jan-15	The amendment introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

q. Comparatives

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

BRAC UGANDA
Financial Statements
For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012 continued

3. GRANT INCOME

	2 012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Agriculture, poultry & Livestock	3,091,457	2,951,002	1,244,548	1,173,847
Education	694,487	1,295,393	279,584	515,280
Health	3,019,911	3,081,185	1,215,745	1,225,631
Empowerment and Livelihood of Adolescents (ELA)	3,276,325	2,587,797	1,318,971	1,029,371
Research & Evaluation	1,758,638	1,554,075	707,986	618,178
Regional Training centre	152,074	379,787	61,221	151,071
Karamoja	1,112,947	1,968,064	448,046	782,855
Community Connector	219,780	-	88,478	-
	13,325,619	**13,817,303**	**5,364,579**	**5,496,233**

	Note	2 012	2011	2012	2011
		Shs '000	Shs '000	US$	US$
Donor funds received in advance	**17.1**	13,073,108	13,579,428	5,262,924	5,401,612
Donations-Investment in Fixed assets	**17.1(b)**	252,511	237,875	101,655	94,621
		13,325,619	**13,817,303**	**5,364,579**	**5,496,233**

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

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Other project income	1,574,824	1,428,593	633,987	568,265
Bank interest income	695,349	110,110	279,931	43,800
	2,270,173	**1,538,703**	**913,918**	**612,065**

Other project income relates to the income from the training program, sale of the agricultural seeds agriculture and poultry program and health program.

5. FOREIGN EXCHANGE

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Foreign exchange gains	79,552	404,761	32,028	161,005
	79,552	**404,761**	**32,028**	**161,005**

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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For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012 continued

6. STAFF COSTS AND OTHER BENEFITS

	2 012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Salary as per payroll	4,539,227	3,212,773	1,827,385	1,277,974
Bonus	117,393	96,699	47,260	38,465
10% employer NSSF contribution	281,742	228,214	113,423	90,779
Staff leave	120,029	-	48,321	-
	5,058,391	**3,537,686**	**2,036,389**	**1,407,218**

The number of staff employed by the organization is 988 (2011; 782)

7. TRAINING, WORKSHOPS AND SEMINARS

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
External member trainings	1,449,135	1,252,710	583,388	498,302
Staff training	88,878	402,152	35,780	159,967
	1,538,013	**1,654,862**	**619,168**	**658,269**

8. OCCUPANCY EXPENSES

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Rental charges	709,709	685,512	285,712	272,682
Utilities	96,890	90,172	39,006	35,868
	806,599	**775,684**	**324,718**	**308,550**

9. OTHER GENERAL & ADMINISTRATIVE EXPENSES

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Legal fees & audit fees	180,059	68,693	72,488	27,325
Maintenance & general exp	1,592,301	1,326,577	641,023	527,685
Printing, stationary and supplies	271,746	222,344	109,398	88,444
Telephone expenses	14,892	37,269	5,995	14,825
Program supplies	1,994,872	2,793,710	803,089	1,111,279
Other general expenses	128,505	521,881	51,733	207,593
Self insurance scheme	3,278	-	1,320	-
Provision for stock shortages	44,528	73,016	17,926	29,044
Radar accounting package cost	-	228,000	-	90,694
HO logistics expenses	18,688	325,301	7,523	129,398
Travel and transportation	1,547,909	1,237,044	623,152	492,070
	5,796,778	**6,833,835**	**2,333,647**	**2,718,357**

BRAC UGANDA

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For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012 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 tax exemption for two years expired on 31 December 2012. The BRAC Uganda Ltd (BRAC Uganda) has filed an application for renewal.

11. PROPERTY AND EQUIPMENT

	Furniture	Equipments	Motor vehicles	Total	Total
	Shs '000	Shs '000	Shs '000	Shs '000	US$
Cost					
At 1 January 2011	**282,383**	**439,077**	**514,454**	**1,235,914**	**554,221**
Reclassified	44,944	(23,769)	(21,175)	-	-
Provision fo overstated assets	-	-	(17,377))	(17,377)	(6,912)
Currency translation	-	-	-	-	95
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**
Reclassified	9,719	6,067	(15,786)	-	-
Additions	63,646	17,086	34,899	115,631	43,800
Currency translation	-	-	-	-	(94,055)
At 31 December 2012	**508,378**	**502,877**	**659,218**	**1,670,472**	**632,755**
Depreciation					
At 1 January 2011	**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**
Charge for the year	47,195	73,726	131,590	252,511	101,655
Currency translation	-	-	-	-	(76,556)
At 31 December 2012	**132,542**	**229,053**	**483,859**	**845,454**	**320,248**
At 31December 2012	**375,836**	**273,824**	**175,359**	**825,018**	**312,507**
At 31December 2011	**349,666**	**324,396**	**287,836**	**961,898**	**387,862**

12. OTHER RECEIVABLES

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Advance to Third Party	69,696	20,658	26,400	8,330
Prepaid Rent	21,951	16,250	8,315	6,552
	91,647	**36,908**	**34,715**	**14,882**

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Notes to the financial statements for the year ended 31 December 2012 continued

13. CASH AND BANK

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Cash in hand	4,620	-	1,750	-
Standard Chartered Bank Uganda Limited	19,748,007	10,611,419	7,480,305	4,278,798
	19,752,627	**10,611,419**	**7,482,055**	**4,278,798**

As at 31 December 2012, BRAC Bangladesh held cash balance amounting to Ushs 5,080 million (2011: Ushs3,435 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.

14. INVENTORY

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Stock and consumables	413,716	352,191	156,711	142,013
Provision for stock shortages	(44,528)	(73,016)	(16,867)	(29,442)
	369,188	**279,175**	**139,844**	**112,571**

Stock and consumables includes the amount of the stock of health materials that were not yet sold as at 31 December 2012. These materials are normally sold at subsidized rates to low income earners in communities.

15. OTHER PAYABLES

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Accrual for expenses	303,378	332,941	114,916	134,251
Bonus provision	18,358	17,774	6,954	7,167
Provision for NSSF	124,253	26,229	47,066	10,576
Self Insurance Fund - scheme	3,278	-	1,242	-
Provision for audit fees	34,901	48,874	13,220	19,707
Salary provision	81,579	50,259	30,901	20,266
Staff leave provision	120,029	-	45,466	-
Provision for PAYE	75,901	38,040	28,750	15,339
	761,677	**514,117**	**288,515**	**207,306**

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Notes to the financial statements for the year ended 31 December 2012 continued

16. RELATED PARTY DISCLOSURE

(a) RELATED PARTY PAYABLE

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
BRAC Bangladesh	14,733	67,957	5,581	27,402
Stitching BRAC International	33,149	27,219	12,556	10,975
	47,882	**95,176**	**18,137**	**38,377**

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

17. DONOR FUNDS

	Note	2012	2011	2012	2011
		Shs '000	Shs '000	US$	US$
Donor funds received in advance	17.1	13,450,535	6,587,894	5,094,900	3,083,758
Donor funds investment in fixed assets	17.1 b	842,395	979,275	319,089	435,983
		14,292,930	**7,567,169**	**5,413,989**	**3,519,741**

17.1 Donor funds received in advance

	Note	2012	2011	2012	2011
		Shs '000	Shs '000	US$	US$
Opening balance		6,587,894	7,817,453	3,083,758	3,505,584
Donations received during the year	17.1 a	20,815,197	12,686,173	7,884,544	5,115,392
Transfer to MF program		(763,817)	-	(289,325)	-
Transferred to deferred income - investment in fixed assets		(115,631)	(336,304)	(43,800)	(135,606)
Transferred to statement of income and expenses		(13,073,108)	(13,579,428)	(5,262,924)	(5,401,612)
Currency Translation		-	-	(277,353)	-
Closing balance		**13,450,535**	**6,587,894**	**5,094,900**	**3,083,758**

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Notes to the financial statements for the year ended 31 December 2012 continued

17.1 (a) Donations received during the year

	2012 Shs '000	2011 Shs '000	2012 US$	2011 US$
MasterCard Foundation	10,641,486	7,936,160	4,030,866	3,200,064
MasterCard Foundation (Scholarship)	4,487,102	-	1,699,660	-
BRAC USA	2,578,434	200,667	976,680	80,914
Living Goods	1,506,600	1,306,614	570,682	526,861
World Bank	-	1,569,245	-	632,760
UNICEF	975,444	1,364,442	369,486	550,178
Asareca	29,952	-	11,345	-
FHI	236,457	-	89,567	-
World Health Organisation	359,722	183,661	136,258	74,057
Insight Share	-	125,384	-	50,558
	20,815,197	**12,686,173**	**7,884,544**	**5,115,392**

17.1 (b) Donations –investments in fixed assets

	2012 Shs '000	2011 Shs '000	2012 US$	2011 US$
Opening balance	979,275	880,846	435,983	394,998
Transferred from donor funds received in Advance	115,631	336,304	43,800	135,606
Depreciation charged during the year	(252,511)	(237,875)	(101,655)	(94,621)
Currency Translation	-	-	(59,039)	-
Closing balance	**842,395**	**979,275**	**319,089**	**435,983**

18. CASHFLOW FROM OPERATING EXPENSES

	2012 Shs '000	2011 Shs '000	2012 US$	2011 US$
Excess of income over expenditure	2,223,052	2,720,825	894,948	1,082,287
Depreciation	252,511	237,875	101,655	94,622
Fixed Assets provision for overstated assets	-	17,377	-	6,912
Cash flow before changes in working capital	**2,475,563**	**2,976,077**	**996,604**	**1,183,821**
Changes in working capital				
(Increase)/decrease in inventory	(90,013)	271,451	(34,096)	109,456
(Decrease)/increase in receivables	(54,739)	(21,699)	(20,734)	(8,750)
Decrease(increase)/decrease in related party receivables	-	82,980	-	33,460
Decrease(increase)/decrease in related party payables	(47,294)	(278,805)	(17,914)	(112,421)
Increase/ (Decrease) of other payables	247,561	(99,971)	93,773	(40,311)
Net cash from operations	**2,531,078**	**2,930,033**	**1,017,632**	**1,165,255**

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Notes to the financial statements for the year ended 31 December 2012 continued

19. 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 2012.

20. CURRENCY

The financial statements are expressed in Uganda Shillings which is the entity's functional currency.

21. 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 15.

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Notes to the financial statements for the year ended 31 December 2012 continued

22. 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 principally from trade and other receivable balances and investment in cash and cash equivalents. The Credit policy of BRAC Uganda requires all credit exposures to be measured, monitored and managed proactively. All cash and cash equivalents are held with reputable banks that are regulated by the Central bank of Uganda and as a result the risk is low. The Board has delegated the responsibility of the oversight role of credit risk to the Country Representative and Monitoring department.

