



The
BIGGER
PICTURE

2012
Annual Report

CONFIDENCE



Vision

“To make Uganda’s Capital Market a Centre for **Capital Raising** and **Investment**”

Mission

“To **Develop, Promote** and **Regulate** a robust, transparent, fair and efficient Capital Market in Uganda”

Functions

Under the Capital Markets Authority (CMA) Act Cap 84, the functions of CMA include:

- The **Development** of all aspects of the capital markets with particular emphasis on the removal of impediments to, and the creation of incentives for long term investments in productive enterprises;
- The **Creation**, maintenance and regulation through implementation of a system in which the market participants are self regulated to maximum practicable extent, and of a market in which securities can be issued and traded in an orderly, fair and efficient manner;
- The **Protection** of investor interests;
- The Operation of an investor **compensation fund**

Values

- Integrity
- Efficiency
- Fairness
- Firmness



55

List of Licensed Persons



34

Financial Statements For The Year Ended 30 June 2012



31

Financial Highlights



29

Building Institutional Capacity



26

Market Development



22

Creating a Future Investor base

LETTER OF TRANSMISSION



30th November 2012

The Honorable Minister of Finance, Planning and Economic Development
Ministry of Finance, Planning and Economic Development
Apollo Kaggwa Road
P. O. Box 8147
Kampala

Dear Honorable Minister,

Pursuant to S.8 (6) of the Capital Markets Authority Act (CAP 84), I have the honor to submit to you the annual report and accounts of the Capital Markets Authority (CMA) in respect of the accounting period ended 30th June 2012.

The report covers the activities, challenges, future plans and financial statements of Capital Markets Authority.

Respectfully yours,

Grace Jethro Kavuma
Board Chairman

Chairman's Review

- The theme of this annual report, "The bigger picture" fits into one of the roles of the new Board, which is; "Setting Strategy". Johnson and Scholes in their book, Exploring Corporate Strategy define strategy as "the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations".

■ **Grace Jethro Kavuma**
Board Chairman



CHAIRMAN'S REVIEW

On a positive note however, towards the end of the year, new issuances including the Jubilee Holdings Bonus Issue, Stanbic Bank Bonus Issue, Kenya Airways Limited Rights Issue, Centum Investment Ltd Bonus Issue and African Development Bank Bond listing, gave the market a boost.

THE BIGGER PICTURE: SETTING STRATEGY

This period under review marks the first year of this Board term that commenced on 10th October 2011 and will end on 9th October 2014. I have the great honour of having been appointed to serve as Chairman of the fifth Board of Directors of the Capital Markets Authority (CMA).

The theme of this annual report, "The Bigger Picture" fits into one of the roles of the new Board, which is; "Setting Strategy". Johnson and Scholes in their book, *Exploring Corporate Strategy* define strategy as "the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations". This is precisely what the Board aims to achieve.

The activities undertaken by CMA during the year ended 30th June 2012 as articulated in this annual report confirm that CMA is creating the building blocks of a strong future for the capital markets industry in line with its vision of being a centre of capital raising and investment in the region. Key among these building blocks was a review of the regulatory framework to ensure adherence to international standards and uniformity with East African regulations in preparation for the capital markets regional integration.

The year under review was particularly challenging for the Capital Market industry because of the high inflation and high interest rates on government securities. Various investors chose the high yielding government securities instead of equity market products. On a positive note however, towards the end of the year, new issuances including the Jubilee Holdings Bonus Issue, Stanbic Bank Bonus Issue, Kenya Airways Limited Rights Issue, Centum Investment Ltd Bonus Issue and African Development Bank Bond listing, gave the market a boost. Umeme Limited announcement of an Initial Public Offering (IPO), planned for the second quarter of the financial

year 2012/13 was a vote of confidence.

I thank the Ministry of Finance, Planning and Economic Development (MoFPED) and Bank of Uganda (BOU) for their continued support and guidance without which the industry may not have made the recorded progress. The significant progress registered in our capital market during the year was made possible by the insightful counsel and dedication of the previous and current Boards. I particularly wish to recognise the Late John Wafula (R.I.P) a member of the previous Board who passed away on 31st December 2011. I thank Mr. Bisereko Kyomuhendo and Mr. Stephen Kaboyo who left the Board and welcome Mr. Bemanya Twebaze and Mr. Philip Wabulya who replaced the two members.

I also appreciate the Chief Executive Officer, Management and Staff of the Authority for their hard work and dedication. Collectively, we are fitting into place the building blocks that will create and maintain a strong capital markets industry in Uganda.

To conclude, I would like to concur with an anonymous author who said, "The future is not a result of choices among alternative paths offered by the present, but a place that is created--created first in the mind and will, created next in activity. The future is not some place we are going to, but one we are creating." In the past financial year, we worked to create the future through various activities and in the upcoming year, we return to the 'mind and will' by developing a new strategic plan for the period July 2013 – June 2016. This will offer us the opportunity to once again create the future of the capital markets industry in Uganda and beyond.



Grace Jethro Kavuma
Board Chairman

Chief Executive Officer's Review

- CMA reviewed the entire legal and regulatory framework considering necessary amendments to the capital markets laws to meet international best practices and also pursue admission to Appendix A of the International Organisation of Securities Commissions (IOSCO)
- Multi-Memorandum of Understanding (MMoU) before the 31st December 2012 deadline. The Principles identified for amendment were forwarded to the Ministry of Finance, Planning and Economic Development for consideration.

■ **Japheth Katto**
Chief Executive Officer



CHIEF EXECUTIVE OFFICER'S REVIEW



STRENGTHENING THE FOUNDATION

THE BIGGER PICTURE: STRENGTHENING THE FOUNDATION

In the 2011/12 fiscal year, we set out to achieve our mission and vision by pursuing our strategic objectives as laid out in the strategic plan for the period July 2010 – June 2013 in order to position the Ugandan capital markets to benefit from future opportunities.

The Authority's six strategic objectives are:

- Enhance the effectiveness of capital markets regulation;
- Sensitize and empower the public to invest in capital markets;
- Develop and facilitate the capital markets to contribute to economic development in Uganda;
- Facilitate the integration of the East African Capital Markets;

- Enhance CMA's institutional capacity to fulfil its mandate;
- Promote international cooperation to enhance partnerships with similar institutions.

During the fiscal year, CMA reviewed the entire legal and regulatory framework, considering necessary amendments to the capital markets laws to meet international best practices and also pursue admission to Appendix A of the International Organisation of Securities Commissions (IOSCO) Multi-Memorandum of Understanding (MMoU) before the 31st December 2012 deadline. The principles identified for amendment were forwarded to the Ministry of Finance, Planning and Economic Development for consideration.

CMA actively participated in regional and international meetings aimed at strengthening the regulation and development of capital markets. CMA participated in the High Level Task Force (HLTF) negotiating the East African Monetary Union (EAMU), and to other relevant sectoral East African Community (EAC) meetings such as the Financial Markets Infrastructure Working Group spear heading the integration of the EAC financial markets infrastructure and the EAC Securities Directives Working Group spearheading the development of a legal and regulatory framework for the regional EAC capital market. On the international scene, CMA participated in meetings and surveys conducted by IOSCO.

As part of the initiative to harmonise the legislation in the region, the East African Securities Regulatory Authorities (EASRA) members adopted the Regional Issuance of Bond Regulations. These regulations will enable future bond issuers to raise capital across the East African region without seeking approval from the various member jurisdictions.

In line with the core objective of developing the capital markets industry in Uganda, CMA undertook two studies; The Capital Markets Players survey and The Capital Markets Investors survey. Two findings stand out from the two surveys namely; a majority of investors in the capital markets do not invest beyond the Initial Public Offer (IPO) and most brokerage firms rely on brokerage fees for their revenue. CMA will thus continue to encourage Ugandans to actively participate in the secondary market while at the same time encouraging licensed broker/dealers to use their dealer's license to provide liquidity in the secondary market.

As part of CMA's efforts to promote good financial reporting, the Authority trains financial journalists on key aspects in financial reporting to ensure consistent and effective financial information sharing. The Authority has for the last four years held the Kikyogo Capital Markets Awards (KCMA) to recognise financial journalists and media houses that contributed to the capital markets development through well researched and indepth financial reporting. The KCMA was held under the theme, 'Business Ethics in Uganda'. Justice Geoffrey Kiryabwire who delivered the keynote address pointed out the key drivers of poor business ethics that included corruption but was optimistic that with good corporate governance, business ethics in Uganda would be achievable.

CMA was one of the sponsors of the first Financial Reporting (FiRe) Awards organised by the Institute of Certified Public Accountants of Uganda (ICPAU). The Authority decided to sponsor the FiRe Awards because good financial reporting is a prerequisite for listing on the Uganda Securities Exchange and is therefore important for the development of capital

markets in Uganda.

CMA further strengthened institutional capacity through attraction, development and retention of highly skilled talent. This talent provides CMA leverage to meet current, emerging and anticipated challenges in the dynamic securities market.

CMA would like to recognise the strategic partners in sensitizing and empowering our target audiences. The target audiences for the year 2011/12 were journalists, youth and working professionals that were identified to have potential to create our future investor base. The strategic partners include the Association of Chartered Certified Accountants (ACCA), Centenary Bank, Bank of Uganda, FinLit Foundation and the National Curriculum Development Centre (NCDC).

On behalf of Management and Staff of CMA, I would like to thank the outgoing Board of Directors for their guidance and support throughout their three-year Board term and also thank the new Board for guiding us through the first year of their term of office. I thank all staff members for their relentless dedication, resilience and innovation in ensuring market efficiency and protecting investors.

I thank the Minister of Finance, Planning and Economic Development, Ministers of State responsible for various aspects in the Ministry of Finance, the Permanent Secretary/ Secretary to the Treasury and his team at the Ministry, the Governor and Deputy Governor of the Bank of Uganda and his Senior Staff for the support extended to CMA in various ways. Without this support, we would not have registered the achievements or overcome the challenges faced during the year.

May I now invite you to read this annual report which provides in greater detail, the achievements, developments and challenges of the Authority in the 2011/12 financial year as we plan and aspire for the bigger picture in the coming financial years.



Japheth Katto
Chief Executive Officer

BOARD of Directors



Grace J. Kavuma
Chairman



Japheth Katto
Chief Executive Officer



Deo J. B. Kayemba
Represents Uganda
Manufacturers Association



Miriam Magala
Represents Insurance
Institute of Uganda



Phillip Wabulya
Represents The Governor,
Bank of Uganda



John Fisher Kanyemibwa
Represents
Uganda Law Society



Paul Patrick Mwanja
Represents
Permanent Secretary / Secretary to
the Treasury Ministry of Finance,
Planning and Economic Development



Harriet Lwabi
Acting Solicitor General



Awel Uwhanganye
Represents Uganda National
Chamber of Commerce &
Industry



Bemanya Twebaze
Registrar General



Agnes Tibayeita Isharaza
Represents Uganda Banker's
Association



Emmanuel Muwazi
Represents Institute of Certified
Public Accountants of Uganda

CORPORATE GOVERNANCE
REPORT



The Board Members have experience and expertise in legal, financial, business and administrative matters. Upon joining the Board, new Members receive an induction and industry study tour organized by the Authority. Day to day operations of the Authority are performed by the Management team led by the CEO. The CEO develops and delivers the strategic objectives agreed to with the Board.

THE BIGGER PICTURE: BUILDING CONFIDENCE

In order to boost confidence in the Capital Markets Authority (CMA) as the regulator of the capital markets industry, the Authority is committed to the highest level of corporate governance and conducts its affairs in line with the principles set out in the Capital Markets Corporate Governance Guidelines, 2003 and international best practice in corporate governance.

Board of Directors

CMA is governed by a unitary Board comprising a Chairperson and eleven representatives from the private and public sectors. Six members are ex-officio, by virtue of their public offices while the other six members represent private sector interests. The roles of Chairman and Chief Executive are separate and distinct. With the exception of the Chief Executive Officer (CEO), all members of the Board are Non Executive Directors. This ensures that there is sufficient independence in decision making.

The Board is appointed by the Minister of Finance, Planning and Economic Development and is accountable to the Minister, for ensuring compliance with the Capital Markets Authority Act (Cap 84). In August 2011, the term of office of the fourth Board came to an end. Five members were re-appointed to serve another term of three years while six were newly appointed by the Minister in accordance with the provisions of section 4(6) of the Capital Markets Authority Act (Cap 84).

