

**NATIONAL SOCIAL SECURITY FUND**  
**REPORT AND FINANCIAL STATEMENTS**  
**AT 30 JUNE 2007**

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

**NATIONAL SOCIAL SECURITY FUND**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

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## **NATIONAL SOCIAL SECURITY FUND**

### **DIRECTORS, OFFICERS & ADMINISTRATION**

#### **DIRECTORS**

|                            |   |  |
|----------------------------|---|--|
| Mr Edward Gaamuwa          | - | Chairman   |
| Mrs Joyce Acigwa           | - | Member   |
| Mr Stephen Bandutsya       | - | Member   |
| Dr Ijuka Kabumba           | - | Member   |
| Mr Cornelius Henry Mukiibi | - | Member   |
| Mr Claudius M Olweny       | - | Member   |
| Mr Andrew Otengo Owiny     | - | Member   |
| Mr Martin Kasekende        | - | Member (Appointed on 20/2/2008)                  |
| Mr Martin Bandebire        | - | Secretary  |
| Mr David Chandi Jamwa      | - | Managing Director (Appointed on 2/2/2007)        |
| Mr George Mondo Kagonyera  | - | Deputy Managing Director (Appointed on 2/2/2007) |

#### **LAWYERS**

M/S JB Byamugisha Advocates  
Plot No. 4 Nile Avenue  
P O Box 9400  
Kampala

#### **REGISTERED OFFICE**

Workers House  
Plot No. 1, Pilkington Road  
P O Box 7140  
Kampala

#### **AUDITORS**

The Auditor General  
Office of the Auditor General  
Finance building, Apollo Kagwa Road  
P.O Box 7083  
Kampala- Uganda

#### **DELEGATED AUDITORS**

KPMG  
Certified Public Accountants  
3 rd Floor Rwenzori Courts Building  
Plot 2 & 4A Nakasero Road  
P O Box 3509  
Kampala  
Uganda

**NATIONAL SOCIAL SECURITY FUND**  
**DIRECTORS, OFFICERS & ADMINISTRATION**

**BANKERS**

Standard Chartered Bank Uganda  
Speke Road  
P O Box 7111  
Kampala  
Uganda

Citibank Uganda Limited  
Centre Court, Plot 4 Ternan Avenue Nakasero  
P.O. Box 7505  
Kampala  
Uganda

Stanbic Bank Uganda Limited  
17 Hannington Road  
P O Box 7131  
Kampala  
Uganda

Bank of Baroda Uganda Limited  
18 Kampala Road  
P O Box 7197  
Kampala  
Uganda

Housing Finance Bank Uganda Limited  
25 Kampala Road  
P.O Box 1539  
Kampala  
Uganda

**NATIONAL SOCIAL SECURITY FUND**

**REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2007**

The Directors submit their report together with the audited financial statements for the year ended 30 June 2007 which disclose the state of affairs of the National Social Security Fund, in accordance with section 32 of NSSF Act, (CAP 222)

**Principal activities**

The principal activity of the Fund is to ensure members' contributions are collected and invested in a professional manner to earn a good return to meet the benefit obligations to its members. The fund is financed by the employees' and employers' contributions. The total contribution is 15% of the employees' gross salary, of which 10% is paid by the employer and 5% is paid by the employee.

**Results from operations**

The results for the fund for the year ended 30 June 2007 are set out on page 6.

**Interest payments to members**

Interest is calculated based on the opening balances of the members' fund less benefits paid during the year. The rate used during the current year was **7%** (2006: 7%).

**Directors**

The directors who held office at the date of this report are set out on page 1.

**Auditors**

In accordance with Section 32 of the National Social Security Fund Act (Cap 222) Laws of Uganda, the financial statements shall be audited once every year by the Auditor General or an auditor appointed by him to act on his behalf. For the year ended 30 June 2007, Messrs KPMG Certified Public Accountants were appointed to act on behalf of the Auditor General.

KPMG Certified Public Accountants have expressed willingness to continue in office.

**Approval of the financial statements**

The financial statements were approved at the meeting of the directors held on.....2009

**BY ORDER OF THE BOARD**

Corporation Secretary

**Date:** .....

**NATIONAL SOCIAL SECURITY FUND**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Funds' directors are responsible for the preparation and fair presentation of the financial statements, comprising the balance sheet at 30 June 2007, the income statement, the statement of movement in reserves, member's fund liability statement and cash flow statement 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 the National Social Security Fund Act (Cap 222).

The Directors' responsibility includes: designing, implementing and maintaining internal control 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 Fund.

The Directors accept responsibility for the financial statements set out on pages 6 to 45, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the National Social Security Funs Act (Cap 222). 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 surplus for the year ended 30 June 2007. 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 Fund's ability to continue as a going concern and have no reason to believe the Fund will not be a going concern for the next twelve months from the date of this statement.

**Approval of the financial statements**

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

**Chairman** : .....

**Managing Director/  
Chief Executive Officer** : .....

Date: \_\_\_\_\_ 2009

## **REPORT OF THE INDEPENDENT AUDITORS TO THE AUDITOR GENERAL**

Under the terms of section 32 of the National Social Security Fund (NSSF) Act (CAP 222), the Auditor General is required to audit the financial statements of the Fund. In accordance with the provisions of the same section, the Auditor General appointed M/s KPMG Certified Public Accountants to audit the financial statements on his behalf and report to him to enable him report to parliament in accordance to Article 163 (4) of the constitution of the Republic of Uganda.

We have audited the financial statements of National Social Security Fund which comprise the balance sheet at 30 June 2007, the income statement, the statement of movement in reserves, members fund liability statement and cash flow statement 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 45.

### **Directors' Responsibility for the Financial Statements**

As stated on page 3, the Funds directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the National Social Security Fund Act (CAP 222). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

### **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 qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1) Members Fund**

Included in the members' fund account as at 30 June 2007 is an amount of Ushs 360,592 million which has not been allocated to specific members. Management has been un-able to provide an analysis of this balance or confirm the completeness and accuracy of balances credited to individual members accounts. Accordingly, we were unable to obtain sufficient appropriate audit evidence that the members' fund account balance is not materially misstated.

**REPORT OF THE INDEPENDENT AUDITORS TO**  
**THE AUDITOR GENERAL - continued**

**2) Other payables**

A credit balance of Ushs 2,371 million is included in other payables as at 30 June 2007. Management was unable to provide an analysis of this amount and could also not explain the nature of the credit balance. Accordingly we were unable to obtain sufficient appropriate audit evidence that other payables are not materially misstated.

**Qualified Opinion**

In our opinion, except for the possible effects of matters described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of affairs of National Social Security Fund as at 30 June 2007 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the National Social Security Fund Act (CAP 222).

**KPMG**

Certified Public Accountants  
P O Box 3509  
Kampala  
Uganda

**Date: ..... 2009**

**NATIONAL SOCIAL SECURITY FUND**  
**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

|   | Note    | 2007<br>Shs '000         | 2006<br>Shs '000<br>Restated |
|---|---------|--------------------------|------------------------------|
| <b>Revenue</b>                                    |         |                          |                              |
| Interest income                                   | 5       | 67,476,438               | 52,839,355                   |
| Rental income                                     | 6       | 4,495,473                | 3,347,349                    |
| Dividend income                                   | 7       | 715,043                  | -                            |
| Other operating income                            | 8       | <u>1,546,348</u>         | <u>1,157,531</u>             |
| <b>Total income</b>                               |         | <b>74,233,302</b>        | <b>57,344,235</b>            |
| Fair value (losses)/gains from equity investments | 17      | (1,599,040)              | 5,377,396                    |
| Administrative expenses                           | 9       | (14,240,692)             | (13,770,385)                 |
| Other operating expenses                          | 10      | (5,334,217)              | (3,316,519)                  |
| Impairment losses on other receivables            | 16      | (2,371,925)              | (1,004,009)                  |
| Impairment losses on other investments            | 22      | (4,655,000)              | (3,554,950)                  |
| Impairment losses on capital work in progress     | 23      | (2,324,000)              | -                            |
| Depreciation                                      | 25      | (1,958,161)              | (2,204,830)                  |
| Provision for interest payable                    | 27      | <u>(5,345,255)</u>       | <u>-</u>                     |
|   |         | <b>36,405,012</b>        | <b>38,870,938</b>            |
| Share of results of associates                    | 21      | <u>5,124,965</u>         | <u>3,994,067</u>             |
| <b>Surplus from operations</b>                    |         | <b>41,529,977</b>        | <b>42,865,005</b>            |
| Revaluation surplus on investment properties      | 24      | 64,414,437               | 15,035,106                   |
| Interest transfer to members' fund                | Page 10 | <u>(44,833,365)</u>      | <u>(35,528,417)</u>          |
| <b>Surplus for the year before tax</b>            | 11      | <b>61,111,049</b>        | <b>22,371,694</b>            |
| Taxation  | 12      | <u>(4,079,288)</u>       | <u>-</u>                     |
| Net surplus for the year                          |         | <b><u>57,031,761</u></b> | <b><u>22,371,694</u></b>     |

The notes set out on pages 11 to 45 form an integral part of these financial statements

**NATIONAL SOCIAL SECURITY FUND**  
**BALANCE SHEET AS AT 30 JUNE 2007**

|   | Notes   | 2007<br>Shs '000          | 2006<br>Shs '000<br>Restated |
|---|---------|---------------------------|------------------------------|
| <b>Assets</b>   |         |                           |                              |
| Cash and cash equivalents                               | 13      | 10,996,476                | 14,271,581                   |
| Deposits with banks                                     | 14      | 206,416,921               | 102,289,400                  |
| Investment in securities held to maturity               | 15      | 422,303,529               | 365,193,055                  |
| Trade and other receivables                             | 16      | 7,084,694                 | 9,314,949                    |
| Equity investments at fair value through profit or loss | 17      | 22,825,267                | 17,424,308                   |
| Loans and advances at amortized cost                    | 18      | 12,994,643                | 16,392,330                   |
| Tax recoverable   | 19      | 7,633,228                 | 10,671,738                   |
| Inventories   | 20      | 66,071                    | 134,318                      |
| Investment in associate                                 | 21      | 25,166,804                | 21,932,902                   |
| Other investments                                       | 22      | 10,300                    | 4,665,300                    |
| Capital work in progress                                | 23      | -                         | 2,324,000                    |
| Investment properties                                   | 24      | 189,252,100               | 124,035,740                  |
| Property, and equipment                                 | 25      | 6,641,306                 | 7,866,718                    |
| <b>Total Assets</b>                                     |         | <b><u>911,391,339</u></b> | <b><u>696,516,339</u></b>    |
| <b>Liabilities</b>                                      |         |                           |                              |
| Sundry creditors  | 26      | 6,000,779                 | 9,986,390                    |
| Provisions for litigation                               | 27      | <u>19,545,382</u>         | <u>16,476,754</u>            |
|   |         | <b><u>25,546,161</u></b>  | <b><u>26,463,144</u></b>     |
| <b>Members' Fund and Reserves</b>                       |         |                           |                              |
| Accumulated Members' funds                              | Page 10 | 827,696,656               | 668,952,889                  |
| Reserve account   | Page 8  | 484,478                   | 468,023                      |
| Accumulated surplus                                     | Page 8  | <u>57,664,044</u>         | <u>632,283</u>               |
|   |         | <b><u>885,845,178</u></b> | <b><u>670,053,195</u></b>    |
| <b>Total members fund and liabilities</b>               |         | <b><u>911,391,339</u></b> | <b><u>696,516,339</u></b>    |

The financial statements on pages 6 to 45 were approved for issue by the Board of Directors on .....  
2009 and were signed on its behalf by:

**Chairman:** \_\_\_\_\_ **Director:** \_\_\_\_\_  
**Managing Director/CEO:** \_\_\_\_\_ **Corporation Secretary:** \_\_\_\_\_

The notes set out on pages 11 to 45 form an integral part of these financial statements.