Management of the risk

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;

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Receivables and other assets	91,647	36,908	34,715	14,882
	91,647	**36,908**	**34,715**	**14,882**

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

	2012	2011	2012	2011
	Shs '000	Shs '000	US$	US$
Between 0-30 days	91,647		34,715	
Between 31-60 days	-	36,908	-	14,882
Over 90 days	-	-	-	-
	91,647	**36,908**	**34,715**	**14,882**

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 for the year ended 31 December 2012 continued

Exposure to Liquidity risk

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2012 to the contractual maturity date

	Matured	Less than 30 days	Between 31- 60 Days	Over 60 days	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
ASSETS					
Cash and bank	19,752,627	-	-	-	19,752,627
Other receivables	-	91,647	-	-	91,647
Inventory	-	-	369,188	-	369,188
Property and equipment	-	-	-	825,018	825,018
	19,752,627	**91,647**	**369,188**	**825,018**	**21,038,480**
Capital fund and liabilities					
Other current liabilities	-	(761,678)	-	-	(761,678)
Due to related parties	-	(47,882)	-	-	(47,882)
Donor funds	-	(4,764,310)	(8,703,602)	(825,018)	(14,292,930)
	-	**(5,573,870)**	**(8,703,602)**	**(825,018)**	**(15,102,490)**
Net (liabilities)/ assets	**19,752,627**	**(5,482,223)**	**(8,334,414)**	**-**	**5,935,990**

Exposure to Foreign currency risk

BRAC Uganda 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 Limited is exposed to foreign currency fluctuations mainly in respect of donor grants denominated in United States Dollars.

Foreign exchange exposures in transactional currencies other than the local currency are monitored via periodic cash flow and budget forecasts and are kept to an acceptable level. The company's transactional exposures give rise to foreign currency gains and losses that are recognized in profit or loss.

The following significant exchange rates applied during the year:

	Closing Rate		Average Rate	
	2012	2011	2012	2011
	Ushs	Ushs	Ushs	Ushs
USD	2640	2,480	2,484	2,514

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Notes to the financial statements for the year ended 31 December 2012 continued

23. SEGMENTAL REPORTING

Statement of comprehensive income for the year ended 31 December 2012 (Amount in Uganda Shillings)

	Agriculture & Poultry	Education Program	Health Program	ELA Program	Research & Evaluation	Regional Training Centre	(UNICEF) Karamoja Project	Community Connector	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Income									
Grant income	3,091,457	694,487	3,019,911	3,276,325	1,758,638	152,074	1,112,947	219,780	13,325,619
Other income	957,643	45,877	138,384	302,496	43,249	779,807	2,717	-	2,270,173
Exchange gains/losses	13,750	13,639	13,718	13,512	11,345	13,588	-	-	79,552
Total income	**4,062,850**	**754,003**	**3,172,013**	**3,592,333**	**1,813,232**	**945,469**	**1,115,664**	**219,780**	**15,675,344**
Expenditure									
Manpower and compensation	1,200,302	211,944	1,227,402	1,071,705	747,905	142,928	344,173	112,032	5,058,391
Travelling & transportation	392,277	104,932	341,894	319,562	148,256	31,724	127,269	81,996	1,547,910
Training, workshops and seminars	374,221	43,189	186,341	668,521	45,744	43,067	164,957	11,973	1,538,013
Occupancy expenses	240,914	65,353	202,517	133,584	20,223	80,230	50,050	13,728	806,599
Other general & administrative expenses	1,052,884	304,252	734,370	961,364	662,012	96,026	414,998	22,962	4,248,868
Depreciation	126,256	-	126,255	-	-	-	-	-	252,511
Total expenses	**3,386,854**	**729,670**	**2,818,779**	**3,154,736**	**1,624,140**	**393,975**	**1,101,447**	**242,691**	**13,452,292**
Surplus/ reserve	**675,996**	**26,622**	**353,235**	**437,597**	**189,092**	**551,494**	**14,217**	**(22,911)**	**2,223,052**
Taxation	-	-	-	-	-	-		-	-
Net surplus for the year	**675,996**	**26,622**	**353,235**	**437,597**	**189,092**	**551,494**	**14,217**	**(22,911)**	**2,223,052**

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Notes to the financial statements for the year ended 31 December 2012 continued

Statement of financial position as at 31 December 2012 (Amount in Uganda Shillings)

	Agriculture & Livestock	Education Program	Health Program	ELA Program	Research & Evaluation	Regional Training Centre	Karamoja Project	Community Connector	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Assets									
Cash and bank	3,104,752	4,780,431	2,936,289	4,172,434	2,872,868	1,469,884	410,518	5,451	19,752,627
Inventories			369,188						369,188
Receivables and other current Assets	18,706	6,122	5,986		-	19,000	41,410	423	91,647
Property and equipment	219,764	153,078	91,996	40,892	92,973	105,202	104,233	16,880	825,018
Total property and assets	**3,343,222**	**4,939,631**	**3,403,459**	**4,213,326**	**2,965,841**	**1,594,086**	**556,161**	**22,754**	**21,038,480**
Liabilities and capital fund									
Liabilities									
Other current liabilities	131,205	32,460	269,924	59,383	112,562	44,890	82,267	28,987	761,678
Due to related parties	7,099	2,229	24,136	4,160	5,383	3,946	929	-	47,882
Total liabilities	**138,304**	**34,689**	**294,060**	**63,543**	**117,945**	**48,836**	**83,196**	**28,987**	**809,560**
Capital fund									
Donor funds	1,204,939	4,757,254	2,507,267	3,069,488	2,210,242	204,378	322,684	16,678	14,292,930
Retained surplus	1,999,979	147,688	602,132	1,080,295	637,654	1,340,872	150,281	(22,911)	5,935,990
Total capital fund	**3,204,918**	**4,904,942**	**3,109,399**	**4,149,783**	**2,847,896**	**1,545,250**	**472,965**	**(6,233)**	**20,228,920**
Total liabilities and capital	**3,343,222**	**4,939,631**	**3,403,459**	**4,213,326**	**2,965,841**	**1,594,086**	**556,161**	**22,754**	**21,038,480**

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Notes to the financial statements for the year ended 31 December 2012 continued

Statement of comprehensive income for the year ended 31 December 2012 (Amount in United States Dollars)

	Agriculture & Poultry	Education Program	Health Program	ELA Program	Research & Evaluation	Regional Training Centre	Karamoja Project	Community Connector	Total
	US$	US$	US$	US$	US$	US$	US$	US$	US$
Income									
Grant income	1,244,548	279,584	1,215,745	1,318,971	707,986	61,221	448,046	88,478	5,364,579
Other income	385,524	18,469	55,710	121,778	17,411	313,932	1,094	-	913,918
Exchange gains/losses	5,535	5,491	5,523	5,440	4,568	5,471	-	-	32,028
Total income	**1,635,607**	**303,544**	**1,276,978**	**1,446,189**	**729,965**	**380,624**	**449,140**	**88,478**	**6,310,525**
Expenditure									
Manpower and compensation	483,213	85,324	494,123	431,443	301,089	57,539	138,556	45,102	2,036,389
Travelling & transportation	157,921	42,243	137,638	128,649	59,684	12,771	51,236	33,010	623,152
Training, workshops and Seminars	150,653	17,387	75,017	269,131	18,415	17,338	66,408	4,819	619,168
Occupancy expenses	96,986	26,310	81,529	53,778	8,141	32,299	20,149	5,526	324,718
Other general & administrative expenses	423,866	122,485	295,641	387,023	266,510	38,658	167,068	9,244	1,710,495
Depreciation	50,828	-	50,827	-	-	-	-	-	101,655
Total expenses	**1,363,467**	**293,749**	**1,134,775**	**1,270,024**	**653,839**	**158,605**	**443,417**	**97,701**	**5,415,577**
Surplus/ reserve	**272,140**	**9,795**	**142,203**	**176,165**	**76,126**	**222,019**	**5,723**	**(9,223)**	**894,948**
Taxation	-	-	-	-	-	-	-	-	-
Net surplus for the year	**272,140**	**9,795**	**142,203**	**176,165**	**76,126**	**222,019**	**5,723**	**(9,223)**	**894,948**

BRAC UGANDA
Financial Statements
For the year ended 31 December 2012

Notes to the financial statements for the year ended 31 December 2012 continued

Statement of financial position as at 31 December 2012 (Amount in United States Dollars)

	Agriculture & Livestock	Education Program	Health Program	Adolescent Program	Research & Evaluation	Regional Training Centre	Karamoja Project	Community Connector	Total
	US$	US$	US$	US$	US$	US$	US$	US$	US$
Assets									
Cash and bank	1,176,042	1,810,769	1,112,231	1,580,468	1,088,208	556,774	155,499	2,064	7,482,055
Inventories	-	-	139,844	-	-	-	-	-	139,844
Receivables and other current assets	7,086	2,319	2,267	-	-	7,197	15,686	160	34,715
Property and equipment	83,244	57,984	34,848	15,488	35,217	39,849	39,482	6,395	312,507
Total property and assets	**1,266,372**	**1,871,072**	**1,289,190**	**1,595,956**	**1,123,425**	**603,820**	**210,667**	**8,619**	**7,969,121**
Liabilities and capital fund									
Liabilities									
Other current liabilities	49,699	12,296	102,244	22,494	42,637	17,003	31,162	10,980	288,515
Due to related parties	2,689	844	9,142	1,576	2,039	1,495	352	-	18,137
Total liabilities	**52,388**	**13,140**	**111,386**	**24,070**	**44,676**	**18,498**	**31,514**	**10,980**	**306,652**
Capital fund									
Donor funds	456,416	1,801,990	949,724	1,162,684	837,213	77,416	122,228	6,318	5,413,989
Retained surplus	816,074	60,263	245,695	440,805	260,189	547,131	61,321	(9,349)	2,422,129
Currency Translation	(58,506)	(4,321)	(17,615)	(31,603)	(18,653)	(39,225)	(4,396)	670	(173,649)
Total capital fund	**1,213,984**	**1,857,932**	**1,177,804**	**1,571,886**	**1,078,749**	**585,322**	**179,153**	**(2,361)**	**7,662,469**
Total liabilities and capital	**1,266,372**	**1,871,072**	**1,289,190**	**1,595,956**	**1,123,425**	**603,820**	**210,667**	**8,619**	**7,969,121**

BRAC Uganda Microfinance Limited Financial Statements

For the year ended 31 December 2012

BRAC UGANDA MICROFINANCE LIMITED

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Sir Fazle Hasan Abed	-	Chairperson (Resigned on 15/01/2013)
Dr A M R Chowdhury	-	Chairperson (Appointed on 15/01/2013)
Dr Mahabub Hossain	-	Member (Resigned on 15/01/2013)
Dr Imran Matin	-	Member (Resigned on 19/07/2012)
Mr Faruque Ahmed	-	Member (Appointed on 19/07/2012)
Mr Tanwir Rahman	-	Member (Appointed on 15/01/2013)
Mr Ishtiaq Mohiuddin	-	Member (Appointed on 15/01/2013)

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

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 FOR YEAR ENDED 31 DECEMBER 2012

The directors have pleasure in submitting their report and the audited financial statements of the company for the year ended 31 December 2012, which disclose the state of affairs of BRAC Uganda Microfinance Limited, in accordance with section 157 of the Ugandan Companies Act (CAP 110).

(a) Registration

BRAC Uganda Microfinance Limited was 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) VISION

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

(c) MISSION

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

(d) OUR VALUES

Innovation- the Company 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- the Company values transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. The Company holds these to be the most essential elements of our work ethic.

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

Effectiveness- the Company values 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.

(e) Principal activities

The Company provides Microfinance activities to improve the livelihood of poor people in over 68 districts in Uganda including extending loan facilities.

