Stanbic Bank Uganda

ANNUAL REPORT 2017

Stanbic Bank Moving Forward™

OUR **REPORT**

This is the Stanbic Bank Uganda Limited (SBUL) annual report that covers the period 1 January to 31 December 2017. It includes financial and non-financial information. This report is prepared for SBUL's different stake holders with detailed information about who we are, our strategy, our perfomance, governance and expectations for the future in context of the environment we operate in.

UGANDA IS OUR HOME – WE DRIVE HER GROWTH

Stanbic Bank Uganda is part of the Standard Bank Group, Africa's largest bank measured by footprint, profits and assets. The Standard Bank Group has on-the-ground representation in 20 African countries.

Stanbic Bank Uganda has a wide network of branches and has been offering a full spectrum of financial services and products to the Retail and Corporate segments for 27 years.

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05

ABOUT STANBIC BANK UGANDA LIMITED

WHO WE ARE

A BRIEF **HISTORY** OF OUR BANK.

The Bank was founded in Uganda as the National Bank of India in 1906. After several name changes, it rebranded to Grindlays Bank. In 1991, Standard Bank Group (The Group) acquired Grindlays Bank. The new owners renamed the Ugandan subsidiary, Stanbic Bank (Uganda) Limited.

In February 2002, The Group acquired 90% of the shareholding in Uganda Commercial Bank Limited, a government-owned bank with sixty five branches. The Group merged their new acquisition with the existing Stanbic Bank (Uganda) Limited, to form Uganda's largest commercial bank by assets and branch network.

In November 2007, the Government of Uganda divested its ownership in Stanbic Bank (Uganda) by listing its shares on the Uganda Securities Exchange. The Group also floated 10% of its shareholding at the same time,retaining an ownership stake of 80%.

OUR BANK AS AT 31 DECEMBER 2017

OUR BANK

NUMBER OF **CUSTOMERS**
551,896

NUMBER OF **EMPLOYEES**
1751

HEADQUARTERS
CRESTED TOWERS,
PLOT 17
HANNINGTON ROAD
KAMPALA

BALANCE SHEET SIZE
USHS 5.4Trillion

NUMBER OF **BRANCHES**
79
(69 BRANCHES, 10 CSPs)

MARKET CAPITALISATION
USHS 1.395Trillion

ATMS:
173
(**150** ORDINARY AND **23** INTELLIGENT)

SHAREHOLDERS
22,510

PARTNER BANK
Karuma Dam

OUR VISION

To be the leading financial services organisation in, for and across Uganda, delivering exceptional client experiences and superior value.

OUR VALUES

1 Serving our customers

We do everything in our power to ensure that we provide our customers with the products, services and solutions to suit their needs, provided that everything we do for them is based on sound business principles.

2 Growing our people

We encourage and help our people to develop to their full potential and measure our leaders on how well they grow and challenge the people they lead.

3 Delivering to our shareholders

We understand that we earn the right to exist by providing appropriate long-term returns to our shareholders. We try extremely hard to meet our various targets and deliver on our commitments.

4 Being proactive

We strive to stay ahead by anticipating rather than reacting, but our actions are always carefully considered.

PURPOSE STATEMENT

Uganda is our home and we drive her growth.

5

Working in teams

We, and all aspects of our work, are interdependent. We appreciate that, as teams, we can achieve much greater things than as individuals. We value teams within and across business units, divisions and countries.

6

Constantly Raising The Bar

We have confidence in our ability to achieve ambitious goals and we celebrate success, but we must never allow ourselves to become arrogant.

7

Respecting each other

We have the highest regard for the dignity of all people. We respect each other and what Stanbic Bank stands for. We recognise that there are corresponding obligations associated with our individual rights.

8

Upholding the highest levels of integrity

Our entire business model is based on trust and integrity as perceived by our stakeholders, especially our customers.

HOW WE CREATE VALUE

PERSONAL & BUSINESS BANKING

Provides banking and other financial services to individual customers and small- to medium-sized enterprises.

	2017	2016
Return on equity	**47.8%**	41.2%
Cost-to-income ratio	**62.0%**	65.7%
Credit loss ratio	**2.1%**	2.1%

CORPORATE AND INVESTMENT BANKING

Provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties

	2017	2016
Return on equity	**43.1%**	45.5%
Cost-to-income ratio	**43.4%**	43.3%
Credit loss ratio	**0.5%**	1.5%

OTHER

FINANCE
Planning, measuring and managing financial performance.

HUMAN RESOURCES
Acquiring, developing and retaining talent.

TECHNOLOGY AND OPERATIONS
Providing the architecture and support for the Bank to effectively and efficiently carry out its activities.

RISK
Upholding the overall integrity of the Bank's risk/return decisions; ensuring that risks are assessed and controlled in accordance with the Bank's standards and risk appetite.

COMPLIANCE
Ensuring the Bank's activities and conduct comply with legal and regulatory requirements.

TREASURY & CAPITAL MANAGEMENT
Managing the Bank's capital and liquidity, including ensuring we meet regulatory requirements and have sufficient capacity of capital.

LEGAL
Maintaining a comprehensive legal risk management system.

AUDIT
Independently provides reasonable assurance to the Board Audit Committee that the risk, control and governance processes are adequate and effective.

WHAT WE OFFER

UShs 76 billion

PROFIT AFTER TAX

2016: Ushs 60.3 billion

- Mortgage lending
- Card products
- Instalment sale and finance leases
- Lending products
- Bancassurance and wealth
- Transactional products

UShs 105.7 billion

PROFIT AFTER TAX

2016: Ushs 112.9 billion

- Global markets
- Investment banking
- Cash management
- Trade finance
- Project finance

UShs 18.7 billion

TCM

2016: Ushs 17.9 billion

The detailed segmentation including Treasury and Capital Management (TCM) profit after tax **Ushs 18.7bn (2016: 17.9bn)**, can be found in the notes to financial statements under segment information in note 5.

OUR FOOTPRINT

PARTNER BANK.
KAKIRA SUGAR LIMITED, JINJA

1 East

Busia Branch
Iganga Branch
Jinja Branch
Kamuli Branch
Kapchorwa Branch
Kotido Branch
Lugazi Branch
Mbale Branch
Moroto Branch
Soroti Branch
Tororo Branch

2 Greater Kampala

Kawempe Branch
Kireka Branch
Kyambogo Branch
Mityana Branch
Mpigi Branch
Mukono Branch
Mulago Branch
Nakivubo Branch
Nateete Branch
Wandegeya Branch
William Street Branch
Kiboga Branch
Luwero Branch
Aponye Mall Branch

3 West

Buliisa Branch
Bundibugyo Branch
Bwamiramira Branch
Hoima Branch
Ishaka Branch
Kabwohe Branch
Kasese Branch
Kihihi Branch
Ntungamo Branch
FortPortal Branch
Ibanda Branch
Kabale Branch
Kalangala Branch
Kisoro Branch
Kyotera Branch
Lyantonde Branch
Masaka Branch
Masindi Branch
Mbarara Branch
Mubende Branch
Rukungiri Branch

4 Metro

Kampala Branch (Corporate)
Garden City Branch
Lugogo branch
Forest Mall Branch
Makerere Branch
Nakawa Branch
Nakasero Branch
Ntinda Branch
Entebbe Main Branch
Bugolobi Branch
Kabalagala Branch
Acacia Mall Branch
Freedom City Branch
Metro Branch

5 North

Adjumani Branch
Apac Branch
Arua Branch
Gulu Branch
Kigumba Branch
Kitgum Branch
Lira Branch
Moyo Branch
Packwach Branch
Nebbi Branch

5 Customer Service Points

Kagadi CSP
Kakira CSP
Kumi CSP
Kinyara CSP
Pakwach CSP
Wobulenzi CSP

OUR PRODUCTS AND SERVICES

Corporate and Investment Banking

TRANSACTIONAL PRODUCTS AND SERVICES

TRADE FINANCE
- Letters of Credit
- Bid Guarantees
- Performance Guarantees
- Advance Payment Guarantees
- Avalisation
- Import/Export Loans
- Invoice Discounting
- Bills for Collection

CASH MANAGEMENT
- Cash in Transit
- Collect Plus (Courier)
- Electronic Banking
- Bill Payments
- Liquidity Management
- Payments and Receivables Solutions

INVESTOR SERVICES
- Custody
- Fiscal Agency
- Facility Agency

INVESTMENT BANKING (IB)
- Equity Capital Markets
- Debt Capital Markets
- Advisory
- Asset Finance
- Syndications

INTERNATIONAL DEVELOPMENT GROUP
- Priority Suite

GLOBAL MARKETS
- Spot Foreign Exchange
- Forward Contract in Foreign Exchange
- Foreign Currency Options
- Cross Currency Swaps
- Interest Rate Swaps
- Money Market Products

PROJECT FINANCE

Personal and Business Banking

TRANSACTIONAL PRODUCTS AND SERVICES

PERSONAL AND BUSINESS
- Transact Plus (local and foreign currency)
- Personal and Business Current Accounts (local and foreign currency)
- Executive Banking
- Private Banking

SAVINGS AND INVESTMENTS
- PureSave (local and foreign currency)
- Contract Save
- Bonus Investment
- Fixed Deposit

LENDING (PERSONAL)
- Salary Loan
- Fixed Term Loan
- Revolving Term Loan
- Revolving Line of Credit
- Re-finance Home Loans
- Building Loan
- Equity Release Loan
- Vehicle and Asset Finance

TRADE FINANCE
- Letters of Credit
- Bid Guarantees
- Performance Guarantees
- Advance Payment Guarantees
- Import/Export Loans
- Invoice Discounting

LENDING (BUSINESS)
- Overdraft
- Tax Loan
- Agriculture Loan
- Business Term Loan
- Property Finance
- Vehicle and Asset Finance

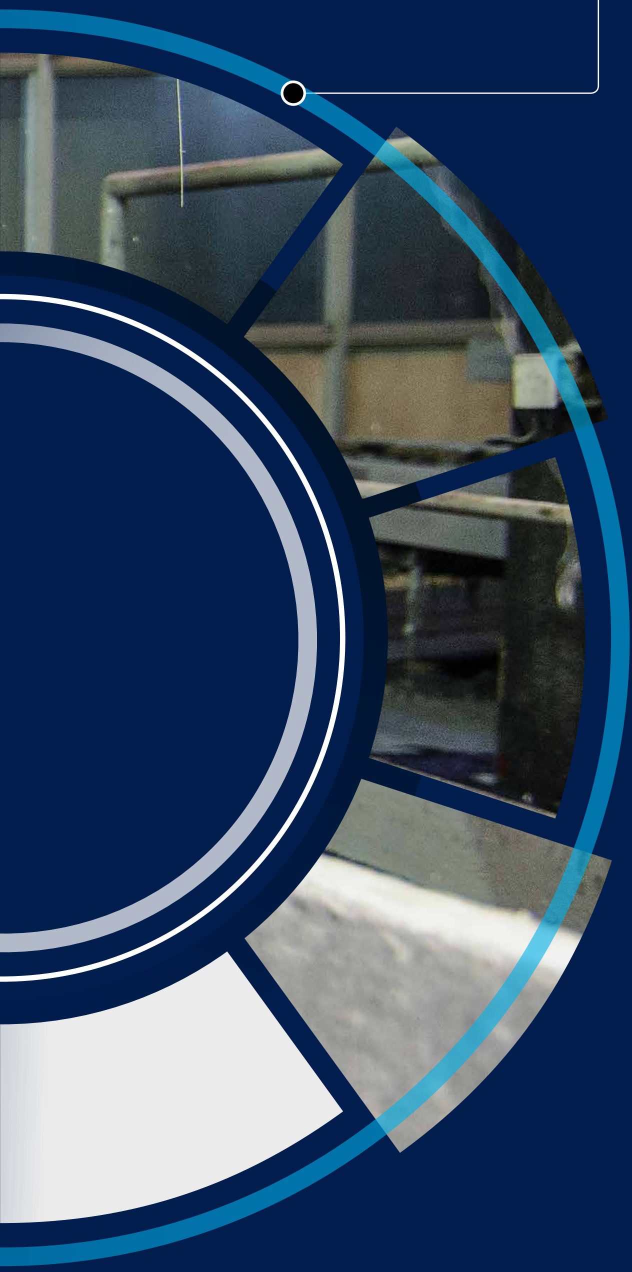
Services

SERVICES

- Internet Banking
- Mobile Banking
- Business Online (BOL)
- Point Of Sale (POS)
- Automated Teller Machine (ATM)
- Debit and Credit cards (VISA enabled)
- PayPlus - payment services solution (water, electricity, pay TV, pension)
- Agent Banking