**NATIONAL SOCIAL SECURITY FUND**  
**STATEMENT OF MOVEMENT IN RESERVES**  
**FOR THE YEAR ENDED 30 JUNE 2007**

|                                   | Note   | Reserve<br>Account<br>Shs '000 | Accumulated<br>surplus/(deficit)<br>Shs '000 | Total<br>Shs '000        |
|-----------------------------------|--------|--------------------------------|--|--------------------------|
| <b>At 1 July 2005</b>             |        | <b>443,568</b>                 | <b>(24,859,051)</b>                          | <b>(24,415,483)</b>      |
| Prior year adjustments            | 28     | -                              | <u>3,119,640</u>                             | <u>3,119,640</u>         |
| <b>At 1 July 2005 as restated</b> |        | <b>443,568</b>                 | <b>(21,739,411)</b>                          | <b>(21,295,843)</b>      |
| Net surplus for the year          |        | -                              | 22,371,694                                   | 22,371,694               |
| Fines and penalties received      |        | <u>24,455</u>                  | -  | <u>24,455</u>            |
| <b>At 30 June 2006</b>            |        | <b><u>468,023</u></b>          | <b><u>632,283</u></b>                        | <b><u>1,100,306</u></b>  |
| Net surplus for the year          | Page 6 | -                              | 57,031,761                                   | 57,031,761               |
| Fines and penalties received      |        | <u>16,455</u>                  | -  | <u>16,455</u>            |
| <b>At 30 June 2007</b>            |        | <b><u>484,478</u></b>          | <b><u>57,664,044</u></b>                     | <b><u>58,148,522</u></b> |

In accordance with section 14 (I) of The National Social Security Fund Act, (CAP 222), fines and penalties recovered from employers that fail to remit members funds as stipulated in the Act are credited to a reserve account.

During the year, management recovered Ushs 16 million (2006: Ushs 24 million ) and credited it to the reserve account.

The notes set out on pages 11 to 45 form an integral part of these financial statements.

**NATIONAL SOCIAL SECURITY FUND**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

|   | Note      | 2007<br>Shs'000            | Restated<br>2006<br>Shs'000 |
|---|-----------|----------------------------|-----------------------------|
| <b>Cash outflow from operating activities</b>           | <b>29</b> | <b>(61,150,786)</b>        | <b>(12,658,975)</b>         |
| <b>Cash flows from investing activities</b>             |           |                            |                             |
| Purchase of property, and equipment                     |           | (884,887)                  | (1,607,338)                 |
| Additions to investment property                        |           | (827,114)                  | (6,216,505)                 |
| Purchase of equity investments                          |           | (7,000,000)                | -                           |
| Proceeds from disposal of property and equipment        |           | 143,303                    | 123,449                     |
| Dividends from associates                               |           | 53,920                     | 79,294                      |
| Increase in investment securities held to maturity      |           | (30,282,680)               | (113,553,458)               |
| Proceeds from loans at amortized cost                   |           | <u>3,397,687</u>           | <u>417,750</u>              |
| <b>Net cash used in investing activities</b>            |           | <b><u>(35,399,771)</u></b> | <b><u>(120,756,808)</u></b> |
| <b>Cash flows from financing activities</b>             |           |                            |                             |
| Interest transferred to member's fund                   |           | 44,833,365                 | 35,528,417                  |
| Benefits paid out to members                            |           | (28,476,244)               | (20,832,323)                |
| Contributions received from members                     |           | 142,386,646                | 126,384,026                 |
| Fine and penalties received                             |           | <u>16,455</u>              | <u>24,455</u>               |
| <b>Net cash flows from financing activities</b>         |           | <b><u>158,760,222</u></b>  | <b><u>141,104,575</u></b>   |
| Increase in cash and cash equivalents                   |           | 62,209,665                 | 7,688,792                   |
| Cash and cash equivalents at the beginning of the year  | 34        | <u>14,271,581</u>          | <u>6,582,789</u>            |
| <b>Cash and cash equivalents at the end of the year</b> | <b>34</b> | <b><u>76,481,246</u></b>   | <b><u>14,271,581</u></b>    |

The notes set out on pages 11 to 45 form an integral part of these financial statements.

**NATIONAL SOCIAL SECURITY FUND**  
**MEMBER FUND LIABILITY STATEMENT AS AT 30 JUNE 2007**

|   | <b>2007</b>                | <b>2006</b>                |
|---|----------------------------|----------------------------|
|   | <b>Shs '000</b>            | <b>Shs '000</b>            |
| <b>At 1 July</b>                                      | <b>668,952,889</b>         | <b>527,872,769</b>         |
| Contributions received during the year                | 142,386,646                | 125,875,652                |
| 7% interest ****                                      | <u>44,833,365</u>          | <u>35,528,417</u>          |
| <b>Members fund liability before benefit payments</b> | <b>856,172,900</b>         | <b>689,276,838</b>         |
| <b>Benefits paid during the year</b>                  |                            |                            |
| Age benefits  | (9,115,820)                | (5,313,210)                |
| Withdrawal benefits                                   | (6,889,722)                | (6,446,491)                |
| Exempted employee benefits                            | (3,454,462)                | (3,031,188)                |
| Invalidity benefits                                   | (2,296,572)                | (1,814,942)                |
| Survivors benefits                                    | (3,650,710)                | (1,674,222)                |
| Immigration grant benefits                            | <u>(3,068,958)</u>         | <u>(2,043,896)</u>         |
| <b>Total benefit payments</b>                         | <b><u>(28,476,244)</u></b> | <b><u>(20,323,949)</u></b> |
| <b>At 30 June</b>                                     | <b><u>827,696,656</u></b>  | <b><u>668,952,889</u></b>  |

\*\*\*\* This represents interest payment to members as declared by the Minister in accordance with section 35 (2) of the National Social Security Fund Act, (CAP 222).

During the year, management calculated interest at a rate of 7% (2006:7%) and added to the member's fund.

The notes set out on pages 11 to 45 form an integral part of these financial statements.

# **NATIONAL SOCIAL SECURITY FUND**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

### **1. REPORTING ENTITY**

National Social Security Fund (the “Fund”) is a corporation body domiciled in Uganda. The Fund is primarily involved in collection of contributions and investment of the contributions in a professional manner to earn a good return to meet the benefit obligations to its members as stipulated under the National Social Security Fund (NSSF) Act, (Cap 222).

### **2. BASIS OF PREPARATION**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards.

#### **(a) Basis of preparation**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property and equipment, and the carrying amounts of available for sale investments, financial instruments at fair value through profit or loss and investment property at fair value and impaired assets at their recoverable amounts.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make 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. 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.

Management identifies all significant accounting policies and those that involve high judgement as documented in note 32.

The method used to measure the fair values are discussed further in note 4

#### **(b) Functional and presentation currency**

These financial statements are presented in Uganda shillings (Ushs), which is the Fund’s functional currency, except as indicated all the financial information has been rounded off to the nearest a thousand.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been applied consistently to all period presented in the financial statements. Certain comparative amounts have been reclassified to conform with the current year's presentation

**(a) Investment in Associates**

Associates are those entities in which the Fund has significant influence but not control over the financial and operating policies. Significant influence is presumed to exist when the Fund holds 20 to 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the fund has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associate and jointly controlled entities are accounted using the equity method (equity accounted investee) and are initially recognized at cost. The Fund's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The financial statements include the share of the income, expenses and equity movements of the equity accounted investee, after adjustments to align the accounting policies with those of the Fund, from the date that significant influence or joint control commences to the date that significant influence or joint control ceases.

**(b) Foreign currency**

Transactions in foreign currencies during the year are converted into Uganda Shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Uganda shillings at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to Uganda shillings at the date when the fair value was determined. Foreign currency gains and losses arising from translation are recognised in the profit or loss except for differences arising on the retranslation of available for sale equity instruments.

**(c) Revenue recognition**

Income is recognized on an accrual basis

*(i) Interest income*

Interest income is recognised on an accrual basis taking into account the effective interest rate of the interest earning asset. Interest income include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount of maturity calculated on an effective interest rate basis.

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

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

*(ii) Dividends*

Dividend income is recognised when the right to receive dividends is established.

*(iii) Rental income*

Rental income from investment properties is recognized in profit or loss on the straight line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

(iv) *Other income*

Other income comprises gains less losses related to trading assets and liabilities, and include, gains from disposal of Fund assets, and all realised and un-realised foreign exchange differences

**(d) Financial instruments**

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another. Financial instruments held by the Fund include balances with banks, Loans and advances, investments in government securities, trade and other receivables, equity investments and debt securities.

Management determines the appropriate classification of the financial instrument at the time of purchase and evaluates its portfolio on a regular basis to ensure that all financial instruments are appropriately classified.

(i) *Recognition*

The Fund recognises financial assets held for trading and available for sale assets on the date it commits to purchase the assets. From this date, any gains and losses arising from changes in fair value of the assets are recognised.

Trading assets are those assets that the Fund acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

Held-to-maturity investments, Loans and advances are recognised on the date they are transferred to the Fund.

(ii) *Measurement*

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Fund uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

All non-trading financial liabilities, Loans and advances and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

Amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Gains and losses arising from a change in the fair value of available-for-sale assets and trading instruments are recognised in the equity reserve and income statement respectively.

*(iii) Derecognition*

A financial asset is derecognized when the Fund loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognised as of the date the Fund commits to sell the asset. The Fund uses the specific identification method to determine the gain or loss on derecognition. All gains and losses previously recognized directly in equity are recognized in profit and loss account.

Held to maturity instruments, loans and receivables are derecognized on the date they are transferred by the Fund.

*(iv) Derivative instruments*

Financial future contracts, forward rate agreements and interest rate swap agreements are stated at fair value. Fair values are obtained from quoted market prices and dealer price quotations. Gains and losses on fair value measurement are recognized in the income statement

**(e) Investment securities**

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

**Held-to-maturity**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Fund has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale.

**Fair value through profit or loss**

The Fund carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (d).

**Available-for-sale**

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**(f) 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) Reclassification to investment property*

Property that is being constructed for future use as investment property is accounted for as property and equipment until construction or development is complete at which time it is re-measured at fair value and reclassified as investment property. Any gains and losses arising on re-measurement is recognized in profit or loss.

When the use of property changes from owner occupied to investment property, the property is re-measured at fair value and reclassified as investment property. Any gain arising on revaluation is recognized directly in equity. Any loss is recognized directly in profit or loss.

*(iii) Subsequent costs*

The cost of replacing part of an item of property and equipment is recognized in the carrying value of the item if it is probable that the future economic benefits embodied with in the part will flow to the Fund and its cost can be measured reliably. The carrying value of the replace part is de-recognized. The cost of day to day servicing of the property and equipment is recognized in profit or loss as incurred.

*(iv) 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. Land is not depreciated

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

|                         |                        |
|-------------------------|------------------------|
| Buildings               | 20 years               |
| Plant and equipment     | 4 years                |
| Motor vehicles          | 2 <sup>1/2</sup> years |
| Furniture and equipment | 4 years                |
| Computer equipment      | 4 years                |

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.

**(g) Investment properties**

Investment properties is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administration purposes. Investment property is measured at fair value (see note 4) with any change there in recognized in profit or loss.

When the use of property changes such that it is reclassified either to property and equipment or inventories, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**(h) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on first in first out principle and includes the expenditure incurred in acquiring the inventory, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

**(i) Impairment**

*(i) Financial assets*

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

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

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

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

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

*(ii) Non financial assets*

The carrying amounts of the Fund's non financial assets other than investment properties, and 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

**(j) Employee benefits**

*(i) Short-term benefits*

Short term employee benefit obligations are measured on an un-discounted basis and are expensed as the related service is performed

A liability is recognized for an amount expected to be paid under short term bonus or profit sharing plans, if the Fund has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation by the employee and the obligations can be estimated reliably.