The Board Members have experience and expertise in legal, financial, business and administrative matters. Upon joining the Board, new Members receive an induction and industry study tour organized by the Authority. Day to day operations of the Authority are performed by the Management team led by the CEO. The CEO develops and delivers the strategic objectives agreed to with the Board.

In 2011, the Capital Markets Authority Act was amended to provide for quarterly meetings of the Board. Details of the appointment dates and expiry dates of the Board members, Board and Committee meetings held in the year under review and attendance of those meetings are set out in Table B below. The Senior Management team attends Board meetings and there is regular interaction between the Board and

Senior Management.

The Board fulfils key functions, including reviewing, guiding and approving corporate strategy, operational plans, risk policy, annual budgets and business plans; setting performance objectives; monitoring corporate performance; and overseeing major capital expenditures.

The Board Secretary (the Director, Legal & Compliance), is responsible for proper administration of the Board proceedings, the provision of administrative and secretarial services as well as legal advice to the Board. The Chairman and the Board Secretary ensure that the agenda of the Board is in tandem with CMA's priorities. The Board Secretary also reviews papers before circulation to Board Members to ensure that the information is accurate and clear.

The Board Members adhere to the standard of conduct expected of them as prescribed in the Board Manual. Instances of conflict of interest are addressed through disclosure and declaration of the interest as required under the Conflict of Interest Guidelines which apply to both Board and Staff.

Board Training

During the year, the Board received continuous professional development on issues that are pertinent to capital markets development. As part of the Board exposure programme, a study tour was arranged and hosted by the Financial Services Commission (FSC) of Mauritius. The study tour was undertaken by the Board Chairman and two Board Members.

The Board of Directors (as at 30th June 2012)

The CMA Board is composed of twelve members including the CEO in line with the CMA Act. During the year ended 30th June 2012, two Board members, Mr. Bisereko Kyomuhendo - Acting Registrar of Companies and Mr. Stephen Kaboyo - representative of the Governor, Bank of Uganda resigned. Mr. Bisereko was replaced by Mr. Bemanya Twebaze the current Registrar of Companies and Mr. Kaboyo was replaced by Mr. Philip Wabulya the Executive Director Operations, Bank of Uganda.



Remuneration of the Board

The Members of the Board are entitled to remuneration and allowances out of the general fund of the Authority, as determined by the Minister of Finance, Planning and Economic Development. Below is a table summarizing the allowances relating to meetings.

Table A: Allowances relating to meetings

	Retainer Per Month	Sitting allowance Per Meeting
Chairman	Ushs 300,000	Ushs 300,000
Members	Ushs 200,000	Ushs 250,000

Board Committees

The CMA Board exercises its oversight role through a governance structure comprising various committees namely;

- Finance & Planning Committee
- Legal & Compliance Committee
- Research & Market Development Committee
- Human Resource & Administration Committee
- Audit & Risk Management Committee

All Board Committees are governed by terms of reference developed by the Board and are mandated to make recommendations to the Board on all matters under their consideration. The function and structure of the Committees for the year under review are described below. In terms of composition, the Committees comprise Board Members with pertinent expertise in the various areas in order to maximize technical capability at the Committee level, where issues are dealt with in depth. The quorum for each Committee is at least half of the appointed Members. Each Committee determines its own procedures. The responsibilities of the committees are;

Legal & Compliance Committee

The purpose of the Legal & Compliance Committee is to oversee the development of an appropriate legal and regulatory framework for the capital markets industry. The Committee oversees the implementation and enforcement of compliance matters by the Authority. During the period July 2011 - June 2012 the Legal Committee convened six meetings to consider applications for licenses and revocation of one License, review of the proposed Takeovers and Mergers Regulations, application for issuance of bonus shares, proposed rules of the Uganda Securities Exchange (USE) on the Growth and Enterprise Market Segment, Fees & Penalties, Depository Receipts, Principles for the CMA Amendment Act, proposed

procedures for issuance of Regional Fixed Income Securities.

The Finance & Planning Committee

The Committee is responsible for guiding the Board on policy matters relating to Finance & Planning. The Committee convened one meeting during the period to consider the CMA budget for the financial year 2012/2013 and the review of depreciation rates of CMA's fixed assets. The committee oversees the Authority's quarterly financial reports and the budget. The Authority submitted to the Ministry of Finance, Planning and Economic Development, quarterly reports of activities and financial matters. At the end of every financial year, the Authority submits its annual report and audited accounts which are published and made available to the public.

The Human Resource & Administration Committee

The Human Resource Committee assists the Board in the formulation of policies geared towards recruitment, retention and development of qualified personnel to discharge the functions of the Authority. The Committee is also responsible for monitoring and appraising performance of Management, handling disciplinary matters and determining remuneration. The Committee held three meetings during the period under review to consider the CMA succession policy, review of staff benefits and the implications of the legal and regulatory reforms in the retirement benefits sector on the CMA Provident Fund.

The Audit & Risk Management Committee

The critical role of internal audit makes it imperative to have an independent Audit Committee. In terms of its functions, the Audit Committee plays a critical role in the corporate governance structure by overseeing internal controls, accountability, reporting structures and risk management. The Audit Committee held two meetings during the period under review to consider the audited financial statements for the year ended 30th June 2011, the Internal Audit work plan and the internal Audit quarterly reports. The Committee also considered the CMA Risk Management quarterly reports.

Research & Market Development Committee

The role of the Research and Market Development Committee is to assist the Board in the formulation of policies that are geared towards research and market development. This year the committee did not hold any meetings as there was no business to consider.

Table B: CMA Board Members meeting attendance (July 2011- June 2012)

Board Member	Appointment Date	Full Board Meetings	Legal & Compliance Committee	Finance & Planning Committee	Human Resource & Administration Committee	Audit & Risk Management Committee	Research & Market Development Committee ¹
Twaha Kaawaase Chairman - Aug 2008 to Aug 2011	Appointed in August 2008 and Board term expired in Aug 2011	2/2	NA	NA	NA	NA	NA
Maris Wanyera	Appointed in August 2008 and Board term expired in Aug 2011	1/2	NA	NA	NA	NA	NA
Steven Turyahikayo	Appointed in August 2008 and Board term expired in Aug 2011	2/2	NA	NA	NA	NA	NA
Robert Kabonero	Appointed in August 2008 and Board term expired in Aug 2011	1/2	NA	NA	0/1	NA	NA
John Wafula (RIP)	Appointed in August 2008 and Board term expired in Aug 2011	0/2	NA	NA	0/1	NA	NA
Grace Jethro Kavuma (Chairman)	Re-appointed to board on 10 Oct 2011	5/5	NA	NA	NA	NA	NA
Bisereko Kyomuhendo	Resigned On 31 Dec 2011	1/3	NA	NA	1/1	NA	NA
Harriet Lwabi	10 Oct 2011	2/5	2/6	NA	2/3	NA	NA
Stephen Kaboyo	Resigned On 31 March 2012	2/4	1/1	NA	NA	NA	NA
Miriam Magala	10 Oct 2011	3/5	NA	1/1	2/2	NA Chairperson	NA
Deo J.B. Kayemba	10 Oct 2011	3/3	NA	1/1	2/2 Chairperson	NA	NA
Paul P. Mwanja	10 Oct 2011	3/3	NA	1/1 Chairperson	NA	NA	NA
Agnes T. Isharaza	10 Oct 2011	2/3	6/6 Chairperson	1/1	NA	NA	NA
Emmanuel Muwazi	10 Oct 2011	2/3		NA	2/2	2/2 Chairperson	NA
John F. Kanyemibwa	10 Oct 2011	3/3	5/6	NA	NA	2/2	NA
Awel Uwihanganye	10 Oct 2011	0/3	NA	NA	NA	0/2	NA
Philip Wabulya	20 June 2012	1/1	NA	NA	NA	NA	NA
Bemanya Twebaze	24 May 2012	0/1	0/1	NA	NA	NA	NA
Japheth Katto (CEO)	Ex officio	5/5	4/6	1/1	2/2	NA	NA

PROTECTING INVESTORS



The Legal and Compliance Department in line with the CMA Act prioritizes the protection of investors in execution of its roles.

The efforts undertaken include ensuring compliance of licenses, market supervision to ensure good conduct of business and facilitating complaint resolutions brought to its attention by the investors.

THE BIGGER PICTURE: PROTECTING INVESTORS

The Legal and Compliance Department is the department at Capital Markets Authority (CMA) that is tasked with the following responsibilities;

- Overseeing the enforcement of securities laws and regulations in line with CMA's mission and compliance of licensees and listed companies;
- Providing secretarial services to the Board, organizing and coordinating board meetings;
- Implementation of the legal policy framework on capital markets issues;
- Provision of legal services to the Authority;
- Development of laws and regulations to facilitate market development and enhance protection of investors;
- Reviewing license applications, prospectus and information memorandum for all prospective issuers.

The Legal and Compliance Department in line with the CMA Act prioritizes the protection of investors in execution of its roles. The efforts undertaken include ensuring compliance of licenses, market supervision to ensure good conduct of business and facilitating complaint resolutions brought to its attention by the investors.

Legal framework development

The department prepared principles for the amendment of the Capital Markets Authority Act. The main purpose of the proposed amendments is to enable CMA comply with the requirements of, and achieve admission to appendix A with the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding. The

IOSCO is an association of organisations that regulate the world's securities and futures markets. Members are typically the Securities Commission or the main financial regulator from each country.

The CMA Board approved the Capital Markets (Asset Backed Securities) Regulations in a bid to provide alternative investment vehicles in the market. Asset Backed Securities (ABS) enable financial institutions and other corporations to raise cash by borrowing against assets and develop new sources of capital. The introduction of the ABS legal framework offers an opportunity for widening the range of products available in the capital markets. In addition, issuers reap advantages by securitising assets rather than keeping them in their books. CMA expects that there will be more players in the Ugandan capital market as a result of the ABS legal framework being developed.

The CMA Board also considered and approved the Capital Markets (Takeovers and Mergers) Regulation. The regulations provide a guide to the procedures to be followed in the case of a merger or takeover of a listed company. The regulations apply to the conduct of takeovers and mergers whether voluntary or mandatory made in respect of listed companies.

The CMA Board considered and approved the Regional Issuance of Fixed Income Securities (FIS) Regulations. This will enable prospective issuers raise capital in the region as against one jurisdiction. EASRA approved the harmonisation of the legal framework to provide for regional rules for issuance of FIS. Each regulator is to domesticate the regional rules into their national laws. Issuers can simultaneously access the other East African markets through lodging one application with one regulator. CMA expects that this will expediate the process of issuing FIS in



the region, making it easier for issuers to access the regional market. It is also expected to raise interest of issuers in undertaking infrastructure projects with in the East African Community (EAC). The issuance is also expected to deepen and integrate capital markets in the EAC and to advance the provisions of the East African Common Market Protocol that provides for free movement of capital in the region.

On the side of the Uganda Securities Exchange (USE), the CMA Board approved the Growth Enterprise Market Segment (GEMS), a new market segment replacing the Alternative Investment Market Segment (AIMS). The purpose of this new market segment is to provide a less stringent way for companies that do not meet the requirements of the Main Investment Market Segment (MIMS) an option to list on the USE.

The CMA Board considered and approved the Fees and Penalties Rules of the USE. The USE fees had not been amended since its inception and there was a need to revise penalties in order to encourage greater compliance by licensees.

Listings and Corporate Actions

During the financial year ended 30th June 2012, the CMA commenced consideration of the application of Umeme Limited to listing her shares on the USE. The listing of the Umeme Limited shares on the USE will mark the first private Ugandan company listing on the Ugandan bourse.

The CMA also commenced consideration of an application for a Note programme of Ushs.125 billion to be issued by African Development Bank

On 26th June 2012, the CMA Board approved a Stanbic Bank Uganda Limited bonus issue to enable the Bank introduce an additional 600 million shares of par value USHS. 10 to the USE with each shareholder receiving 1.5 bonus shares for every share held. The bonus issue was undertaken to comply with the Financial Institutions (Revision in Minimum Capital Requirements) Instrument 2010, which requires commercial banks to raise their minimum unimpaired capital from Ushs. 4 billion to Ushs.25 billion by 2013 in a phased manner. The bonus shares were capitalized from the bank's reserves and increased the paid up capital from Ushs. 4 billion to Ushs.10 billion, the minimum capital threshold for the first phase.

Licensing

During the period under review, the Board approved one new Licensee application for Genesis Kenya Investment Management Limited.

In total, the Board renewed eight broker dealer licenses, seven licenses were renewed for fund management and twenty two licenses for investment advisory services. The full list of licensees as at June 2012 is at the back of this report.