PARTNER BANK.
KAKIRA SUGAR LIMITED, JINJA

BUSINESS REVIEW



15

LIST OF ACRONYMS

AGM	Annual General Meeting
ALCO	Asset and Liability Committee
ATM	Automated Teller Machines
BCP	Business Continuity Plan
BCM	Business Continuity Management
BOD	Board of Directors
BOU	Bank of Uganda
CBS	Core Banking System
CSP	Customer Service Point
CSI	Corporate Social Investment
CTI	Cost to Income Ratio
CSR	Corporate Social Responsibility
EaR	Earnings at Risk
EIR	Effective Interest Rate
ERM	Enterprise Risk Management
HR	Human Resource
IAS	International Accounting Standards
ICPAU	Institute of Certified Public Accountancy of Uganda
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
LPO	Local Purchase Order
NIM	Net Interest Margin
OSH	Occupational Safety and Health
PAT	Profit After Tax
PAYE	Pay As You Earn
PBT	Profit Before Income Tax
REPO	Repurchase Agreement loan
ROA	Return on Assets
ROE	Return on Equity
RSL	Interest Rate Sensitive Liabilities
SOFP	Statement of Financial Position
SEE	Social Economic Environmental
WEF	With effect from

FINANCIAL DEFINITIONS

COMPOUND ANNUAL GROWTH RATE - CAGR	The average year-on-year growth rate of an investment over several years.
PROFIT FOR THE YEAR (USHS)	Annual Income statement profit attributable to ordinary shareholders, minorities and preference shareholders.
EARNINGS PER SHARE (USHS) - EPS	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.
RETURN ON AVERAGE EQUITY (%) - ROE	Earnings as a percentage of average ordinary shareholders' funds.
RETURN ON AVERAGE ASSETS (%) - ROA	Earnings as a percentage of average total assets.
NET INTEREST MARGIN (%) - NIM	Net interest income as a percentage of average total assets.
CREDIT LOSS RATIO (%)	Provision for credit losses per the Statement of Comprehensive Income as a percentage of gross loans and advances.
COST-TO-INCOME RATIO (%)	Total operating expenses as a percentage of total income before deducting the provision for credit losses.
EFFECTIVE TAX RATE (%)	The income tax charge as a percentage of income before tax excluding income from associates.
DIVIDEND PER SHARE (USHS)	Total ordinary dividends declared per share with respect to the year.
DIVIDEND COVER (TIMES)	Earnings divided by total dividends per share.
PRICE EARNINGS RATIO (%)	Closing share price divided by headline earnings per share.
DIVIDENDS YIELD (%)	Dividends per share as a percentage of the closing share price.
CORE CAPITAL	Permanent shareholder's equity in the form of issued and fully paid-up shares plus all disclosed reserves, less goodwill or any intangible assets.
SUPPLEMENTARY CAPITAL	General provisions which are held against future and current unidentified losses that are freely available to meet losses which subsequently materi-alize, and revaluation reserves on banking premises, and any other form of capital as may be determined from time to time, by the Central Bank.
TOTAL CAPITAL	The sum of core capital and supplementary capital.
TOTAL CAPITAL ADEQUACY	Total capital divided by the sum of total risk weighted assets and total risk weighted contingent claims.
CREDIT IMPAIRMENT CHARGE (SHS)	The amount by which the period profits are reduced to cater for the effect of non-performing loans for the period.
CREDIT LOSS IMPAIRMENT (SHS)	The amount by which gross loans in the SOFP are written down to cater for non-performing loans.
LENDING RATIO	Net loans and advances divided by total deposits.
NON-PERFORMING LOANS (SHS)	Loans whose servicing is due but the borrower has no money on the account from which to recover the instalment(s).
PERCENTAGE CHANGE IN CREDIT LOSS RATIO (%)	Ratio of change in the rate of credit loss impairment between time periods.
PERCENTAGE CHANGE IN THE IMPAIRMENT CHARGE (%)	Ratio of change in the rate of impairment charge between time periods.
SOFP CREDIT IMPAIRMENT AS A % OF GROSS LOANS AND ADVANCES (%)	Ratio of SOFP credit impairment to gross loans and advances.

2017 AT A GLANCE

▲ Ushs 265.7 billion
PROFIT BEFORE TAX
2016: Ushs 253.9 billion

0.4% ▲
18.1%
CORE CAPITAL 2016: 17.7%

17% ▲
5.4
TRILLION TOTAL ASSETS 2016: 4.6 TRILLION

5% ▼
25.3%
RETURN ON EQUITY
2016: 30.3%

0.3BN ▲
1.45 bn
CITIZENSHIP
2016: 1.13 bn

0.2 ▲
3.92
EARNINGS PER SHARE
2016: 3.73

50% ▲
1.76
PROPOSED DIVIDEND PER SHARE
2016: 1.17

AWARDS

EUROMONEY AWARD FOR EXCELLENCE 2017
Best Bank in Uganda

EMEA FINANCE AFRICAN BANKING AWARDS 2017
Best bank in Uganda
Best investment bank in Uganda

FINANCIAL REPORTING AWARDS
2017(FiRe) Gold winner

DIGITAL IMPACT AWARDS AFRICA 2017
Best promoter of financial literacy and best mobile banking service provider

GLOBAL INVESTOR SURVEY 2017
Best bank in Uganda

PRIMARY DEALER OF THE YEAR 2017
Bank of Uganda

LEARNING & DEVELOPMENT
Best Employer in supporting Learning and Development

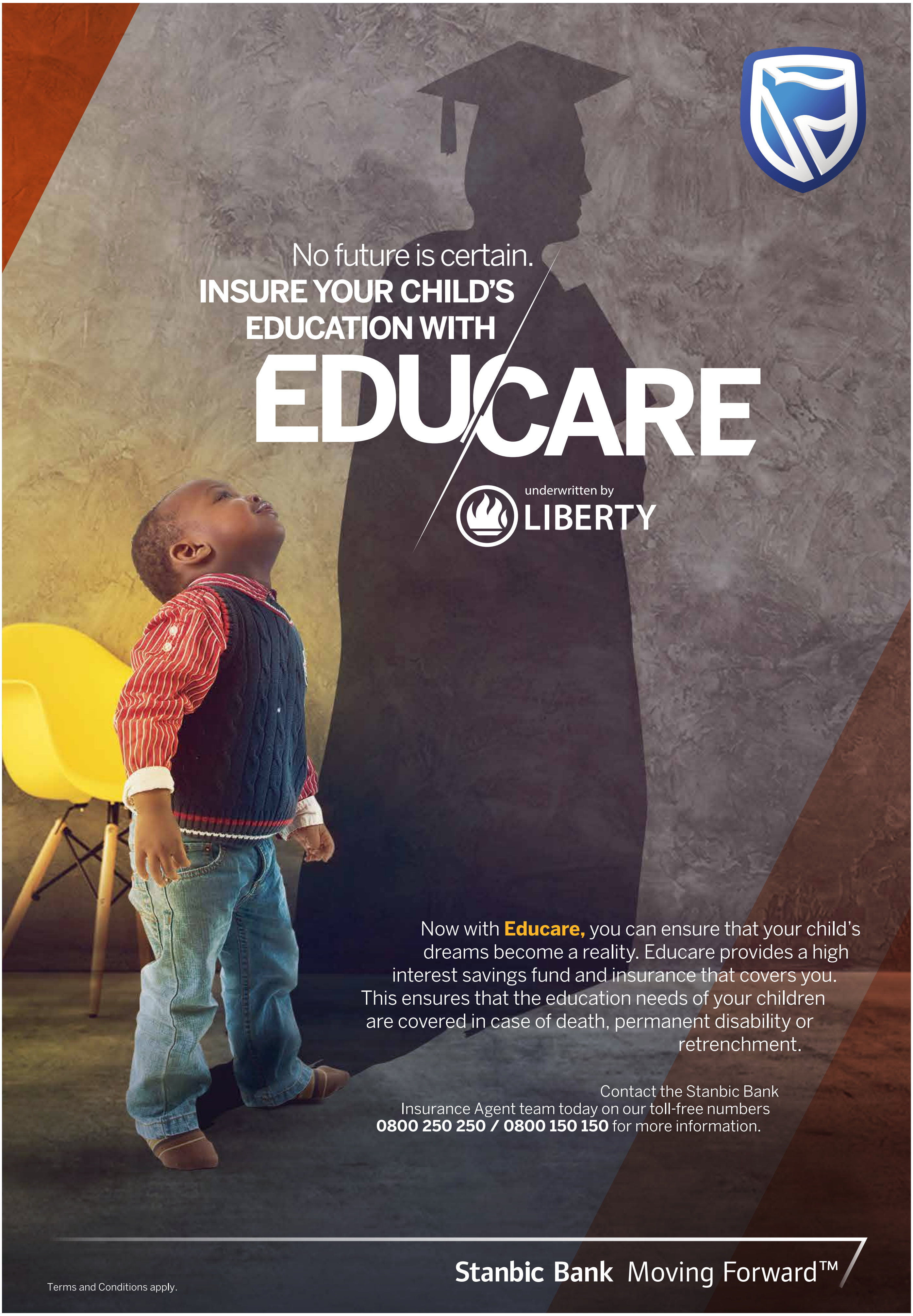
CORPORATE LAWYER AWARD
Best female corporate lawyer

CFO AWARD 2017
Best CFO for finance transformation

2017 ANNUAL HIGHLIGHTS

UGANDA

	2017	2016
Income statement (Ushs' 000)		
Profit before tax	**265,665,958**	253,948,621
Profit after tax	**200,467,789**	191,151,835
Financial position (Ushs' 000)		
Total assets	**5,404,159,344**	4,588,609,681
Loans and advances to customers	**2,133,986,423**	1,976,748,072
Property and equipment	**69,292,586**	63,318,002
Shareholders' equity	**872,279,621**	714,941,993
Customer deposits	**3,620,945,573**	3,058,504,763
Financial performance (%)		
Return on average equity	**25.3**	30.3
Return on average assets	**4.0**	4.6
Cost to income ratio	**50.5**	52.1
Loans to deposit ratio	**58.9**	64.6
Share statistics per share (Ushs)		
Earnings per share - basic and diluted	**3.92**	3.73
Proposed dividend per share	**1.76**	1.17
Capital adequacy		
Risk weighted assets (Ushs' 000)	**3,644,249,773**	3,069,288,352
Tier 1 capital to risk weighted assets (%)	**18.1**	17.7
Total capital to risk weighted assets (%)	**21.0**	21.1
Cash flow information		
Net cash from operating activities	**600,484,746**	789,945,824
Net cash used in investing activities	**(24,795,891)**	(113,659,310)
Net cash (used in)/ from financing activities	**(54,550,901)**	8,866,124
Cash and cash equivalents at end of the year	**2,140,716,931**	1,619,578,977


No future is certain.
INSURE YOUR CHILD'S
EDUCATION WITH
EDUCARE
underwritten by
LIBERTY
Now with Educare, you can ensure that your child's dreams become a reality. Educare provides a high interest savings fund and insurance that covers you. This ensures that the education needs of your children are covered in case of death, permanent disability or retrenchment.
Contact the Stanbic Bank Insurance Agent team today on our toll-free numbers 0800 250 250 / 0800 150 150 for more information.
Stanbic Bank Moving Forward™
Terms and Conditions apply.