(f) FINANCIAL PERFORMANCE

The Company's performance during the year ended 31 December 2012 is as follows:

- Interest income on loans increased by 30% from Ushs 19,128 million in 2011 to Ushs 25,009 million in 2012.
- Loans and advances to customers increased by 11% from Ushs 40,995 million in 2011 to Ushs 45,786 million in 2012. Loan disbursement increased by 19% from Ushs 93,019 million in 2011 to Ushs110,636 in 2012. Loan realization increased by 26% from Ushs 82, 743 million in 2011 to Ushs104,521 million in 2012.
- Operating expenses increased by 35% from Ushs12, 337 million in 2011 to Ushs16, 678 million in 2012.
- Total Assets increased by 19% from Ushs59,602 million in 2011 to Ushs70,853 million in 2012

During the year, the Company had an attributable profit of Ushs7,724 million (2011 – profit of Ushs 4,951 million).

(g) Results from operations

The results for the Company for the year ended 31 December 2012 are set out on page11

(h) Composition of Directors

The directors who served during the year and up to the date of this report are set out on page 2.

(i) Directors benefits

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

(j) CORPORATE GOVERNANCE

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

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Company;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of

BRAC UGANDA MICROFINANCE LIMITED

DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2012 CONTINUED

performance; and
- They bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team.

In 2012 the Board of Directors had three directors. The Board continued to carry out its role of formulating policies and strategies of the Company, reviewing the business plan, ensure that the accounting system is maintained in accordance with acceptable standards, the books of the Company are kept properly, and that accounts are checked by authorized auditors, as well as recruitment and development of key personnel.

(k) RISK MANAGEMENT

The board accepts the final responsibility for the risk management and internal control system of the Company. The management ensures that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviours towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

(l) MANAGEMENT STRUCTURE

The Company is under the supervision of the Board of Directors and the day to day management is entrusted to the Country Representative who is assisted by the heads of divisions, departments and units. The organization structure of the Company comprises of the following divisions:

- Micro Finance Program (MF)
- Small Enterprise Program (SEP);
- Empowerment and livelihood for Adolescent (ELA)
- Microfinance for Returnee Refugees (IDP)
- Accounts & Finance;
- Public relations
- Staff Development Unit
- Internal audit;
- Monitoring Unit;
- Loan Review Unit;
- Branch Review Unit;
- IT and MIS;
- Human resources;
- Brac Learning Centre;
- Communications and
- Procurement, logistics and transportation

(m) RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 15 to the financial statements.

(n) FUTURE DEVELOPMENT PLANS

Microfinance Program
- To increase active borrower size by 10,000 in 2013.
- Expansion of branch size by 5 in 2013.

Small Enterprise Program
- SEP to open up 10 new branches.
- Introduce new products like Mobile Banking.

BRAC UGANDA MICROFINANCE LIMITED

DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2012 CONTINUED

ELA Microfinance

- 21 more branches to be opened in 2013 in ELA microfinance.

The Enterprise Resource Planning (ERP) software is expected to be rolled out in 2013 which would enhance on reporting and internal controls.

Training is integral to improve efficiency in management and program delivery. Rigorous staff training in aspect of occupational and functional skills and techniques of community participation and development management will be organized to improve and maintain quality.

Staff drop out is being addressed through regular recruitment of qualified personnel. Capacity building of staff will continue through ongoing training. Staff morale will be raised by highlighting their contribution through appreciation and recognition

(o) KEY ACHIEVEMENTS IN 2012

The following are the Company's key achievements for the year:

- Adoption of a reassessed, comprehensive Accounts Manual;
- A business process improvement initiative to instate "Standard Operating Procedures (SOPs)" for operation;
- 20 new branches were opened in 2012. Also 136 ELA microfinance groups were formed.
- Microfinance multiplied evaluation report was produced by the research division.
- 584 Microfinance staff received management, operational and financial literacy trainings in 2012.

(p) SOLVENCY

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

(q) GENDER PARITY

The Company had 1,427 employees in 2012 with 1,201 being female and 226 male. Whilst in 2011 the Company, had 1,128 employees with 953 being female and 175 male.

(r) EMPLOYEES' WELFARE

Management/employee relationship

There were continued good relation between employees and management for the year 2012. There were no unresolved complaints received by management from the employees during the year.

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

Training

Training and development of staff capacity is one of the key priorities of the Company. This year all the Branch Accountants received hands-on training on their day to day responsibilities. Selected staffs from other programs received training as prescheduled. The Company will continue to train, re-train and develop its staff in order to improve service delivery and innovation.

Medical assistance

The Company reimburses medical expenses incurred by employees for medical treatment.

Retirement benefits

All eligible employees are members of the National Social Security Fund (NSSF) which is an approved pension fund. The Company contributes 10% of the employees' gross salary and the employee contributes 5%.

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

(s) Auditors

The auditors, KPMG who were appointed during the year, have indicated their willingness to continue in office in accordance with Section 159(2) of the Uganda Companies Act (CAP 110).

(t) Approval of the financial statements

The financial statements were approved by the directors at a meeting held on March 31, 2013.

By order of the Board

Signed.. Date: 31.03.2013

SECRETARY

BRAC UGANDA MICROFINANCE LIMITED

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 2012, 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 11to 48 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 2012. 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 March 31, 2013 and were signed on its behalf by:

Director :

Director :

Date: 31.03.2013

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 2012, the statements of comprehensive income, changes in equity and 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 11 to 48. 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 8, 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 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act.

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

KPMG
Certified Public Accountants
P O Box 3509
Kampala, Uganda

Date: 31 March 2013

BRAC UGANDA MICROFINANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Ushs '000	2011 Ushs '000	2012 USD	2011 USD
Interest Income on Loans and Advances	4	25,009,420	19,128,882	10,068,205	7,608,943
Other Interest Income	5	2,550,841	1,782,567	1,026,909	709,056
Interest expense	6	(4,833,942)	(4,931,109)	(1,946,031)	(1,961,459)
Net interest income		**22,726,319**	**15,980,340**	**9,149,082**	**6,356,540**
Membership fees and other charges	7	1,369,975	1,215,555	551,519	483,514
Foreign exchange gains	8	259,326	265,600	104,399	105,648
Grant income	21.3	4,864,314	2,576,215	1,958,258	1,024,747
Total operating income		**29,219,934**	**20,037,710**	**11,763,258**	**7,970,449**
Impairment losses on loans and advances to customers	14	(1,583,784)	(1,348,404)	(637,594)	(536,358)
Operating income after impairment charges		**27,636,150**	**18,689,306**	**11,125,664**	**7,434,091**
Staff costs	9	(10,604,440)	(7,302,860)	(4,269,098)	(2,904,877)
Other operating expenses	10	(5,806,295)	(4,813,768)	(2,337,478)	(1,914,784)
Depreciation	16	(268,026)	(220,615)	(107,901)	(87,755)
Profit before tax		**10,957,389**	**6,352,063**	**4,411,187**	**2,526,675**
Income tax expense	11a	(3,232,843)	(1,400,733)	(1,301,467)	(557,173)
Net profit for the year		**7,724,546**	**4,951,330**	**3,109,721**	**1,969,502**
Other comprehensive income		-	-	-	-
Total comprehensive income		**7,724,546**	**4,951,330**	**3,109,721**	**1,969,502**

The notes are an integral part of these financial statements.

BRAC UGANDA MICROFINANCE LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Note	2012 Ushs '000	2011 Ushs '000	2012 USD	2011 USD
ASSETS					
Cash and Bank	**12**	11,694,619	5,533,346	4,429,780	2,231,187
Short term deposits	**13**	10,711,898	11,069,175	4,057,537	4,463,377
Loans and advances to customers	**14**	45,786,383	40,995,553	17,343,327	16,549,290
Other assets	**16**	713,473	422,416	270,255	170,329
Deferred tax asset	**11(b)**	560,705	416,604	212,388	164,359
Property and equipment	**17**	1,386,568	1,165,849	525,216	470,101
Total assets		**70,853,646**	**59,602,943**	**26,838,503**	**24,048,643**
LIABILITIES AND CAPITAL FUND					
Liabilities					
Loan security fund	**18**	9,507,025	8,168,518	3,601,146	3,293,757
Related party payables	**15 (a)**	531,317	273,436	201,256	110,256
Borrowings	**19**	34,759,022	35,810,322	13,166,296	14,439,646
Other liabilities	**20**	1,419,719	641,457	537,772	258,652
Tax payable	**11(c)**	96,987	168,415	30,498	59,253
Total liabilities		**46,314,070**	**45,062,148**	**17,536,968**	**18,161,564**
Capital fund					
Donor funds	**21**	6,211,283	3,937,048	2,352,759	1,601,568
BRAC contribution	**22**	835,000	835,000	316,288	438,320
Retained earnings		17,493,293	9,768,747	7,239,499	4,129,778
Currency translation				(607,011)	(282,587)
Total capital fund		**24,539,576**	**14,540,795**	**9,301,535**	**5,887,079**
Total liabilities and Capital fund		**70,853,646**	**59,602,943**	**26,838,503**	**24,048,643**

The financial statements on pages 11 to 48 were approved by the board of directors on 31.3.2013 and were signed on its behalf by:

Director: ______________________   Director: ______________________

The notes are an integral part of these financial statements.

BRAC UGANDA MICROFINANCE LIMITED
CAPITAL FUND FOR THE YEAR ENDED 31 DECEMBER 2012

	Donor Funds	Retained Earnings	BRAC Contribu-tion	Total capital fund	Total capital fund
	Ushs '000	Ushs '000	Ushs '000	Ushs	USD
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**
At 1 January 2012	3,937,048	9,768,747	835,000	14,540,795	5,887,081
Donations received during the year	7,138,549	-	-	7,138,549	2,873,812
Transfers to SOFP/SOCI	(4,864,314)	-	-	(4,864,314)	(1,958,258)
Profit for the year	-	7,724,546	-	7,724,546	3,109,721
Currency Translation					(610,821)
At 31 December 2012	**6,211,283**	**17,493,293**	**835,000**	**24,539,576**	**9,301,535**

The notes are an integral part of these financial statements.

BRAC UGANDA MICROFINANCE LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011	2012	2011
		Ushs '000	Ushs '000	USD	USD
Net cash flow from operating activities	23	**8,518,177**	**(316,944)**	**3,429,217**	**(126,071)**
Cash flow from investing activities					
Acquisition of fixed assets		(488,745)	(350,672)	(196,757)	(139,488)
Short term deposits		357,277	4,039,608	143,831	1,606,845
Net cash flow from investing activities		**(131,468)**	**3,688,936**	**(52,926)**	**1,467,357**
Cash flow from financing activities					
Decrease in borrowings		(1,051,300)	697,013	(423,229)	277,253
Income tax paid		(3,448,371)	(3,170,514)	(1,306,201)	(1,278,433)
Donor fund increase/(decrease)		2,274,235	622,330	915,554	247,546
Net cash flow from financing activities		**(2,225,436)**	**(1,851,171)**	**(813,876)**	**(753,634)**
Net (decrease)/increase in cash and cash equivalents		**6,161,273**	**1,520,821**	**2,562,415**	**587,652**
Cash and cash equivalents at beginning of the year		5,533,346	4,012,525	2,231,187	1,617,954
Currency translation				(363,822)	25,581
Cash and cash equivalents at end of the year	12	**11,694,619**	**5,533,346**	**4,429,780**	**2,231,187**

The notes are an integral part of these financial statements.