Market Supervision

In line with her mandate over licensed persons, CMA conducted the annual inspections of all its licensees and the exercise was concluded in February 2012. The highlight of the inspections is that CMA is in her approach to supervision migrating from the Rules-based to Risk-based Supervision. This will enable the Authority focus on the identification of potential risks faced by the intermediaries and the assessment of the financial and operational factors in place to minimize and mitigate those risks. This process will also allow the Authority to direct its resources towards the issues and entities which pose the greatest threat.

This was done before the licenses for the next year 2012/2013 were issued to ensure that all licensees were in compliance with the CMA laws and Regulations.

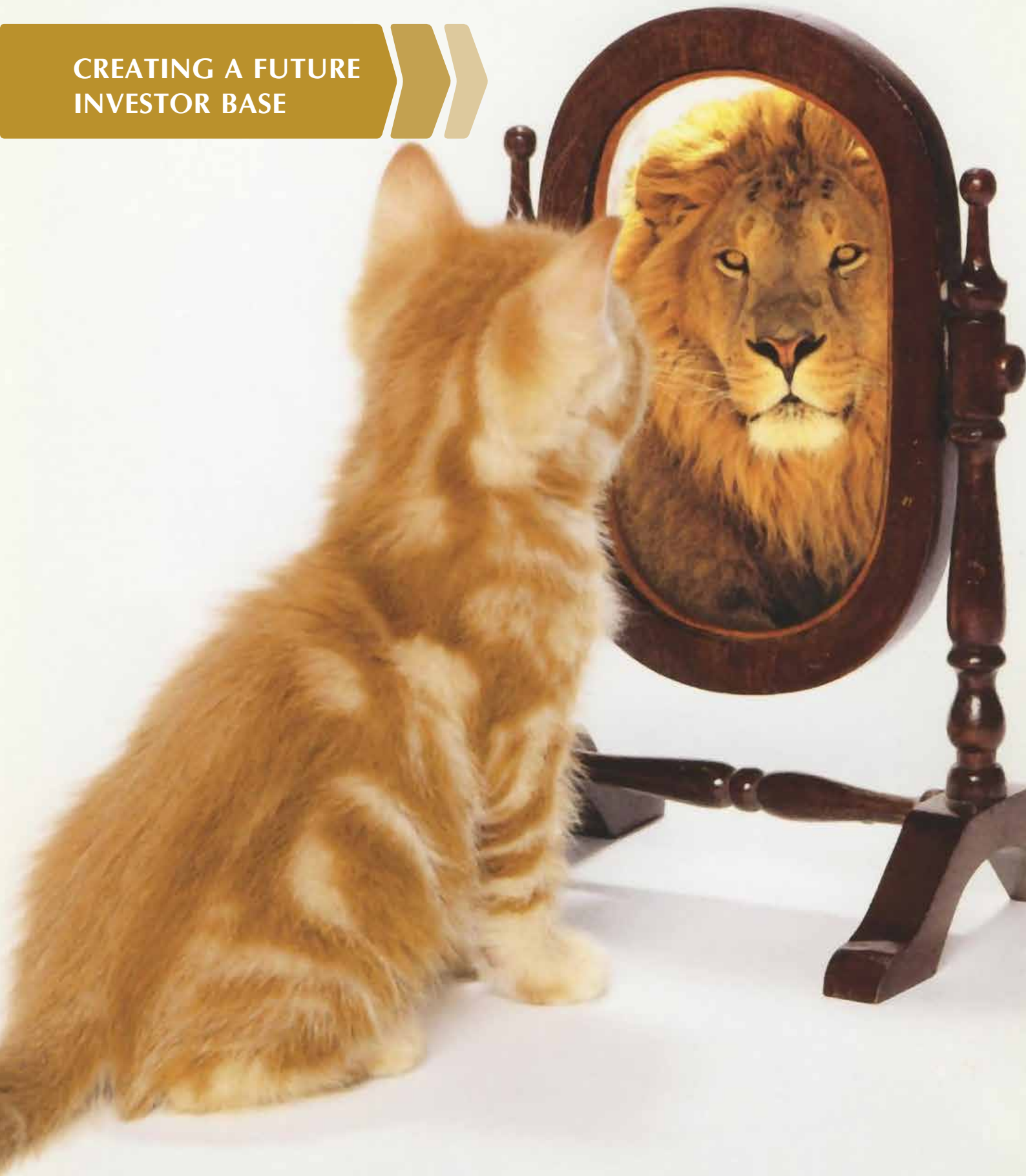
Enforcement

The Board at its meeting of December 2011 revoked the license of Bullion Capital Limited because they ceased to carry out the activities for which they are licensed by the CMA.

Conclusion

Going forward, the department will continue with its mandate of developing laws and regulations to promote the development of the industry and enhance investor protection.

CREATING A FUTURE
INVESTOR BASE



CMA was identified for its successful school-based programs and its efforts towards financial literacy and capability. The dialogue was aimed at bringing together regional players in financial literacy and seeking ways of strengthening financial capability in the East African region.

THE BIGGER PICTURE: CREATING A FUTURE INVESTOR BASE

'The business of education is the creation of the future', *Robert Duvall*. Education does not always bear immediate results but definitely does bear long term results. In the Public Education Unit, our bigger picture is to create a wide base of future investors, encouraging long term investments as well as enhancing current participation in the market. This is the guiding tool of the public education initiatives that seek to enhance financial awareness and capability among our target audiences who include students, office workers and financial journalists.

FINANCIAL EDUCATION INITIATIVES

1. Nurturing Investment Clubs

CMA promotes the establishment of investment clubs in both universities and at the work place with an aim of encouraging this target group to save and invest more especially in capital markets. Increasing participation in the market is key to the development of the market in terms of enhanced liquidity. CMA is so far working with eight universities which have established clubs that are carrying out businesses and investing in capital markets. CMA builds the capacity of these clubs through enhancing their leadership and management skills among other things. Such workshops have increased, reflecting the growing public interest in financial education. The universities and their clubs are:

- Kampala International University- KETAUS Investment Club
- Islamic University In Uganda (Mbale Campus)- Visionary Students' Investment Club

- Makerere University- Africa Youth Fund
- Kyambogo University- Divine Youth Investment Club
- Islamic University In Uganda (Female Campus)- The Female Investors' Club
- Makerere University Business School
- Mbarara University of Science and Technology- MUST Focus Investment Club
- Gulu University- Gulu University Youth Investment Club

In addition, CMA is part of a group that is guiding the process of establishing the National Association of Investment Clubs. The group under the name "InvestmentClubChampions" comprises Government, private sector and civil society organisations and is facilitated by the Competitiveness and Investment Climate Strategy (CICS) Secretariat of the Ministry of Finance, Planning and Economic Development. The association is geared at promoting and building capacity of investment clubs in Uganda to enable them build high net worth investments.

2. Incorporating Financial Education in Schools

CMA participated in the training of trainers for secondary school teachers of the entrepreneurship subject in Kampala, Mbarara and Gulu in December 2011 and January 2012. The training was organised by the National Curriculum Development Centre (NCDC) as part of entrenching teachers into the newly introduced secondary school entrepreneurship subject that covers capital markets among others. CMA benefited a lot from using the NCDC platform and has trained over 300 teachers on capital markets and other financial literacy matters. The capital

markets topics in the advanced level entrepreneurship subject were also updated.

3. CMA/ACCA Journalists Capacity Building Programme

CMA and the Association of Chartered Certified Accountants (ACCA), under their partnership to enhance the quality of financial journalism in Uganda, established a forum for discussion of pertinent financial issues dubbed 'The Candid Couch'. The first Candid Couch took place on 12th March 2012 and took the form of panel discussions by financial sector experts. The topic for discussion was 'Uganda's Economic Downturn; Causes, Effects and Remedies'. 25 journalists attended the Candid Couch. This forum will be a permanent fixture in the CMA – ACCA partnership calendar of events to further enhance the level of awareness of the media on financial issues. The Candid Couch was initiated following an evaluation report from the media about their preference for short and more frequent trainings.

CMA and ACCA also held a sensitisation seminar for financial journalists in June 2012. The seminar resulted from the knowledge gaps identified by the financial journalists following an evaluation exercise carried out earlier in the year. The seminar aimed at sensitising the journalists on retirement benefits reforms and the East African Community (EAC) Monetary Union. The seminar also included management of personal finances, analyzing financial statements in order to equip the journalist with skills that they could later use to educate their target groups.

4. Engaging the wider public through Seminars and Exhibitions

The Public Education Unit continues to organise seminars for schools, universities, work places, sharing detailed knowledge on capital markets and personal finance management including saving, investments, raising long term finance and the role of capital markets in the development of businesses and economies. So far the following have been impacted

- 137 secondary school students (Kampala and Wakiso districts)
- 468 working professionals working for Inspector General of Government, Bank of Uganda, National Planning Authority and Smile Telecom
- 136 university students in six universities namely Makerere University, Kyambogo University, Kampala International University, Mbarara University of Science and technology, Islamic University in Uganda Female Campus and Mbale Campus.

As part of reaching the wider public, the Public Education Unit participated in five exhibitions. These were:

- The annual International Trade fair organised by the Uganda Manufacturers Association took place in October 2011. This attracted over 600 people to the CMA stall where they received publications and shared information on capital markets.
- The annual Banking, Finance and Insurance Expo that took place from 22nd – 24th March 2012; reaching over 235 people. These included bankers, accountants and the general public who were in search for knowledge on banking, capital markets and insurance.
- The Small and Medium Enterprise Exhibition organised by Private Sector Foundation Uganda from 29th – 31st March 2012. CMA reached 59 people from the private sector and the business fraternity.
- CMA was invited by Bank of Baroda to their Annual General Meeting (AGM) on 2nd June 2012 to educate their shareholders on capital markets. About seventy Shareholders attended the AGM and of these 80% visited the CMA stall and inquired about different aspects of capital markets. Many of the shareholders had interest in knowing their rights as shareholders and the regulator's role in protecting their investments.
- The annual Western Regional Trade Fair from 28th May –4th June 2012 in Mbarara. The exhibition provided an opportunity for interaction with various audience types including teachers, students, professionals, the business people and the general public. 337 people visited the CMA stall and were issued various publications. Another 311 teachers and students received presentations and publications on capital markets and personal finance in their respective schools.

5. Education through Social Media

As part of the CMA public education campaign to promote capital markets, CMA has embraced the social media. CMA launched its pages on social network sites namely face book and twitter. Both networks are up and running and can be accessed on the internet. The membership in terms of 'follows' and 'likes' is growing with the most interactions coming from students and journalists. The sites can also be accessed through the CMA web site on the following addresses; www.facebook.com/cmauganda and www.twitter.com/cmauganda.



6. National Financial Literacy Baseline Survey to Inform Investor Education

In recognition of the important and growing impact of financial literacy on individual and economic development, a national baseline survey, to determine the levels of financial literacy amongst all Ugandans was commissioned by FinLit Foundation. FinLit Foundation is an organisation formed by various financial sector players including CMA the founder member, to spearhead financial education efforts in Uganda. Several recommendations following the study were proposed. These include;

- The development of the national policy and strategy for financial literacy needs to be fast tracked to;
- Give guidance to the development of various financial literacy programmes in Uganda and focus the various financial literacy initiatives already underway in Uganda;
- There is need to build the capacity of financial literacy players to enable them provide effective leadership to all financial literacy initiatives in Uganda;
- Further in-depth research needs to be undertaken on the link between the levels of education and the levels of financial literacy. The baseline survey findings suggest that in Uganda, Ugandans with lower levels of education are better at planning for the future and choosing between different financial products than the highly educated. Yet one would expect that the higher the level of education, the higher their financial literacy levels;
- Further in-depth research also needs to be undertaken on the link between one's location (rural vs. urban) and their levels of financial literacy. The baseline survey findings suggest that the rural population consistently performs better on most of the measures of financial literacy (Planning for the future, making choices, saving, etc). Yet one would expect the urban population to be more financially literate given their access to more financial services and information.

7. Enhancing Demand for Financial Education through FINSCOPE III

CMA was nominated Chair of the FINSCOPE III Steering Committee that is housed at the Bank of Uganda. The main responsibilities are to provide leadership and guidance to the steering committee. FINSCOPE III is a study analysing demand for financial services in Uganda and is funded by DFID. This initiative ties in well with CMA's objective of

empowering Ugandans to enable them become financially inclusive and capable.