CHAIRMAN'S STATEMENT 2017

CHAIRMAN'S STATEMENT 2017

"In 2017, Stanbic Bank continued to demonstrate resilience and leadership despite the challenging environment and not only posted commendable earnings but also continued to play a leading role as an enabler to economic recovery and community development. We led the way in providing access to credit and were acknowledged as a trusted financial partner by our clients with our market share on lending and deposits continuing to grow year on year."

Japheth Katto
Chairman
Stanbic Bank Uganda Limited

Overview

2017 saw the overall Ugandan banking industry register some improvement over 2016. This was seen in the reduction in the number of loss making banks from seven to six, Improved asset quality (non-perfoming loans) from double digit highs of 10% seen in 2016 to 5.6%, stronger capital adequacy levels with average industry capital adequacy ratios above 20% and good deposit growth at 12%. However, the notable area of concern was on private sector credit growth which for a second straight year posted low single digit growth with the overall banking sector registering less than 2% growth on customer lending. This muted growth was in contrast to efforts to lower the cost of credit across the industry off the back of the expansionary monetary policy stance taken by Bank of Uganda ("BoU") with the Central Bank Rate ("CBR") continuing to drop by a further 250bps in the year. Stanbic Bank continued to deliberately match the drop in CBR with drops to our prime lending rate to underline the transparency of our pricing to our customers and we will continue to play an active role in bringing down the cost of credit as we believe this to be a key ingredient to improved and sustainable performance by our clients and will result in broader positive macro-economic recovery. As of 1st May 2018, our prime lending rate was 17% and is one of the lowest in the industry.

We also continued to experience the disruption cutting across the financial services sector with new and existing non-traditional players playing an increasing role in financial intermediation. We saw the continued rise of non-traditional players by way of telecommunication firms and other financial technology ("fintech") entities looking to provide quicker financial service delivery off the back of nimble operating models. Stanbic has over the past 5 years invested in building fit for purpose technology architecture and establishing and growing the required strategic partnerships that we believe will enable us to be competitive across this new landscape. We have built our digital capability with appropriate offerings for our diverse client base and are confident that we have positioned the bank to be the leading financial services provider for the foreseeable future.

Our bank strategy remains centered around the customer and effectively partnering with all our key stakeholders to ensure our sustainable growth and contribution. We continue to provide thought leadership across key topical economic drivers such as the commercialization of Oil and Gas and the transformative changes across regulation and technology that are impacting the Ugandan financial sector. The bank was further recognized as an industry leader winning multiple awards such as "Best bank in Uganda 2018" by Global Financial Magazine, 2017 Primary Dealer of the year by Bank of Uganda and overall Gold award for Financial reporting by ICPAU, among others that affirm the strength of our brand.

Further details of this strategy and how it was executed will be highlighted in the chief executive's statement on pages 26-29.

2017 Financial Performance.

In 2017, Stanbic Bank continued to demonstrate resilience and leadership despite the challenging environment and not only posted commendable earnings but also continued to play a leading role as an enabler to economic recovery and community development. We led the way in providing access to credit and were acknowledged as a trusted financial partner by our clients with our market share on lending and deposits continuing to grow year on year.

We continued to see the benefit of focusing on diversifying our business to protect our revenues from the impact of the volatility of the interest rate environment while also driving simplification of our operating model to become more efficient in our execution. The outcome of this ensured that even though we had a reduction on our interest income as we led the way in dropping our interest rates off the back of the CBR drop, this reduction was more than compensated for by good growth under our non-interest revenues and also significant drop in our operating costs resulting in a 5% growth in our profit after tax to a record Ushs 200.5billion. Our capital position also remained strong, with a total capital adequacy ratio of approximately 21%, compared to the regulatory requirement of 12%.

Considering this strong performance and sound capital position, the board has recommended a dividend of Ushs 90billion, which is a 50% increase from the Ushs 60billion paid for 2016. This is equivalent to Ushs 1.76 dividend per share from Ushs 1.17 the previous year. This dividend pay-out was proposed having considered the capital requirements to support the strategic growth ambitions of the Bank and also been assessed for stress testing of the current and projected capital adequacy required to ensure there are no adverse effects on capital requirements in the foreseeable future.

Regulatory Landscape

The regulatory environment continues to evolve impacted by both global and local changes. A brief highlight of some of the key ones is shared below.

The long-anticipated adoption of IFRS 9 will be effective from 1st January 2018 and is a significant change for all financial institutions. This change will result in an increase in the cost of availing credit by financial institutions to their customers and further raises the importance of maintaining close relationships with clients to ensure we identify any financial stress early on and apply appropriate mitigating actions. The management and the board have reviewed the bank's business and operating models leading up to this change and can confirm our readiness for this transition. Details of the impact assessment of this change have been shared on pages 164-165.

On the local regulatory front, the central bank issued guidelines on implementation of some of the amendments to the FIA, i.e. Bancassurance and Agency Banking within the second half of 2017. Stanbic Bank was the first bank in Uganda to be granted a Bancassurance license by the Insurance Regulatory Authority of Uganda and this is an exciting development because customers can access a fuller range of services through the bank; making it a one stop shop for more of their financial needs and providing our customers with greater convenience, savings and choice. We are also pleased to have been one of the first banks to obtain a license for Agency Banking and this will enable us to optimize our distribution channels and enable greater convenience for our customers at a lower cost to serve them.

Our Sustainability

Our commitment to supporting and investing in the communities we operate is a key part of ensuring our sustainability. In 2017, we spent over Ushs 1.4billion shillings on supporting corporate social initiatives with a bias on education. We continue to focus on education as we believe that education is the most critical transformative intervention in our society today. Our country demographic state has over 70% of our nation below the age of 30. This unique youthful state has led to the increase of millennials in the marketplace as employees, budding entrepreneurs, customers, and emerging business and opinion leaders. We believe we need to actively be a part of the solution that creates an appropriate learning journey for this abundant youthful potential to create sustainable value for our communities into the years ahead. To this end we have implemented interventions such as the "Leo Young Leaders Initiative" that supports the development of leaders across multiple fields and also an SME incubator that looks to upskill SMEs with information to enable them to grow sustainably. Although education has remained the core of our focus, we have in addition invested in Uganda's key sport activity, football. Stanbic Bank Uganda is now the proud sponsor of the Federation of Uganda Football Cup(FUFA), now called Stanbic Uganda Cup. Further details of our SEE initiaves can be found in the Sustainability Report on page 51.

Board

During the year, we continued to augment the skills and experience within the board and to address succession to key roles. In 2017, we welcomed the new chairman of the Board Audit Committee;

Sam Zimbe: is a qualified accountant with a master's Degree in Finance and Investment. He has more than 20 years experience in strategic senior management roles in Uganda, United Kingdom and the Caribbean, mostly in the electricity sector. We believe that Sam's wealth of knowledge and experience will provide the right support to steer the bank in the right direction towards achieving its vision.

I would also like to take this opportunity to thank Dr. Samuel Sejjaaka, outgoing Board Audit Committee Chairman, who did not offer himself for re-election during the year to focus on other interests. He has faithfully served as a non-executive director for over nine years and provided insightful leadership to the Board Audit Committee. His valuable contribution to the board will be forever cherished. We do wish Dr. Sejjaka the best in his future endeavors.

Outlook

Coming out of the two difficult years where we have seen a general slow-down in economic activity we anticipate a more positive economic outlook for 2018, with GDP growth projections expected at over 5.5%. We firmly believe that the Oil and Gas sector is one of the catalysts that will propel Uganda's economic transformation given the multiple subsectors it touches through the value chain. This will only happen however, if local Ugandan companies are given the opportunity to participate as active partners in its planning, execution and development. Stanbic Uganda is already playing its part in making this possible. It has hosted several local content awareness workshops, provided financing solutions for local companies. The Bank has also hosted forums aimed at up skilling local players and fostering partnerships and further launched an SME incubator with a focus on Oil and Gas. Also notably, Stanbic Bank Uganda alongside Japan's Sumitomi Mitsui of Japan were appointed as joint financial advisers for the oil pipeline which will connect Uganda's oilfields in the West of the country to the port of Tanga in Tanzania. The bank plans to raise US$2.5 billion for the project in the second half of 2018 as Uganda prepares to start oil production by the government target of 2020.

Another key focus for us will be on driving continued simplification of business and operating model and Digitization is the key transformation tool for us to leverage off, to drive efficiency (cost to serve) and deliver relevant and quicker solutions to our clients.

Our people are our greatest resource and we are proud to have had specific recognition and awards won by some of the leadership of the bank. Notably our Head of Legal was recognized by the Uganda Law Society as the Best female corporate lawyer and our Chief Financial Officer was recognized as the Best CFO for Finance Transformation by Deloitte/ACCA Uganda. We continue to invest in developing our employees to enhance their contribution to the growth of the bank.

Holding company

Our vision is to be the leading financial services provider in and for Uganda, delivering exceptional client experiences and superior value. As a strategic enabler to this vision, the board approved the establishment of a Holding Company during the year 2018. This new structure will provide the necessary platform for us to take on other non-banking financial services, over and above the current banking services already provided. This reorganization will also position us appropriately for the new opportunities and partnerships currently available in the market and the future. Further updates to the progress of the reorganization will be provided in due course.

Appreciation

I take this opportunity on behalf of the board, to extend my appreciation to the executive committee and to all staff members under the leadership of the Chief Executive, Patrick Mweheire, for innovation, hardwork and commitment to achieve these remarkable results.

I would also like to thank our customers, shareholders, regulators and all other stakeholders for your continued support. We look forward to moving forward with you in 2018 as we collectively continue to drive the growth of Uganda.

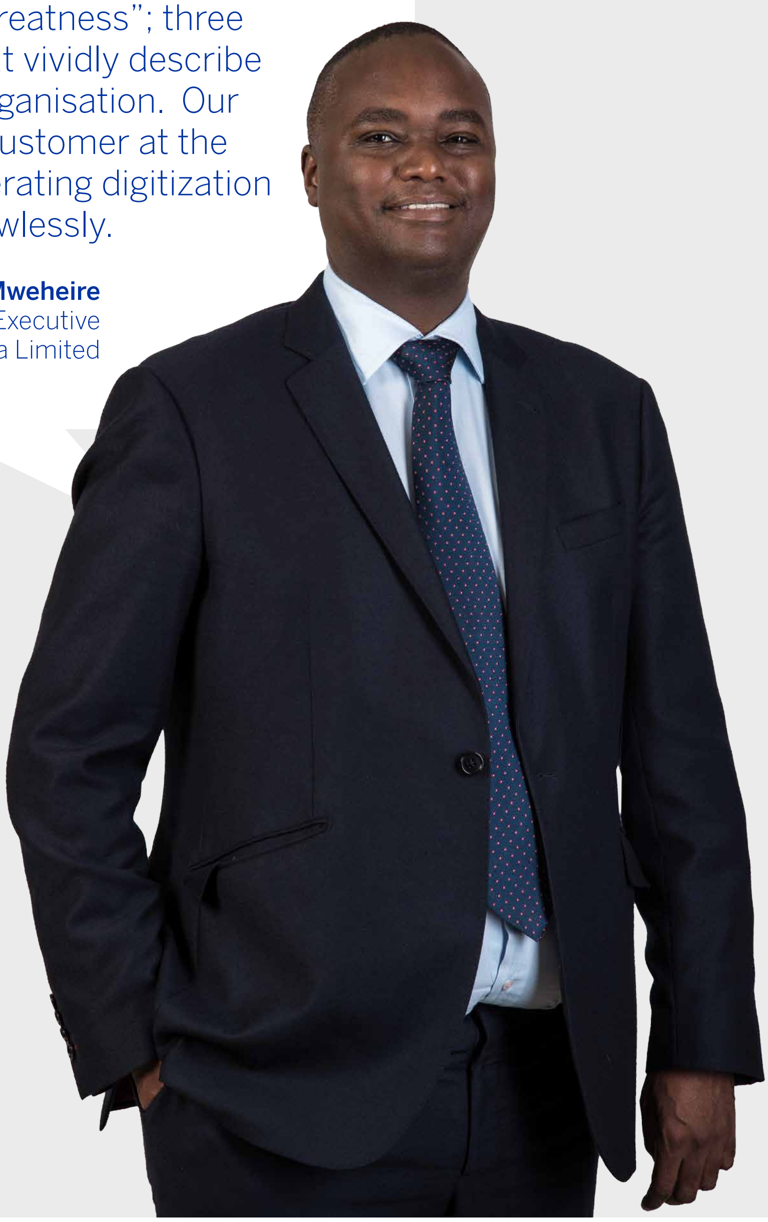
I wish you a fruitful year 2018


A BETTER
TOMORROW
BEGINS WITH
SUPPORTING GREAT
UGANDAN FOOTBALL
FUFA
SINCE 1924
We're proud to sponsor Uganda's football stars
as they battle it out for the biggest prize in the land:
The Stanbic Uganda Cup.
For more information
visit our offical social media pages.
#StanbicUgandaCup
Stanbic Bank Moving Forward™
Terms and Conditions apply.