BRAC UGANDA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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.

(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 2,640 for balance sheet items and US $ = Ushs 2,484 for income statements balances. 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.

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

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.

Notes to the financial statements for the year ended 31 December 2012 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 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 amortized cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortized 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 and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the company does not intend to sell immediately or in the near term. Loans and advances are shown at the gross amount adjusted for any provision for impairment losses.

Loans originated by the company by providing finance directly to borrowers is categorized as loans to group members and is carried at amortized 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.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

The company considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to other income in the statement of comprehensive income.

In addition to the measurement of impairment losses on loans and advances in accordance with IFRS as set out above, the company estimates losses on loans and advances as follows:

1. Specific provision for the loans and advances considered to be non-performing(impaired) based on the criteria, and classification of such loans and advances, as follows:

1-30 days	5%
31-90 days	20%
91-180 days	20%
181-365days	75%
366 days and above past due	100%

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

2. Portfolio provision is derived based on the company's historical loss ratio. The Loss ratio is determined as an average for the past 3 years.

d) Impairment

(i) Financial assets

Brac Uganda Microfinance Ltd generally provides for an allowance for loan impairment at 2% of loan disbursements made. Management regularly assesses the adequacy of allowance for impairment based on the age of the loan portfolio. At the yearend Brac Uganda Microfinance Ltd calculates the required provision for loan losses based on loan classification and provisioning methodology which is shown within and any adjustments, if required are made and accounted for in the financial statements for the year.

Loans within the maturity period are considered "Current Loans". Loans which remain outstanding after the expiry of their maturity period are considered as "Late Loans". Late loans which remain unpaid after one year after being classified are considered as "Non – Interest bearing loans (NIBL) and are referred to the Board for write-off. Apart from that, any loans can be written off subject to the approval of the board where the board thinks that they are not realizable due to death, dislocation of the borrower or any other natural or humanitarian disaster that affects the livelihood of the borrowers. Subsequently recoveries are credited as income in the statement of comprehensive income.

At each statement of financial position 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 impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the company on terms that the company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

In assessing collective impairment the company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.
An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value.

(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 depreciation or amortization if no impairment loss was recognized.

(e) Other Assets

Other assets comprise of 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) 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

(g) Provisions and Other liabilities

A provision is recognized 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.

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.

Other liabilities include a self insurance fund. BRAC Uganda Microfinance Ltd started to set aside a monthly amount equivalent to 1% of the basic salary of local employees from November 2012 to constitute this fund. This fund is to cover liabilities arising out of death and other permanent injuries suffered by all the local employees. The payment in the event of death or permanent injury is ranging from 12 months' equivalent of basic salary in the first year of employment, up to 50 months' equivalent of basic salary for 10th year of employment onwards.

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

(h) Income tax

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

(i) Revenue recognition

Revenue is recognized on an accruals basis.

(i) Interest income on Loans and Advances

Interest income on Loans and advances (Service charges) on regular loans that is, loans where no amounts are overdue as at the end of the reporting period are recognized on abl 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.

Notes to the financial statements for the year ended 31 December 2012 continued

(ii) Membership fees and Other charges

Membership fees and other charges are recognized on an accrual basis when the service has been provided.

(iii) Other income

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

Interest income on (Brac Uganda Microfinance ltd) bank deposit is earned on an accrual basis at the agreed interest rate with the respective financial institution.

(j) Grants

(i) Donor Grants

All donor grants received are initially recognized as 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 substantial 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

(k) Loans and borrowings

Loans and Borrowings are recognized 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.

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

(l) Employee benefits
Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. The 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 recognized 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) 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.

(o) 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.

(p) Fund Raising Costs
BRAC normally raises its fund through discussion with various donors and stakeholders. It also follows a competitive process where it submits its proposal to multinational donor organizations and gets selected based on merit. BRAC does not incur any additional costs for fundraising purpose other than over heads which are recorded under HO logistic and management expenses.

(q) Adoption of new and revised standards
For accounting periods beginning 1 January 2012, new and revised standards and interpretations listed below became effective for the first time and some 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.

The following new standards, amendments to standards and interpretations are effective for the first time from the year ended 31 December 2012;

Amendment to IAS 1: Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income: Effective 1 July 2012
The company will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately. This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements. The amendment will be applied retrospectively and the comparative information will be restated. However, this has had no impact on the Company.

Amendment to IAS 12: Income Tax: Recovery of Underlying Assets: Effective 1 January 2012
The 2010 amendment provides an exception to this measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. Under the exception, the measurement of deferred tax assets and liabilities is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. However, this has had no impact on the Company.

Standards issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2012 and have not yet been applied in preparing the financial statements.

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.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address impairment of financial assets and hedge accounting. The completion of this project is expected

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

over the course of the first half of 2013. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the company's financial assets but will potentially have no impact on the classification and measurement of the financial liabilities. The company will quantify the effect in conjunction with other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The standards issued, which the company does not reasonably expect to be applicable at a future date are listed below.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Short term and long term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. The amendment becomes effective for annual periods beginning on or after 1 January 2013. Although the company will not be impacted by amendments relating to defined benefit plans, the impact on the definitions of short term and long term liabilities are still being assessed.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation —Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require entities to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The company is still assessing the impact of this standard.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The company is still assessing the impact of this standard.

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

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

4. INTEREST INCOME ON LOANS AND ADVANCES

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Group Loans (Microfinance)	20,259,870	15,714,671	8,156,147	6,250,864
Small Enterprises program	3,696,825	2,794,537	1,488,255	1,111,590
Internally Displaced Persons (IDP)	174,320	131,770	70,177	52,414
Agriculture	2,512		1,011	-
Empowerment and Livelihood of Adolescents (ELA)	875,893	487,904	352,614	194,075
	25,009,420	**19,128,882**	**10,068,205**	**7,608,943**

5. OTHER INTEREST INCOME

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Short term deposits	2,373,904	1,721,280	955,678	684,678
Interest income on current accounts	176,937	61,287	71,231	24,378
Total	**2,550,841**	**1,782,567**	**1,026,909**	**709,056**

6. INTEREST EXPENSE

	2012	2011	2012	2011
Lender	Ushs '000	Ushs '000	USD	USD
Brac Africa Loan Fund	4,316,906	4,382,252	1,737,885	1,743,139
Triple Jump	253,515	285,073	102,059	113,394
BRAC	263,521	263,784	106,087	104,926
Total	**4,833,942**	**4,931,109**	**1,946,031**	**1,961,459**

7. MEMBERSHIP FEES AND OTHER CHARGES

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Membership fee	259,917	283,598	104,636	112,807
Loan appraisal fee	1,100,816	926,244	443,163	368,434
Loan application fee	9,242	5,713	3,720	2,273
Total	**1,369,975**	**1,215,555**	**551,519**	**483,514**

8. FOREIGN EXCHANGE GAINS

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Foreign Exchange gains	259,326	265,600	104,399	105,648
Total	**259,326**	**265,600**	**104,399**	**105,648**

BRAC UGANDA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

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.

9. STAFF COSTS

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Salaries	8,587,021	6,571,584	3,456,933	2,613,995
Bonus	279,032	191,228	112,332	76,065
Employer's Contribution	722,389	540,048	290,816	214,817
Accumulated NSSF arrears	524,566	-	211,178	-
Staff Leave Provision	491,432	-	197,839	-
Total	**10,604,440**	**7,302,860**	**4,269,098**	**2,904,877**

10. OTHER OPERATING EXPENSES

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Occupancy expenses (see below)	624,281	523,141	251,321	208,091
Staff training and development	356,339	225,126	143,454	89,549
Travel and transportation	1,835,456	1,391,887	738,911	553,654
Maintenance and general expenses	1,593,986	1,031,477	641,701	410,293
Printing and office stationery	403,678	316,146	162,511	125,754
Insurance Claim	46,575	92,848	18,750	36,932
Provision for Audit fees	129,269	102,424	52,041	40,741
Internet cost	21,162	20,829	8,519	8,285
Estimated audit/ legal & other services	126,797	70,041	51,045	27,860
Radar accounting package cost	-	228,000	-	90,692
write off of overstated PPE	-	133,963	-	53,287
Self Insurance scheme fund	9,400	-	3,785	-
Provision for stolen cash	69,172	155,961	27,847	62,037
HO logistics and management expenses	590,180	521,925	237,593	207,609
Total	**5,806,295**	**4,813,768**	**2,337,478**	**1,914,784**

Occupancy expenses are analysed as follows;

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Rent	422,227	318,136	169,979	126,546
Utilities	202,054	205,005	81,342	81,545
Total	**624,281**	**523,141**	**251,321**	**208,091**

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

11. TAXATION

a) Income tax expense

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Current Tax	3,376,943	1,587,245	1,359,478	631,362
Deferred tax (Note 11b)	(144,100)	(186,512)	(58,011)	(74,189)
Tax (Credit)/ expense	**3,232,843**	**1,400,733**	**1,301,467**	**557,173**

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 that would arise using the basic tax rate as follows.

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Operating profit before taxation	10,957,389	6,352,063	4,411,187	2,526,675
Tax calculated at 30%	3,287,217	1,905,618	1,323,356	758,003
Tax effect of:				
Non deductible expense and non taxable income	(54,374)	(504,885)	(21,889)	(200,830)
Income Tax charge for the year	**3,232,843**	**1,400,733**	**1,301,467**	**557,173**
Effective corporation tax rate	**30%**	**22%**		

b) Deferred tax

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

Deferred tax assets and liabilities and the deferred tax charge/ (credit) as at 31 December 2012 are attributed to the following items:-

	2012	Movement	2011	2012	Movement	2011
	Ushs '000	Ushs '000	Ushs '000	USD	USD	USD
Property and equipment	1,186,107	358,510	827,597	449,283	115,575	333,708
Provisions	(3,026,765)	(544,890)	(2,481,875)	(1,146,502)	(159,280)	(987,222)
Unrealized gains	(28,354)	(293,954)	265,600	(10,740)	(116,388)	105,648
	(1,869,012)	(480,334)	(1,388,678)	(707,959)	(160,093)	(547,866)
Deferred tax asset @ 30%	**(560,705)**	**(144,100)**	**(416,604)**	**(212,388)**	**(48,029)**	**(164,359)**
Currency translation	-	-	-	-	(9,983)	-
At 31 December	**(560,705)**	**(144,100)**	**(416,604)**	**(212,388)**	**(58,011)**	**(164,359)**

c) Tax payable

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
At 1 January	168,415	1,751,684	59,253	706,324
Charge for the period	3,376,943	1,587,245	1,359,478	631,362
Paid during the year	(3,448,371)	(3,170,514)	(1,388,233)	(1,278,433)
At 31 December	**96,987**	**168,415**	**30,498**	**59,253**

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

12. CASH AND BANK

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Cash in hand	6,288	61,513	2,382	24,804
Standard Chartered Bank Uganda	3,447,708	2,624,854	1,305,950	1,058,409
Bank of Africa Uganda Limited	1,657	227,912	628	91,900
Barclays Bank Uganda Limited	147,286	166,697	55,790	67,216
Centenary Bank Uganda Limited	217,546	174,488	82,404	70,358
Equity Bank Uganda Limited	223,546	272,658	84,676	109,943
Post Bank Uganda Limited	167,585	119,089	63,479	48,020
Pride Microfinance Limited	20,679	10,025	7,834	4,042
Tropical Bank Uganda Limited	13,665	17,686	5,176	7,131
Global Trust Bank	33,550	4,036	12,708	1,627
Stanbic Bank Uganda Limited	7,415,109	1,854,388	2,808,753	747,737
Cash and bank	**11,694,619**	**5,533,346**	**4,429,780**	**2,231,187**

13. SHORT TERM DEPOSITS AT AMORTISED COST

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Bank of Africa Uganda Limited	10,711,898	11,069,175	4,057,537	4,463,377
Total	**10,711,898**	**11,069,175**	**4,057,537**	**4,463,377**

The maturity of the short term deposits is analyzed as follows;

Within 3 months	10,711,898	10,453,699	4,057,537	4,215,201
After 3 months	-	615,476	-	248,176
Total	**10,711,898**	**11,069,175**	**4,057,537**	**4,463,377**

The weighted average effective interest rates on deposits due from Banks were 20%. (2011: 23%). The carrying book values of the deposits with banks equal the fair value.