8. Financial Literacy Dialogue

CMA was represented at the learning dialogue on Financial Literacy and Capability in Nairobi that was organised by the World Bank on 13 February 2012. CMA was identified for its successful school-based programs and its efforts towards financial literacy and capability. The dialogue was aimed at bringing together regional players in financial literacy and seeking ways of strengthening financial capability in the East African region. CMA's school/university programmes have attracted the World Bank's interest in terms of:

- (i) Working with Government and other relevant players to establish a national strategy on financial literacy;
- (ii) Including financial literacy in the school curriculum;
- (iii) Supporting financial literacy initiatives.

MONITORING AND EVALUATION

A mini evaluation of the year's activities through monitoring tools like questionnaires and structured interviews indicated that many of the publics targeted this financial year had knowledge on capital markets and only needed details of how to invest and access to licensees like brokers/dealers. The challenge still lies in the fact that brokers/dealers do not have offices upcountry and this discourages many potential investors. CMA is continuously working with industry players to increase participation in capital markets.

PUBLIC EDUCATION GOING FORWARD – 2012/2013

The Public Education Unit is developing a new strategy of prolonged interaction with various target groups which will entail constantly providing financial information whilst monitoring the participants for any financial behavioural or attitude changes. We believe that this approach will yield qualitative results that will further develop the market.

MARKET DEVELOPMENT



THE BIGGER PICTURE: MARKET DEVELOPMENT

The 2011/12 fiscal year was a challenging year for the capital markets with high inflation rates and high rates on government treasury bills, dampening the performance of shares listed on the Uganda Securities Exchange (USE). However, despite the challenges, CMA registered various developments.

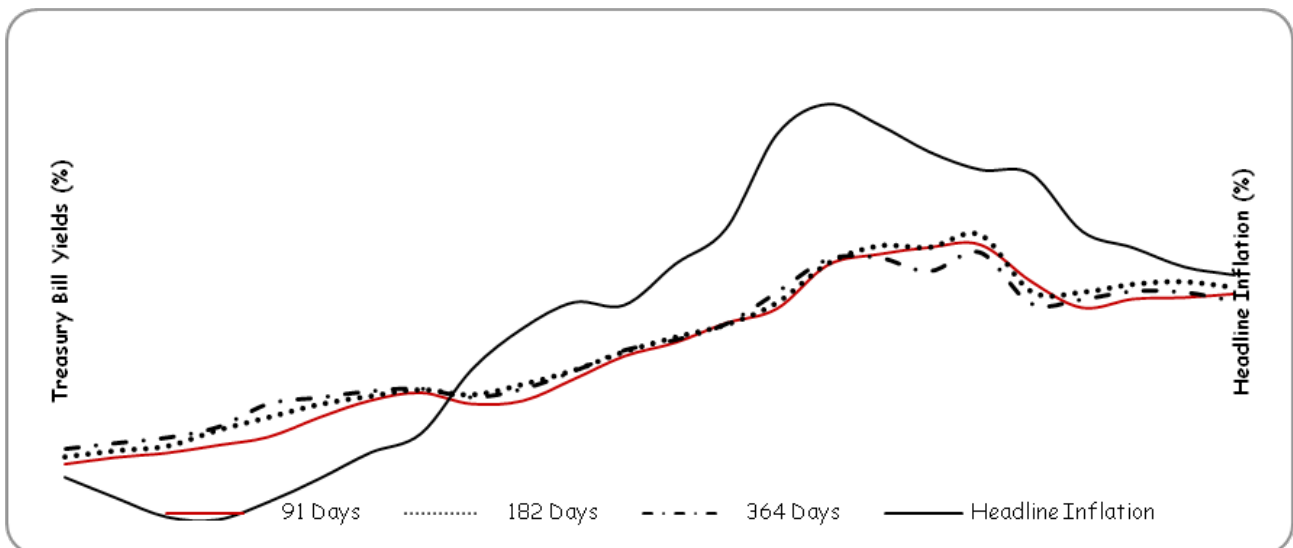
CMA undertook two studies; The Capital Markets Players survey and the Second Capital Markets Investors survey. The Capital Markets Players Survey sought to monitor the performance of capital market intermediaries in order to guide the Authority in the formulation of appropriate capital markets development policies and initiatives. On the other

hand, data from the investors survey will form the basis for CMA's future interventions.

Domestic Initiatives: Secondary Market Activity

The USE recorded a decrease of 30% in the volume of shares traded and 43% in turnover in the 2011/12 fiscal year compared to the secondary market activity in the 2010/11 fiscal year. The decline in market performance was driven by the high inflation rates (See figure 1) that dampened the prospects for growth and the high yields on the treasury bills (See figure 1) that crowded out the investments on the USE. Table 1 shows the trends in market activity at the USE from 2008/09 to 2011/12.

Figure 1: Trends in Headline Inflation and Yields on Treasury Bills (July 2010-June 2012)



Source of Data: www.bou.or.ug , www.use.or.ug

Table 1: Trends in Market Activity at the Uganda Securities Exchange (2007/08-2011/12)

	2008/09	2009/10	2010/11	2011/12	% Change
Volume of Shares Traded (Million Ushs)	343.8	120.8	187.0	130.6	-30%
Turnover (Million)-Ushs	44,472	23,321	35,727	20,501	-43%
Market Capitalization (Billion Ushs)²	5,033.0	8,649.9	13,683	12,165	-11%
All Share Index³	652.3	886.3	1,122.31	1,053.14	-6%

Source: Uganda Securities Exchange Market Reports

At its 35th Consultative meeting in March 2012 the East African Securities Regulatory Authorities (EASRA) approved the regional certification program under the Securities Industry Training Institute (SITI). The certification program aims at developing professional regional market intermediaries in the capital markets.

Fund Management¹

The fund management industry grew by 18% in the 2011/12 fiscal year from Ushs. 313 billion funds managed in 2010/2011 up to Ushs. 369 billion funds managed in 2011/2012 (See table 2). Over a four year period the funds under management grew by 190% from Ushs. 127 billion funds managed in 2008/2009 up to Ushs. 369 billion funds managed in 2011/2012 (See table 2). The growth of the fund management industry has mainly been driven by the increased outsourcing of fund management services by the private occupational provident funds. The recently enacted Uganda Retirement Benefits Regulatory Authority (URBRA) Act requires all pension funds to outsource their fund management functions. This has necessitated the various private occupational provident funds as well as the National Social Security Fund (NSSF) to outsource their fund management to CMA licensed fund managers in preparation for the coming into force of the URBRA Act in September 2012.

Table 2: Trends in Funds under Management (2007/08-2011/12)

Year	Funds under Management (Billion Ushs.)
2008/09	127
2009/10	333
2010/11	313
2011/12	369

Source: Capital Markets Authority, Legal and Compliance Department

¹ This also includes funds managed under collective investment schemes

Regional Initiatives: East African Regional Corporate Bond Market and Regional Certification Initiatives

At its 35th Consultative meeting in March 2012 the East African Securities Regulatory Authorities (EASRA) approved the regional certification program under the Securities Industry Training Institute (SITI). The certification program aims at developing professional regional market intermediaries in the capital markets. EASRA also adopted the regional regulations for fixed income securities and requested members to work towards domestication in their respective legal frameworks. The regulations will provide a wide pool for regional companies to raise funds. At the same time, member states were also urged to domesticate regional corporate governance regulations for market intermediaries. EASRA is a forum that brings together capital markets regulators in the East African Community (EAC).

Future Outlook

The capital markets industry is destined for a rebound in market performance as the inflation rates and yields decline in the first quarter of the 2012/2013 financial year. The listing of the Ushs. 12.5 African Development Bank bond (which is part of the Ushs. 125 billion note program) in the first quarter of the 2012/2013 financial year is also expected to increase confidence in Uganda's capital markets. This is expected to increase interest in Uganda's corporate bond markets by private sector companies. Under the URBRA Act, pension funds, which are the largest source of long-term funds can only lend funds to the public through the purchase of bonds listed on the stock exchanges within the EAC. Therefore private companies intending to access these long-term funds will only be able to do so by issuing corporate bonds.



BUILDING INSTITUTIONAL CAPACITY



THE BIGGER PICTURE: BUILDING INSTITUTIONAL CAPACITY

The Human Resource and Administration Department comprises four distinct functions; Human Resource Management, Administration, Information Technology and Procurement. The department is responsible for the strategic and comprehensive approach to managing people; the workplace culture and environment to enable employees contribute effectively and productively to the overall company direction, the accomplishment of its goals and objectives. In the year under review, the department through its various functions undertook various activities as a means of building institutional capacity of CMA now and in future as follows;

Human Resource Policy Review and Development

To continuously attract and retain competent staff, CMA reviewed its human resource policies as a means of leveraging the employer value proposition of the organization. Through fair and competitive Human Resource (HR) policies, CMA is able to create an enabling working environment where the productivity and creativity of staff is continuously enhanced.

Information Technology (IT) and Business Continuity Plans

CMA recognizes the critical role that IT plays in enabling the achievement of organizational strategic objectives in an efficient and effective manner. In this regard, CMA has developed a new dynamic website with the latest technology. The website showcases various capital markets products and services as well as enabling investors to receive news updates and information on market development and regulation. In-built interactive tools will facilitate two-way communication with investors thus enhancing the Authority's ability to further fulfill its mandate.

The IT unit also upgraded its server to facilitate data security; efficiency and real time back up of data. In addition, automation of the offsite backup of its data, which will ensure the continuity of the organization's operations in the event of data loss at the CMA office, was implemented.

Structural Review

Organizations have to change in order to adapt, improve and prepare for the future by causing and addressing strategic, anticipatory and reactive change. CMA deemed it necessary to review the organizational structure which has been in place

since 2007 and assess its effectiveness with a view to further aligning its human resources with the Authority's strategic directions and priorities. The review and re-alignment of the structure will further assist CMA to develop clear succession planning requirements and opportunities for progressive leadership responsibilities and strengthen efficient and effective service delivery to CMA stakeholders. The review will be completed in the year 2012/13.

Staff Capacity Building

Various capacity building interventions and initiatives were implemented to enhance the capacity of CMA to achieve its short and long term strategic objectives. Critical trainings undertaken in the year under review include;

- IT security
- Human resource management
- Study trips to developed markets like South Africa and Mauritius.
- Market supervision conducted by the Financial Services Authority of the United Kingdom.

Recruitment and Staffing

Prudent and frugal financial management is critical to CMA's strategic objective of building institutional capacity to achieve its mandate. In this regard, Mr. Nicholas Mbagwa was recruited as the Senior Finance & Planning Officer. Mr. Mbagwa's role is to prepare and analyze financial reports for CMA, maintain accounting systems and provide financial information to management so as to aid making informed decisions.

The Authority granted sabbatical leave to Ms. Nusula Nassuna - Compliance Officer to enhance capacity of the Legal and Compliance department in effectively supervising and surveiling the market and ensuring compliance of the Licensees.

Planned Activities for 2012/13

With the steady growth of the market, we forecast that there will be need for continuous individual and organizational capabilities to further enhance the capacity of CMA to meet the ever changing and challenging market expectations that arise from time to time.



FINANCIAL HIGHLIGHTS

FINANCE

FINANCIAL HIGHLIGHTS FOR THE YEAR 2011/12

CMA continued to improve its financial performance for the year ended 30th June 2012. With the objective of financial sustainability, CMA undertook financial decisions with a focus of achieving long term goals. We aimed at providing service at revenue that covers our expenses. Below is the overview of the performance for the year 2011/2012 as compared to 2010/11.

Statement of Financial Position

Revenue

The Authority's sources of revenue remained the same. A total of Ushs. 3.3 billion was received from Government grants, donations and from the internally generated sources namely; prospectus and floatation fees, licensing fees, interest on investments and other income. The revenue received in 2011/12 represents an increment of 27% from the previous financial year.

The increase in revenue was due to a 300% increment in prospectus and floatation fees from Ushs. 85 million for the year ended 2011 compared to Ushs. 340.4 million for the year ended 2012. The fees were received for the following applications; Jubilee Holdings Bonus Issue, Stanbic Bank Bonus Issue, Kenya Airways Limited Rights Issue, Centum Investment Ltd Bonus Issue, Umeme Ltd floatation and African Development Bank bond listing.