*(ii) Defined contribution plan*

The majority of the Fund's employees are eligible for retirement benefits under a defined contribution plan and the Fund also contributes to the National Social Security Fund (NSSF). Contributions to the plan and NSSF are charged to the profit or loss when incurred.

**(k) Provisions**

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

**(l) Income tax**

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is provided on profit for the year adjusted in accordance with the tax legislation.

Deferred tax is provided using the balance sheet liability method, on all for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of the tax currently enacted.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which such deferred tax asset can be utilized.

**(m) 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 and balances with banks, treasury bills and other eligible bills.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**(n) Capital work in progress**

The ongoing construction/installation capital projects are recorded at the cost to date or valuation and are only transferred into the relevant assets categories once completed and commissioned. No depreciation is computed on capital work in progress, however an expected loss on capital work in progress is recognized immediately in profit or loss.

**(o) Other receivables**

Other receivables 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.

**(p) Other accounts payable**

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

**(q) Members fund liability**

*(i) Contributions from members*

Contributions from employees remitted by the employers are recognized on a cash basis. Contributions due but not yet received at the end of the financial year are not accrued but accounted for and recognized in subsequent years when received.

*(ii) Benefit payments to members*

Benefits to members are accounted for on a cash basis. Benefit payments made but not collected by members are written back in the cash book and no liability thereof recognized in the financial statements.

*(iii) Interest payments to members*

Interest payable on member's accumulated contributions is calculated based on the opening accumulated contributions (standard contribution plus interest) less benefits paid during the year. The rate used to compute interest accrued to members in the current financial year is 7% (2006 7%) as approved by the Minister of Finance, Planning and Economic Development in accordance with Section 35 (1) and (2) of the National Social Security Fund Act.

**(r) Reserves**

The reserves relate to amounts recovered in form of fines, and penalties from employers that fail to remit members funds as stipulated in the National Social Security Fund Act.

**(s) New standards and interpretation not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2007, and have not been applied in preparing these financial statements:

**IFRIC 11 (IFRS 2) Group and Treasury Share Transactions**

This interpretation is required to be applied for annual periods beginning on or after 1 March 2007 but is not expected to have a significant impact on the activities of the Fund.

**IFRIC 12 Service Concession arrangements**

This interpretation is required to be applied for annual periods beginning on or after 1 January 2008 but is not expected to have a significant impact on the activities of the Fund.

**IFRS 8 Operating segments**

This interpretation is required to be applied for annual periods beginning on or after 1 January 2009 but is not expected to have a significant impact on the activities of the Fund.

**IAS 23 Revised Borrowing Costs**

This interpretation is required to be applied for annual periods beginning on or after 1 January 2009 but is not expected to have a significant impact on the activities of the Fund.

**IFRIC 13 Customer Loyalty Programmes**

This interpretation is required to be applied for annual periods beginning on or after 1 July 2008 but is not expected to have a significant impact on the activities of the Fund.

**IFRIC 14 (IAS 19) The limit on a Defined Benefits Asset, Minimum Funding Requirements and their Interaction**

This interpretation is required to be applied for annual periods beginning on or after 1 January 2008 but is not expected to have a significant impact on the activities of the Bank

**IAS 1 Preparation and presentation of financial statements (as revised 2007)**

This interpretation is required to be applied for annual periods beginning on or after 1 January 2009 but is not expected to have a significant impact on the activities of the Fund.

(t) **Comparatives**

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

**4. DETERMINATION OF FAIR VALUE**

A number of the Funds accounting policies and disclosures require the determination of fair value, for both financial/non-financial assets and fair values have been determined for measure and/ or disclosure purposes based on the following methods where applicable, further information about the assumptions made in determining the fair values is disclosed in the notes specific to that asset.

(i) *Investment properties*

An external independent valuation company having appropriate recognized professional qualification experience in the location categories of the properties being valued, values the Fund's investment properties every end of financial year and the fair values are based on the market being the estimated amount for which the property could be exchanged on the date of valuation between willing buyers and willing seller at arms length transaction after proper marketing for when the parties each acted knowledgeably, prudently and without compulsion.

In the absence of an active price in an active market, the values are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. The yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

(ii) *Investment in debt and equity securities*

The fair value of financial assets at fair value through profit and loss, held to maturity investments and available for sale is determined by reference to their quoted bid price at the reporting date. The fair value of held to maturity investments is determined for disclosure purpose only.

(iii) *Trade and other receivables*

The fair value of trade and others is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**5. INTEREST INCOME**

|   | <b>2007</b>              | <b>2006</b>              |
|---|--------------------------|--------------------------|
|   | <b>Shs '000</b>          | <b>Shs '000</b>          |
| Interest income on short term deposits with banks               | 16,055,927               | 10,499,836               |
| Interest income on government bonds - held to maturity          | 38,091,407               | 26,771,092               |
| Interest income on treasury bills - held to maturity            | 9,794,614                | 11,207,798               |
| Interest income on corporate bonds - held to maturity           | 1,889,713                | 1,990,200                |
| Interest income on un-impaired loans measured at amortized cost | <u>1,644,777</u>         | <u>2,370,429</u>         |
|   | <b><u>67,476,438</u></b> | <b><u>52,839,355</u></b> |

**6. RENTAL INCOME**

|               | <b>2007</b>      | <b>2006</b>      |
|---------------|------------------|------------------|
|               | <b>Shs '000</b>  | <b>Shs '000</b>  |
| Rental income | <u>4,495,473</u> | <u>3,347,349</u> |

This relates to rental income earned from investment properties owned by the Fund, and rented out to tenants for commercial purposes. The above rental income was mainly earned from the Social Security House and Workers house.

**7. DIVIDEND INCOME**

|                                 | <b>2007</b>           | <b>2006</b>     |
|---------------------------------|-----------------------|-----------------|
|                                 | <b>Shs '000</b>       | <b>Shs '000</b> |
| DFCU Limited                    | 578,531               | -               |
| Bank of Baroda (Uganda) Limited | <u>136,512</u>        | -               |
|                                 | <b><u>715,043</u></b> | <b><u>-</u></b> |

**8. OTHER OPERATING INCOME**

|  | <b>2007</b>             | <b>2006</b>             |
|--|-------------------------|-------------------------|
|  | <b>Shs '000</b>         | <b>Shs '000</b>         |
| Loss from disposal of property and equipment | (8,835)                 | (167,847)               |
| Miscellaneous income                         | 103,696                 | 14,794                  |
| Foreign exchange gain                        | <u>1,451,487</u>        | <u>1,310,584</u>        |
|  | <b><u>1,546,348</u></b> | <b><u>1,157,531</u></b> |

**9. ADMINISTRATIVE EXPENSES**

|                                     | <b>2007</b>              | <b>2006</b>              |
|-------------------------------------|--------------------------|--------------------------|
|                                     | <b>Shs '000</b>          | <b>Shs '000</b>          |
| Salaries and wages                  | 7,182,978                | 7,361,379                |
| Staff medical expenses              | 237,413                  | 222,397                  |
| General staff and training expenses | 1,907,058                | 2,307,242                |
| Other administrative expenses       | <u>4,913,243</u>         | <u>3,879,367</u>         |
|                                     | <b><u>14,240,692</u></b> | <b><u>13,770,385</u></b> |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

**10. OPERATING EXPENSES**

|                               | <b>2007</b>             | <b>2006</b>             |
|-------------------------------|-------------------------|-------------------------|
|                               | <b>Shs '000</b>         | <b>Shs '000</b>         |
| Rent and rates                | 563,091                 | 418,115                 |
| Electricity and water         | 726,888                 | 352,410                 |
| Repairs and maintenance       | 1,407,635               | 1,890,627               |
| Insurance                     | 467,292                 | 404,314                 |
| Security expenses             | 342,926                 | 192,377                 |
| Licences and subscriptions    | 23,403                  | 25,064                  |
| Research and library expenses | 59,591                  | 33,612                  |
| Under declared taxes,         | 385,450                 | -                       |
| Fines and penalties           | <u>1,357,941</u>        | <u>-</u>                |
|                               | <b><u>5,334,217</u></b> | <b><u>3,316,519</u></b> |

**11. OPERATING SURPLUS BEFORE TAXATION**

The following items have been charged in arriving at operating surplus before taxation:

|   | <b>2007</b>      | <b>2006</b>      |
|---|------------------|------------------|
|   | <b>Shs '000</b>  | <b>Shs '000</b>  |
| Depreciation on property and equipment (note13)     | 1,958,161        | 2,204,830        |
| Loss on disposal of property and equipment (note 8) | (8,835)          | (167,847)        |
| Auditors' remuneration                              | 84,000           | 85,000           |
| Directors' emoluments                               | 97,900           | 41,880           |
| Under declared taxes,                               | 385,450          | -                |
| Fines and penalties                                 | 1,357,941        | -                |
| Interest payable on Alcon International             | 5,345,255        | -                |
| Impairment loss on capital work in progress         | 2,324,000        | -                |
| Impairment loss on trade receivables                | 2,371,925        | 1,004,009        |
| Staff costs   | <u>9,327,449</u> | <u>9,891,018</u> |

**12. TAXATION**

**(a) Income tax**

|  | <b>2007</b>             | <b>2006</b>     |
|--|-------------------------|-----------------|
|  | <b>Shs '000</b>         | <b>Shs '000</b> |
| Current tax  | -                       | -               |
| Withholding tax on interest income from financial institutions | <u>4,079,288</u>        | <u>-</u>        |
|  | <b><u>4,079,288</u></b> | <b><u>-</u></b> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

The tax on the Funds surplus after interest to member's funds differs from the theoretical amount that would arise using the basic tax rate of 30% as follows

|  | <b>2007</b>             | <b>2006</b>        |
|--|-------------------------|--------------------|
|  | <b>Shs '000</b>         | <b>Shs '000</b>    |
| Operating surplus before taxation                            | <u>61,111,049</u>       | <u>23,371,964</u>  |
| Tax calculated at 30%  | 18,333,315              | 6,711,508          |
| Tax effect of non deductible expenses and non taxable income | <u>(14,254,027)</u>     | <u>(6,711,508)</u> |
| <b>Taxation charge</b>                                       | <b><u>4,079,288</u></b> | <b><u>-</u></b>    |

**(b) Un-recognized deferred tax asset**

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

|                                    | <b>At 1 July</b>           | <b>Movement</b>          | <b>At 30 June</b>          |
|------------------------------------|----------------------------|--------------------------|----------------------------|
|                                    | <b>2006</b>                |                          | <b>2007</b>                |
|                                    | <b>Shs'000</b>             | <b>Shs'000</b>           | <b>Shs'000</b>             |
| Plant and equipment                | 5,065,480                  | (42,042)                 | 5,023,438                  |
| Un realized exchange gains         | 1,092,600                  | 189,283                  | 1,281,883                  |
| Tax losses                         | (33,412,540)               | 12,439,672               | (20,972,868)               |
| Provisions for retirement benefits | <u>(1,653,747)</u>         | <u>1,653,747</u>         | <u>-</u>                   |
| <b>Total</b>                       | <b><u>(28,908,207)</u></b> | <b><u>14,240,660</u></b> | <b><u>(14,667,547)</u></b> |
| Deferred tax asset (net) at 30%    | <b><u>(8,672,462)</u></b>  | <b><u>4,272,198</u></b>  | <b><u>(4,400,264)</u></b>  |

At 30 June 2007 a net deferred tax asset of Ushs 4,400 million (2006: Ushs 8,672 million) has not been recognised due to the un-certainty in recovery of the asset. The Fund is in negotiates with Uganda Revenue Authority on the treatment of certain items for tax purposes. The outcome of the negotiations would have significant implications as to whether a deferred tax asset exists or not. Accordingly no deferred tax asset has been recognized in these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

**13. CASH AND BANK BALANCES**

|  | <b>2007</b>              | <b>2006</b>              |
|--|--------------------------|--------------------------|
|  | <b>Shs '000</b>          | <b>Shs '000</b>          |
| Bank of Baroda Uganda Limited          | 11,593                   | 80,143                   |
| Citibank Uganda Limited                | 4,583,050                | 8,749,469                |
| Housing Finance Uganda Limited         | 85,956                   | 80,024                   |
| Stanbic Bank Uganda Limited            | 4,933,591                | 5,312,614                |
| Standard Chartered Bank Uganda Limited | 1,380,511                | 40,015                   |
| Petty cash balances                    | <u>1,775</u>             | <u>9,316</u>             |
|  | <b><u>10,996,476</u></b> | <b><u>14,271,581</u></b> |

The Fund's exposure to currency risks and sensitivity analysis for financial assets and liabilities are disclosed in note 33.