14. LOANS AND ADVANCES TO CUSTOMERS

14.1 Loans and advances

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Group Guaranteed Scheme	37,843,416	34,701,618	14,334,627	13,992,588
Small Enterprises Program	9,129,435	7,539,848	3,458,120	3,040,261
ELA loans	1,779,283	1,274,622	673,971	513,960

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

IDP Loans	282,668	385,092	107,071	155,279
Agriculture Loans	6,950	-	2,632	-
Interest receivable	810,290	546,769	306,928	220,471
Gross Loans and Advances	**49,852,042**	**44,447,949**	**18,883,349**	**17,922,559**
Loan Write Off	(1,526,926)	(948,292)	(578,381)	(377,204)
Interest Write-off	(179,105)	(22,229)	(67,843)	(8,843)
Gross Loans after Write-off	**48,146,011**	**43,477,428**	**18,237,125**	**17,536,512**
Impairment loss on loans advance	(2,359,628)	(2,481,875)	(893,798)	(987,222)
Net Loans and Advances to Customers	**45,786,383**	**40,995,553**	**17,343,327**	**16,549,290**

14.2 Movement in Loans and advances

The movement on the loan account is analysed as shown below;

	2012	**2011**	**2012**	**2011**
	Ushs '000	**Ushs '000**	**USD**	**USD**
At 1 January	43,477,428	33,621,005	17,536,512	13,556,857
Loans disbursed	110,636,425	93,019,920	44,539,624	37,508,032
Loans repayments	(105,072,101)	(82,743,420)	(42,299,558)	(33,364,282)
Interest receivable	810,290	550,444	306,928	221,952
Currency Translation	-	-	(1,200,157)	-
Gross advances to customers	**49,852,042**	**44,447,949**	**18,883,349**	**17,922,559**
Less Loan Write-off	(1,526,926)	(948,292)	(578,381)	(377,204)
Less Interest write-off	(179,105)	(22,229)	(67,843)	(8,843)
Gross Loans after Write-off	**48,146,011**	**43,477,428**	**18,237,125**	**17,536,512**
Impairment loss on loans advance	(2,359,628)	(2,481,875)	(893,798)	(987,222)
Net advances to customers	**45,786,383**	**40,995,553**	**17,343,327**	**16,549,290**

14.3 Provision for impairment of Loans and advances

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

	2012	**2011**	**2012**	**2011**
	Ushs '000	**Ushs '000**	**USD**	**USD**
At 1 January	(2,481,875)	(2,103,992)	(940,104)	(836,910)
Charge to profit or loss for the year	(1,583,784)	(1,348,404)	(599,918)	(536,358)
Loan write-off	1,526,926	(948,292)	578,381	377,204
Interest receivable - write-off	179,105	22,229	67,843	8,842
At 31 December	**(2,359,628)**	**(2,481,875)**	**(893,798)**	**(987,222)**

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.

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

	2012	2011
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	118,150	120,901

14.4 Movement on impairment of Loans and advances

The movement on the impairment on loans account is shown below

	Amount	Provision rate	Provision required local
For general Provisions (4.40)			
No past due	46,881,571	3.8%	1,781,500
For specific provision (4.50)			
1-30 days	345,928	5%	17,296
31-90 days	221,052	20%	44,210
91-180 days	180,220	20%	36,044
181-365 days	146,648	75%	109,986
Above 365 days	370,592	100%	370,592
	1,264,440		578,128
At 31 December	**48,146,011**		**2,359,628**

14.5 Sectoral analysis of loans and advances to customers

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

	2012 Ushs '000	2011 Ushs '000	2012 USD	2011 USD
Agriculture	3,324,423	6,145,651	1,259,251	2,478,085
Education	3,800,000	6,584,626	1,439,394	2,655,091
Health	629,156	438,975	238,317	177,006
Non-farm business	33,895,964	24,143,628	12,839,380	9,735,334
Housing	-	1,755,900	-	708,024
Consumption	284,962	1,755,900	107,940	708,024
Other	6,211,506	2,652,748	2,352,843	1,074,948
	48,146,011	**43,477,428**	**18,237,125**	**17,536,512**

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

15. RELATED PARTY DISCLOSURE

(a) RELATED PARTY PAYABLES

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
BRAC Bangladesh	202,869	150,170	76,844	60,552
Stichting BRAC International	328,448	123,266	124,412	49,704
	531,317	**273,436**	**201,256**	**110,256**

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 accrued on related party loans

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
BRAC Africa Loan Fund	4,316,906	4,382,252	1,737,885	1,743,139
BRAC Bangladesh	263,521	263,784	106,087	104,926
Total	**4,580,427**	**4,646,036**	**1,843,972**	**1,848,065**

ii) Interest payment on related party loans

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
BRAC Africa Loan Fund	4,320,296	4,511,199	1,739,250	1,794,431
BRAC Bangladesh	503,230	-	202,589	-
Total	**4,823,526**	**4,511,199**	**1,941,839**	**1,794,431**

iii) Related party loans as disclosed in note 19

	2012	2011	2012	2011
Non Current portion	Ushs '000	Ushs '000	USD	USD
BRAC Africa Microfinance Limited.	30,486,531	30,489,921	11,596,490	12,294,323
BRAC Bangladesh	2,211,740	2,451,449	828,756	988,488
Total noncurrent loan	**32,698,271**	**32,941,370**	**12,425,246**	**13,282,811**

16. OTHER ASSETS

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Advance to suppliers	378,791	243,915	143,481	98,353
WHT receivable	188,046	178,501	71,230	71,976
Other receivables	146,636	-	55,544	-
Total	**713,473**	**422,416**	**270,255**	**170,329**

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

17. PROPERTY AND EQUIPMENT

	Furniture	Equipments	Motor vehicles	Total	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	USD
Cost					
At 1 January 2011	**665,163**	**820,803**	**109,376**	**1,595,342**	**643,283**
Write-off 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**
Additions	207,296	180,589	100,860	488,745	185,131
Reclassifications	(2,927)	2,605	322	-	-
At 31 December 2012	**952,140**	**1,086,914**	**261,742**	**2,300,796**	**915,797**
Depreciation					
At 1 January 2011	**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
Charge for the year	86,352	145,325	36,349	268,026	107,901
Currency Translation					22,115
At 31 December 2012	**308,176**	**467,172**	**138,880**	**914,228**	**390,581**
Net Book Value					
At 31December 2012	**643,964**	**619,742**	**122,862**	**1,386,568**	**525,216**
At 31December 2011	**525,947**	**581,873**	**58,029**	**1,165,849**	**470,101**

18. LOAN SECURITY FUND

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Opening balance	8,168,518	6,229,521	3,094,136	2,511,904
Received during the year	11,063,643	9,301,992	4,190,774	3,750,803
Paid off/Adjusted during the year	(9,725,136)	(7,362,995)	(3,683,764)	(2,968,949)
	9,507,025	**8,168,518**	**3,601,146**	**3,293,757**

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.

BRAC UGANDA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

19. BORROWINGS

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Kiva	1,097,467	773,054	415,707	311,715
Triple Jump	963,284	2,095,898	364,880	845,120
BRAC Africa Microfinance Limited	30,486,531	30,489,921	11,547,928	12,294,323
BRAC Bangladesh	2,211,740	2,451,449	837,780	988,488
Total	**34,759,022**	**35,810,322**	**13,166,296**	**14,439,646**

For maturity analysis of the above loans, refer to 29(d).

In June 2008, Brac Uganda Microfinance obtained a facility of Ushs 1,955,303,750 equivalents to US $ 1,056,920 from Triple Jump B.V. for a period of 5years to support the microfinance program. The interest rate on this loan is 14.5% per annum and the loan is not secured. Principle is repayable in one installment by June 2013and interest is payable on a semi annual basis.

In November 2007, Brac Uganda Microfinance obtained a loan facility from KIVA for support to microfinance program. As at 31 December 2011, an amount of US$331,322.80 equivalent to Ushs 534,020,792 had been received. During the year ended 31 December 2012, an additional sum amounting to US$ 174,672 equivalent to Ushs 277,533,891 under the same terms and conditions was received from Kiva. This loan does not bear any interest and is not secured. It is repayable in monthly installments.

In January 2007, Brac Uganda Microfinance obtained a facility of Ushs 2,187,915,685 equivalents to US $ 1,305,965 from BRAC Bangladesh for support of the microfinance. It bears interest at 8% per annum. Whereas repayment is on the Uganda shillings equivalent received, interest is paid on the dollar amount. This loan is not secured. The period of the loan expired at close of December 2012 and shall be payable to the lender on call.

In October 2008, Brac Uganda Microfinance obtained a facility of Ushs 30,613,644,432 from BRAC Africa Microfinance Limited to support to the microfinance program. It bears interest at 12% per annum. It is repayable in 16 Quarterly installments, after December 2012. This loan is not secured.

19.1 Analysis of movement in Borrowings

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
At 1 January	35,810,322	35,113,309	14,439,646	15,745,879
Receipts during the year	442,727	425,860	178,231	173,481
Interest Accrued	4,833,942	4,931,109	1,946,031	1,961,459
Payments during the Year	(6,386,367)	(4,699,293)	(2,571,001)	(1,869,249)
Currency translations	58,398	39,337	(826,611)	(1,571,924)
At 31 December	**34,759,022**	**35,810,322**	**13,166,296**	**14,439,646**

20. OTHER LIABILITIES

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Accrual for expenses	50,501	20,119	19,129	8,113
Bonus provision	29,069	11,946	11,010	4,817
Provision for staff Leave	491,432	-	186,148	-
Accrual for audit fees	129,269	102,424	48,966	41,300
Accrual for NSSF	237,743	115,321	90,054	46,500
Provision for cash shortage	146,636	77,464	55,544	31,235

BRAC UGANDA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

Salary arrears payable	105,116	94,792	39,817	38,223
Self Insurance scheme fund	9,400	-	3,561	-
Stamp duty provision	30,864	30,492	11,691	12,295
Accrual for PAYE	189,689	188,899	71,852	76,169
Total	**1,419,719**	**641,457**	**537,772**	**258,652**

BRAC Uganda Microfinance ltd sets aside a monthly amount equivalent to 1% of the basic salary of local employees, to constitute a self insurance fund. This fund is to cover liabilities arising out of death and other permanent injuries suffered by all local employees. The payment in the event of death or permanent injury is ranging from 12 months' equivalent of basic salary in the first year of employment, up to 50 months' equivalent of basic salary for 10th year of employment onwards.