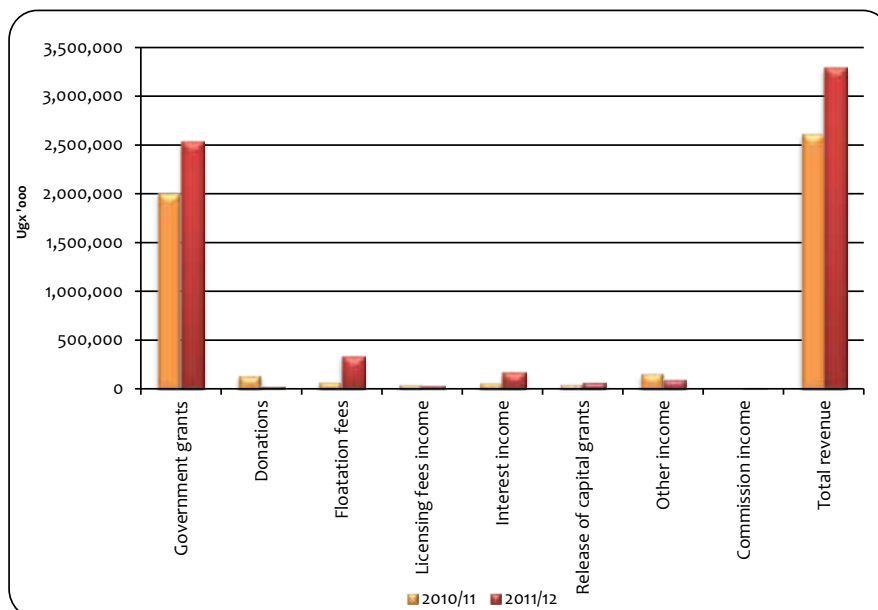
There was also a 132% increment on interest earned from investments in Government securities. This was due to the high interest rates prevailing during the year.

There was also a 49% increment in Government grants. The increment was due to an increase in the grant from Government of Uganda through Ministry of Finance, Planning and Development from Ushs. 1.47 billion to Ushs. 2.19 billion. However the grant from Bank of Uganda on behalf of the Government of Uganda remained at Ushs. 550 Million for the two consecutive years. Part of the grant was used to finance asset acquisition worth Ushs. 208 million which netted off the grant revenue increment to 26%.

On the other hand, there was an 82% decrease in donations from Ushs. 150m in 2010/11 to Ushs. 27 million in 2011/12 mainly due to the winding down of the Financial Markets Development Plan (FMDP) funding. There was also a 41% decrease in other income from Ushs. 173 million in 2010/11 to Ushs. 101 million. The other income decreased mainly due to the fall in share trading commission from Ushs. 163 million in 2010/11 to Ushs. 57 million in 2011/12. There was also a 30% decrease in license fees received due to the revocation of the licenses of Fidelity Capital Ltd and Bullion Capital Limited and a reduction in number of licences for First Renaissance Ltd.

Below is a graph showing the various revenue sources over the years 2010/11 and 2011/12.

Figure 1: Revenue Sources over the years 2010/11 and 2011/12

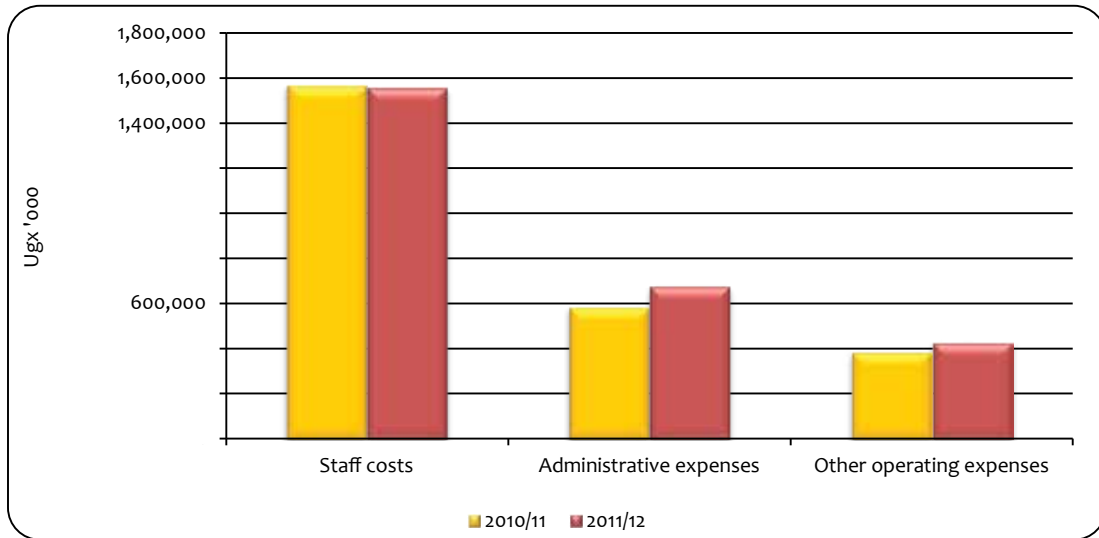


EXPENSES

The total expenditure incurred by the Authority in 2011/12 financial year amounted to Ushs. 2.67 billion, a 5% increase from 2010/11 expenditure of Ushs. 2.548 billion. Overall there was a slight increase in administrative and operating costs. Staff costs decreased slightly due to staffing changes.

Below is a graph showing the various expenses over the years 2010/11 and 2011/12.

Figure 2: various expenses over the years 2010/11 and 2011/12

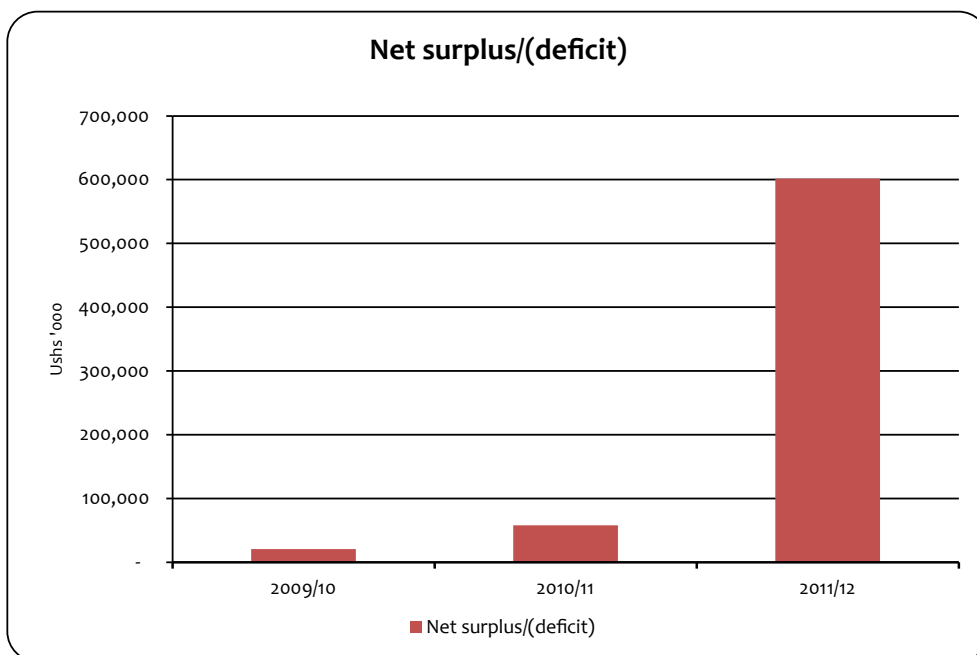


COMPREHENSIVE INCOME

At the conclusion of the financial year 2011/2012, CMA posted a surplus of Ushs. 601.4 million, an improvement from a surplus of Ushs. 57.9 million (Ushs. 25.6million for the general fund and Ushs. 32.394 million for the Investor Compensation Fund) in the previous financial year. The overall increment was due to the increased revenue and managed expenditure analysed above. The Ushs. 601.4 million surplus comprised Ushs. 555 million from the CMA general fund and Ushs. 46 million from the Investor Compensation Fund.

Below is a graph showing comprehensive income over the years 2009/10 - 2011/12.

Figure 3: Comprehensive Income over the years 2009/10 - 2011/12



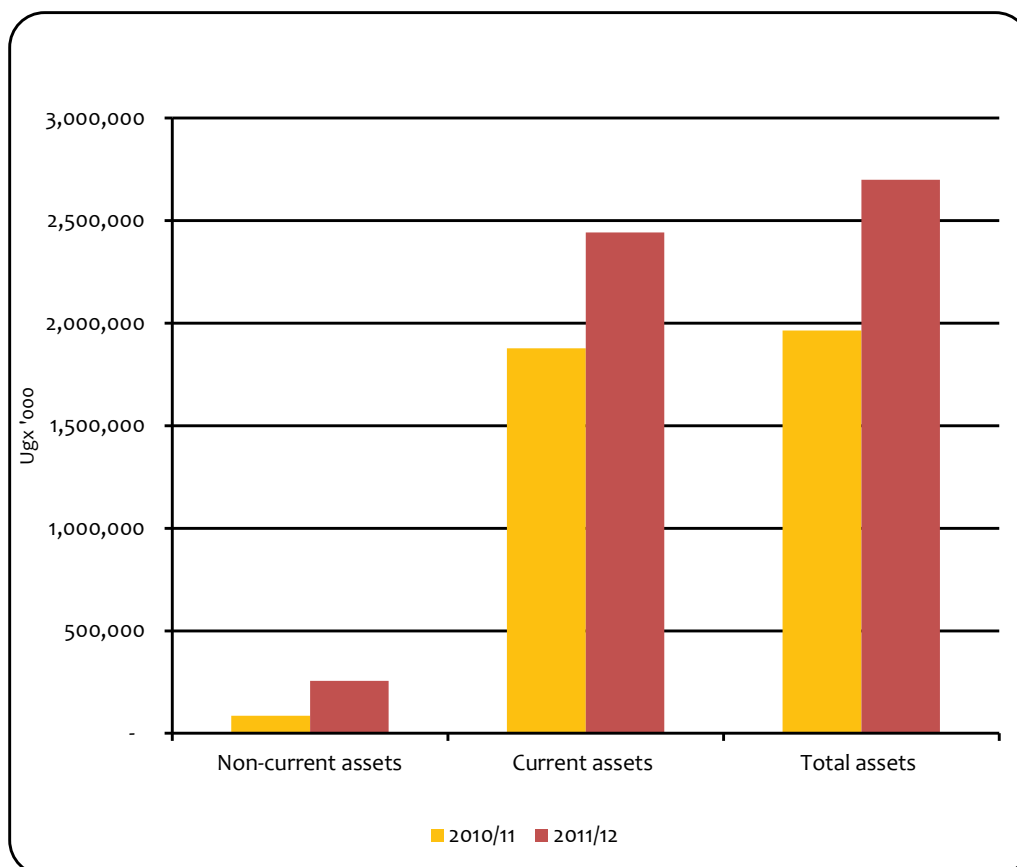
STATEMENT OF FINANCIAL POSITION

Total Assets

The non-current assets increased by 196% from Ushs. 86 million to Ushs. 256 million. This was due to the acquisition of a motor vehicle during the year. The current assets grew by 30% from Ushs. 1.88 billion to Ushs. 2.44 billion due to growth in bank balances.

Overall the total assets increased by 37% from Ushs. 1.96 billion to Ushs. 2.698 billion as shown in the graph below:

Figure 4: Total assets over the years 2010/11 and 2011/12



RESERVES & LIABILITIES

General fund

The general fund increased by 49% from Ushs. 1.14 billion in 2010/11 to Ushs. 1.69 billion in 2011/12. The growth is due to the surplus on the general fund totalling Ushs. 555 million netted off 1% of the prior year's profit which was transferred to the Investor Compensation Fund.

Non –current liabilities

The investor compensation fund increased by 10% from Ushs. 483 million in 2010/11 to Ushs. 532 million in 2011/12. The increment is due to licensee contributions and interest earned on investments.

The capital grant increased by 187% from Ushs. 73 million to Ushs. 211 million. This was due to financing the purchase of a motor vehicle from the grant.

Current liabilities

There was no change in the broker/dealer deposits and the payables reduced by 3% from the previous financial year.

**CAPITAL MARKETS AUTHORITY
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**



REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2012

I have audited the accompanying financial statements of Capital Markets Authority, which comprise the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 40 to 55.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards in a manner required by the Capital Markets Authority Act (Cap 84) and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

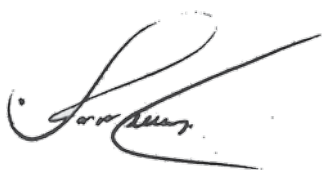
My responsibility is to express an opinion on these financial statements based on the audit. The audit was conducted in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 the Directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion the financial statements present fairly in all material respects, the financial position of Capital Markets Authority as at 30 June 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Capital Markets Authority Act (Cap 84).