CHIEF EXECUTIVE'S STATEMENT 2017

In 2017, we generated record earnings for the third year in a row, remaining the best capitalised and most profitable bank in Uganda. We successfully delivered on the key initiatives that we had set for ourselves at the beginning of 2017. Our strategy was positioned around one statement "Back to Greatness"; three simple but inspirational words that vividly describe what we want to become as an organisation. Our focus priorities were placing the customer at the centre of everything we do, accelerating digitization across the bank and executing flawlessly.

Patrick Mweheire
Chief Executive
Stanbic Bank Uganda Limited



Our 2017 profit after tax ("PAT") was Ushs 200.5 billion, achieving a decent 5% year-on-year growth off a strong growth of 27% in 2016, amid a challenging market environment with record low credit uptake across the financial sector. We continue to gain market share and as a result have grown our PAT at a compounded annual growth rate ("CAGR") of 18.4% over the last four years in excess of the market growth. Our 2017 revenue of Ushs 636 billion was a balanced mix of net-interest income and non-interest revenue, reflecting the strength of our diversified business model. Our focus on customers paid off as more of them entrusted us with their deposits and opportunities to serve more of their financial needs. Our total customer deposits reached a record Ushs 3.6 trillion for 2017, up a record 18% from the prior year in an industry that grew an average of 12%. Total customer loans and advances completed the year at Ushs 2.1 trillion up 8% from 2016 in a market that saw a net growth of less than 2.0%. We made even more progress in strengthening the quality of our loan book. Credit losses were Ushs 29 billion with our credit loss ratio of 1.3% remaining well within our risk appetite, despite an industry Non-Performing Loans ("NPL") book of 5.6% or approximately Ushs 656 billion as of December 31, 2017.

Our accomplishments in 2017 were a direct result of:

- Pursuing the right "risk-on" strategy with a strict discipline on costs;
- Operating a business diversified by size, client mix, transactional versus lending that can perform well across a variety of economic and interest rate environments;
- Having the right people with intense client focus in both the retail and institutional segments; and
- Effectively managing risk.

From a macro-economic perspective, we witnessed weaker GDP growth which dropped to 4.0 % in 2017 but was coupled with subdued inflation expectations. As a consequence, we saw Bank of Uganda ("BoU") keep a loose monetary stance and further drop the Central Bank Rate ("CBR)" 3 times in 2017 from a high of 12% in January 2017 to close the year at 9.5%. We have now witnessed the CBR drop 750 basis points over the last eighteen months from a high of 17% in March 2016. We are in unprecedented territory and while this has had a direct positive impact on lowering prime rates, it has adversely compressed net interest margins across the industry. This is our new reality and as banks will need to work smarter with less.

From a banking sector perspective, we saw a robust 12% year-on-year growth in deposits but a much muted 1.5% growth in gross loans and advances across the industry. We however witnessed improvement in asset quality with the NPL ratio reducing from a staggering 10.5% in 2016 (primarily Crane Bank impact) to a more normalized 5.6% ratio across the industry. Sector profitability improved by growing 10% year-on year to Ushs 673 billion. We retained our number one position with an approximately 30% market share of industry profits. Return on equity was approximately 25.3 % reflecting the decent profitability of the business in 2017 even though we carried significantly more capital.

Progress on our Key Priorities

From the Bank's perspective, we continued to deliver on the key initiatives that we had set for ourselves at the beginning of 2016. The key priorities were placing the customer at the center of everything we do, executing flawlessly, and building employee capability across all levels.

Placing the Customer at the Center of everything we do

We continued to make massive strides in re-focusing the bank on the customer and improving the customer service experience across our banking network. We relentlessly focused on our customer needs both at the retail and institutional segments and it paid off. It has been gratifying to see our markedly improved customer net promoter score numbers and hear how our banking and financial services have improved and continue to transform lives.

We introduced several customer centric products designed to meet key customer needs such as a cash advance product; land loan; a revised unsecured loan product that provided customers with more credit and also drastically reduced the turnaround time for credit decisions across both retail and institutional segments. In partnership with URA , we also launched the E-commerce tax solution known as Stanbic easy tax. This solution allows users to settle their tax obligations using VISA, MasterCard or mobile devices at their convenience. These and many other initiatives are designed to make the Bank more client-centric and position us to be the leading client-oriented bank in the country. We are happy to note that a number of gains have already been made and this client centricity will continue to be a key differentiator for us in the market in 2018.

Accelerating Digitization across the Organization

Digitization in this day and age is non-negotiable. Thanks to Amazon, Facebook and many leading digital service providers, customers expect and demand a superior digital experience in their day-to-day banking. Not only do our customers demand it but it also makes business sense as it makes little economic sense to queue at a branch to effect a basic utility or school fees payment anymore. You should be able to do that cost-effectively from the comfort of your own home. As a result, we have had to re-think how we invest and deploy digital solutions across the bank. I am pleased to share that we now have approximately 78% of all our transactions executed on our digital platforms and only 22% through the branch network. We will continue to review all our internal and external processes in 2018 and further leverage technology and digital platforms to better serve our clients.

Executing Flawlessly

In order for us to retain our leadership position in the banking industry, we must constantly innovate and improve our productivity. In 2017, we focused on operating efficiently by thoughtfully managing our resources and exercising discipline to invest in the areas that mattered the most to our customers and stakeholders. In fact in 2017, our cost to income ratio (how much expense we incur for every Shilling of revenue we earn) reduced even further to 50.5%, way below the Uganda banking sector average of 59%. Throughout the year, we launched several digital initiatives and continued to move several low-values but high volume transactions away from the branch to more convenient digital platforms in 2017. Approximately 78% of all our transaction volume is now executed digitally. We continued to leverage technology to simplify our processes and reduce operating expenses and were able to reduce our cost base by Ushs 11 bn year-on-year which helped immensely in buffering our profitability and an environment with shrinking margins and revenues. We continued to invest and upgrade our core banking platform to address interface gaps with other peripheral systems and broaden functionality. We are convinced that these interventions will ultimately improve our efficiency and ability to more cost effectively serve our customers. They have also improved the control environment and lowered risk levels across the Bank.

2017 Performance Review

Our 2017 results registered growth across most of the key financial metrics except for revenue and gained market share in key areas. Some highlights include:

- Reported 2017 **Revenue of Ushs 636 bn;** a decline of 1% from 2016
- Total Deposits above **Ushs 3.6 tn up 18%;** Loans and Advances up 8% to cross Ushs 2.1 trn

- Off-Balance Sheet guarantees, Letters of credit and bonds of **Ushs 1.3tn largely in support of GoU infrastructure** spend
- Profit After Tax of **Ushs 200.5 bn;** a growth of 5%
- Processed over **Ushs 80tn worth of transactions** in 2017
- Arranged **Ushs 1.5tn worth of credit** and capital during the year
- Hired as Lead arranger and advisor on raising up to $2.5 bn project financing for (Hoima-Tanga) East African Crude Pipeline
- Collected over **Ushs 3.5tn worth of taxes** on behalf of the URA
- Directly paid over **Ushs 118bn in taxes** to the government Treasury
- Gainfully **employed 1751 people;** second largest employer in the sector
- **Social investments of Ushs 1.45bn** focused on education that reached over 120,000 beneficiaries across our communities

Awards won in 2017; Best Bank in Uganda (EMEA Finance African banking); Best bank in Uganda (Euromoney Awards); Best Investment Bank in Uganda (EMEA Finance); Overall Gold Winner FiRe Awards and Best Primary dealer of the year (Bank of Uganda).

These results were achieved in a highly competitive market place within a sluggish macro-economic backdrop. You can find further details on the 2017 operating environment and the financial performance in the operating and financial review section of this report on page 30.

Capital and Liquidity Base

During 2017, our core capital ratio remained resilient at 18.1 % against a regulatory minimum ratio of 8% while the total capital ratio was 21.0% against a regulatory minimum of 12%. Our liquid asset holding ratio was an average of 62% against a regulatory minimum of 20%. This resilient capital base positions us with adequate risk mitigation buffers to withstand significant credit or liquidity stress events. And more importantly, it provides us the platform to be a major catalyst for growth in the economy by providing access to financing to support consumers and businesses. Our Total capital base of Ushs 766 billion is approximately 19 % of entire capital in the entire Ugandan banking sector.

Risk Management and Controls

We have clear risk management objectives and an established strategy to deliver them through core risk management processes. This enables us to fully understand and minimize the impact of uncertainty in the business. Responsibility for risk management is cascaded through all levels of the Bank, from the Board and the Executive Committee down through the organization to each business manager and risk specialist. This ensures that risk/return decisions are taken at the most appropriate level and as close as possible to the business activity. Independent risk teams are in place to support close working relationships with the business teams taking on the risk. These risk teams ultimately report to the Chief Risk Officer.

We also maintained strong relationships with our regulators, both local and international and remain committed to conducting our business in a fair, transparent and compliant manner. You can read more about our risk profile and approach to risk management in our risk review on page 43.

Corporate Social Responsibility ("CSR")

In 2017, we continued to give back to our communities. In doing this, we reached over 120,000 people across the country and committed Ushs 1.45 billion, of which 67% was directed to the education sector. As our national demographics demonstrate, Uganda has the youngest population in the world (70% below 30 years of which 55% are below 18 years). We therefore believe that to foster true sustainable economic growth, we must invest in the quality of education for our youth. This is why we deliberately reinforced our transformational efforts in the education sector. We have put an emphasis on providing support to the under-privileged and supported the development of critical thinking and practical skills in our secondary schools. In addition, as part of our broader agenda of empowering our communities with the right knowledge to transform their lives, we conducted financial literacy seminars to vulnerable households and providing a platform that sponsors business mentorship to SMEs. We intend to further broaden our contribution to the development in this sector to include entrepreneurial skills development by opening up an SME business incubator which will provide key upskilling and mentorship opportunities to several SME's at no cost to them. For further insights on our CSR activities, these can be found in the sustainability report on page 51.

2018 Priorities

Our priorities in 2018 will focus on three relatively simple but critical objectives;

- Placing the Customer at the Center of Everything we do;
- Executing as One; and
- Digitising the Bank across all levels;

At the end of the day, our business is built around a relentless focus on customers. We provide products and services to meet our customers' needs through multiple channels bolstered by high quality, caring relationships and service. 2018 will refocus on the customer need and not what products we have to offer. We aspire to be the first provider the public think of when they need a financial product or service.