**14. DEPOSITS WITH BANKS AT AMORTIZED COST**

|  | <b>2007</b>               | <b>2006</b>               |
|--|---------------------------|---------------------------|
|  | <b>Shs '000</b>           | <b>Shs '000</b>           |
| Allied Bank Uganda Limited               | 3,140,583                 | 3,210,256                 |
| Barclays Bank Uganda Limited             | 22,946,226                | 8,003,616                 |
| Bank of Baroda Uganda Limited            | 19,870,561                | 10,368,940                |
| Cairo International Bank Uganda Limited  | 1,639,753                 | 528,671                   |
| Centenary Bank Uganda Limited            | 3,410,000                 | -                         |
| Citibank Uganda Limited                  | 15,937,500                | -                         |
| Commercial Micro Finance Uganda Limited  | 1,635,938                 | -                         |
| Crane Bank Uganda Limited                | 36,058,812                | 17,305,565                |
| DFCU Limited                             | 15,052,841                | 14,772,237                |
| Diamond Trust Bank Uganda Limited        | 4,914,981                 | 1,542,591                 |
| Housing Finance Uganda Limited           | 19,020,966                | 16,184,711                |
| National Bank of Commerce Uganda Limited | 1,027,235                 | 1,086,026                 |
| Orient Bank Uganda Limited               | 13,231,136                | 10,726,345                |
| Stanbic Bank Uganda Limited              | 10,133,333                | 10,997,260                |
| Standard chartered Bank Uganda Limited   | 31,768,500                | 4,499,538                 |
| Tropical Africa Bank Uganda Limited      | 3,288,556                 | 3,063,644                 |
| Uganda Microfinance Uganda Limited       | <u>3,340,000</u>          | <u>-</u>                  |
|  | <b><u>206,416,921</u></b> | <b><u>102,289,400</u></b> |

The above is analysed as follows

|   | <b>2007</b>               | <b>2006</b>               |
|---|---------------------------|---------------------------|
|   | <b>Shs '000</b>           | <b>Shs '000</b>           |
| Amounts due within three (3) months                         | 38,656,976                | -                         |
| Amounts due after three (3) months and with in one (1) year | <u>167,759,945</u>        | <u>102,289,400</u>        |
|   | <b><u>206,416,921</u></b> | <b><u>102,289,400</u></b> |

The weighted average effective interest rates on deposits due from Banks were 12.1% and 4.5% (2006 11% and 4%) for deposits in Uganda Shilling and USD respectively.

The carrying book value of the deposits with banks equals the fair value. The Fund's exposure to interest, credit, currency risks and sensitivity analysis for financial assets and liabilities are disclosed in note 33.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

**15. INVESTMENT IN SECURITIES HELD TO MATURITY**

|                  | <b>2007</b>               | <b>2006</b>               |
|------------------|---------------------------|---------------------------|
|                  | <b>Shs '000</b>           | <b>Shs '000</b>           |
|                  |                           | <b>Restated</b>           |
| Government bonds | 311,050,575               | 240,644,102               |
| Corporate bonds  | 15,237,559                | 20,309,593                |
| Treasury bills   | <u>96,015,395</u>         | <u>104,239,360</u>        |
|                  | <b><u>422,303,529</u></b> | <b><u>365,193,055</u></b> |

The investment securities above is analysed as follows

|   | <b>2007</b>               | <b>2006</b>               |
|---|---------------------------|---------------------------|
|   | <b>Shs '000</b>           | <b>Shs '000</b>           |
| Maturing within three (3) months                        | 26,827,794                | -                         |
| Maturing after three (3) months and within one (1) year | 83,403,914                | 116,685,192               |
| Maturing after one year (1) and within seven (7) years  | <u>312,071,821</u>        | <u>248,507,863</u>        |
|   | <b><u>422,303,529</u></b> | <b><u>365,193,055</u></b> |

The interest rates on the government bonds ranged between 10% to 11% (2006 10% to 11%) and mature in 1 to 7 years. The interest rates for corporate bonds ranged between 12.95% to 13.85% (2006 8.5% to 12.6%) and mature in 1 to 4 years.

The Fund's exposures to credit, currency and interest rate risks relate to investments held to maturity have been disclosed in note 33

**16. TRADE AND OTHER RECEIVABLES**

|   | <b>2007</b>             | <b>2006</b>             |
|---|-------------------------|-------------------------|
|   | <b>Shs '000</b>         | <b>Shs '000</b>         |
| Prepayment and other receivables          | 6,990,550               | 7,412,126               |
| Rent receivable                           | 1,606,674               | 2,801,277               |
| Dividends receivable from associates      | 1,757,849               | -                       |
| Provision for impairment loss (see below) | <u>(3,270,379)</u>      | <u>(898,454)</u>        |
|   | <b><u>7,084,694</u></b> | <b><u>9,314,949</u></b> |

**Impairment analysed as follows:-**

|   | <b>2007</b>             | <b>2006</b>             |
|---|-------------------------|-------------------------|
|   | <b>Shs '000</b>         | <b>Shs '000</b>         |
| Balance as at 1 July                    | 898,454                 | -                       |
| Impairment loss during the year         | 2,371,925               | 898,454                 |
| At 30 June                              | <b><u>3,270,379</u></b> | <b><u>898,454</u></b>   |
| <b>Charge to profit or loss account</b> |                         |                         |
| Net increase in provisions as above     | 2,371,925               | 898,454                 |
| Direct write off during the year        | <u>-</u>                | <u>105,555</u>          |
|   | <b><u>2,371,925</u></b> | <b><u>1,004,009</u></b> |

The Fund's exposure to credit, currency risks and impairment losses related to trade and other receivables are disclosed in note 33.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

**17. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

|   | % held | 2007<br>Shs '000         | 2006<br>Shs '000         |
|---|--------|--------------------------|--------------------------|
| British American Tobacco Uganda Limited | 4.80   | 1,105,139                | 1,187,436                |
| Bank of Baroda Uganda Limited           | 1.49   | 4,550,390                | 2,649,933                |
| DFCU Limited                            | 5.91   | 10,869,550               | 13,586,938               |
| Stanbic Bank Uganda Limited             | 2.79   | <u>6,300,188</u>         | -                        |
|   |        | <b><u>22,825,267</u></b> | <b><u>17,424,307</u></b> |

All the above equity investments are traded on the Uganda Security Exchange.

The Fund's exposures to credit, currency and interest rate risks relate to equity investments at fair value through profit or loss have been disclosed in note 33.

The table below sets out a reconciliation of the change in the balance during the year for equity investments

|  | 2007<br>Shs '000         | 2006<br>Shs '000         |
|--|--------------------------|--------------------------|
| At 1 July  | 17,424,307               | 12,046,911               |
| Acquisition of shares in Stanbic Bank Uganda Limited | 7,000,000                | -                        |
| Change in fair value                                 | <u>(1,599,040)</u>       | <u>5,377,396</u>         |
| At 30 June   | <b><u>22,825,267</u></b> | <b><u>17,424,307</u></b> |

The Fund's investment in equities that are designated at fair value through profit or loss, represent equities for which there is an active market and the Fund holds 10 to 20 percent of the voting rights of the companies.

**18. LOANS AND ADVANCES AT AMORTIZED COST**

|   | 2007<br>Shs '000         | 2006<br>Shs '000         |
|---|--------------------------|--------------------------|
| Loans to Banks for mortgage financing                         | 11,050,869               | 12,122,597               |
| Loans to Banks for employee loans scheme                      | -                        | 2,414,606                |
| Loan to National Union of Plantation and Agricultural Workers | 80,390                   | 79,500                   |
| Staff loans   | <u>2,507,867</u>         | <u>1,775,627</u>         |
| <b>Gross loans</b>  | <b>13,639,126</b>        | <b>16,392,330</b>        |
| Discount on staff loans marked to market                      | <u>(644,483)</u>         | -                        |
|   | <b><u>12,994,643</u></b> | <b><u>16,392,330</u></b> |

The Loans to banks relate to amounts advanced to DFCU Uganda Limited and Housing Finance Bank Uganda Limited (formerly Housing Finance Uganda Limited) and have interest rates stated at 12.5% and 13% (2006: 12.5% and 13%) respectively. The above amounts represent the carrying amounts as at 30 June 2007.

Loans to banks for employee loans scheme were all paid off /recovered during the year.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

Loan to National Union of Plantation and Agricultural Workers (NUPAW) attracts interest which was fixed at Ushs 20 million for the entire period of the loan. The outstanding principal and accrued interest was due for payment as at 30 June 2007, however, the principal and interest had not been paid as at that date. Management has not made any provision for impairment loss for this loan as it is fully secured by property on plot 50 Ntinda, factory road. Subsequently the Fund has disposed off the security at Ushs 200 million, and fully recovered the outstanding balance for the loan.

Staff loans to the Fund employees are issued at a discounted rate of 5% (2006: 5%) the loans are issued to employees to acquire/ construct houses. The loans are secured by the acquired houses. The staff loans have been marked to market at 30 June 2007.

Management assessed all staff loans outstanding as at 30 June 2007 for any indicators of impairment and determined that no loans exhibited any signs of impairment and as such no provision for impairment loss has been made.

The Fund's exposures to credit currency and interest rate risks relating to loans and advances at amortized cost have been disclosed in note 33.

**19. TAX RECOVERABLE**

|                 | 2007                    | 2006                     |
|-----------------|-------------------------|--------------------------|
|                 | Shs '000                | Shs '000                 |
| Tax recoverable | <b><u>7,633,228</u></b> | <b><u>10,671,738</u></b> |

Taxes recoverable relate largely to withholding tax that was withheld by the Bank of Uganda, and other financial institutions before 30 June 2007 on interest income.

**20. INVENTORIES**

|             | 2007                 | 2006                  |
|-------------|----------------------|-----------------------|
|             | Shs '000             | Shs '000              |
| Inventories | <b><u>66,071</u></b> | <b><u>134,318</u></b> |

This relates to consumables and stationery maintained by the Fund for the day to day operations.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)*

**21. INVESTMENT IN ASSOCIATE**

|   | Note | 30 June 2007                        |                         |                          | 30 June 2006- Restated              |                         |                          |
|---|------|-------------------------------------|-------------------------|--------------------------|-------------------------------------|-------------------------|--------------------------|
|   |      | Housing Finance Bank Uganda Limited | Uganda Clays Limited    | Total                    | Housing Finance Bank Uganda Limited | Uganda Clays Limited    | Total                    |
|   |      | Shs'000                             | Shs'000                 | Shs'000                  | Shs'000                             | Shs'000                 | Shs'000                  |
| Carrying value of the Investment brought forward              |      | 20,295,126                          | 1,637,776               | 21,932,902               | 13,300,000                          | 3,033,000               | 16,333,000               |
| Prior year adjustment for net share of associate's net assets | 28   | -                                   | -                       | -                        | 3,305,705                           | (1,592,030)             | 1,713,675                |
| Share of profits  |      | 4,123,726                           | 1,001,239               | 5,124,965                | 3,689,421                           | 304,646                 | 3,994,067                |
| Less dividends receivable from associate                      |      | (1,837,143)                         | (53,920)                | (1,891,063)              | -                                   | (107,840)               | (107,840)                |
| <b>Carrying value as at 30 June</b>                           |      | <b><u>22,581,709</u></b>            | <b><u>2,585,095</u></b> | <b><u>25,166,804</u></b> | <b><u>20,295,126</u></b>            | <b><u>1,637,776</u></b> | <b><u>21,932,902</u></b> |

As at 30 June 2007, the fund had a shareholding of 24.7% and 26.96 % in the issued share capital of Housing Finance Bank Uganda Limited and Uganda Clays Limited respectively, these investments have been accounted for under the equity method.