John F. S. Muwanga
AUDITOR GENERAL
KAMPALA
2nd October 2012

AUTHORITY INFORMATION

Principal place of business and registered office

Capital Markets Authority
8th Floor, Jubilee Insurance Centre
14 Parliament Avenue
P.O. Box 24565
Kampala.

Bankers

Stanbic Bank Uganda Limited

17 Hannington Road
Crested Towers
P.O. Box 7131
Kampala.

Standard Chartered Bank Uganda Limited

5 Speke Road
P.O. Box 7111
Kampala.

Secretaries

Director Legal and Compliance
Capital Markets Authority
8th Floor, Jubilee Insurance Centre
14 Parliament Avenue
P.O. Box 24565
Kampala.

Auditors

Auditor General
Ministry of Finance Building
Plot 2/12 Apollo Kaggwa Road
P.O. Box 7083
Kampala

Delegated Auditors

Ernst & Young
Ernst & Young House
18 Clement Hill Road
Shimoni Office Village
P.O. Box 7215
Kampala

REPORT OF THE DIRECTOR'S

The directors present their report together with the audited financial statements for the year ended 30 June 2012, which disclose the state of affairs of Capital Markets Authority ('the Authority').

1. PRINCIPAL ACTIVITY

The Authority was established under the Capital Markets Authority Act (CAP 84) for the purpose of promoting and facilitating the development of an orderly, fair and efficient capital markets industry in Uganda and regulating stock exchanges, brokers/dealers, investment advisors and all other persons dealing in securities business.

2. RESULTS

The results for the year are set out on page 40.

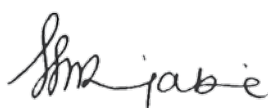
3. DIRECTORS

The directors who served during the year and to the date of this report were:

Mr. Twaha Kaawaase	—	Term expired on 21 Aug 2011.
Mr. Timothy M. Kanyerezi	—	Term expired on 21 Aug 2011.
Ms. Maris Wanyera	—	Term expired on 21 Aug 2011.
Mr. Robert Kabonero	—	Term expired on 21 Aug 2011.
Mr. John Wafula	—	Term expired on 21 Aug 2011.
Mr. Grace Jethro Kavuma (Chairman)	—	Term expired on 21 Aug 2011, reappointed on 10 Oct 2011.
Mr. Bisereko Kyomuhendo	—	Term expired on 21 Aug 2011, reappointed on 10 Oct 2011 and resigned on 31 December 2011.
Ms. Harriet Lwabi	—	Term expired on 21 Aug 2011, reappointed on 10 Oct 2011.
Mr. Stephen Kaboyo	—	Term expired on 21 Aug 2011, reappointed on 10 Oct 2011 and resigned on 31 March 2012.
Ms. Miriam Magala	—	Term expired on 21 Aug 2011, reappointed on 10 Oct 2011.
Mr. Deo J. B. Kayemba	—	Appointed on 10 Oct 2011.
Mr. Paul Patrick Mwanja	—	Appointed on 10 Oct 2011.
Ms. Agnes Tibayeita Ishaaza	—	Appointed on 10 Oct 2011.
Mr. Emmanuel Muwazi	—	Appointed on 10 Oct 2011.
Mr. John Fisher Kanyemibwa	—	Appointed on 10 Oct 2011.
Mr. Awel Uwihanganye	—	Appointed on 10 Oct 2011.
Mr. Philip Wabulya	—	Appointed on 20 June 2012
Mr. Bemanya Twebaze	—	Appointed on 24 May 2012
Mr. Japheth Katto (CEO)	—	Ex officio

4. AUDITORS

The auditors, Ernst & Young, were reappointed by the Auditor General to audit the financial statements for the year ended 30 June 2012



By Order of the Board

Secretary

18th September 2012



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Capital Markets Authority Act requires the directors of the Authority to prepare financial statements for each financial period, which give a true and fair view of the state of the financial affairs of the Authority as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Authority keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

The directors are ultimately responsible for the internal control of the Authority. The directors delegate responsibility for internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the Authority's assets. Appropriate accounting policies supported by reasonable and prudent judgments and estimates, are applied on a consistent and going concern basis. These systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Capital Markets Authority Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the Authority has occurred during the year.

The directors have a reasonable expectation that the Authority has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

The financial statements were approved by the Board of Directors on 18th September 2012 and signed on its behalf by:



Director



Director

STATEMENT OF COMPREHENSIVE INCOME

	2012			2011		
	General Fund	Investor Compensation Fund	Total	General Fund	Investor Compensation Fund	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Revenue						
Government grants	2,535,906	-	2,535,906	2,012,403	-	2,012,403
Donations	27,031	-	27,031	150,231	-	150,231
Prospectus and floatation fees	340,400	-	340,400	85,000	-	85,000
Licensing fees income	40,879	-	40,879	58,650	-	58,650
Interest income	130,046	44,886	174,932	37,269	38,111	75,380
Release of capital grants	70,854	-	70,854	63,247	-	63,247
Other income	101,474	-	101,474	173,294	-	173,294
Commission income	-	8,217	8,217	-	-	-
	<u>3,246,590</u>	<u>53,103</u>	<u>3,299,693</u>	<u>2,580,094</u>	<u>38,111</u>	<u>2,618,205</u>
Expenses						
Staff costs	(1,558,781)	-	(1,558,781)	(1,570,592)	-	(1,570,592)
Administrative expenses	(680,138)	(360)	(680,498)	(588,733)	-	(588,733)
Other operating expenses	(431,212)	-	(431,212)	(389,624)	-	(389,624)
	<u>(2,670,131)</u>	<u>(360)</u>	<u>(2,670,491)</u>	<u>(2,548,949)</u>	<u>-</u>	<u>(2,548,949)</u>
Surplus before tax	576,459	52,743	629,202	31,145	38,111	69,256
Withholding tax on investment income	(21,063)	(6,733)	(27,796)	(5,589)	(5,717)	(11,306)
Surplus for the year	555,396	46,010	601,406	25,556	32,394	57,950
Other comprehensive income, net of tax	-	-	-	-	-	-
Total comprehensive income net of tax	<u>555,396</u>	<u>46,010</u>	<u>601,406</u>	<u>25,556</u>	<u>32,394</u>	<u>57,950</u>

The Authority is exempted from Income tax in accordance with Section 2 of the Income Tax Act 1997 Chapter 340. Hence no income tax has been charged on the surplus for the period.

STATEMENT OF FINANCIAL POSITION

Note		General Fund	Investor Compensation Fund	2012 Total	2011	
		Ushs '000	Ushs '000	Ushs'000	Ushs '000	
ASSETS						
Non-current assets						
	Property and equipment	9	211,168	-	211,168	73,496
	Intangible assets	10	<u>44,557</u>	<u>-</u>	<u>44,557</u>	<u>12,753</u>
			<u>255,725</u>	<u>-</u>	<u>255,725</u>	<u>86,249</u>
Current assets						
	Held-to-maturity investments	11	1,090,787	-	1,090,787	1,072,722
	Receivables	12	88,253	3,040	91,293	91,629
	Broker/dealer bank account		12,910	-	12,910	5,202
	Investor Compensation Fund bank account	13	-	529,018	529,018	30,031
	Cash & bank balances	14	<u>718,525</u>	<u>-</u>	<u>718,525</u>	<u>677,458</u>
			<u>1,910,475</u>	<u>532,058</u>	<u>2,442,533</u>	<u>1,877,042</u>
	Total assets		<u>2,166,200</u>	<u>532,058</u>	<u>2,698,258</u>	<u>1,963,291</u>
RESERVES AND LIABILITIES						
Reserves						
	General fund		1,691,888	-	1,691,888	1,139,048
Non-current liabilities						
	Investor Compensation Fund liabilities	13	-	532,058	532,058	483,492
	Capital grant	15	<u>211,168</u>	<u>-</u>	<u>211,168</u>	<u>73,496</u>
			<u>211,168</u>	<u>532,058</u>	<u>743,226</u>	<u>556,988</u>
Current liabilities						
	Broker/dealer deposits	16	115,000	-	115,000	115,000
	Payables & accrued expenses	17	<u>148,144</u>	<u>-</u>	<u>148,144</u>	<u>152,255</u>
			<u>263,144</u>	<u>-</u>	<u>263,144</u>	<u>267,255</u>
	Total reserves and liabilities		<u>2,166,200</u>	<u>532,058</u>	<u>2,698,258</u>	<u>1,963,291</u>

The financial statements were approved by the Board of Directors on **18th September 2012** and were signed on its behalf by:



.....
Director



.....
Director

STATEMENT OF CHANGES IN RESERVES

	General Fund Ushs '000
At 1 July 2010	1,115,577
Surplus for the year	25,556
Transfer to Investor Compensation Fund	<u>(2,085)</u>
At 30 June 2011	<u>1,139,048</u>
At 1 July 2011	1,139,048
Surplus for the year	555,396
Transfer to Investor Compensation Fund	<u>(2,556)</u>
At 30 June 2012	<u>1,691,888</u>



STATEMENT OF CASH FLOWS

	Note	2012 Ushs '000	2011 Ushs '000
OPERATING ACTIVITIES			
Surplus for the year		601,406	57,950
Adjustments for:			
Interest income		(128,690)	(37,269)
Depreciation		70,854	63,247
Amortisation of software		4,661	4,661
Release of capital grants		<u>(70,854)</u>	<u>(63,247)</u>
		477,377	25,342
Decrease in receivables		336	639,278
Increase in broker/dealer deposits		-	10,000
Increase/(Decrease) in payables and accrued expenses		(4,111)	(62,871)
Foreign exchange loss		-	-
Net cash flows from operating activities		<u>473,602</u>	<u>611,749</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(208,526)	(9,697)
Purchase of treasury bills		(1,751,068)	(1,566,146)
Interest income on investments		143,502	21,869
Redemption of treasury bills		2,695,571	631,921
Purchase of intangible assets		<u>(36,463)</u>	-
Net cash flows from/(used in) investing activities		<u>843,016</u>	<u>(922,053)</u>
FINANCING ACTIVITIES			
Capital grant received		<u>208,526</u>	<u>9,697</u>
Net cash flows from financing activities		<u>208,526</u>	<u>9,697</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,525,144	(300,607)
Cash and cash equivalents as at 1 July		<u>712,691</u>	<u>1,013,298</u>
Cash and cash equivalents as at 30 June	14	<u>2,237,835</u>	<u>712,691</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Authority Information and Significant Accounting Policies

1.1 Authority information

The Authority is established in Uganda under the Capital Markets Authority Act (Cap 84) 1996, and domiciled in Uganda.

The financial statements of the Authority were authorized for issue in accordance with the resolution of the directors on 18th September 2012

1.2 Basis of accounting, statement of compliance and presentation currency

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis except as otherwise stated. The financial statements are presented in Uganda shillings and all values are rounded to the nearest thousand (Ushs'000) except where otherwise indicated.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IFRIC 14 Prepayments of Minimum Funding requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Disclosures (amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the accounting policies, financial position or performance of the Authority.

1.3 New and amended standards and interpretations (continued)

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Authority is not subject to minimum funding requirements; therefore the amendment of the interpretation has no effect on the financial position or performance of the Authority.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Authority has adopted the following amendments to standards as they come to effect for the reporting period beginning on 1 January 2011:

▪ **IFRS 7 Clarification of Disclosures:**

The amendment emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments and amends certain credit risk disclosures. It is effective for annual periods on or after 1 January 2011 and applied retrospectively.



Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Authority:

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008)).
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards).
- IAS 27 Consolidated and Separate Financial Statements.
- IAS 34 Interim Financial Statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Authority's financial statements are listed below. The Authority intends to adopt these standards (where applicable) when they become effective.

- Amendments to IFRS 7-Disclosures-Offsetting financial assets and financial liabilities (effective 1 January 2013)
- Amendments to IFRS 7 and IFRS 9-Mandatory effective date and Transition Disclosures (effective 1 January 2015)
- IFRIC Interpretation 20-Stripping costs in the production phase of a surface mine (effective 1 January 2013)
- Amendments to IFRS1-Government loans (effective 1 January 2013)

IAS 1 *Financial Statement Presentation* – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items which will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Authority's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 *Separate Financial Statements* (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, joint arrangements, and associates in separate financial statements. This shall not have an impact on the Authority's financial statements since the Authority does not have subsidiaries, associates or joint ventures. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendments become effective for annual periods beginning on or after 1 January 2013 but they will not have an impact on the financial statements of the Authority since the Authority has no investments in associates and joint ventures.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Authority's financial assets but will potentially have no impact on classification and measurement of financial liabilities.