In order for us to retain our leadership position in the Ugandan banking industry we must flawlessly and ruthlessly execute on our plans. Getting this right will require that we operate as teams rather than individuals. A lot of work and thought has gone into identifying the market opportunity in our key segments and where we would like to invest our efforts and resources. We are ready to execute. Lastly, we will spend 2018 looking at smarter ways to further digitise the processing of transactions and allowing our customers to bank whenever and wherever they want 24-7.

2018 Outlook

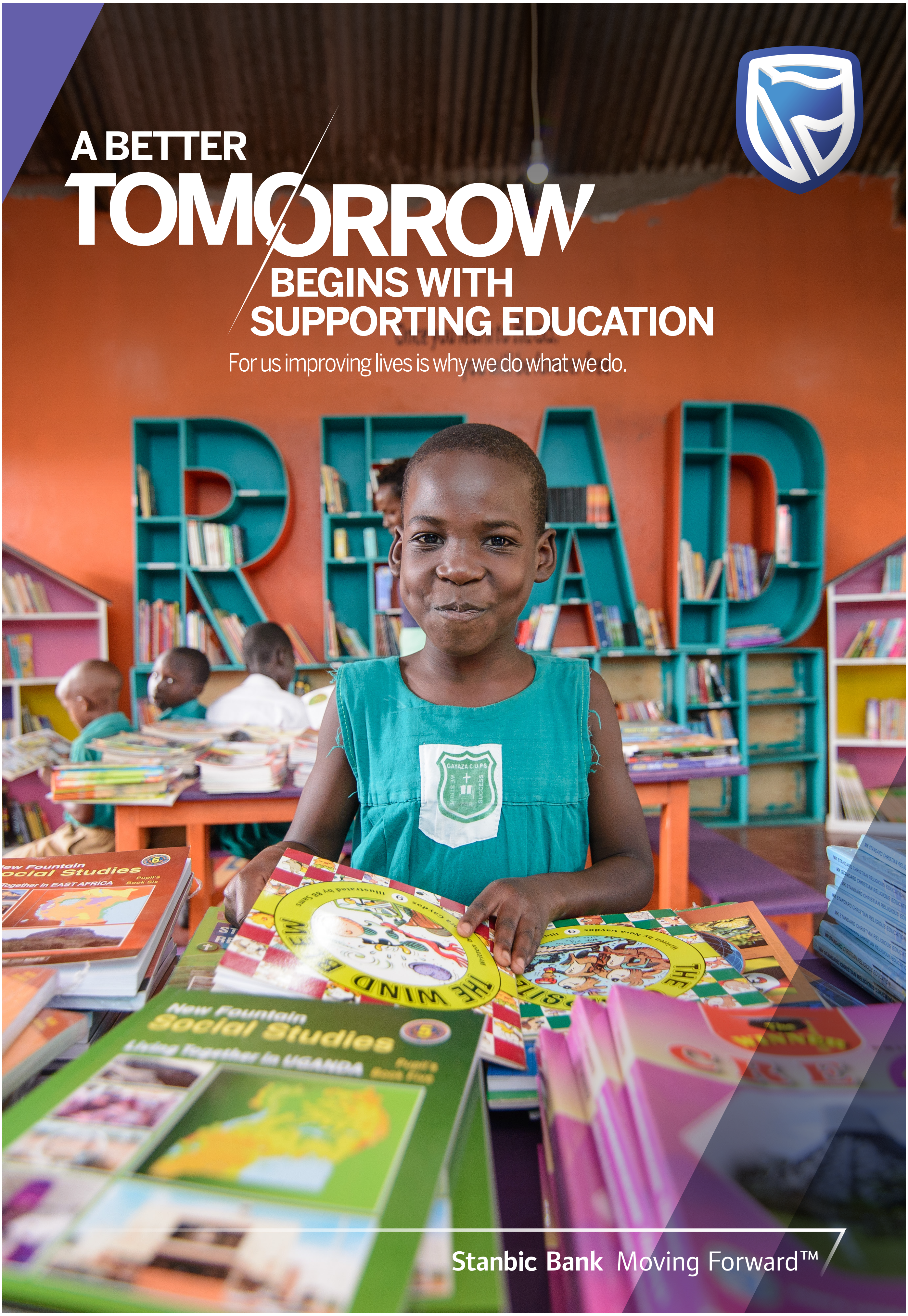
2017 was another solid year for Stanbic Uganda and we are pleased with our performance. 2018 has started out strong and we are confident in our abilities to serve the changing customer needs and contribute to the growth of our beloved country. We have a fortress balance sheet, a remarkable brand, loyal clients and the most talented people to deliver our objectives.

Appreciation

I would like to thank all our stakeholders - board members, staff members, customers, regulators, communities and shareholders for making 2017 a solid year. I am honored to work at this bank with its outstanding people. What we have accomplished during these rather difficult circumstances is extraordinary. I am confident that if any of our stakeholders could witness our people up close in action, you would be immensely proud and join me in expressing deep gratitude to them. I am proud to be their leader.

Let's continue working together towards our shared vision. To transform lives by satisfying all our customers' financial needs.

Moving forward™.


A BETTER
TOMORROW
BEGINS WITH
SUPPORTING EDUCATION
For us improving lives is why we do what we do.
READ
Stanbic Bank Moving Forward™

OPERATIONAL AND FINANCIAL REVIEW

Our strong financial performance in 2017 continued to demonstrate the benefit of our client centred focus that enabled us to close the year with a record profit after tax of Ushs 200.5 bn, a 5% growth over 2016. We lowered our cost to serve, registered strong growth on our customer deposits and continue to grow our trade finance and other diversified revenue streams. These gains compensated for the impact of large drop in margins on our interest earnings assets.

Samuel Mwogeza
Chief Financial Officer
Stanbic Bank Uganda Limited

Operating Environment

The economic environment in 2017 was still sluggish with spill-over effects from 2016 leading to generally muted economic activity across the year. The real GDP growth for FY 2016/17 was 3.8% compared to a growth rate of 4.7% in the FY 2015/16 with this slowdown largely impacted by the drought weather conditions that affected agricultural production, low aggregate demand and weak private sector credit growth. Notably, growth in Private Sector Credit (PSC) remained subdued at low single digits (<6%) despite the continued monetary easing stance in 2017 where the Central Bank Rate ("CBR") was dropped by further 250bps (2.5%), from 12% to 9.5%, following the 500bps (5%) drop registered in 2016. We however, did see some economic recovery in the second half of the year with aggregate demand improving and private sector credit growth slowly starting to pick up off the back of the continual downward revisions of the CBR that led to a drop in the cost of credit.

Quite notable also was the stability of the Uganda shilling which depreciated by approximately 0.7% to close the year at 3620/30 range having started the year at 3590/3600 levels. This stability was supported by good USD supply through most of the year from NGOs, commodity flows and offshore names investing in government securities. There were expectations that the shilling would gradually weaken off the back of current account deficit pressures and the anticipated build up in dollar demand for planned infrastructure projects, however we only began to register some volatility in the fourth quarter of the year. October saw some rapid weakening with the shilling closing at 3648/58 levels, however, in November the tide reversed with shilling strengthening to 3628/38 levels largely due to improving USD supply from commodity exporters while corporate demand softened.

On the regulatory front, the Central bank released the guidelines for Bancassurance and agency banking following the legislation passed in 2016. These guidelines were issued in the third quarter of 2017 and Stanbic bank was the first bank to be awarded a banc assurance license and one of the first banks to obtain an agency banking license. However the guidelines on Islamic Banking and the revised capital requirements which will require banks to increase their capital by a buffer of 2.5% and an additional surcharge of between 1-3.5% for domestic systemically important banks are yet to be issued.

IFRS 9: The International Accounting Standards Board (IASB) completed the final element of its comprehensive response to the financial crisis with the publication of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The bank has for the past 3 years undergone preparation for this change to ensure key aspects speaking to risk appetite, capital, tax and other business considerations are appropriately addressed in addition to the technical compliance matters and all these considerations have been appropriately factored and prepared for.

Financial review

Our financial performance in 2017 continued to demonstrate the benefit of our client centered focus that enabled us to lower our cost to serve, register strong growth on our customer deposits and continue to grow our trade finance and other diversified revenue streams. The bank closed the year with a record profit of Ushs 200.5bn, a 5% growth over 2016. This strong performance was supported by good growth across all key financial metrics resulting market share gains on loans, deposits and trade finance which compensated for the impact of the large drop in margins on our interest earning assets.

Highlights underpinning our results for the year include:

- Strong growth in customer deposits
- Cost optimization and transformation
- Strong and robust credit risk management
- Strong trade finance performance
- Revenue contribution from new revenue streams

Financial Performance Review.

A brief review of the major assets and liabilities of the Bank, how they affected the performance of the Bank and the drivers behind the variances year on year are reviewed as follows;

Cash and Balances with Banks

These are made up mainly of the cash we hold in our network, statutory cash reserves with Bank of Uganda, balances with other commercial Banks and repos held with the Bank of Uganda for short periods awaiting suitable investment opportunities.

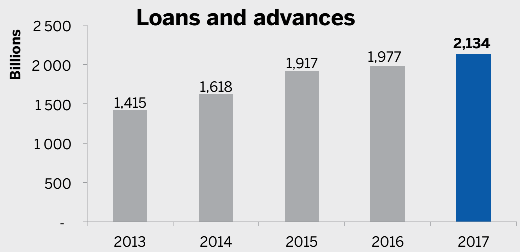
The growth in the cash and balances with Banks mainly on account of the growth in customer deposits year on year.

Investment Securities

Government securities holdings increased year on year, both on the banking and trading books by 2%. A more cautious approach was adopted for government securities as interest rates continued to drop to 5 year lows of less than 10% on Treasury bills and less than 15% on Bonds. Most of the liquidity was channeled to shorter term interbank loans and repos with the Central bank.

Loans and Advances to Customers

Loans and advances grew by 8% (Ushs 157 billion) in 2017 compared to 3% growth rate in 2016. Notably this growth was above the industry growth rate of <1.5% and resulted in a loan market share gain for the bank to 19% from 17.8% at the start of the year. This was supported by growth under short term and working capital facilities to our corporate and retail clients off the back of 700bps (7.0%) drop on our prime rate compared to mid-2016.



Customer Deposits

Customer deposits maintained a strong double-digit growth of 18% (Ushs 562billion) and a further gain on market share to approximately 20% from 18.7% at the close of 2016. This growth was from both new clients and increased flows from existing clients in both segments of the business (CIB and PBB). A clear strategy of growing the liability base, as well as deepening existing customer relations, continues to be the driving force behind these excellent results.

Brief reviews of other key factors impacting the performance of the Bank are reflected below:

Margins

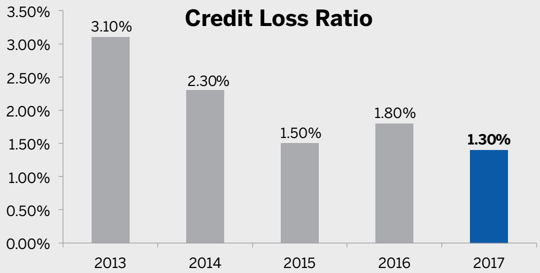
This represents the profit margin between interest rate earned on earning assets and interest rate paid on deposits and other sources of funding. The key drivers of this ratio are the CBR and the credit quality of assets on the book.

In a bid to stimulate economic growth, Bank of Uganda dropped the Central Bank Rate by 250 basis points from 12% at the beginning of year to 9.5% by December 2017. This resulted in lower yields on the assets but also led to a decrease in cost of funding/deposits.

Credit Loss

The credit-loss ratio is the impairment charge expressed as a percentage of the closing loans and advances book. It represents the loss the Bank incurs as a result of delinquencies from customers and also general credit provisioning for un-identified credit losses.

The Bank continued to maintain strong focus on credit quality with good rigor under the underwriting process and efficient management of the recoveries process. This plus the downward interest rate environment resulted in the bank credit loss ratio dropping from 1.8% to 1.3%.



Inflation

Inflation represents the general increase in prices for goods and services in the economy. An increase in inflation would generally impact the cost of operations of the Bank.