21. DONOR FUNDS

	Note	2012 Ushs '000	2011 Ushs '000	2012 USD	2011 USD
Donor funds received in advance	21.1	3,475,070	1,412,818	1,316,315	583,163
Donor funds investment in fixed assets	21.2	1,287,526	1,075,543	487,699	434,257
Donor funds investment in loans to group members		1,448,687	1,448,687	548,745	584,148
Total		**6,211,283**	**3,937,048**	**2,352,759**	**1,601,568**

21.1 Donor funds received in advance

	Note	2012 Ushs '000	2011 Ushs '000	2012 USD	2011 USD
Opening balance		1,412,818	952,123	583,163	383,921
Donations received during the year	21.1a	7,138,548	3,198,545	2,703,996	1,289,736
Transferred to deferred income - investment in fixed assets	21.2	(380,936)	(266,202)	(144,294)	(107,340)
Transferred to statement of income and expenses	21.3	(4,695,360)	(2,471,648)	(1,890,242)	(983,154)
Currency Translation		-	-	63,692	-
Closing balance		**3,475,070**	**1,412,818**	**1,316,315**	**583,163**

21.1a Donations received during the year

Name of donor	2012 Ushs '000	2011 Ushs '000	2012 USD	2011 USD
MasterCard Foundation	6,391,817	2,916,029	2,421,143	1,175,818
UNHCR (Transfer from Brac Uganda)	746,731	282,516	282,853	113,918
	7,138,548	**3,198,545**	**2,703,996**	**1,289,736**

BRAC UGANDA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

21.2 DEFERRED INCOME – FIXED ASSETS

		2012	2011	2012	2011
		Ushs '000	Ushs '000	USD	USD
Opening balance		1,075,543	913,908	434,257	368,511
Transferred from donor funds received in Advance		380,936	266,203	144,294	107,340
Depreciation charged during the year	21.3	(168,954)	(104,567)	(68,016)	(41,594)
Currency Translation		-	-	(22,836)	-
Closing balance		**1,287,526**	**1,075,543**	**487,699**	**434,257**

21.3 GRANT INCOME

	2012	2011	2012	2011
	Ushs '000	Ushs '000	USD	USD
Transferred to statement of income and expenses	(4,695,360)	(2,471,648)	(1,890,242)	(983,154)
Depreciation charged during the year	(168,954)	(104,567)	(68,016)	(41,594)
Closing balance	**(4,864,314)**	**(2,576,215)**	**(1,958,258)**	**(1,024,748)**

22. BRAC CONTRIBUTION

This fund of Ushs 835,000,000 (USD: 316,288) 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

	2012	2011	2012	2011
Cash flow from operating activities	**Ushs '000**	**Ushs '000**	**USD**	**USD**
Profit before tax	**10,957,389**	**6,352,063**	**4,411,187**	**2,526,675**
Depreciation	268,026	220,615	107,901	87,755
Write-off of Property and Equipment	-	133,963	-	53,287
Cash flow before changes in working capital	**11,225,415**	**6,706,641**	**4,519,088**	**2,667,717**
Changes in working capital				
Increase in loans and advances	(4,790,830)	(9,121,204)	(1,928,676)	(3,628,164)
Decrease/(increase) of receivables and other current assets	(291,058)	213,081	(117,173)	84,758
Increase/(decrease) of related party payables	257,881	45,192	103,817	17,976
Increase/(decrease) of current Liabilities	778,262	(99,651)	313,310	(39,638)
Increase /(Decrease) in loan security fund	1,338,507	1,938,997	538,851	771,280
Net cash from operations	**8,518,177**	**(316,944)**	**3,429,217**	**(126,071)**

BRAC UGANDA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

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 2012.

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 2012 (2011: 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 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 20.

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 is in the process of responding to the Uganda Revenue Authority's second claim and they maintain that the company is not liable. The outcome of management's response to Uganda Revenue Authority cannot 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 2012 (2011: nil).

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

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.

(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.

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.

BRAC UGANDA MICROFINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 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 2012	48,146,011	578,128	1,781,500	45,786,383
31 December 2011	42,926,984	851,557	1,630,319	40,445,108

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	**2012 Ushs '000**	**2011 Ushs '000**
Neither past due or impaired	46,881,571	41,558,547
Past due but not impaired	893,848	659,074
Impaired	370,592	709,363
Total gross advances to customers	48,146,011	42,926,984
Less: impairment provision	(2,359,628)	(2,481,875)
Net advances to customers at 31 December	**45,786,383**	**40,445,109**

Other exposures to credit risk	**2012 Ushs '000**	**2011 Ushs '000**
Short Term Deposits	10,711,898	11,069,175
Cash and Bank	11,694,619	5,533,346
Other Receivable	713,473	422,416
	23,119,990	**17,024,937**

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
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 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 2012

	Up to 1 month	From 1 to 12 months	From 1 year to 2 years	From 2 years and above	Non interest bearing	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
ASSETS						
Cash and bank	-	-	-	-	11,694,619	11,694,619
Short term deposits	-	10,711,898	-	-	-	10,711,898
Loans and advances to customers	8,710,444	37,075,939	-	-	-	45,786,383
Other Assets	-	-	-	-	713,473	713,473
Deferred tax asset	-	-	-	-	560,705	560,705
Property and equipment	-	-	-	-	1,386,568	1,386,568
	8,710,444	**47,787,837**	**-**	**-**	**14,355,364**	**70,853,646**
Capital fund and liabilities						
Loan Security fund	-	-	-	-	9,507,025	9,507,025
Related party payables	-	-	-	-	531,317	531,317
Borrowings		3,175,024	30,486,531	-	1,097,467	34,759,022
Other liabilities	-	-	-	-	1,419,719	1,419,719
Tax payable	-	-	-	-	96,987	96,987
Capital fund	-	-	-	-	24,539,576	24,539,576
	-	**3,175,024**	**30,486,531**	**-**	**37,192,091**	**70,853,646**
Net (liabilities)/assets	**8,710,444**	**44,612,813**	**(30,486,531)**	**-**	**(22,836,726)**	**-**

BRAC UGANDA MICROFINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

Year ended 31 December 2011

	Up to 1 month	From 1 to 12 months	From 1 year to 2 years	From 2 years and above	Non interest bearing	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	-	11,069,175	-	-	-	11,069,175
Loans and advances to customers	7,386,641	33,608,912	-	-	-	40,995,553
Loans and advances relating to managed funds	-	-		-	-	-
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)**	**-**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 continued

Exposure to Liquidity risk

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2012 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	11,694,619	-	-	-	-	11,694,619
Short term deposits	-	10,711,898	-	-	-	10,711,898
Loans and advances to customers	-	26,131,332	19,655,051	-	-	45,786,383
Other assets	-	713,473	-	-	-	713,473
Deferred tax asset	-	-	560,705	-	-	560,705
Property and equipment	-	-	-	1,386,568	-	1,386,568
	11,694,619	**37,556,703**	**20,215,756**	**1,386,568**	**-**	**70,853,646**
Capital Fund and Liabilities						
Loan Security Fund	680,710	2,042,130	6,784,185	-	-	9,507,025
Related party payables	-	531,317	-	-	-	531,317
Borrowings	-	-	7,693,323	27,065,699	-	34,759,022
Other liabilities	-	1,419,719	-	-	-	1,419,719
Tax payable	-	-	96,987	-	-	96,987
Capital fund	2,070,428	4,140,855	-	835,000	17,493,293	24,539,576
	2,751,138	**8,134,021**	**14,574,495**	**27,900,699**	**17,493,293**	**70,853,646**
Net (liabilities)/assets	**8,943,481**	**29,422,682**	**5,641,261**	**(26,514,131)**	**(17,493,293)**	**-**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Notes to the financial statements for the year ended 31 December 2012 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 2012	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Cash and bank	-	11,694,619	11,694,619	11,694,619
Short term deposits	-	10,711,898	10,711,898	10,711,898
Loans and advances to customers	45,786,383	-	45,786,383	45,786,383
Other assets	-	713,473	713,473	713,473
	45,786,383	**23,119,990**	**68,906,373**	**68,906,373**
Other liabilities	-	1,419,719	1,419,719	1,419,719
Borrowings	-	34,759,022	34,759,022	34,759,022
	-	**36,178,741**	**36,178,741**	**36,178,741**

31 December 2011	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
	Ushs '000	Ushs '000	Ushs '000	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**

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

BRAC Social Business Enterprises Uganda Limited Financial Statements

For the year ended 31 December 2012

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Dr. A M R Chowdhury	-	Chairperson (Appointed on 15/01/2013)
Mr. Muhammad A. (Rumee) Ali	-	Member (Resigned on 15/01/2013)
Mr. S. N. Kairy	-	Member (Resigned on 15/01/2013)
Mr. Faruque Ahmed	-	Member (Appointed on 15/01/2013)
Mr. Tanwir Rahman	-	Member (Appointed on 24/03/2010)

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 SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2012

The directors have pleasure in submitting their report and the audited financial statements of the company for the year ended 31 December 2012, which disclose the state of affairs of BRAC Social Business Enterprises Limited, in accordance with section 157 of the Ugandan Companies Act (CAP 110).

(a) Registration

Brac Social Business Enterprises Uganda limited was incorporated as a limited liability company on 9th April, 2010, as an independent company. Its vision is in line with the vision for BRAC Bangladesh to develop 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 Social Business Enterprises Uganda limited uses sustainable social businesses to create and protect the livelihoods of poor people.

The Company effectively commenced trading on 01st January 2012 as Brac Social Business Enterprises Uganda limited.

(b) VISION

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

(c) MISSION

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

(d) OUR VALUES

Innovation- the Company 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- the Company values transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. The Company holds these to be the most essential elements of our work ethic.

Inclusiveness- the Company is 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- the Company values 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.

(e) Principal activities

The Company packs and sells seeds of Agricultural and Horticultural crops.

(f) Results from operations

The results for the Company for the year ended 31 December 2012 are set out on page 9.

(g) Composition of Directors

The directors who served during the year and up to the date of this report are set out on page 2.

(h) Directors benefits

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

(i) CORPORATE GOVERNANCE

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

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

In 2012 the Board of Directors had three directors. The Board continued to carry out its role of formulating policies and strategies of the Company, reviewing the business plan, ensure that the accounting system is maintained in accordance with acceptable standards, the books of the Company are kept properly, and that accounts are checked by authorised auditors, as well as recruitment and development of key personnel.

(j) RISK MANAGEMENT

The board accepts the final responsibility for the risk management and internal control system of the Company. The management ensures that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2012

- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviours towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

(k) MANAGEMENT STRUCTURE

The Company is under the supervision of the Board of Directors and the day to day management is entrusted to the Country Representative who is assisted by the heads of divisions, departments and units. The organisation structure of the Company comprises of the following divisions:

- Accounts & finance;
- Public relations
- Internal audit;
- Monitoring Unit;
- Branch review Unit;
- Agriculture
- IT and MIS;
- Human resources;
- Brac Learning Centre;
- Communications and
- Procurement, logistics and transportation

(l) RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 12 to the financial statements.

(m) FUTURE DEVELOPMENT PLANS

- Buying a seed processing plant in 2013, this is expected to increase production capacity.
- To set up a tissue culture lab in order to provide clean planting materials of banana, cassava and sweet potatoes to Uganda Small Holders.