The Authority will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*.

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. These new standards will have no impact on the financial statements of the Authority since the Authority has no subsidiaries.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Authority is considering what impact the adoption of this new standard will have on its financial position and/or performance, disclosures and stated accounting policies.

IFRS 9 Financial Instruments: Classification and Measurement

IAS 32 Financial Instruments: Presentation (amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the accounting policies, financial position or performance of the Authority because the Authority does not have these types of instruments.

1.4 Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimations and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. The key assumptions made concerning the future and other key sources of estimation uncertainty at the reporting date, that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as below:

Provisions

Where the Authority has a legal or constructive obligation as a result of a past event that will result in an outflow of economic benefits from the Authority, provisions are recognized. The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the reporting date.

1.5 Significant accounting policies

a) Revenue recognition

Government grants and donations including non-monetary grants are only recognised when there is reasonable assurance that the grants and donations will be received and the Authority will be able to comply with the



conditions attaching to them. The grants are recognised as income on a systematic and rational basis over the useful life of the assets they are used to acquire.

Interest income is recognised in the statement of comprehensive income on an accruals basis. Licensing fees from broker/dealers and investment advisers are recognised when the Authority has received an application for licence or renewal. Trading fees from brokers/dealers are recognised when received.

b) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

c) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Uganda shillings at rates ruling at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

d) Property and equipment.

All categories of property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred. Critical estimates are made in determining depreciation rates for property and equipment. Depreciation is calculated on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Office equipment	3 years
Furniture and fittings	5 years
Motor vehicles	4 years

Property and equipment is periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are included in the statement of comprehensive income.

e) Intangible assets

Where software is not an integral part of the related hardware, computer software is treated as an intangible asset. Intangible assets are measured initially at cost and are subsequently shown at historical cost less any accumulated amortization. Intangible assets are amortized on a straight-line basis over their useful lives of 4 years.

f) Investor Compensation Fund

The Investor Compensation Fund consists of contributions by the Authority (10% of any surplus for the prior year) from the general fund, compensation fund fees charged on brokers' commission and interest accruing from investment of the fund cash in treasury bills and other investments.

g) Taxation

Capital Markets Authority is an exempt organization in accordance with Section 2 of the Income Tax Act 1997 Chapter 340. The Authority is exempt from Income tax.

h) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise of cash on hand, cash at bank, investments maturing within 3 months and other short term highly liquid investments.

i) Financial instruments-Initial recognition, subsequent measurement and de-recognition**i. Initial recognition of financial instruments**

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

ii. Subsequent measurement-Bank balances, held-to-maturity investments and receivables

Bank balances, held-to-maturity investments and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial Investments-available-for-sale' or Financial assets designated at fair value through profit or loss'. After initial measurement, bank balances, held-to-maturity investments and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortization is included in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income.

iii. Subsequent measurement-Trade Payables and Broker Dealer Deposits

Financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or and settle the liabilities simultaneously

i) Financial instruments-Initial recognition, subsequent measurement and de-recognition**iv) De-recognition of financial assets and financial liabilities****Financial Assets**

A financial asset is derecognized where:

- The rights to receive cash flows from the asset have expired; or
- The Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Authority has transferred substantially all the risks and rewards of the asset, or (b) the Authority has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or terms of an existing liability are substantially modified, such an exchange or modification is



treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

k) Impairment of financial assets

The Authority assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can reliably be estimated. Evidence of impairment may include indications that the debtor or group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

2. Government Grants

	2012	2011
	Ushs'000	Ushs'000
Bank of Uganda (note a)	341,474	540,303
Ministry of Finance, Planning and Economic Development	<u>2,194,432</u>	<u>1,472,100</u>
	<u>2,535,906</u>	<u>2,012,403</u>
a) Bank of Uganda grant		
Total funds received	550,000	550,000
Transfer to capital grant	<u>(208,526)</u>	<u>(9,697)</u>
	<u>341,474</u>	<u>540,303</u>

The transfers to the capital grant are used to purchase property and equipment.

3. Donations

	2012	2011
	Ushs'000	Ushs'000
ACCA Uganda	5,000	-
Centenary Bank	6,000	-
Private Sector Foundation Uganda	<u>16,031</u>	<u>150,231</u>
	<u>27,031</u>	<u>150,231</u>

4. Other Income

Share trading commission	57,858	163,203
Sale of tender documents & sponsorships	39,651	10,091
Advertising income	<u>3,965</u>	-
	<u>101,474</u>	<u>173,294</u>

5. Staff Costs

	2012	2011
	Ushs'000	Ushs'000
Salaries and wages	1,121,311	1,137,840
Staff Provident Fund	151,573	157,012
NSSF contribution	85,801	89,910
Staff gratuity	79,535	62,228
Staff medical scheme	48,335	46,853
Staff welfare	65,611	66,447
Overtime & other allowances	<u>6,615</u>	<u>10,302</u>
	<u>1,558,781</u>	<u>1,570,592</u>

6. Administration Expenses

	2012	2011
	Ushs'000	Ushs'000
Office general expenses	108,543	101,876
Office rent	141,911	140,545
Depreciation	70,854	63,247
Legal and compliance	27,910	54,078
Motor vehicle maintenance and fuel	120,092	48,726
Telephone, fax, postage and e-mail	19,127	18,574
Subscriptions	54,886	62,972
Publication, printing and stationery expenses	20,781	21,923
Statutory audit expenses	19,848	19,601
Consultancy fees	38,530	7,223
Internal audit fees	17,820	17,820
Office repairs and maintenance	11,113	19,852
Bank charges	5,469	4,026
Advertisement and media coverage	18,049	3,609
Foreign exchange loss	790	-
Amortisation of software	4,661	4,661
Provision of Bad Debts	<u>114</u>	<u>-</u>
	<u>680,498</u>	<u>588,733</u>



7. Other operating expenses

	2012 Ushs'000	2011 Ushs'000
Mass education	78,589	96,253
Capacity building	126,197	91,322
Regional Co-operation	127,586	116,552
Directors' fees and allowance	42,500	60,650
Other Board expenses	<u>56,340</u>	<u>24,847</u>
	<u>431,212</u>	<u>389,624</u>

8. Surplus before tax

The surplus before tax is stated after charging:

	2012 Ushs'000	2011 Ushs'000
Auditors' remuneration	16,414	16,414
Depreciation	70,854	63,247
Directors' fees and allowances	<u>42,500</u>	<u>60,650</u>

9. Property and Equipment

	Office equipment Ushs '000	Furniture & fittings Ushs'000	Motor Vehicles Ushs '000	Total Ushs '000
Cost				
At 1 July 2010	197,413	289,442	298,825	785,680
Additions	<u>9,447</u>	<u>250</u>	<u>-</u>	<u>9,697</u>
At 30 June 2011	<u>206,860</u>	<u>289,692</u>	<u>298,825</u>	<u>795,377</u>
At 1 July 2011	206,860	289,692	298,825	795,377
Additions	<u>12,451</u>	<u>10,198</u>	<u>185,877</u>	<u>208,526</u>
At 30 June 2012	<u>219,311</u>	<u>299,890</u>	<u>484,702</u>	<u>1,003,903</u>
Depreciation				
At 1 July 2010	164,897	277,185	216,552	658,634
Charge for the year	<u>22,494</u>	<u>4,858</u>	<u>35,895</u>	<u>63,247</u>
At 30 June 2011	<u>187,391</u>	<u>282,043</u>	<u>252,447</u>	<u>721,881</u>
At 30 June 2011	187,391	282,043	252,447	721,881
Charge for the year	<u>17,307</u>	<u>3,711</u>	<u>49,836</u>	<u>70,854</u>
At 30 June 2012	<u>204,698</u>	<u>285,754</u>	<u>302,283</u>	<u>792,735</u>
Net carrying value				
At 30 June 2012	<u>14,613</u>	<u>14,136</u>	<u>182,419</u>	<u>211,168</u>
At 30 June 2011	<u>19,469</u>	<u>7,649</u>	<u>46,378</u>	<u>73,496</u>

As at 30 June 2012, property and equipment with cost of Ushs 569,416,317 was fully depreciated but still in use

	2012	2011
	Ushs'000	Ushs'000
10. Intangible assets		
Cost		
At 1 July	18,642	18,641
Additions	<u>36,463</u>	<u>-</u>
At 30 June	<u>55,105</u>	<u>18,641</u>
Amortization		
At 1 July	5,887	1,227
Charge for the year	<u>4,661</u>	<u>4,661</u>
At 30 June	<u>10,548</u>	<u>5,888</u>
Net carrying value	<u>44,557</u>	<u>12,753</u>
11. Held-to-maturity investments		
Treasury bills		
Maturing within three months	977,382	-
Maturing after three months	<u>113,405</u>	<u>1,072,722</u>
	<u>1,090,787</u>	<u>1,072,722</u>
The weighted average effective interest rate earned on the above investments for the year ended 30 June 2012 was 17% (2011: 10%).		
12. Receivables		
	2012	2011
	Ushs'000	Ushs'000
Staff advances	64,467	56,498
Prepayments	15,843	5,868
Activity advance	500	589
Other receivables	-	28,674
Sundry debtors	10,483	-
WHT Recoverable	<u>114</u>	<u>-</u>
	91,407	91,629
Provision for Bad debts	<u>(114)</u>	<u>-</u>
	<u>91,293</u>	<u>91,629</u>
13. Investor compensation fund		
a) Investor compensation fund account	<u>529,018</u>	<u>30,031</u>
b) Investor compensation fund liabilities		
Amount on investor compensation fund account	529,018	30,031
Investments	-	450,363
Receivables	<u>3,040</u>	<u>3,098</u>
	<u>532,058</u>	<u>483,492</u>



	2012	2011
	Ushs'000	Ushs'000
c) Investor compensation fund account movement		
At 1 July	483,492	451,097
Interest on treasury bills**	38,153	32,395
10% of surplus from general fund	2,557	-
Commission income	8,217	-
Bank charges	<u>(360)</u>	<u>-</u>
At 30 June	<u>532,059</u>	<u>483,492</u>

****Reconciliation of the interest on treasury bills**

Interest on treasury bills (Gross)	44,886	38,112
Withholding tax at 15%	<u>(6,733)</u>	<u>(5,717)</u>
	<u>38,153</u>	<u>32,395</u>

14. Cash and bank balances and cash and cash equivalents

Cash and bank balances	<u>718,525</u>	<u>677,458</u>
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For the purposes of the statement of cash flows, cash and cash equivalent comprise cash in hand, deposits held at call with banks and investments in money market instruments maturing within three months net of bank overdrafts. The year-end cash and cash equivalents comprise the following:

	2012	2011
	Ushs'000	Ushs'000
Broker/dealer bank account	12,910	5,202
Investor Compensation Fund bank account	529,018	30,031
Cash at bank and in hand	718,525	677,458
Held-to-maturity investments (due within 3 months)	<u>977,382</u>	<u>-</u>
	<u>2,237,835</u>	<u>712,691</u>

15. Capital grant

At 1 July	73,496	127,046
Capital grant received during the year	208,526	9,697
Release of capital grant to income	<u>(70,854)</u>	<u>(63,247)</u>
As at 30 June	<u>211,168</u>	<u>73,496</u>

16. Broker/Dealer Deposits

Broker/Dealer deposits relate to deposits received from licensees as stipulated by the licensing regulations at the time of commencing business and are refundable upon exit. The deposits did not change from the prior year since there were no new licensees and changes in the licensing regulations during the year.

17. Payables and accrued expenses

	2012	2011
	Ushs'000	Ushs'000
Creditors	103,386	111,192
Other payables	<u>44,758</u>	<u>41,063</u>
	<u>148,144</u>	<u>152,255</u>

18. Related party transactions

The following transactions were carried out with related parties:

i. Key management compensation

Salaries and other short term employment benefits	275,301	248,670
Gratuity	<u>79,535</u>	<u>62,227</u>

ii. Board Members' remuneration

Members' fees and allowances	<u>42,500</u>	<u>60,650</u>
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19. Contingent liabilities and commitments

There were no contingent liabilities and commitments as at 30 June 2012 (2011: Nil).

20. Financial risk management policies

The Authority has exposure to the following risks from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

The Authority's business activities include the promotion and facilitation of the development of an orderly, fair and efficient capital markets industry in Uganda. Management endeavours at all times to minimise risks. Management has instituted policies in all its functions as a control against risk exposure.