Inflation closed December 2017 at 3.3% from 5.9% in January, 2017 having touched highs of 7.3% during the year. The major underlying driver was food crop inflation that hit highs of 23.1% in May, emanating from unfavourable weather conditions before closing the year at -0.7%. The current food prices are expected to hold in the near term.

Inflation is forecast to remain low with upside risks expected from possible rise in food crop prices and the evolution of exchange rate.

Below is an analysis of the major revenue lines generated by Bank and the costs incurred in the process:

Net Interest Income

Net interest income is the difference between interest received on lending products and financial investments, and the interest paid on deposits and debt funding and subordinated debt.

The net interest income for the year decreased by 6.3% to 352.7 billion from 376.4 billion recorded in 2016. The downward trend was as a result of the continued drop in the interest rates for across all interest-bearing assets. Notably the bank's local currency prime lending rate dropped from highs of 25% in 2016 to 18% at the close of the year in response to the CBR downward re-pricing.

Non-interest Income

Non-interest revenue comprises net fee and commission revenue, trading revenue and other revenue. Non-interest revenue increased by 6.1% closing at Ushs 283.3 billion from Ushs 267.1 billion recorded in 2016. The growth was mainly under net fees and commissions and other revenues

Net fees and commission

Net fees and commission income grew by 14.5% to Ushs 131.2 billion from the Ushs 114.6 billion recorded in 2016. The growth of fees and commissions was supported by strong performance from short term facility fees, good increase on trade finance instruments and a general increase across fee recovery on transactional lines.

Trading revenue

Trading revenue was down by 4.5% as compared to prior year closing at Ushs 145.0 billion from the Ushs 151.8 billion recorded in 2016. The trading revenue was impacted by low margins under foreign exchange trading and low activity on the money market front due to very low volatility and minimal activity from offshore players.

Credit Impairment charges

Credit impairments represent the losses incurred as a result of the inability of our customers and clients to repay their debt obligations to the Bank. The credit loss ratio expresses these impairment charges as a percentage of closing loans and advances and indicates how much, on average, of each Shilling lent by the Bank results in credit impairments.

The impairment charge showed a positive trend dropping by 21.1% in 2017 compared to 2016. The banks robust credit management approach contributed to improved asset quality and improved recoveries, this was reflected in the drop of the impairment position as compared to prior year.

Operating Expenses

Operating expenses represent the costs that the Bank incurs to support current and future revenues. Inflation and foreign exchange rates are key external indicators that contribute to the increase in such expenses. Many internal factors also affect the growth in operating expenses, such as our staff and investments in branch and IT infrastructure.

Total operating costs reduced by 3.2% closing the year at Ushs 341.4 billion compared to Ushs 352.8 billion in 2016.

Staff costs reflected a growth of 3.5% increasing from Ushs 136.8 billion in 2016 to Ushs 141.5 billion. The increment was as a result of deliberate efforts to enhance the capability and capacity of the bank staff to enhance value created.

The other operating costs, however, registered strong year on year savings closing at Ushs 199.9 billion from Ushs 216.8 billion in 2016. The cost reduction was as a result of cost initiatives defined out of a broader cost transformation journey to drive efficiencies across the bank operations. Further detail on the cost performance on the varied line items is included under Note 13 in the financial statements.

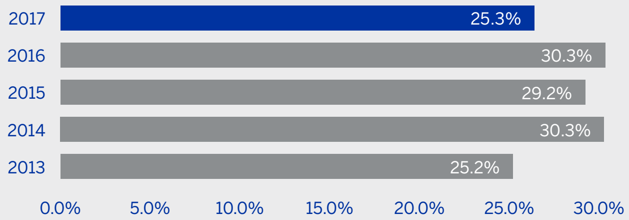
FIVE YEAR PERFOMANCE

	2017	2016	2015	2014	2013
Income statement (Ushs'm)					
Profit before income tax	**265,666**	253,949	203,298	181,288	134,811
Profit after tax	**200,468**	191,152	150,759	135,079	101,852
Financial position (Ushs'm)					
Shareholders' equity	**872,280**	714,942	544,758	486,970	405,308
Total assets	**5,404,159**	4,588,610	3,729,141	3,507,762	3,241,598
Loans and advances to customers	**2,133,986**	1,976,748	1,917,244	1,618,380	1,415,041
Property and equipment	**69,293**	63,318	49,209	47,705	39,790
Customer deposits	**3,620,946**	3,058,505	2,438,421	2,132,356	1,787,578
Returns and ratios					
Return on average equity	**25.3%**	30.3%	29.2%	30.3%	25.2%
Return on average assets	**4.0%**	4.6%	4.2%	4.0%	3.1%
Loan to deposit ratio	**58.9%**	64.6%	78.6%	75.9%	79.2%
Cost to income	**50.5%**	52.1%	53.6%	53.2%	57.4%
Capital adequacy					
Tier 1 capital ratio	**18.1%**	17.7%	16.4%	17.5%	16.7%
Tier 1 + Tier 2 capital ratio	**21.0%**	21.1%	18.1%	19.3%	20.0%
Risk weighted assets (Ushs'm)	**3,644,250**	3,069,288	2,848,545	2,199,037	1,960,768
Share statistics (Ushs)					
Closing number of shares in issue (in millions)	**51,189**	51,189	51,189	51,189	51,189
Earnings per share - basic and diluted	**3.92**	3.73	2.95	2.64	1.99
Dividends per share - proposed and/or paid	**1.76**	1.17	0.78	1.66	1.56
Other information					
Number of employees	**1,751**	1,802	1,899	1,879	1,903

KEY PERFORMANCE INDICATORS (KPIS)

PROFITABILITY

A) RETURN ON EQUITY (ROE)

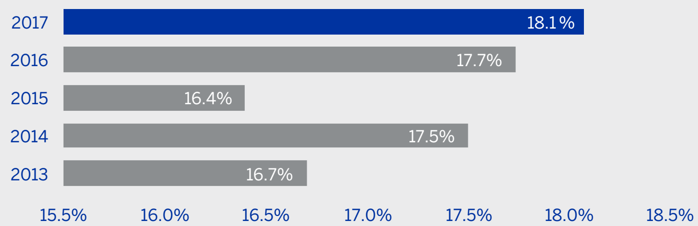


OBJECTIVE:
To deliver consistent returns (RoE) with a target minimum threshold set at 25%

RESULTS:
RoE at 25.3% above target levels but lower than prior year as part of the capital held was to cover future business growth opportunities. Notable also are the revenue pressures off the back of the declining interest environment and low Private Sector growth.

CAPITAL ADEQUACY

A) TIER 1 CORE CAPITAL ADEQUACY

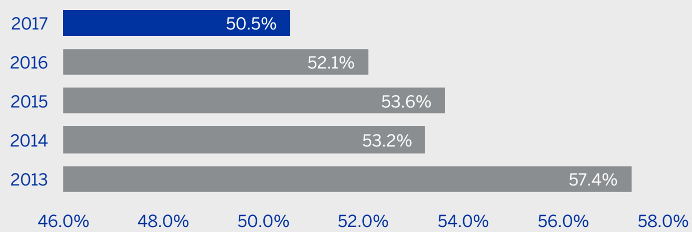


OBJECTIVE:
To maintain adequate levels of capital required to cover for regulatory capital adequacy requirements, business growth and investment prospects and for assessed stress events.

RESULTS:
Tier 1 Capital closed at 18.1% compared to 8% regulatory requirement (expected to move to 10%). Strong capital position was enabled by strong profitability of the Bank.

EFFICIENCY

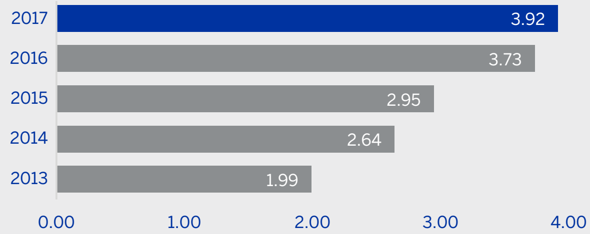
A) COST TO INCOME (CTI)



OBJECTIVE:
To attain a target cost to income ratio of 50% target by 2019.

RESULTS:
Our cost to income ratio continued to improve year on year towards our target mark of 50% by 2019. Improved leveraging of the cost base supported by defined cost initiatives from the broader cost transformation journey supported drop in 2018 to 50.5%.

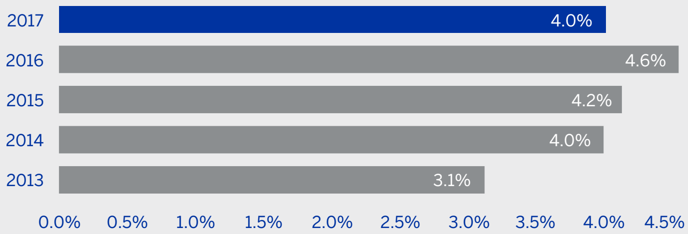
B) EARNINGS PER SHARE (EPS)



OBJECTIVE:
To deliver consistent earnings per share growth with a minimum threshold set at GDP growth plus inflation

RESULTS:
EPS was up by 5% against prior year aligned to the growth in profits. These positive earnings were supported by strong management of costs and strong credit quality of the customer loan portfolio.

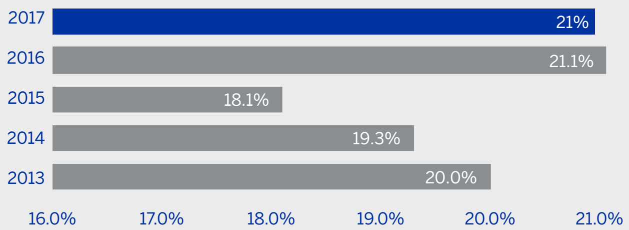
C) RETURN ON ASSETS (ROA)



OBJECTIVE:
To effectively deploy the Bank's liquidity into the optimal balance of assets that generates consistent returns above the internal benchmark of 4%

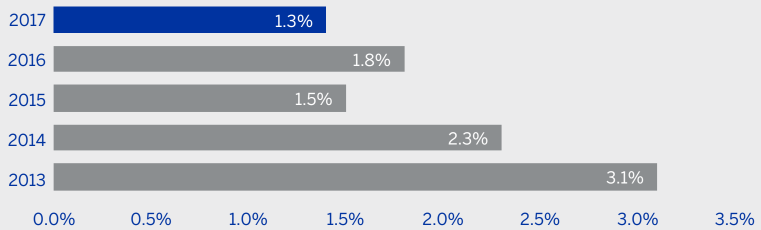
RESULTS:
Results closed 2017 at 4.0%. This was at par with the target of 4% off the back of rapid decline in interest rates and slow pick up under PSC.

B) TOTAL CAPITAL ADEQUACY RATIO (CAR)



RESULTS:
Total Capital closed at 21.0% compared to 12% regulatory requirement. The capital position remains strong and sufficient to cover bank growth aspirations.

ASSET QUALITY



OBJECTIVE:
To maintain a strong quality customer lending portfolio, with credit loss ratio below 2.5%

RESULTS:
The CLR of 1.3% improved from the 1.8% recorded in the prior year and was still maintained below the target risk appetite level of 2.5%.

STRATEGIC ROAD MAP

OUR AREAS OF FOCUS IN 2018

PLACING THE CUSTOMER AT THE CENTER OF EVERYTHING WE DO

We are continuously improving our service culture

- Single view of the customer
- Deployment of self-service digital platforms
- Investment in technology to improve customer turn around times
- Upgrade of our internet banking and Smart App platforms

Our goal is to provide our clients with what they need, when they need it at the most convenient and competitive pricing in the market place.

EXECUTING AS ONE

We are improving the customer banking experience through providing faster, simpler and more accurate solutions.

- Agency banking and Bancassurance
- Continued investment in the mobile money functionality with our telecom partners
- Banking the value chain; CIB/PBB collaboration

Our aim is to remain the leading financial services provider in Uganda delivering exceptional client experiences and superior value.