The Enterprise Resource Planning (ERP) software is expected to be rolled out in 2013 which would enhance on reporting and internal controls.

Training is integral to improve efficiency in management and program delivery. Rigorous staff training in aspect of occupational and functional skills and techniques of community participation and development management will be organised to improve and maintain quality.

Staff drop out is being addressed through regular recruitment of qualified personnel. Capacity building of staff will continue through ongoing training. Staff morale will be raised by highlighting their contribution through appreciation and recognition

(n) KEY ACHIEVEMENTS IN 2012

The following are the Company's key achievements for the year:

- Adoption of a reassessed, comprehensive Accounts Manual.
- A business process improvement initiative to instate "Standard Operating Procedures (SOPs)" for operation.
- Through contract growers and Nakaseke farm, 206 metric tons of seeds were produced.

(o) SOLVENCY

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

(p) EMPLOYEES' WELFARE

Management/employee relationship

There were continued good relation between employees and management for the year 2012. There were no unresolved complaints received by management from the employees during the year.

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

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2012

Training

Training and development of staff capacity is one of the key priorities of the Company. This year all the Branch Accountants received hands-on training on their day to day responsibilities. Selected staffs from other programs received training as prescheduled. The Company will continue to train, re-train and develop its staff in order to improve service delivery and innovation.

Medical assistance

The Company reimburses medical expenses incurred by employees for medical treatment.

Retirement benefit

All eligible employees are members of the National Social Security Fund (NSSF) which is an approved pension fund. The Company contributes 10% of the employees' gross salary.

The NSSF is a defined contribution scheme with Brac Social Business Enterprises Uganda limited having no legal or constructive obligation to pay further top-up contributions

(q) GENDER PARITY

The Company had 12 employees in 2012 with 6 being female and 6 male.

(r) Auditors

The auditors, KPMG who were appointed during the year, have indicated their willingness to continue in office in accordance with Section 159(2) of the Uganda Companies Act (CAP 110).

(s) Approval of the financial statements

The financial statements were approved by the directors at a meeting held on 31.03.2013.

By order of the Board

Signed……………......…………………… Date: 31.03.2013

SECRETARY

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILTIES FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012, 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 9 to 30 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 flows for the year ended 31 December 2012. 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 in the manner required by the Companies Act of Uganda.

Approval of the financial statements

The financial statements, as indicated above, were approved by the board of directors on 31.03.2013 and were signed on its behalf by:

____________________ _________________________

Director Director

31.03. 2013

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Report on the Financial Statements

We have audited the financial statements of Brac Social Business Enterprises Uganda Limited set out on pages 9 to 30 which comprise the statement of financial position at 31 December 2012, the statements of comprehensive income, changes in equity and 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.

Directors' Responsibility for the Financial Statements

As stated on page 7, 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 controls 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 controls 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 Social Business Enterprises Uganda Limited as at 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda.

Report on Other Legal Requirements

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 statements of financial position and comprehensive income are in agreement with the books of account.

KPMG
Certified Public Accountants
P O Box 3509
Kampala, Uganda
Date: 31.03.2013

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Ushs '000	2012 USD
Revenue	4	916,829	369,093
Cost of Sales	5	(277,317)	(111,641)
Gross profit		**639,512**	**257,452**
Staff costs	6	(163,234)	(65,714)
Training, Workshops & Seminars		(498)	(200)
Other operating expenses	7	(129,528)	(52,145)
Depreciation	10	(20,838)	(8,389)
Lease amortisation	11	(1,705)	(687)
Profit before tax		**323,709**	**130,317**
Income tax expense	14(a)	(111,000)	(44,686)
Net profit for the year		**212,709**	**85,631**
Other comprehensive income		-	-
Total comprehensive income		**212,709**	**85,631**

The notes are an integral part of these financial statements.

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	2012 Ushs '000	2012 USD
ASSETS			
Cash and Bank	**8**	298,957	113,241
Inventory	**9**	36,224	13,722
Property and equipment	**10**	868,212	328,868
Finance lease on leasehold land	**11**	40,501	15,300
Total assets		**1,243,894**	**471,131**
LIABILITIES AND CAPITAL FUND			
Liabilities			
Related party payables	**12(a)**	26,130	9,898
Other liabilities	**13**	27,996	10,605
Tax payable	**14(c)**	35,744	13,539
Deferred tax Liability	**14(b)**	75,256	30,296
Total liabilities		**165,126**	**64,338**
Equity			
Share Capital	**15(a)**	1,000	379
Funds Designated for issue of Ordinary Shares	**15(b)**	865,059	327,674
Retained earnings		212,709	85,631
Currency Translation		-	(6,891)
Total Equity		**1,078,768**	**406,793**
Total liabilities and Equity		**1,243,894**	**471,131**

The financial statements on pages 9 to 30 were approved by the Board of Directors on 31.03.2013 and were signed on its behalf by:

Director: _______________ Director: _______________

The notes are an integral part of these financial statements.

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Funds Designated for issue of Ordinary Shares	Retained earnings	Total equity	Total equity
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	USD
At 1 January 2012	-	-	-	-	-
Issue of Ordinary Shares	1,000	865,059	-	866,059	328,053
Comprehensive income:					
Profit for the year	-	-	212,709	212,709	85,631
Currency Translation	-	-	-	-	(6,891)
At 31 December 2012	**1,000**	**865,059**	**212,709**	**1,078,768**	**406,793**

The notes are an integral part of these financial statements.

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012	2012
		Ushs '000	USD
Cash generated from operations	**16**	**364,154**	**146,175**
Income taxes paid		-	-
Cash flows from operating activities		**364,154**	**146,175**
INVESTING ACTIVITIES			
Acquisition of fixed assets		(65,197)	(24,696)
Cash outflows from investing activities		**(65,197)**	**(24,696)**
FINANCING ACTIVITIES			
Share capital		-	-
Cash outflows from financing activities		**-**	**-**
Net increase in cash and cash equivalents		298,957	121,479
Cash & cash equivalents at 1 January		-	-
Currency translation			(8,238)
Cash & cash equivalents at 31 December	**8**	**298,957**	**113,241**

The notes are an integral part of these financial statements.

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2012

1. THE REPORTING ENTITY

BRAC Social Business Enterprises Uganda Limited got incorporated as a limited liability company on 9th April, 2010, as an independent company. Its 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 Social Enterprise uses sustainable social businesses 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 people at the poorer end of the poverty spectrum.

The company officially started its journey on 04th April 2011 after receiving license from Ministry of Agriculture, Animal industry and Fishery of Uganda to pack and sell seeds of Agricultural and Horticultural crops.

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

2. BASIS OF PREPARATION

(a) Statement of Compliance

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.

(b) Basis of measurement

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

The financial statements are prepared under the historical cost convention, as modified by the carrying amounts of available for sale investments at fair value and impaired assets at recoverable amounts.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of judgements, 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. Although the estimates and associated assumptions are based on the directors' best knowledge of current events actions and historical experiences, actual results ultimately may differ from those estimates.

Management identifies all significant accounting policies and those that involve high judgement as documented in note 18.

(c) 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 2,640 for balance sheet items and US $ = Ushs 2,484 for income statements balances. These figures are for memorandum purposes only and do not form part of the audited financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax (VAT), rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

Sales of goods are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured;

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

Sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a percentage of the total services to be provided; and

Interest income is recognised on a time proportion basis using the effective interest method.

(b) Translation of foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency'). The financial statements are expressed in thousands of Uganda Shillings, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out principle, and includes transport and handling costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

(d) Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(e) Property and equipment

All property and equipment are initially recorded at cost. The cost of an item of property and equipment is recognised as an asset when:

- It is probable that future economic benefits associated with the item will flow to the company; and
- The cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property and equipment, the carrying amount of the replaced part is derecognized.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property and equipment. Property and equipment are subsequently shown at market value, based on valuations by external independent valuers, less subsequent accumulated depreciation and impairment losses.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increase of the same asset are charged against the revaluation reserve. All other decreases are charged to the profit and loss account.

Depreciation is provided to write down the property and equipment, on a straight line basis, over their useful life, to their residual values, as follows:

Buildings	2%
Furniture and fixtures	10%
Equipment	15%

The residual value and the useful life of each asset are reviewed at each financial period-end.
Land is not depreciated.
Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

The gain or loss arising from the disposal of an item of property and equipment is included in profit or loss when the item is derecognized. The gain or loss arising from the derecognition of an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property and equipment are carried at cost less accumulated depreciation and any impairment losses.

(f) Impairment of assets

The carrying amounts of the company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised immediately in the profit and loss account.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

(h) Taxation

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

Tax expenses

Provision is made for current income tax on the net taxable profit for the year at the applicable rates of tax taking into account income and expenditure which is not subject to tax.

(i) Financial Instruments

Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

Amounts owing by/ (to) related parties

These include amounts owing by/ (to) holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these amounts are measured at amortized cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On amounts receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had the impairment not been recognised.

(j) Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on net basis, or to realise the asset and settle the liability simultaneously.

(k) Provisions

A provision is recognised on the statement of financial position when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specifics to the liability.

(l) Share capital

Ordinal shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(m) (i) New and amended standards adopted

The amendments to existing standards below are relevant to the Company's operations

Standard	Title
IAS 1	Presentation of financial statements
IAS 24	Related party disclosures
IFRS 7	Financial instruments: Disclosures

- The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and 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.

- 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 some entities will be required to make additional disclosures, e.g., an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. Related party disclosures have not increased significantly following adoption of this amendment.
- The amendments to IFRS 7, 'Financial Instruments - Disclosures' are part of the 2010 Annual Improvements and emphasises

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment has 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 assets 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.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Company. However, the directors are yet to assess the impact on the Company's operations.

Standard	Title	Applicable for financial years beginning on/after
IAS 19	Employee benefits	1 January 2013
IFRS 9	Financial instruments	1 January 2013
IFRS 13	Fair value measurement	1 January 2013

- **IAS 19, Employee benefits**
  The impact on the Company will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur, to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/ (asset). The Company has yet to assess the full impact of the amendments.

- **IFRS 9, 'Financial instruments'**
  IFRS 9 was issued in November 2009 and October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial instruments.
  IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is 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.