Summary of the financial information for the equity accounted investment in associates is as follows:

|                                     | % held | Total assets<br>Shs'000 | Total liabilities<br>Shs'000 | Revenue<br>Shs'000 | Expenses<br>Shs'000 | Profit/ (Loss)<br>Shs'000 |
|-------------------------------------|--------|-------------------------|------------------------------|--------------------|---------------------|---------------------------|
| <b>Year ended 30 June 2007</b>      |        |                         |                              |                    |                     |                           |
| Housing Finance Bank Uganda Limited | 24.7%  | 143,151,138             | 84,507,667                   | 13,194,469         | 9,320,579           | 4,668,072                 |
| Uganda Clays Limited                | 26.96% | 22,623,968              | 10,896,875                   | 10,916,478         | 9,194,672           | 1,721,806                 |
| <b>Year ended 30 June 2006</b>      |        |                         |                              |                    |                     |                           |
| Housing Finance Uganda              | 95.2%  | 114,465,069             | 89,696,696                   | 14,430,924         | 9,762,853           | 3,873,891                 |
| Uganda Clays Limited                | 26.96% | 19,153,760              | 8,494,895                    | 8,977,839          | 7,847,847           | 1,129,992                 |

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)*

**22. OTHER INVESTMENTS**

|                           | <b>Nsimbe<br/>Holding Ltd<br/>Shs'000</b> | <b>Victoria<br/>Property<br/>Shs'000</b> | <b>Total<br/>Shs'000</b> |
|---------------------------|---|--|--------------------------|
| <b>Cost</b>               |   |  |                          |
| At 1 July 2005            | 8,209,950                                 | 10,300                                   | 8,220,250                |
| Additions                 | -   | -  | -                        |
| <b>At 30 June 2006</b>    | <b>8,209,950</b>                          | <b>10,300</b>                            | <b>8,220,250</b>         |
| Additions                 | -   | -  | -                        |
| <b>At 30 June 2007</b>    | <b>8,209,950</b>                          | <b>10,300</b>                            | <b>8,220,250</b>         |
| <b>Impairment</b>         |   |  |                          |
| At 1 July 2005            | -   | -  | -                        |
| Provision during the year | (3,554,950)                               | -  | (3,554,950)              |
| <b>At 30 June 2006</b>    | <b>(3,554,950)</b>                        | <b>-</b>                                 | <b>(3,554,950)</b>       |
| Provision during the year | (4,655,000)                               | -  | (4,655,000)              |
| <b>At 30 June 2007</b>    | <b>(8,209,950)</b>                        | <b>-</b>                                 | <b>(8,209,950)</b>       |
| <b>Carrying value</b>     |   |  |                          |
| <b>At 30 June 2007</b>    | <b>-</b>                                  | <b>10,300</b>                            | <b>10,300</b>            |
| <b>At 30 June 2006</b>    | <b>4,655,000</b>                          | <b>10,300</b>                            | <b>4,665,300</b>         |

The investment in Victoria Properties Limited relates to a 49% interest in a joint venture with Malibu Israel Limited and the investment in Nsimbe Holdings Limited relates to the 49% interest in the joint venture with Mugoya Holding Limited. There have been no activities for these companies since inception and no records of accounts are maintained. The Investments have been accounted for at cost less impairment losses.

The Fund's investment in Nsimbe holdings Limited was investigated by the Inspectorate General of Government (IGG's) who declared the Funds investment in Nsimbe holdings illegal and one done in bad faith, as a result of this investigation, Nsimbe holdings challenged IGG findings in the Constitutional Court. The Constitutional Court subsequently declared the agreement leading to the formation of Nsimbe Holdings Limited unconstitutional and therefore the company does not exist in law. It is a non entity, which can not sue or be sued. In 2006, NSSF made a provision for impairment loss of Ushs 3,554 million resulting to carrying amount of Ushs 4,665 million which has been fully impaired as at 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**23. CAPITAL WORK IN PROGRESS**

|   | <b>2007</b>             | <b>2006</b>             |
|---|-------------------------|-------------------------|
|   | <b>Shs '000</b>         | <b>Shs '000</b>         |
| Cost of capital work in progress – Arua golf course project | 3,390,268               | 3,390,268               |
| Impairment (see below)                                      | <u>(3,390,268)</u>      | <u>(1,066,268)</u>      |
| Carrying value  | <u>          -</u>      | <u><b>2,324,000</b></u> |
|   | <b>2007</b>             | <b>2006</b>             |
|   | <b>Shs '000</b>         | <b>Shs '000</b>         |
| <b>Impairment</b>   |                         |                         |
| As 1 <sup>st</sup> July                                     | 1,066,268               | 1,066,268               |
| Impairment provisions during the year                       | <u>2,324,000</u>        | <u>          -</u>      |
| At 30 June  | <u><b>3,390,268</b></u> | <u><b>1,066,268</b></u> |

Capital work in progress relates to costs incurred in creation of a joint venture with the trustees of Arua golf course in order to construct a hotel at the golf course. As at 30 June 2007 construction of the hotel was near completion but modalities of share of interest in the hotel had not been finalized with the Trustees of the golf course. The Fund has estimated to incur losses as a result of the delayed implementation of this joint venture and ownership structure of the joint venture.

Management is currently negotiating with the trustees of Golf course with a view of finalizing the joint venture. However management is not certain when the final documentation creating the joint venture will be finalized.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)*

**24. INVESTMENT PROPERTIES**

|                                 | Cost/<br>valuation at<br>1 July 2005 | Additions        | Change in fair<br>value | Transfer to<br>Capital work in<br>progress | Valuation at<br>30 June 2006 | Additions**    | Change in<br>fair value | Write off       | Valuation at<br>30 June 2007 |
|---------------------------------|--------------------------------------|------------------|-------------------------|--|------------------------------|----------------|-------------------------|-----------------|------------------------------|
|                                 | Shs '000                             | Shs '000         | Shs '000                | Shs '000                                   | Shs '000                     | Shs '000       | Shs '000                | Shs '000        | Shs '000                     |
| Workers House                   | 33,986,000                           | 107,931          | (82,031)                | -  | 34,011,900                   | 250,652        | 1,962,639               | (25,191)        | 36,200,000                   |
| Plot 5 Mvule Road Naguru        | 837,000                              | -                | (7,000)                 | -  | 830,000                      | -              | 170,000                 | -               | 1,000,000                    |
| Yusuf Lule Road                 | 4,932,000                            | -                | 822,000                 | -  | 5,754,000                    | -              | 1,407,000               | -               | 7,161,000                    |
| Independence Avenue Arua        | 23,000                               | -                | 4,100                   | -  | 27,100                       | -              | 1,100                   | -               | 28,200                       |
| Lumumba Avenue                  | 2,112,500                            | -                | 1,051,500               | -  | 3,164,000                    | -              | 653,000                 | -               | 3,817,000                    |
| Social Security House           | 13,800,000                           | 4,041,782        | 158,218                 | -  | 18,000,000                   | 554,432        | (254,432)               | -               | 18,300,000                   |
| Mbuya property, M65 plot 59     | -                                    | 575,134          | (155,134)               | -  | 420,000                      | 22,030         | 14,970                  | -               | 457,000                      |
| Land for proposed Lubowa Estate | 47,503,630                           | -                | 14,325,110              | -  | 61,828,740                   | -              | 60,460,160              | -               | 122,288,900                  |
| Weather head park               | 1,914,000                            | 1,491,657        | (1,081,657)             | (2,324,000)                                | -                            | -              | -                       | -               | -                            |
| <b>Total</b>                    | <b>105,108,130</b>                   | <b>6,216,504</b> | <b>15,035,106</b>       | <b>(2,324,000)</b>                         | <b>124,035,740</b>           | <b>827,114</b> | <b>64,414,437</b>       | <b>(25,191)</b> | <b>189,252,100</b>           |

Investment property comprise of commercial properties that are rented out to third parties to earn rentals, the Fund also has land for which its use is yet to be determined as at 30 June 2007. At the moment such land is held for capital appreciation, and thus treated as investment property.

During the year management contracted Bageine and Company a certified professional valuer, to undertake valuation of all the Fund investment properties as at 30 June 2007. The above valuation amounts have been extracted from the valuation report dated 10 July 2008 issued by Bageine and Company to the management of the Fund.

In determining the above values of investment properties, the valuer used the following basis:

- The valuation was based on market values defined by the international valuation standards as: *“the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”*
- In case of Social Security House and Workers house, the market values were determined by taking the rental income and capitalising them at appropriate rates of return revealed from analyses of sales of commercial properties within the vicinities of the two buildings
- In case of Lumumba avenue, the market values have been arrived at by considering the land value alone, since the property was under re-development and undergoing site excavations with all the existing buildings demolished.
- In case of plot 5 Mvule road Naguru, the market values were arrived at on the basis of comparison of sales of similar properties in the locality and has taken into account the original residential user.
- The market values for the rest of the properties comprising plots of land have been arrived at on the basis of direct sales comparable of similar land in similar localities.

\*\* Additions to workers house constitute construction works done by Roko Construction in relation to the air conditioning system.

Also capital addition to the Social Security House constitutes capitalisable refurbishment costs incurred by the Fund on the building.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)*

**25. PROPERTY AND EQUIPMENT**

|                        | <b>Property &amp;<br/>machinery<br/>Shs'000</b> | <b>Motor<br/>vehicles<br/>Shs'000</b> | <b>Furniture<br/>and fittings<br/>Shs'000</b> | <b>Computer<br/>equipment<br/>Shs'000</b> | <b>Total<br/>Shs'000</b> |
|------------------------|---|---------------------------------------|---|---|--------------------------|
| <b>Cost</b>            |   |                                       |   |   |                          |
| At 1 July 2005         | 189,201   | 3,728,719                             | 1,314,645                                     | 7,572,002                                 | 12,804,567               |
| Additions              | 18,500  | 1,078,428                             | 95,680  | 414,730                                   | 1,607,338                |
| Disposals              | (2,500)   | (619,893)                             | (304,823)                                     | (691,889)                                 | (1,619,105)              |
| <b>At 30 June 2006</b> | <b>205,201</b>                                  | <b>4,187,254</b>                      | <b>1,105,502</b>                              | <b>7,294,843</b>                          | <b>12,792,800</b>        |
| Additions              | 246,642   | 306,288                               | 72,148  | 259,809                                   | 884,887                  |
| Disposals              | -   | (983,990)                             | (144,831)                                     | (169,459)                                 | (1,298,280)              |
| <b>At 30 June 2007</b> | <b>451,843</b>                                  | <b>3,509,552</b>                      | <b>1,032,819</b>                              | <b>7,385,193</b>                          | <b>12,379,407</b>        |
| <b>Depreciation</b>    |   |                                       |   |   |                          |
| At 1 July 2006         | 96,933  | 2,356,958                             | 659,858                                       | 935,312                                   | 4,049,061                |
| Charge for the year    | 20,920  | 687,215                               | 138,468                                       | 1,358,227                                 | 2,204,830                |
| Disposals              | (1,220)   | (510,585)                             | (264,333)                                     | (551,671)                                 | (1,327,809)              |
| <b>At 30 June 2006</b> | <b>116,633</b>                                  | <b>2,533,588</b>                      | <b>533,993</b>                                | <b>1,741,868</b>                          | <b>4,926,082</b>         |
| Charge for the year    | 42,608  | 664,953                               | 118,032                                       | 1,132,568                                 | 1,958,161                |
| Disposals              | -   | (947,896)                             | (94,787)                                      | (103,459)                                 | (1,146,142)              |
| <b>At 30 June 2007</b> | <b>159,241</b>                                  | <b>2,250,645</b>                      | <b>557,238</b>                                | <b>2,770,977</b>                          | <b>5,738,101</b>         |
| <b>Net book value</b>  |   |                                       |   |   |                          |
| <b>At 30 June 2007</b> | <b>292,602</b>                                  | <b>1,258,907</b>                      | <b>475,581</b>                                | <b>4,614,216</b>                          | <b>6,641,306</b>         |
| <b>At 30 June 2006</b> | <b>88,568</b>                                   | <b>1,653,666</b>                      | <b>571,509</b>                                | <b>5,552,975</b>                          | <b>7,866,718</b>         |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**26. SUNDRY CREDITORS**

|                            | <b>2007</b>             | <b>2006</b>             |
|----------------------------|-------------------------|-------------------------|
|                            | <b>Shs '000</b>         | <b>Shs '000</b>         |
| Accounts payable           | 1,657,120               | 5,604,781               |
| Fine and penalties payable | 1,355,067               | -                       |
| Other payable              | <u>2,988,592</u>        | <u>4,381,608</u>        |
|                            | <b><u>6,000,779</u></b> | <b><u>9,986,389</u></b> |

The Fund's exposure to currency and liquidity risks and related to trade and other payables are disclosed in note 33.