The Authority generates some of its revenues by investing in various income generating activities which involve trading in Government securities. These activities expose the Authority to a variety of financial risks, including credit risk, liquidity and market risk. The Authority's overall risk management programme focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by management under policies approved by the Board. Management reviews the market trends and information available to evaluate the potential exposures and then arrive at strategies to mitigate against market risks. Management provides written principles for overall risk management, as well as written policies covering specific areas such as foreign currency risk, interest rate risk, credit risk and investing excess liquidity.

19 Financial risk management policies (continued)

The financial management objectives and policies are as outlined below:

(a) Credit risk

Credit risk arises from amounts receivables, bank balances and held-to-maturity investments. As part of the credit risk management system, management monitors these financial instruments regularly.

The amount that best represents the Authority's maximum exposure to credit as at 30 June is made up as follows:

	2012	2011
	Ushs'000	Ushs'000
At 30 June 2012		
Bank balances	1,259,928	711,537
Held to maturity Investment	1,090,787	1,072,722
Receivables	<u>91,293</u>	<u>91,629</u>



All the above financial assets were fully performing and none is impaired. No collateral is held for any of the above financial assets. All financial assets are not past due and are not impaired; they are within their approved credit limits. No financial assets have had their terms renegotiated.

(b) Liquidity risk management

Prudent liquidity risk management includes maintaining sufficient cash and market securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The Authority monitors its risk to shortage of funds using budget analysis. This involves analysing maturities of both its financial investments and financial assets (e.g. trade receivables and other financial assets) and projected cash flows from operations. The Authority's objective is to maintain a balance between continuity of funding and flexibility through the use of Investments and cash collections from share trading operations on the Uganda securities exchange.

The table below summarises the maturity profile of the Authority's assets and liabilities based on contractual undiscounted payments.

Liquidity risk management

	Total	Between 0-3 Months	Between 3-6 months	Between 6-12 months	Over 12 Months
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 30 June 2012					
Financial Assets					
Cash & bank balances	2,237,835	2,237,835	-	-	-
Held-to-maturity investments	1,090,787	977,382	58,525	54,880	-
Receivables	<u>90,793</u>	<u>90,793</u>	-	-	-
	<u>3,419,415</u>	<u>3,306,010</u>	<u>58,525</u>	<u>54,880</u>	<u>-</u>
Financial Liabilities					
Payables and accrued expenses	148,142	103,384	-	44,758	-
Broker and dealer deposits	<u>115,000</u>	-	-	-	<u>115,000</u>
	<u>263,142</u>	<u>103,384</u>	-	<u>44,758</u>	<u>115,000</u>
Net liquidity position	<u>3,156,273</u>	<u>3,202,626</u>	<u>58,525</u>	<u>10,122</u>	<u>(115,000)</u>
At 30 June 2011					
Financial Assets					
Cash and bank balances	712,691	712,691	-	-	-
Held-to-maturity investments	1,072,722	-	-	1,072,722	-
Receivables	<u>91,629</u>	<u>91,629</u>	-	-	-
	<u>1,877,042</u>	<u>804,320</u>	-	<u>1,072,722</u>	<u>-</u>
Financial Liabilities					
Accounts payable	152,255	120,215	32,040	-	-
Broker and dealer deposits	<u>115,000</u>	-	-	-	<u>115,000</u>
	<u>267,255</u>	<u>120,215</u>	<u>32,040</u>	-	<u>115,000</u>
Net liquidity position	<u>1,609,787</u>	<u>684,105</u>	<u>32,040</u>	<u>1,072,722</u>	<u>(115,000)</u>

c) Market Risk

Foreign currency risk

The Authority undertakes certain transactions denominated in foreign currencies and as such is exposed to exchange rate fluctuations. The Authority minimises the impact of foreign exchange rate fluctuations through negotiation of foreign exchange rates.

LIST OF LICENSED PERSONS AS AT 30th JUNE 2012

The Capital Markets Authority (CMA) was set up by the Capital Markets Authority Act, Cap 84 of the Laws of Uganda. The CMA is a statutory body with the primary responsibility to regulate an orderly, fair, and

efficient capital market in Uganda. In line with its statutory obligations, the Authority hereby publishes a list of persons licensed to conduct securities business in Uganda.

* Member of the Uganda Securities Exchange (USE)

UGANDA SECURITIES EXCHANGE (USE)

Stock Exchange, Securities Central Depository
4thFloor Prism Building
Plot 71/73 Kampala Road,
P.O. Box 23552 Kampala
Tel: 0414 343 297/ 342818
Fax: 0414 340841
E-mail: info@use.or.ug
Contact: Mr. Joseph Kitamirike.

BARODA CAPITAL MARKETS LIMITED*

Broker/Dealer & Investment Advisor
Plot 18 Kampala Road
P.O. Box 7197 Kampala, Uganda
Tel: 0414 -233 680/3
Fax: 0414- 258263
E-mail: barodacapitalmarket@gmail.com
Contact: Mr. Suraj Srivastava

GENESIS KENYA INVESTMENT MANAGEMENT LIMITED

Fund Manager & Investment Advisor
Regus Kampala, Course View Towers
21 Yusuf Lule Road (Old Kitante Road)
Nakasero, Kampala
P.O. Box 3502 Kampala
Tel: 0392 312314 324/ 342818, 0712 387732
E-mail: genesis@swiftkenya.com
Contact: Mr. Ronald Kasolo

CRANE FINANCIAL SERVICES LIMITED*

Broker/Dealer & Investment Advisor
Crane Chambers
Plot 38 Kampala Road
P.O. Box 22572 Kampala
Tel: 0414- 341414/345345
Fax: 0414- 341414
E-mail: cfs@cranefinancialservices.com
Contact: Mr. Ajay Kumar

UAP FINANCIAL SERVICES LTD*

Fund Manager, Investment Advisor & Broker/Dealer
Floor 1 Communications House
P.O. Box 1610 Kampala
Tel: 0312- 370290/0414332743/0312332743
Fax: 0414-346449
Email: financialservices@uap.co.ug,
info@uap.co.ug
Contact: Mr. Patrick Ndonye

FIRST RENAISSANCE SECURITIES LIMITED

Investment Advisor
Ground Floor, Office 03, Plot 90, Kanjokya
Street, Kanjokya House, kamwokya
P. O. Box 893 Kampala, Uganda
Tel: 0414-340018/9,0312-264775/6
Fax: 0414-340016
E-mail: enquiries@renaissance.co.ug
Contact: Mr. Keith Kalyegira



STANBIC INVESTMENT MANAGEMENT SERVICES

Fund Manager & Investment Advisor
 4th Floor, Crested Towers (Short)
 17 Hannington Road
 P.O. Box 7131, Kampala, Uganda
 Tel: 0312-224322/600
 Fax: 0414-254697
 E-mail: investorinfo2@stanbic.com
 Contact: Ms. Annette Rumanyika Mulira

CRESTED STOCKS AND SECURITIES LTD*

Broker/Dealer & Investment Advisor
 6th Floor Impala House
 Plot 13/15 Kimathi Avenue
 P. O. Box 31736, Kampala, Uganda
 Tel: 0414- 230900
 Fax: 0414- 230612
 E-mail: info@crestedsecurities.com
 Contact: Mr. Robert Baldwin

AFRICAN ALLIANCE UGANDA LIMITED*

Fund Manager, Unit Trust Manager, Investment
 Advisor & Broker/Dealer
 1st Floor Workers House
 1 Pilkington Road Kampala
 Tel: 0414 235577/0417777720
 Fax: 0414- 235575
 E-mail: info@africanalliance.co.ug
 Contact: Mr. Kenneth Kitariko

DYER AND BLAIR UGANDA LIMITED*

Broker/ Dealer & Investment Advisor
 Ground Floor, Rwenzori House
 P.O. Box 36620, Kampala, Uganda
 Tel: 0414 233 050, 0312 265 469
 Email: sharesuganda@dyerandblair.com
 Contact: Mr. Paul Bwiso

PCP UGANDA LIMITED

Fund Manager & Investment Advisor
 Plot M697, Equata Building, 2nd Floor
 UMA show grounds, Lugogo
 P. O. Box 15373 Kampala, Uganda
 Tel: 0312 264 980/3/4
 Fax: +256 312 264 985
 Email: info@pearlcapital.net
 Contract: Mr. Edward Isingoma Matsiko

EQUITY STOCK BROKERS LIMITED*

Broker/Dealer & Investment Advisor
 Plot 6/6A Orient Plaza
 P.O. Box 3972, Kampala
 Tel: 0414 236012/3/4/5
 Fax: 0414 348039
 E-mail: equity@orient-bank.com
 Contact: Mr. Edward Ruyonga

PINE BRIDGE INVESTMENT CO. LIMITED

Fund Manager & Investment Advisor
 1 Pilkington Road, Workers House, 7th Floor
 P O Box 9831, Kampala, Uganda
 Tel: 0414 -340708, 0312-265618
 Fax: 0414 -340750
 E-mail: Nicholas.Malaki@pinebridge.com
 Contact: Mr. Nicholas Malaki

CFC STANBIC FINANCIAL SERVICES LTD

Broker /Dealer & Investment Advisor
 4th Floor, Crested Towers (Short)
 17 Hannington Road
 P.O.Box 7131 Kampala, Uganda
 Tel: 0414-7154-60 / 0312-224-600/0312224985
 E-mail: mburuc@stanbic.com
 Contact: Ms. Consolata Mburu



PRICEWATERHOUSECOOPERS LIMITED

Investment Advisor
 10th Floor Communications House
 1 Colville Street, Kampala
 Tel: 0414- 236018, 041- 233 743
 Fax: 0414- 239153
 E-mail: general@ug.pwc.com
 Contact: Mr. Francis Kamulegeya

DEVERE AND PARTNERS UGANDA LIMITED

Investment Advisor
 B4 Adam House
 Plot 11, Portal Avenue
 P. O. Box 21409 Kampala, Uganda
 Tel: 0414- 342411/ 340846/ 078 807079
 Fax: 0414- 342411
 Email: helpdesk@devere-group.com
 Contact: Mr. Gavin Cooper

ICEA INVESTMENT SERVICES LIMITED

Fund Manager & Investment Advisor
 Rwenzori Courts
 P. O. Box 33953 Kampala, Uganda
 Tel: 0414-347535/ 0414-232337
 E-mail: icea@africaonline.co.ug
 Contact: Mr. Dennis Mugalya

DERO CAPITAL LIMITED

Investment Advisor
 Ground Floor Course View Towers
 Plot 21 Yusuf Lule Road, Kampala
 P. O. Box 5970 Kampala, Uganda
 Tel: 0712-638644, 0702-638644
 Fax: 0414-220727
 Email: info@derocapital.com
 Contact: Mr. David Ofungi

STANDARD CHARTERED BANK UGANDA LIMITED

Investment Adviser
 Plot 5, Speke Road,
 P.O Box 7111
 Kampala.
 Tel; +256 31 229 4459/ 41434 0077
 Fax:+256 414231473
 Email:ug.service@sc.com
 Contact: Mr. Isaac Bakuraira

DELOITTE UGANDA LIMITED

Investment Advisor
 3 Floor Rwenzori House
 1 Lumumba Avenue
 P.O. Box 10314, Kampala, Uganda
 Tel: 256-414-343850, 256-752-740300
 Email: admin@deloitte.co.ug
 Contact: Mr. George Opiyo

PKF CONSULTING LIMITED

Investment Advisor
 Plot 37 Yusuf Lule Road
 P. O. Box 24544, Kampala
 Tel: 0414 341523/5
 Fax: 0414 251370, 341371
 E-mail: pkfkam@ug.pkfea.com
 Contact: Mr. Murtuza Dalal

PROFIN GROUP (UGANDA) LIMITED

Investment Advisor
 Plot 10 School Lane Naguru, Kampala
 P O Box 36697, Kampala
 Tel: 0414-533261/2
 Fax: 0414-533261
 Email: Uganda@theprofiningroup.com
 Contact: Mr. Gareth Burge



DFCU BANK LIMITED

Trustee, Collective Investment Schemes
Impala House, 13 Kimathi Avenue
P.O. Box 70, Kampala, Uganda
Tel: 0414-231784/256891/3, 0312-
300300/376
Fax: 0414-231687/344260
E-mail: official@dfcugroup.com
Contact: Mr. Walusimbi Kaweesa

In case of any other inquiries, please contact the Director, Legal and Compliance, Capital Markets Authority, Jubilee Insurance Centre, 8th Floor, 14 Parliament Avenue, P. O. Box 24565, Kampala

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2012

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