  For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

- **IFRS 13, 'Fair value measurement'**
  IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Company is yet to assess IFRS 13's full impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED
Notes to the financial statements for the year ended 31 December 2012 (Continued)

4. REVENUE

	2012	2012
	Ushs '000	**USD**
Sale of Seeds	510,853	205,657
Training Income	405,976	163,436
	916,829	**369,093**

5. COST OF SALES

	2012	2012
	Ushs '000	**USD**
Seed Purchase	231,016	93,002
Labour	49,423	19,897
Transportation of seeds	1,530	616
Fertilizer costs – Chemicals	21,483	8,649
Fuel cost	10,089	4,062
Closing stock	(36,224)	(14,585)
	277,317	**111,641**

6. STAFF COSTS

	2012	2012
	Ushs '000	**USD**
Salaries	76,111	30,640
Bonus	1,825	735
Employer's Contribution	8,656	3,485
Accumulated NSSF arrears	29,738	11,972
Other staff costs	46,904	18,882
	163,234	**65,714**

7. OTHER OPERATING EXPENSES

	2012	2012
	Ushs '000	**USD**
Legal fees and other services	7,805	3,142
Provision for audit fees	15,576	6,271
Maintenance and general expenses	37,927	15,269
Other general expenses	21,650	8,716
Head Office logistic expenses	26,130	10,518
Travel and transportation	20,440	8,229
	129,528	**52,145**

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

8. CASH AND BANK

	2012 Ushs '000	2012 USD
Standard Chartered Bank Uganda Limited	295,243	111,834
Cash on hand	3,714	1,407
	298,957	**113,241**

9. INVENTORY

	2012 Ushs '000	2012 USD
Maize Seeds	33,928	12,852
Rice Seeds	2,296	870
	36,224	**13,722**

10 EQUIPMENT

	Building Ushs '000	Furniture Ushs '000	Equipment Ushs '000	Total Ushs '000	Total USD
COST					
Balance at 1 January 2012	-	-	-	-	-
Additions	863,158	6,185	19,707	889,050	336,761
Disposals	-	-	-	-	-
At 31 December 2012	**863,158**	**6,185**	**19,707**	**889,050**	**336,761**
DEPRECIATION					
Balance at 1 January 2012	-	-	-	-	-
Charge for the year	17,263	619	2,956	20,838	8,389
Currency translation					(496)
At 31 December 2012	**17,263**	**619**	**2,956**	**20,838**	**7,893**
NET BOOK VALUE					
At 31 December 2012	**845,895**	**5,566**	**16,751**	**868,212**	**328,868**

11. FINANCE LEASE ON LEASEHOLD LAND

	2012 Ushs '000	2012 USD
Cost/Valuation		
At 1 January	-	-
Cost	42,206	15,987
At 31 December	**42,206**	**15,987**

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

Amortization		
At 1 January	-	-
Charge for the year	1,705	687
At 31 December	**1,705**	**687**
Net Book Value as At 31 December	**40,501**	**15,300**

The finance lease relates to costs incurred for the acquisition of land located on Block 382, Plot 19 at Kiziba, Bulemezi. It is amortised on a straight line basis over the period of the lease. The lease agreement became effective on 18 December 2008 for 99 years and as at 31 December 2012, the remaining lease period is 95 years.

At inception of the lease, the obligation associated with the acquisition was all paid upfront as required by the local laws. Therefore, all the would be minimum lease payments were paid at once at the beginning of the lease. It's a requirement that for such a lease for the lessee to settle all the obligations upfront for the lease agreement to be effective.

12. RELATED PARTY TRANSACTIONS

The company has entered into transactions with related parties as follows:

(a) Amount due to related parties	**2012**	**2012**
	Ushs '000	**USD**
Stichting BRAC International	26,130	9,898
	26,130	**9,898**

Related party payables relate to amounts owing to Stichting BRAC International for the settlements of operating expenditures on behalf of BRAC Uganda

(b) Sale of services	**2012**	**2012**
	Ushs '000	**USD**
Training income	405,976	163,436
	405,976	**163,436**

13. OTHER LIABILITIES

	2012	**2012**
	Ushs '000	**USD**
Bonus provision	713	270
Provision for NSSF	1,150	436
Provision for audit fees	21,806	8,260
Salary provision	2,182	826
Provision for PAYE	2,145	813
	27,996	**10,605**

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

14. TAXATION

(a) Income tax expense

The company's tax affairs are subjected to agreement with the tax authorities. Details of the tax computation are set out below:

	2012 Ushs '000	2012 USD
Corporation tax	35,744	14,390
Deferred tax (Note 14 (b))	75,256	30,296
Income tax expense	**111,000**	**44,686**

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 on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2012 Ushs '000	2012 USD
Accounting profit	323,709	130,317
Tax at applicable rate 30%	97,113	39,095
Tax effect of:		
Non-deductible expenses & non taxable income	13,887	5,591
	111,000	**44,686**

(b) DEFERRED TAXATION

The recognised deferred tax liability as at 31 December 2012 is attributable to the movement in temporary differences between calculations of certain items for accounting and for taxation purposes as detailed below:-

	2012 Ushs '000	2012 USD
Property and Equipment	251,566	95,290
Provisions	(713)	(270)
	250,853	**95,020**
Deferred tax liability at (30%)	75,256	28,506
Currency translation	-	1,790
At 31 December	**75,256**	**30,296**

(c) TAX PAYABLE	2012 Ushs '000	2012 USD
At 1 January	-	-
Charge for the year	35,744	13,539
Paid during the year	-	-
At 31 December	**35,744**	**13,539**

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

15. SHARE CAPITAL AND FUNDS DESIGNATED FOR ISSUE OF ORDINARY SHARES

	2012	2012
	Ushs '000	**USD**
Share Capital	1,000	379
Funds Designated for issue of Ordinary Shares	865,059	327,674
	866,059	**328,053**

15 a. Share Capital

100 Ordinary shares of UGX 10,000 each, issued and fully paid as detailed below;

Name	**No. Of Shares**	**Ushs**
BRAC Industries	99	990,000
Tanwir Rahman	1	10,000
Total		**1,000,000**

15b. Funds Designated for issue of Ordinary Shares

	2012	2012
	Ushs '000	**USD**
Funds Designated for issue of ordinary shares	865,059	327,674
	865,059	**327,674**

Funds Designated for issue of ordinary shares relates to total money spent by BRAC on land and building for BRAC Social Business Enterprises Uganda Limited amounting to Ushs 866,058,991. As at 31 December 2012, no resolution had been made for issue of additional shares.

16. Cash flow from operating activities

	2012	2012
	Ushs '000	**USD**
Profit before tax	**323,709**	**130,317**
Depreciation	20,838	8,389
Amortisation	1,705	687
Cash flow before changes in working capital	**346,252**	**139,393**
Changes in working capital		
(Increase)/decrease in inventory	(36,224)	(13,721)
Increase/(decrease) in related party payables	26,130	9,898
Increase of other payables	27,996	10,605
Net cash from operations	**364,154**	**146,175**

17. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

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

i) credit risk

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

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.

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. The Credit policy of BRAC Social Business Enterprises Uganda 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. Key areas where the company is exposed to credit risk are:

• Trade and other receivable balances, and

• Investments in 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.

The Board of Directors has delegated responsibility for the oversight of credit risk to the Country Representative and the Monitoring department.

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

	2012	2012
	Ushs '000	**USD**
Cash and Bank	298,957	113,241
	298,957	**113,241**

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.

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

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.

Interest rate risk

There is no significant exposure to interest rate risk as there is no material overdraft or interest bearing borrowings.

Foreign exchange risk

BRAC Social Business Enterprises Uganda Limited foreign exchange risks comprise of 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 Social Business Enterprises Uganda 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.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The liquidity profile of the company is as follows:

31 December 2012	Less than 6 months	6 to 12 months	More than 12 months	Total
Assets	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**
Cash and cash equivalents	298,957	-	-	298,957
Inventories	36,224		-	36,224
Total assets	**335,181**	**-**	**-**	**335,181**
Liabilities				
Other liabilities	27,996	-	-	27,996
Tax payable	35,744	-	-	35,744
Amount due to related parties	26,130	-	-	26,130
Total liabilities	**89,870**	**-**	**-**	**89,870**
Liquidity gap	**245,311**	**-**	**-**	**245,311**

b) 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

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

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.

18. USE OF ESTIMATES AND JUDGEMENTS

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 assets and makes judgements 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.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

19. CONTINGENT LIABILTIES

There were no significant contingent liabilities as at the close of the year.

20. SEGMENTAL REPORTING

Statement of comprehensive income for the year ended 31 December 2012 (Amount in Uganda Shillings)

	Agriculture	Training	Total
	Shs '000	**Shs '000**	**Shs '000**
Revenue	510,853	405,976	916,829
Cost of Sales	(277,317)	-	(277,317)
Gross Profit	**233,536**	**405,976**	**639,512**
Staff costs & other benefits	(143,734)	(19,501)	(163,235)
Training, Workshops & Seminars	(498)	-	(498)
Other operating expenses	(57,680)	(71,847)	(129,527)
Depreciation	(20,838)	-	(20,838)
Amortisation	(1,705)	-	(1,705)
Profit before tax	**9,081**	**314,628**	**323,709**
Income tax expense	(3,679)	(107,321)	(111,000)
Net profit for the year	**5,402**	**207,307**	**212,709**

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

Statement of financial position as at 31 December 2012 (Amount in Uganda Shillings)

	Agriculture	Training	Total
	Shs '000	Shs '000	Shs '000
ASSETS			
Cash and Bank	(12,137)	311,094	298,957
Inventory	36,224	-	36,224
Property and equipment	860,845	7,367	868,212
Finance lease on leasehold land	40,501	-	40,501
Total assets	**925,433**	**318,461**	**1,243,894**
LIABILITIES AND CAPITAL FUND			
Liabilities			
Related party payables	17,682	8,448	26,130
Other liabilities	19,548	8,448	27,996
Tax payable	1,185	34,559	35,744
Deferred tax Liability	2,494	72,762	75,256
Total liabilities	**40,909**	**124,217**	**165,126**
Equity			
Share Capital	1,000	-	1,000
Funds Designated for issue Share Capital	865,059	-	865,059
Retained earnings	5,402	207,307	212,709
Total Equity	**871,461**	**207,307**	**1,078,768**
Total liabilities and Equity	**912,370**	**331,524**	**1,243,894**

Statement of comprehensive income for the year ended 31 December 2012 (Amount in United States Dollars)

	Agriculture	Training	Total
	US$	US$	US$
Revenue	205,657	163,436	369,093
Cost of Sales	(111,641)	-	(111,641)
Gross Profit	**94,016**	**163,436**	**257,452**
Staff costs	(57,864)	(7,850)	(65,714)
Training, Workshops & Seminars	(200)	-	(200)
Other operating expenses	(23,221)	(28,924)	(52,145)
Depreciation	(8,389)	-	(8,389)
Amortisation	(687)	-	(687)
Profit before tax	**3,655**	**126,662**	**130,317**
Income tax expense	(1,481)	(43,205)	(44,686)
Net profit for the year	**2,174**	**83,457**	**85,631**

BRAC SOCIAL BUSINESS ENTERPRISES UGANDA LIMITED

Notes to the financial statements for the year ended 31 December 2012 (Continued)

Statement of financial position as at 31 December 2012 (Amount in United States Dollars)

	Agriculture	Training	Total
	US$	US$	US$
ASSETS			
Cash and Bank	(4,598)	117,839	113,241
Inventory	13,722	-	13,722
Property and equipment	326,078	2,790	328,868
Finance lease on leasehold land	15,300	-	15,300
Total assets	**350,502**	**120,629**	**471,131**
LIABILITIES AND CAPITAL FUND			
Liabilities			
Related party payables	6,697	3,200	9,898
Other liabilities	7,405	3,200	10,605
Tax payable	449	13,091	13,539
Deferred tax Liability	945	29,351	30,296
Total liabilities	**15,496**	**48,842**	**64,338**
Equity			
Share Capital	379	-	379
Funds Designated for issue Share Capital	327,674	-	327,674
Retained earnings	2,174	83,457	85,631
Currency Translation	(4,074)	(2,817)	(6,891)
Total Equity	**326,153**	**80,640**	**406,793**
Total liabilities and Equity	**341,649**	**129,482**	**471,131**

Notes

Notes

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