**27. PROVISIONS FOR LITIGATION**

**Alcon International Limited**

|  | <b>2007</b>              | <b>2006</b>              |
|--|--------------------------|--------------------------|
|  | <b>Shs '000</b>          | <b>Shs '000</b>          |
| At 1 July                                | 16,476,754               | 15,945,246               |
| Provisions made for the interest payable | 5,345,255                | -                        |
| Exchange rate (gain)/ loss               | <u>(2,276,627)</u>       | <u>531,508</u>           |
| Provision for Alcon International        | <b><u>19,545,382</u></b> | <b><u>16,476,754</u></b> |

On 21 July, 1994 NSSF and M/S Alcon International Limited (the contractor) entered into a building contract whereby the contractor was engaged to erect and complete a building on NSSF's land located on plot 1 Pilkington road, Kampala. The contract price was US\$ 16,160,000. In addition, the parties executed a co financing agreement by which the contractor agreed to lend NSSF US\$ 8,080,000 in form of materials, workmanship, labour and profits. On 8 June ,1996 NSSF and contractor executed a supplementary agreement which included an amended schedule of conditions of building contract. By the supplementary agreement, the contractor agreed to carry out and complete "improvement works" for an additional sum of US\$ 9,066,917.

The contractor thereafter took possession of the site and commenced construction works. Subsequently correspondences were exchanged between the architect and the contractor by which the former alleged default by the latter, which the latter denied. In the end, the contraction of all the works contemplated by the contract were not practically completed. The contract was terminated on 15 May 1998 and the current protracted dispute ensued. On 30 November, 1998, the contractor filed a suit, HCCS No.1255 of 1998 in the high court against NSSF and the architect seeking a declaration that the termination of the building contract was wrongful, null and void, and for general damages for breach of contract. The judge subsequently ordered that the matter be referred to arbitration. The arbitrator was appointed by the president of the East African Institution of Architects and the arbitrator conducted the hearing and analysed the submissions and gave the award on 29<sup>th</sup> March 2001.

The arbitrator awarded Alcon International an amount of US\$ 8,858,470 and interest in 2001 relating to loan recovery with interest, unpaid work, plant, machinery and materials and loss of profits (as apportioned). NSSF and the architect were dissatisfied with the award and accordingly filed an objection in the high court under Misc. Application No-417 of 2001 seeking to set it aside. The Judge heard the objection and delivered a ruling on the 30 September 2003 in which the Judge dismissed it with costs to the contractor. Being dissatisfied with the Court's decision, NSSF and architect filed an appeal (Civil Appeal No-2 of 2004) in the court of Appeal against the decision. As at 30 June 2007, the case was still in the court of Appeal. Management is also pursuing possibilities of negotiating with the contractor with a view of reaching out of court settlement. A provision of USD 11,575,041 relating to the award and interest there of has been made and disclosed in note 27. As a result of the arbitration award, the Fund assumed a contingent liability relating to termination of a contract between Alcon international and NSSF for the construction of Workers House.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

The current provision relates to the award of USD 8,858,470 by the arbitrator to Alcon and interest accrued as at 30 June 2007 at the rate of 6%. Management is defending the case vigorously and based on the advice of the legal counsel, believes any liability arising is fully covered by the provisions actually made in the financial statements.

**28. PRIOR YEAR ADJUSTMENTS**

The effect of prior year adjustments is analyzed as follows:

|   | Note | 2006<br>Shs '000        | 2005<br>Shs '000        |
|---|------|-------------------------|-------------------------|
| Coupon interest from government bonds               | (a)  | 4,661,526               | -                       |
| Net interest in Uganda clays Limited                | (b)  | (1,180,612)             | (186,065)               |
| Net interest in Housing Finance Bank Uganda Limited | (c)  | <u>4,605,236</u>        | <u>3,305,705</u>        |
|   |      | <b><u>8,086,150</u></b> | <b><u>3,119,640</u></b> |

**(a) Discount interest on treasury bonds**

The fund holds investments in Government securities, the investments are acquired at discount, the prior year adjustment relate to discount interest not recognized in prior years to value the securities at amortized cost. The maturity period for these investments range from 4 months to 4 years.

**(b) Interest in investment in Uganda Clays Limited**

The Fund invested Ushs 617 million in January 2001 in Uganda Clays Limited, representing a 26.54% interest in the issued ordinary share capital of the company. The funds net interest in the company since has increased by a further 0.42%. This investment has been accounted for using equity accounting method effective 30 June 2007.

**(c) Interest in investment in Housing Finance Bank Uganda Limited**

The Fund invested Ushs 3,800 million in October 2003 in Housing Finance Bank Uganda Limited, representing a 50% interest in the issued ordinary share capital of the company. This investment has been accounted for using equity accounting method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**29. CASH GENERATED FROM OPERATIONS**

Reconciliation of net surplus to net cash flows from operating activities

|   | <b>2007</b>                | <b>Restated</b>            |
|---|----------------------------|----------------------------|
|   | <b>Ushs '000</b>           | <b>2006</b>                |
|   |                            | <b>Ushs'000</b>            |
| <b>Surplus from operations</b>                            | <b>57,031,761</b>          | <b>22,371,694</b>          |
| Depreciation  | 1,958,161                  | 2,204,830                  |
| (Profit)/loss on disposal of Property and equipment       | 8,835                      | 167,847                    |
| Impairment losses on investments (financial assets)       | 4,655,000                  | 3,554,950                  |
| Impairment losses on capital work in progress             | 2,324,000                  |                            |
| Share of profit from investment in associate              | (5,124,965)                | (3,994,067)                |
| Fair value loss/(gain) on equity investments              | 1,599,040                  | (5,377,396)                |
| Fair value gain from investment properties                | (64,414,437)               | (15,035,105)               |
| Investment property write off                             | <u>25,191</u>              | <u>-</u>                   |
| <b>Cash flows before changes in working capital</b>       | <b>(1,937,414)</b>         | <b>3,892,753</b>           |
| <b>Changes in working capital</b>                         |                            |                            |
| Decrease/(increase) in inventories                        | 68,247                     | (27,443)                   |
| Decrease/ (increase) in trade and other assets receivable | 4,067,399                  | (5,472,111)                |
| (Decrease)/increase in payables and provisions            | (916,983)                  | 5,930,267                  |
| Decrease/(increase) in investments due in one year        | -                          | (11,035,356)               |
| Increase in deposits with banks                           | (65,470,545)               | -                          |
| Decrease/(increase) in tax recoverable                    | <u>3,038,510</u>           | <u>(5,947,085)</u>         |
| <b>Net cash (used)/ from operations</b>                   | <b><u>(61,150,786)</u></b> | <b><u>(12,658,975)</u></b> |

**30. CONTINGENT LIABILITIES**

The Fund is also a litigant in other various cases for breach of contract arising in the normal course of business. The directors are of the view that the Fund has a high chance of success against the plaintiffs and none of the cases individually or in aggregate would have a significant impact on the Fund's operation. The directors are confident that the Fund shall receive favourable ruling from the outstanding cases.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**31. RELATED PARTIES**

Below are the transactions and balances carried out with related parties;

|  | <b>2007</b>     | <b>2006</b>     |
|--|-----------------|-----------------|
|  | <b>Shs '000</b> | <b>Shs '000</b> |
| Directors' emoluments  | 23,403          | 25,064          |
| Cash balances with associate –Housing Finance Bank Uganda Limited  | 85,956          | 80,024          |
| Fixed deposits with associate –Housing Finance Bank Uganda Limited | 19,020,996      | 16,184,711      |
| Advances to associates (Victoria Properties Limited)               | 1,720,000       | 1,957,000       |
| Loans due from associate (Housing Finance Bank Uganda Limited)**   | 3,219,076       | 3,428,580       |
| Staff advances to Managing Directors and Heads of Departments      | 311,564         | -               |

\*\*The Loans to Housing Finance Bank Uganda Limited formerly (Housing Finance Company Uganda Limited) have interest rates stated at 13% (2006:13%)

**32. USE OF ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make 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.

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.

The Fund 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.

Management identifies all significant accounting polices and those that involve high judgement 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 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 Fund 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

### (ii) *Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### (iii) *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 27.

## **33. FINANCIAL RISK MANAGEMENT**

### **(a) Introduction and overview**

The Fund has exposure to the following risks from its use of financial instruments:

Market risk  
Liquidity risk; and  
Credit risk;

This note presents information about the Fund exposure to each of the above risks, the Fund objectives, policies and processes for measuring and managing risk and the Fund management of capital.

#### **Risk management framework**

The Fund's board of directors has overall responsibility for the establishment and oversight of the Fund risk management framework. The board has established an audit committee, finance committee and the risk department, which are responsible for developing and monitoring the risk management policies in their specified areas. All board committees have both executive and non executive members and report regularly to the Board of Directors on their activities.

The Fund risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Fund through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Fund Audit Committee is responsible for monitoring compliance with the Fund risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### **(b) Market risk**

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while optimising the return on risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**Management of market risks**

Overall authority for market risk is vested in the Finance committee. The Finance committee is responsible for the development of detailed risk management policies and for the day to day review of their implementation.

**Exchange rate risk**

Exchange risk arises from a mismatch between the value of the assets and that of reserves and liabilities denominated in foreign currency. The Fund does not actively engage in dealing and trading operations in currencies and so the Fund's exposure mainly involves assets, liabilities. To minimize exchange rate risk in a multi currency environment, the Fund maintains some of its assets in one foreign currency to match with foreign currency liabilities that might arise during the normal course of business.

**Currency risk**

The Fund is exposed to currency risk through transactions in foreign currencies. The Fund transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. In respect of monetary assets and liabilities in foreign currencies, the bank ensures that its net exposure is kept to an acceptable level by matching foreign currency assets to liabilities when considered appropriate. Monitoring of foreign currency fluctuations is done through the Finance Committee.