ACCELERATING DIGITISATION

We will continue to invest and leverage technology to improve our customer experience at a lower cost to serve.

RE-CAP OF OUR STRATEGIC JOURNEY

HOW WE IMPLEMENT OUR **STRATEGY**

OUR VALUES COME FIRST
We have consistent operating principles fundamental to the way we do business.

DRIVING PROFITABILITY
Our strategic priorities are designed to ensure we have a sustainable business for the long term. Long-term business sustainability and growing our profit is an integral part of our strategy.

OUR BUSINESS AND OPERATING MODEL
The conditions for our sucess and ability to create value and generate profits are a reflection in our business and operating model.

GOVERNANCE REINFORCES OUR VALUES
Implementing global standards affects how we govern the Bank. The performance, recognition and behaviours of all our people starts with embedding our bank's values in everything we do.

2014-2015
(0-18 MONTHS)
Getting the foundations right

2015-2017
(18 MONTHS - 3 YEARS)
Generate target returns
Invest in people
Invest in customer service
Reduce cost to serve

2017-2018
(3 - 4 YEARS)
Sustaining momentum
Sustain business growth momentum to consistently deliver RoE above Cost of Equity

2018 AND BEYOND
(4 YEARS AND BEYOND)
Continue to strengthen IT capability, improve service, building employee capability , execute flawlessly and DIGITISE

BUSINESS UNIT REVIEW

CORPORATE & INVESTMENT BANKING (CIB)

Our strategy of partnering with our clients in the growth sectors in Uganda by providing relevant solutions and expertise delivered via a seamless and superior client experience has borne fruit in 2017 and resulted in significant market share gains.

Edwin Mucai
Head CIB
Stanbic Bank Uganda Limited

LOOKING AHEAD

2018 will be a milestone year for the **Oil and Gas sector** in Uganda as we expect the Government and the International Oil Companies (IOCs) to make the Final Investment Decision (FID) in the last quarter of the year.

Overview

The macroeconomic headwinds experienced from the second half of 2016 continued for most of 2017 resulting in lower than expected economic growth in Uganda which in turn impacted private sector credit growth adversely despite the Central bank's intervention of cutting the policy rate by 250bps during the year. This benign credit growth led to excess liquidity being held by financial institutions which together with the policy rate cut put pressure on instrument yields which fell by 500bps on the treasury bills and 270bps on the treasury bonds.

Despite the disappointment of weak credit growth, there was however some good news for importers as the Uganda shilling remained stable for the whole of 2017 although the first quarter of 2018 has experienced some marginal weakening. It was also noteworthy that inflation is at an all-time low at 3.3% for headline inflation and 3% at [31st December 2017] for core inflation which continues to support an expansionary monetary policy.

Despite the somewhat favorable conditions towards the end of 2017, local aggregate demand remained muted which had a knock-on effect on the general business environment. A lot of these factors are expected to continue to pose downside risks in 2018.

Strategy

I am pleased to report that our strategy of partnering with our clients in the growth sectors in Uganda by offering relevant solutions and expertise has been successful in winning us significant market share gains especially with respect to customer deposits and trade finance. In particular, we are still the leading trade finance bank in Uganda with market share of over 35% of all outstanding trade facilities in the banking sector whilst we grew customer deposits faster than overall market (24% growth vs market growth of 12%). We also maintained our market share in customer assets despite the muted credit growth discussed above.

We will continue to pursue our strategy with increased focus in 2018 paying special attention to driving activity that talks to our customers' needs and improving the customer experience through digitisation and responsive turnaround times for key customer requirements such as credit requests and transaction banking related matters.

We continue to invest in our people, our key asset, to ensure they have the requisite competencies to meet the demands of our customers and that they are engaged, enthused and empowered to deliver those customer requirements. In 2017, a significant number of key roles filled were with internal candidates which is proof that our talent development program is delivering on its promise of growing our people.

Financial Performance

The CIB Business delivered a fair set of results with profits after tax of Ushs 106bn, 13% lower than 2016.

Despite the drop, this was a commendable outcome given the challenges highlighted above and can be attributed to:

- A diversified portfolio of client offerings which shore up the business when one business segment doesn't perform as well as expected
- Market share gains in customer deposits and trade finance
- Cost discipline – year on year costs declined against 2016
- Prudent risk management – improved credit loss ratio of 0.5% vs prior year ratio of 1.5%. We also had net recoveries in respect operational losses of Ushs 4.2 bn well within our operational risk appetite.

Looking Ahead

Given the testing macro-economic conditions we expect in the first half of 2018 following on from an equally challenging 2017, we believe our client strategy has been validated and our focus is therefore on its execution. As such, we will continue to partner with our existing and target clients on their growth journey as well as improving the way they experience the bank through digitisation of the end-to-end processes of key customer activities.

Further, 2018 will be a milestone year for the Oil and Gas sector in Uganda as we expect the Government and the International Oil Companies (IOCs) to make the Final Investment Decision (FID) in the last quarter of the year. The total investment in the Upstream and Midstream sectors will be in excess of USD 15bn and will happen in a relatively short period of 3 to 5 years and consequently, it will have a significant impact on Uganda's GDP current estimated at USD 27bn. As a bank, our client strategy and sector focus puts us in good stead to provide relevant financial services to this sector as and when FID is reached. Several of the key players in the Oil and Gas sector are our customers today and we are well prepared to support their activities once they win the contracts to provide services to the different projects.

We will ensure responsible cost growth which we expect to be below revenue growth as well as delivery of our digital agenda. Above all, we will ensure we keep our customers at the centre of what we do by supporting their businesses through the economic cycle. We are therefore confident that our business is well positioned to deliver solid results in 2018.

BUSINESS UNIT REVIEW

PERSONAL AND BUSINESS BANKING (PBB)

"In 2017, we focused on delivering a superior customer experience. The result of this was a much-improved Net Promoter Score and this translated into a great financial outcome. We enhanced our product offering through the introduction of short term unsecured lending as well as Bancassurance and launched an additional channel in Agency Banking. We continue to build a profitable and sustainable business as we deliver on our purpose. Uganda is our home, we drive her growth."

Kevin Wingfield
Head PBB
Stanbic Bank Uganda Limited

LOOKING AHEAD

Continued investment in our **digital** and **physical channels** to make them more relevant to meet our customer needs through enhancements, investment in new ATM and Cash Deposit Machines,

Our Business

Personal and Business Banking provides banking and other financial services to individuals, enterprises, public sector and non-government organisations across the country.

Review of 2017

Our focus throughout 2017 was on delivering a superior experience to our customers and rallying the entire business behind this cause. To be able to achieve this, we focused on improving system stability, enhancing our digital platforms and training our staff. We also further enhanced our product offering through the introduction of short term lending products as well as the introduction of Bancassurance which will help the customers secure their future. On customer access, we introduced real time cash deposit machines in some of our branches and began rolling out an additional channel, Agency Banking, in a bid to offer relevant solutions and to better serve our customers, guided by our purpose, Uganda is our home, we drive her growth,

Customer experience

Our focus on customer experience resulted in a positive and improved Net Promoter Score (NPS) across all PBB segments and a significant improvement overall. We improved our customer convenience and turnaround time in key customer processes such as salary payments, issue of trade facilities and online banking password resets among others.

We also took on a more visible and active presence on all social media platforms from which we received real time and first-hand customer feedback. Where possible we used this feedback to immediately resolve customer queries and complaints and used other customer feedback to enhance our service and product offering.

We continue on our journey to create a customer centric culture within the organisation and remain committed to delivering financial solutions for customers.

Digital transformation

We continued to invest in enhancing our digital banking solutions by introducing key features to be able to provide more convenience for our customers. We focused on onboarding customers to the available digital platforms and this saw us close the year with 54% of our total active customer base signed up for digital banking.

We introduced new platforms to the market which included E-Market Trader to support a growing demand for more competitive and more interactive engagements with customers regarding their forex needs. We also launched Enterprise Online a new payment platform for Enterprise customers.

We started the journey on replacing our ATM fleet to improve uptime and allow for enhanced functionality. We purchased 25 new ATM's in 2017 and have the bulk planned for 2018.

We significantly enhanced payment functionalities and improved security features on our Mobile Banking, Online Banking and Smart App to further build customer convenience and confidence as they transact.

People

Our people are the lifeblood of the organisation and we continued investing in our people at all levels with a key focus to prepare them for rapidly changing customer needs and expectations that will require them to embrace change and build new skills for the future.

We also undertook a survey to understand the culture of the organisation from which key actions were derived which have formed a key input into building the desired customer centric culture of the organisation.

Financial Performance.

We registered a much-improved financial performance for the year seeing our liabilities grow by 16% in the year and loans and advances reverse a declining trend in 2016 and grow by 11% compared to the prior year. The loan book growth was greatly supported by our commitment to reduce our prime lending rate in line with Central Bank Rates (CBR) which came down, by 2.5% through the year, in a bid to stimulate private sector credit growth.

Our revenues in 2017 grew by 8% with strong growth in our Non-interest income, and Net interest income impacted by declining interest rates. Particularly pleasing was the decline in cost growth year on year which significantly enhanced the profit after tax. The quality of the credit book remained well managed.

Outlook for 2018 and Beyond

We remain committed to providing a consistent and superior experience to our customers and to growing a sustainable business through some of the following key themes;

- Improving the customer experience to ensure we can continue to grow our loyal customer base;
- Process simplification to ensure our customers receive quick, efficient and consistent service across all our platforms and branches.
- Continued investment in our digital and physical channels to make them more relevant to meet our customer needs through enhancements, investment in new ATM and Cash Deposit Machines, and refurbishment of our branch spaces to make them more relevant to the customer and the bank of the future.
- A renewed focus on our self-employed customer offering and entrepreneurs through the Stanbic Bank Incubator initiative to nurture and grow young businesses.

We commit to do all this while continuing to maintain a sound risk and control environment in our operations and with the support of our great people to fulfil our purpose – Uganda is our home, we drive her growth.

PARTNER BANK
ENTEBBE EXPRESS WAY

RISK MANAGEMENT AND CONTROL

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RISK OVERVIEW

We actively manage risk to protect and enable the business. Risk exists when the outcome of taking a decision or course of action is uncertain and could potentially impact whether, or how well the Bank delivers on its objectives.

Managing risk

Effective risk management is of primary importance to Stanbic bank's overall operations. Throughout its history, the bank has maintained a conservative but pragmatic and consistent approach to risk, helping to ensure we protect customers' funds, lend responsibly and support the economy of the country. By diligently aligning our risk appetite to our strategy, we aim to deliver long-term shareholder returns.

All employees are responsible for the management of risk, with the ultimate responsibility residing with the Board. We have a strong risk culture, which is embedded through clear and consistent communication and appropriate training for employees.

A comprehensive risk management framework is applied throughout the bank, with effective governance and corresponding risk management tools. Our risk management function oversees the framework and is led by the Chief Risk Officer. It is independent of the core business, including the products design, sales and trading functions, to provide challenge, appropriate oversight, and balance in risk/reward decisions.

Risk Appetite

Stanbic bank's risk appetite defines its desired forward-looking risk profile, and informs the strategic and financial planning process. It is articulated in our Risk Appetite Statement, which is approved by the Board. Key elements include:

- Risks that we accept as part of doing business, such as credit risk and market risk;
- Risks that we incur as part of doing business, such as operational risk which are actively managed to remain below and acceptable tolerance; and
- Risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been considered.

Apart of the risk appetite framework, we operate a comprehensive stress testing programme to help ensure the strength and resilience of Stanbic bank, taking part in regulators' as well as our own internal stress tests. Tabulated below are some of the key metrics, extracted out of our Risk Appetite Statement that we were tracking against, with indication of where we closed the year against each. Table 1

Component	Measure	Risk Appetite limit	2017
Capital	Total regulatory capital	>=18.5%	21.0%
Liquidity	Loan to deposit ratio (FCY)	<80%	45%
Loan impairment	Non-performing loans ratio	<4%	6.8%
Portfolio Metrics	Liquid assets to total deposits	<20%	62.4%
	Operational losses to gross revenue	<0.5%	0.12%

Top and emerging risks

As part of our risk management framework, we identify current and forward looking risks so that we may act to either prevent them materializing or limit their effect.