The Fund operates wholly within Uganda and its assets and liabilities are reported in the Uganda shillings, although it maintains some of its assets and trades with banks in foreign currencies. The Fund held no significant foreign currency exposure as at 30 June 2007.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

The Fund had the following significant currency position as at year end.

|   | US Dollars<br>Shs'000      | USHS<br>Shs'000             | Total<br>Shs'000            |
|---|----------------------------|-----------------------------|-----------------------------|
| <b>Assets</b>   |                            |                             |                             |
| Cash and cash equivalents                               | 557,388                    | 10,439,088                  | 10,996,476                  |
| Deposits with banks                                     | 4,838,252                  | 201,578,669                 | 206,416,921                 |
| Investment in securities held to maturity               | -                          | 422,303,529                 | 422,303,529                 |
| Trade and other receivables                             | 1,072,098                  | 6,012,596                   | 7,084,694                   |
| Equity investments at fair value through profit or loss | -                          | 22,825,267                  | 22,825,267                  |
| Loans and advances at amortized cost                    | -                          | 12,994,643                  | 12,994,643                  |
| Tax recoverable   | -                          | 7,633,228                   | 7,633,228                   |
| Inventories   | -                          | 66,071                      | 66,071                      |
| Investment in associate                                 | -                          | 25,166,804                  | 25,166,804                  |
| Other investments                                       | -                          | 10,300                      | 10,300                      |
| Investment properties                                   | -                          | 189,252,100                 | 189,252,100                 |
| Property, and equipment                                 | -                          | <u>6,641,306</u>            | <u>6,641,306</u>            |
| <b>Total Assets</b>                                     | <b><u>6,467,738</u></b>    | <b><u>904,923,601</u></b>   | <b><u>911,391,339</u></b>   |
| <b>Liabilities</b>                                      |                            |                             |                             |
| Trade and other payables                                | (957,640)                  | (5,043,139)                 | (6,000,779)                 |
| Provisions  | <u>(19,545,382)</u>        | <u>-</u>                    | <u>(19,545,382)</u>         |
| <b>Total liabilities</b>                                | <b><u>(20,503,022)</u></b> | <b><u>(5,043,139)</u></b>   | <b><u>(25,546,161)</u></b>  |
| <b>Members' Fund and Reserves</b>                       |                            |                             |                             |
| Accumulated Members' funds                              | -                          | (827,696,656)               | (827,696,656)               |
| Reserve account   | -                          | (484,478)                   | (484,478)                   |
| Accumulated surplus                                     | -                          | (57,664,044)                | (57,664,044)                |
| <b>Total Members' fund and Reserves</b>                 | <b><u>-</u></b>            | <b><u>(885,845,178)</u></b> | <b><u>(885,845,178)</u></b> |
| <b>Total Members' fund, reserves and liabilities</b>    | <b><u>(20,503,022)</u></b> | <b><u>(890,888,317)</u></b> | <b><u>(911,391,339)</u></b> |
| <br>  |                            |                             |                             |
| Net currency position as at 30 June 2007                | <b><u>14,035,284</u></b>   | <b><u>(14,035,284)</u></b>  | <u>-</u>                    |
| Net currency position as at 30 June 2006                | <b><u>(6,303,894)</u></b>  | <b><u>6,303,894</u></b>     | <u>-</u>                    |

The exchange rate applied for the USD (the only foreign major currency) during the year were as follows

|                          | 2007<br>Shs | 2006<br>Shs |
|--------------------------|-------------|-------------|
| Average exchange rate    | 1,751       | 1,830       |
| Reporting date spot rate | 1,593       | 1,860       |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)

**Sensitivity analysis**

A 10% strengthening of the Uganda Shilling against the dollar at 30 June would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates remain constant. The analysis is performed on the same basis for 2006

|                | <b>2007</b>      | <b>2006</b>      |
|----------------|------------------|------------------|
|                | <b>Shs</b>       | <b>Shs</b>       |
| Profit or loss | <u>2,166,985</u> | <u>1,008,623</u> |

**Interest rate risk**

In broad terms the interest rate risk is the risk that concerns the sensitivity of the Fund's financial performance to changes in the interest rates. The Fund's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Fund's business strategies. In order to minimize interest risk, the Fund has a policy where the approved investment commitments are matched to member's funds.

**Exposure to interest rate risk**

As at 30 June the interest rate profile of the Funds interest bearing financials instruments was:

|                                     | <b>2007</b>        | <b>2006</b>        |
|-------------------------------------|--------------------|--------------------|
|                                     | <b>Shs</b>         | <b>Shs</b>         |
| Fixed rate financial assets         | 675,027,499        | 520,463,611        |
| Variable rate financial assets      | 15,237,559         | 19,759,050         |
| Fixed rate financial liabilities    | -                  | -                  |
| Variable rate financial liabilities | -                  | -                  |
|                                     | <u>690,265,058</u> | <u>540,222,661</u> |

**Fair value and cash flow sensitivity analysis**

The Fund does not account for any fixed rate or variable rate financial assets at fair value through profit or loss. Therefore a change in interest rate at the balance sheet date will not affect profit or loss.

The financial assets held at variable rate relate to the corporate bonds for Uganda Telecom Limited (UTL) and East African Development Bank (EADB). These balances are not significant when compared with the total financial assets of the Fund as at year end, hence a change of 100 points in the interest rate for these instruments would have an insignificant effect on the profit or loss for the Fund.

***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)***

The table below summarizes the exposure to interest rate risks. Included in the table are the Fund's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

|   | <b>1 up to 3<br/>months<br/>Shs'000</b> | <b>3 to 12<br/>months<br/>Shs'000</b> | <b>1 to 5<br/>years<br/>Shs'000</b> | <b>Above<br/>5 years<br/>Shs'000</b> | <b>Non interest<br/>bearing<br/>Shs'000</b> | <b>Total<br/>Shs'000</b> |
|---|---|---------------------------------------|-------------------------------------|--------------------------------------|---|--------------------------|
| <b>Assets</b>   |   |                                       |                                     |                                      |   |                          |
| Cash and cash equivalents                               | -                                       | -                                     | -                                   | -                                    | 10,996,476                                  | 10,996,476               |
| Deposits with banks                                     | 38,262,452                              | 156,328,761                           | -                                   | -                                    | 11,825,708                                  | 206,416,921              |
| Investment in securities held to maturity               | -                                       | 97,244,191                            | 312,071,821                         | -                                    | 12,987,517                                  | 422,303,529              |
| Trade and other receivables                             | -                                       | -                                     | -                                   | -                                    | 7,084,694                                   | 7,084,694                |
| Equity investments at fair value through profit or loss | -                                       | -                                     | -                                   | -                                    | 22,825,267                                  | 22,825,267               |
| Loans and advances at amortized cost                    | -                                       | -                                     | 12,506,242                          | -                                    | 488,401                                     | 12,994,643               |
| Tax recoverable   | -                                       | -                                     | -                                   | -                                    | 7,633,228                                   | 7,633,228                |
| Inventories   | -                                       | -                                     | -                                   | -                                    | 66,071                                      | 66,071                   |
| Investment in associate                                 | -                                       | -                                     | -                                   | -                                    | 24,255,306                                  | 24,255,306               |
| Other investments                                       | -                                       | -                                     | -                                   | -                                    | 10,300                                      | 10,300                   |
| Investment properties                                   | -                                       | -                                     | -                                   | -                                    | 189,252,100                                 | 189,252,100              |
| Property, and equipment                                 | -                                       | -                                     | -                                   | -                                    | 6,641,306                                   | 6,641,306                |
| <b>Total Assets</b>                                     | <b>38,262,452</b>                       | <b>253,572,952</b>                    | <b>324,578,063</b>                  | <b>-</b>                             | <b>294,977,872</b>                          | <b>911,391,339</b>       |
| <b>Liabilities</b>                                      |   |                                       |                                     |                                      |   |                          |
| Trade and other payables                                | -                                       | -                                     | -                                   | -                                    | (6,000,779)                                 | (6,000,779)              |
| Provisions  | -                                       | -                                     | -                                   | -                                    | (19,545,382)                                | (19,545,382)             |
| <b>Total liabilities</b>                                | <b>-</b>                                | <b>-</b>                              | <b>-</b>                            | <b>-</b>                             | <b>(25,546,161)</b>                         | <b>(25,546,161)</b>      |
| <b>Members' Fund and Reserves</b>                       |   |                                       |                                     |                                      |   |                          |
| Accumulated Members' funds                              | -                                       | -                                     | -                                   | -                                    | (827,696,656)                               | (827,696,656)            |
| Reserve account   | -                                       | -                                     | -                                   | -                                    | (484,478)                                   | (484,478)                |
| Accumulated surplus                                     | -                                       | -                                     | -                                   | -                                    | (57,664,044)                                | (57,664,044)             |
| <b>Total Members' fund and Reserves</b>                 | <b>-</b>                                | <b>-</b>                              | <b>-</b>                            | <b>-</b>                             | <b>(885,845,178)</b>                        | <b>(885,845,178)</b>     |
| <b>Total Members' fund, Reserves &amp; Liability</b>    | <b>38,262,452</b>                       | <b>253,572,952</b>                    | <b>324,578,063</b>                  | <b>-</b>                             | <b>(911,391,339)</b>                        | <b>(911,391,339)</b>     |
| <b>Interest sensitivity gap</b>                         |   |                                       |                                     |                                      |   |                          |
| As at 30 June 2007                                      | <b>(38,262,452)</b>                     | <b>(253,572,952)</b>                  | <b>(324,578,063)</b>                | <b>-</b>                             | <b>616,413,467</b>                          | <b>-</b>                 |
| As at 30 June 2006                                      | <b>-</b>                                | <b>(196,764,895)</b>                  | <b>(242,129,160)</b>                | <b>(22,464,295)</b>                  | <b>460,072,635</b>                          | <b>-</b>                 |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

***Fair value versus carrying amounts***

The fair values of financial assets and liabilities together with the carrying value shown in the balance sheet are analysed as follows

|   | <b>30 June 2007</b>    |                    | <b>30 June 2006</b>    |                    |
|---|------------------------|--------------------|------------------------|--------------------|
|   | <b>Carrying amount</b> | <b>Fair value</b>  | <b>Carrying amount</b> | <b>Fair Value</b>  |
|   | <b>Shs '000</b>        | <b>Shs '000</b>    | <b>Shs '000</b>        | <b>Shs '000</b>    |
| Loans and advances at amortized cost                    | 12,994,643             | 12,994,643         | 16,392,329             | 16,392,329         |
| Investment securities held to maturity                  | 422,303,529            | 422,303,529        | 365,193,055            | 365,193,055        |
| Equity investments at fair value through profit or loss | 22,825,267             | 22,825,267         | 17,424,308             | 17,424,308         |
| Other investment  | 10,300                 | 10,300             | 4,665,300              | 4,665,300          |
| Deposits due from banks                                 | 206,416,921            | 206,416,921        | 102,289,400            | 102,289,400        |
| Trade and other receivables                             | 7,084,694              | 7,084,694          | 9,314,949              | 9,314,949          |
| Cash and cash equivalents                               | 10,996,476             | 10,996,476         | 14,271,581             | 14,271,581         |
| Trade payables  | (6,000,779)            | (6,000,779)        | (9,986,390)            | (9,986,390)        |
|   | <b>676,631,051</b>     | <b>676,631,051</b> | <b>519,564,532</b>     | <b>519,564,532</b> |

**(c) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations on its financial liabilities. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

**Management of liquidity risk**

The Fund has access to a diverse funding base. Funds are raised mainly from member's contributions and reserves. The Fund continually assesses liquidity risk by identifying and monitoring changes in funding required in meeting business goals and targets set in terms of the overall Fund strategy. In addition, the Fund has a Finance Committee that meet on a regular basis to monitor liquidity risk, review and approve liquidity policies and procedures.

***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)***

**Exposure to Liquidity risk**

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 30 June 2007 to the contractual maturity date.

|   | <b>Matured</b>    | <b>Less than 3 months</b> | <b>3 months to 1 year</b> | <b>1 to 5 years</b> | <b>Above 5 years</b> | <b>Total</b>         |
|---|-------------------|---------------------------|---------------------------|---------------------|----------------------|----------------------|
|   | <b>Shs'000</b>    | <b>Shs'000</b>            | <b>Shs'000</b>            | <b>Shs'000</b>      | <b>Shs'000</b>       | <b>Shs'000</b>       |
| <b>Assets</b>   |                   |                           |                           |                     |                      |                      |
| Cash and cash equivalents                               | 10,996,476        | -                         | -                         | -                   | -                    | 10,996,476           |
| Deposits with banks                                     | -                 | 38,656,976                | 167,759,945               | -                   | -                    | 206,416,921          |
| Investment in securities held to maturity               | -                 | 26,827,794                | 83,403,914                | 312,071,821         | -                    | 422,303,529          |
| Trade and other receivables                             | -                 | -                         | 7,084,694                 | -                   | -                    | 7,084,694            |
| Equity investments at fair value through profit or loss | -                 | -                         | -                         | -                   | 22,825,267           | 22,825,267           |
| Loans and advances at amortized cost                    | -                 | -                         | -                         | 12,994,643          | -                    | 12,994,643           |
| Tax recoverable   | -                 | -                         | 7,633,228                 | -                   | -                    | 7,633,228            |
| Inventories   | -                 | 66,071                    | -                         | -                   | -                    | 66,071               |
| Investment in associate                                 | -                 | -                         | -                         | -                   | 25,166,804           | 25,166,804           |
| Other investments                                       | -                 | -                         | -                         | -                   | 10,300               | 10,300               |
| Investment properties                                   | -                 | -                         | -                         | -                   | 189,252,100          | 189,252,100          |
| Property, and equipment                                 | -                 | -                         | -                         | -                   | 6,641,306            | 6,641,306            |
| <b>Total Assets</b>                                     | <b>10,996,476</b> | <b>65,550,841</b>         | <b>265,881,781</b>        | <b>325,066,464</b>  | <b>243,895,777</b>   | <b>911,391,339</b>   |
| <b>Liabilities</b>                                      |                   |                           |                           |                     |                      |                      |
| Trade and other payables                                | -                 | (6,000,779)               | -                         | -                   | -                    | (6,000,779)          |
| Provisions  | -                 | -                         | -                         | (19,545,382)        | -                    | (19,545,382)         |
| <b>Total liabilities</b>                                | <b>-</b>          | <b>(6,000,779)</b>        | <b>-</b>                  | <b>(19,545,382)</b> | <b>-</b>             | <b>(25,546,161)</b>  |
| <b>Members' Fund and Reserves</b>                       |                   |                           |                           |                     |                      |                      |
| Accumulated Members' funds                              | -                 | -                         | -                         | -                   | (827,696,656)        | (827,696,656)        |
| Reserve account   | -                 | -                         | -                         | -                   | (484,478)            | (484,478)            |
| Accumulated surplus                                     | -                 | -                         | -                         | -                   | (57,664,044)         | (57,664,044)         |
| <b>Total Members' fund and Reserves</b>                 | <b>-</b>          | <b>-</b>                  | <b>-</b>                  | <b>-</b>            | <b>(885,845,178)</b> | <b>(885,845,178)</b> |
| <b>Total Members' fund, Reserves &amp; Liability</b>    | <b>-</b>          | <b>(6,000,779)</b>        | <b>-</b>                  | <b>(19,545,382)</b> | <b>(885,845,178)</b> | <b>(911,391,339)</b> |
| <b>Interest sensitivity gap</b>                         |                   |                           |                           |                     |                      |                      |
| As at 30 June 2007                                      | 10,996,476        | 59,550,062                | 265,881,781               | 305,521,082         | (641,949,401)        | -                    |
| As at 30 June 2006                                      | 14,271,581        | -                         | 197,087,468               | 254,576,525         | (465,935,574)        | -                    |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

**(d) Credit risk**

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund loans and banks and investment securities. For risk management reporting purposes, the Fund considers all elements of credit risk exposure such as individual obligator default risk, country and sector risk.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

**Management of credit risk**

The Board of Directors has delegated responsibility for the management of credit risk to its Finance Committee. The investments department is responsible for oversight of the Fund credit risk, including:

Formulating credit policies, covering collateral requirements and credit assessments, risk grading and reporting. Documentary, legal procedures and compliance with regulatory and statutory requirements is done in consultation with the Fund Legal and Compliance department.

Establishing the authorisation structure for the approval and renewal of credit facilities, authorisation limits are allocated to the investment committee. Larger facilities require approval by the board of directors as appropriate.

Reviewing compliance of investment mix with agreed exposure limits, including those for selected industries, country risk and product types. The Fund also has an investment committee which is responsible for monitoring the credit quality of investments and appropriate corrective action is taken and providing advice, guidance and specialist skills to business units to promote best practice throughout the Fund in the management of credit risk.

The investment department is required to implement the Fund credit policies and procedures, with credit approval authorities delegated from the Fund Board of directors. The investment department are responsible for the quality and performance of its investment portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to the board approval.

Regular audits of investment department and the Fund Credit processes are undertaken by Internal Audit.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure as at the balance sheet date was:

|   | <b>Notes</b> | <b>2007<br/>Shs '000</b>  | <b>2006<br/>Shs '000</b>  |
|---|--------------|---------------------------|---------------------------|
| Cash and cash equivalents                               | 13           | 10,996,476                | 14,271,581                |
| Deposits with banks                                     | 14           | 206,416,921               | 102,289,400               |
| Investment in securities held to maturity               | 15           | 422,303,529               | 365,193,055               |
| Trade and other receivables                             | 16           | 7,084,694                 | 9,314,950                 |
| Equity investments at fair value through profit or loss | 17           | 22,825,267                | 17,424,308                |
| Loans and advances at amortized cost                    | 18           | 12,994,643                | 16,392,330                |
| Tax recoverable   | 19           | 7,633,228                 | 10,671,738                |
| Other investments                                       | 22           | <u>10,300</u>             | <u>4,665,300</u>          |
|   |              | <b><u>690,265,058</u></b> | <b><u>540,222,662</u></b> |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

The maximum exposure to credit risk for loans as at the reporting date by the type of loan at amortized cost was:

|  | <b>2007</b>              | <b>2006</b>              |
|--|--------------------------|--------------------------|
|  | <b>Shs '000</b>          | <b>Shs '000</b>          |
| National Union Plantation Agricultural Workers Loan      | 80,390                   | 79,500                   |
| DFCU Bank loan for employee loan scheme                  | -                        | 1,350,525                |
| Oreint Bank loan for employee loan scheme                | -                        | 1,064,025                |
| Housing Finance Bank Limited loan for mortgage financing | 3,355,044                | 3,500,417                |
| DFCU Bank Limited loan for mortgage financing            | 7,695,824                | 8,622,236                |
| Staff loans  | <u>1,863,385</u>         | <u>1,775,627</u>         |
|  | <b><u>12,994,643</u></b> | <b><u>16,392,330</u></b> |

The ageing of loans at amortized cost as at the balance sheet date was as follows

|                       | <b>30 June 2007</b>      |                   | <b>30 June 2006</b>      |                   |
|-----------------------|--------------------------|-------------------|--------------------------|-------------------|
|                       | <b>Gross</b>             | <b>Impairment</b> | <b>Gross</b>             | <b>Impairment</b> |
|                       | <b>Shs '000</b>          | <b>Shs '000</b>   | <b>Shs '000</b>          | <b>Shs '000</b>   |
| Not past due          | 12,914,254               | -                 | 16,312,830               | -                 |
| Past due 30-60 days   | -                        | -                 | -                        | -                 |
| Past due 31-120 days  | -                        | -                 | -                        | -                 |
| Past due 120-360 days | -                        | -                 | -                        | -                 |
| More than a year      | 80,390                   | -                 | 79,500                   | -                 |
|                       | <b><u>12,994,644</u></b> | <b><u>-</u></b>   | <b><u>16,392,330</u></b> | <b><u>-</u></b>   |

As at the balance sheet date there was no impairment loss allowance in respect of loans and advances, held to maturity investments.

The maximum exposure to credit risk for trade receivables as at the reporting date by the type of receivables was:

|                                     | <b>2007</b>             | <b>2006</b>             |
|-------------------------------------|-------------------------|-------------------------|
|                                     | <b>Shs '000</b>         | <b>Shs '000</b>         |
| Rent receivable                     | 1,606,674               | 2,801,277               |
| Dividends receivable from associate | 1,757,849               | 28,546                  |
| Staff debtors                       | 1,475,837               | 1,568,770               |
| Other debtors                       | 1,465,997               | 4,482,678               |
| Prepayments                         | <u>778,337</u>          | <u>433,678</u>          |
|                                     | <b><u>7,084,694</u></b> | <b><u>9,314,949</u></b> |

Included in other debtors is amount due from Victoria Property Development Limited Ushs 1,720 million (2006: Ushs 1,957 million) relating to advances made to Victoria property Development, this balance is not impaired. Victoria Property Development Ltd is 49% owned by the Fund.

The ageing of trade and other receivables as at the balance sheet date was as follows

|                       | <b>30 June 2007</b>      |                           | <b>30 June 2006</b>      |                         |
|-----------------------|--------------------------|---------------------------|--------------------------|-------------------------|
|                       | <b>Gross</b>             | <b>Impairment</b>         | <b>Gross</b>             | <b>Impairment</b>       |
|                       | <b>Shs '000</b>          | <b>Shs '000</b>           | <b>Shs '000</b>          | <b>Shs '000</b>         |
| Not past due          | 3,846,993                | -                         | 1,716,022                | -                       |
| Past due 0-30 days    | 10,054                   | -                         | 14,231                   | -                       |
| Past due 31-120 days  | 34,063                   | -                         | 34,464                   | -                       |
| Past due 120-360 days | 754,432                  | -                         | 1,077,601                | -                       |
| More than a year      | 5,709,531                | (3,270,379)               | 7,371,086                | (898,454)               |
|                       | <b><u>10,355,073</u></b> | <b><u>(3,270,379)</u></b> | <b><u>10,213,404</u></b> | <b><u>(898,454)</u></b> |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (continued)**

Based on historical default rates, the Fund believes that no impairment allowance is necessary in respect of trade receivables not past due 360 days. Part of the balance for trade receivables past due for one year includes amount owed by a related entity Victoria Properties Development Limited of Ushs 1,720 million (2006: 1,957 million) where the Fund has significant control and as such can influence the recovery of this amount, this amount therefore has not been provided for as at 30 June 2008.

The allowance account in respect of trade and other receivables are used to record impairment losses unless the Fund is satisfied that no recovery of the amount owing is possible, at that point the amount considered irrecoverable is written off against the financial asset directly.

**34. COMPONENTS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CASHFLOW**

|  | <b>Note</b> | <b>2007</b>              | <b>2006</b>              |
|--|-------------|--------------------------|--------------------------|
|  |             | <b>Ushs '000</b>         | <b>Ushs'000</b>          |
| Cash and bank balances                                   | 13          | 10,996,476               | 14,271,581               |
| Deposits due from banks within three (3) months          | 14          | 38,656,976               | -                        |
| Held to maturity investments due within three (3) months | 15          | <u>26,827,794</u>        | <u>-</u>                 |
|  |             | <b><u>76,481,246</u></b> | <b><u>14,271,581</u></b> |

**35. ESTABLISHMENT**

The Fund was established in Uganda under section 2 of the NSSF Act (Cap 222).

**36. CURRENCY**

These financial statements are presented in Uganda Shillings rounded to the nearest thousand (Shs'000).

**37. SUBSEQUENT EVENT**

Subsequent to 30 June 2007 the Fund developed and approved a development plan for construction of houses on Lubowa land, which is currently held for capital appreciation and disclosed as investment properties. The houses once contracted and completed will be sold to the members of the public in the ordinary course of business.

The Fund's top management including the Managing Director and the Deputy Managing Director were recently suspended by the appointing authority (The Minister of Finance Economic Planning and Development) pending a forensic audit by the Auditor General on various transactions undertaken by the Fund.

**38. CAPITAL COMMITMENTS**

As at 30 June 2007, the Fund's commitments in respect of the service contracts for project management for Arua office and a diagnostic review and analysis of the information management system amounted to Ushs 8.8 billion.

**39. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements for the year ended 30 June 2007 are approved on the same date as the financial statements for 30 June 2008. The financial statements for 30 June 2008 should be referred to for a better understanding of the financial position of the Fund.