Top risks are those that may have a significant impact on the financial results, reputation or business model in the current and year ahead. Emerging risks are those that have large unknown components and may form immediately or beyond a one-year horizon. If these risks were to occur, they would have a significant effect on the bank.

During 2017, we noted a key change to our top and emerging risks to include our assessment and effect on the bank of cyber-crime. Cyber security risks create a particular focus for the bank going forward, and more detail on this focus is provided further below within this report

2018 top risks

In the last quarter of 2017, a risk survey and assessment exercise was carried out amongst the risk and assurance functions of the bank to establish the top risks that will demand the bank's focus in the coming year. These risks were identified after considering the external environment in which the bank operates in conjunction with the bank's internal reality. The risks were defined into short, medium and long-term drivers. Most of the organization's resources are spent on short and medium term drivers, however to leverage opportunities and become more proactive, more effort is required to translate long term drivers into opportunities.

Through influencing the adoption of these opportunities, the risk management function can contribute to the achievement of the bank's financial aspirations.

Short-term risk drivers (0 to 18 months) represent current risks with mitigation being primarily detective and corrective in nature. Medium-term drivers (18 to 36 months) represent risks closer to the horizon of emerging risks with mitigation being detective and preventive in nature. Long-term drivers (greater than 36 months) are the distant horizon of emerging risks from which the bank can realize opportunities rather than mitigate the risk.

As part of this survey and assessment process, risk appetite was proposed and indicators defined to support the overall management of each of the top risks.

In that regard, our top and emerging risks are summarized within this report, with a particular focus given to what we assess as key emerging risks as well. Other risks and uncertainties including those not known to the bank or its management could also negatively impact the bank's business, results of its operations and financial condition. Thus, the following should not be considered a complete discussion of all the risks and uncertainties the bank may face. Refer to table on page 48

Key emerging risk – Cyber risk

Placing the customer at the center of everything that we do has been a key strategic objective for the bank over the last couple of years. And in pursuing this objective, our business and operating models have had to evolve to ensure we remain relevant to our customers and the industry at large. This evolution has crystalized in an increase and a shift towards; digital transactability, customer self-service channels, processing automation, and an increase in bank communication devices among other developments.

Owing to these developments the bank's operational risk profile has evolved as well. The Bank's computer systems and networks have become increasingly subject to evolving cyber security risks which could result in the theft, loss, misuse or disclosure of customer information, damage to the Bank's reputation, additional cost to the Bank, regulatory penalties, legal exposure and financial losses.

Mitigating actions

- We continue to strengthen and significantly invest in our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber-attacks. Specifically, the bank has implemented a well-articulated cyber risk management framework that is aimed at supporting the building of a cyber security program that is purposed to protect the Bank's information assets.
- In 2017 we undertook various exercises that were purposed at assessing our level of maturity against global cyber security standards. This included independent audits of our ICT capability, and applications security testing and assessments.
- Direct response measures that have been implemented since last year include; phishing and malware detecting capability on

our electronic banking channels, 2 factor authentication for our most critical applications, and a fully resourced Cyber Security Operations team.

- 2018 will retain the same focus, central to which will be the installation of a Cyber Security Operations Centre. This will ensure that our cyber security management framework is effectively operationalized.

Building the right risk culture

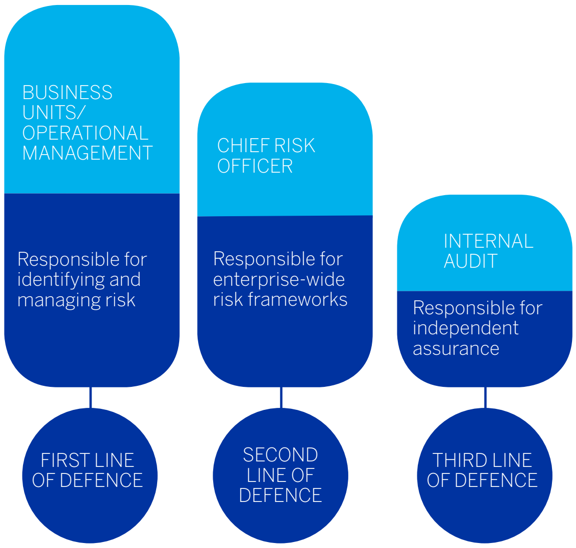
Continued resilience requires that we entrench a culture in which our people are aware of risk in executing our business activities, and in which compliance with laws and regulations, and acting ethically and fairly in everything we do, is second nature.

Building a customer-centric culture that is sufficiently balanced with risk and compliance awareness mitigates conduct risk, which is the risk that the Bank itself poses to our clients, and to the effective functioning of financial markets through behavior that is dishonest, unethical or unfair.

Conduct covers a range of activities, from how we design products and how we market these products, to how we communicate with our clients and meet their expectations. Effectively managing conduct risk supports the Bank in delivering on its strategy, meeting regulatory requirements, and working to ensure we keep the promises we make to our clients.

Three lines of defence model

The three lines of defense model is crucial to building this culture. It promotes transparency, accountability and consistency, which are key to building trust and maintaining our legitimacy among our stakeholders, and enables sufficient coverage of the risk landscape.



Each line of defence describes a specific set of responsibilities for risk management and control:

The first line of defence is made up of the management of business lines and operational environments. It is the responsibility of first line management to identify and manage risks.

This involves, at an operational level, the day-to- day effective management of risk in accordance with agreed risk policies, appetite and controls. Effective first line management includes:

- The proactive self-identification of issues and risks, including emerging risks
- the design, implementation and ownership of appropriate controls
- the associated operational control remediation
- a strong control culture of effective and transparent risk partnership.

The second line of defence functions provides independent oversight and assurance. They have resources at the center and embedded within the business lines. Central resources provide bank wide oversight of risks, while resources embedded within the business lines support management in ensuring that their specific risks are effectively managed as close to the source as possible. Central and embedded resources jointly oversee risks at a legal entity level.

The second line of defence functions develop and implement governance standards, frameworks and policies for each material risk type to which the Bank is exposed. This ensures consistency in approach across the Bank's business lines and legal entities.

The third line of defence is Internal Audit who provides independent and objective assurance to the Board and senior management on the effectiveness of the first and second lines of defence. All three levels report to the Board, either directly or through the Board Committees.

A description of our approach to risk management, covering a summary of the overall methodology and the management of individual types of risks is as expounded below.

Risk management framework

The Bank's approach to managing risk is set out in the comprehensive risk management framework which is approved by the Board Risk Management Committee. Our risk management function led by the Chief Risk Officer, oversees the framework. It is independent of the core business, including the products design, sales and trading functions, to provide challenge, appropriate oversight, and balance in risk/reward decisions. The framework has two components:

i. Governance committees

These are in place at both a board and management level. The key roles and responsibilities as encompassed by their mandates and delegated authorities, are summarized in the sections that follow.

Board Risk Management Committee (BRMC) has responsibility for oversight and review of prudential risks including but not limited to credit, market, capital, liquidity and operational. It reviews the Bank's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Bank's risk management systems and controls, considering the implications of material regulatory change proposals, and ensuring effective due diligence on material transactions. The BRMC receives regular reports on risk management, including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorized to investigate or seek any information relating to an activity within its terms of reference.

The Asset and Liability Committee (ALCO) is responsible for the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk.

The Board Credit Committee is responsible for ensuring that effective credit governance is in place to provide for the adequate management, measurement, monitoring and control of credit risk including country risk.

ii. Governance documents

These comprise standards, frameworks and policies which set out the requirements for the identification, assessment, measurement, monitoring, managing and reporting of risks and effective management of capital. Governance standards and frameworks are approved by the relevant board committee.

The Bank's policies are aligned to related policies commissioned at group level but are customized to our local environment and are applied within our governance structures.

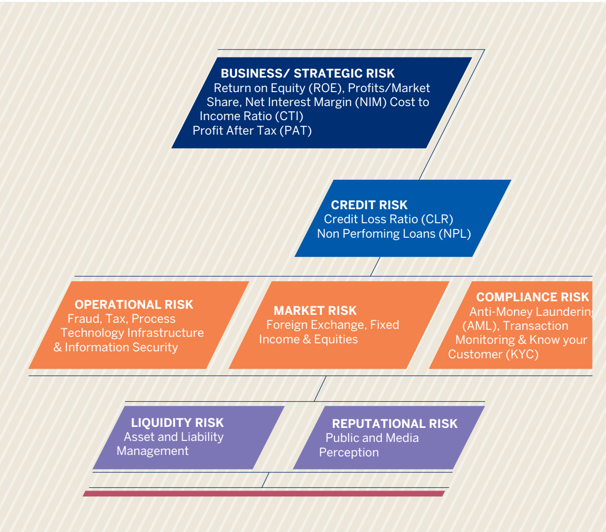
Risk management in banking activities

The Bank's business activities give rise to various risk types, which include:

Credit risk

The Bank has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk, particularly in lending transactions; credit risk arises through non-performance by a counter party for credit facilities utilised. Such facilities are typically loans and advances, including the advancement of securities and contracts to support customer obligations (such as letters of credit and performance guarantees).

Risk management in banking activities image



Approach to managing credit risk

Credit risk is managed by means of a governance structure with clearly defined mandates and delegated authorities and also the use of relevant credit assessment tools in evaluation of new and outstanding facilities for the customers under the respective business units discussed below.

Corporate & Investment Banking (CIB):

The use of risk rating models combined with an in-depth knowledge and understanding of each customer is essential in assessing the credit risk of each CIB counter party. A consistent credit rating framework is in place to assist the Bank in making credit decisions on new commitments and in managing the portfolio of existing exposures. The probabilities of default under these models are an important component of the formal credit assessment process of new and existing business.

The validation and ongoing enhancement of these models is a continuous focus area to ensure that the tools used in these credit assessments remain relevant and adequate.

Personal and Business Banking (PBB):

The nature of the products and strength of historical data is a fundamental dependence under credit risk management for the Personal and Business Banking customers. A diverse range of performance analysis techniques are applied across product sets and potential credits in recognition of the differing asset, maturity and individual or business profiles.

Rehabilitation and recovery forms a key component of the credit cycle. All credit portfolios are closely monitored on a regular basis to evaluate the level of risk assumed against expected risk levels. This role is competently executed by a fully-fledged business support.

Key development: IFRS 9

IFRS 9 Financial instruments (IFRS 9) is the new standard that replaces IAS 39 IAS 39 Financial Instruments: Recognition and Measurement (IAS39) from 1 January 2018.

Under the new standard, all Financial instruments are initially measured at Fair value (consistent with IAS 39) and subsequently at Amortized Cost, Fair value through Other Comprehensive Income (FVTOCI) or Fair value through Profit and Loss (FVTPL). Subsequent measurement is driven by the business model under which they are held whether managed to collect contractual cashflows, sale or both.

IFRS 9 introduces a new impairment model based on expected credit losses (rather than incurred losses under IAS 39). Furthermore, the standard has a wider scope incorporating Financial assets measured at Amortized cost, FVTOCI, loan commitments, Financial guarantees, lease commitments and contract assets under IFRS 15.

The bank's transition project was driven by a Steerco chaired by the Chief Executive. The Steerco was charged with direction, planning and monitoring the progress of key activities. The Steerco met monthly and tracked progress on key areas especially credit modelling, review of key estimates change management and ensuring the impact of transition on the bank's capital, tax, risk appetite and business strategy.

Updates were given to the Board Audit Committee on a quarterly basis to ensure appropriate oversight.

Overall, the bank is well on track to transition to the new regime.

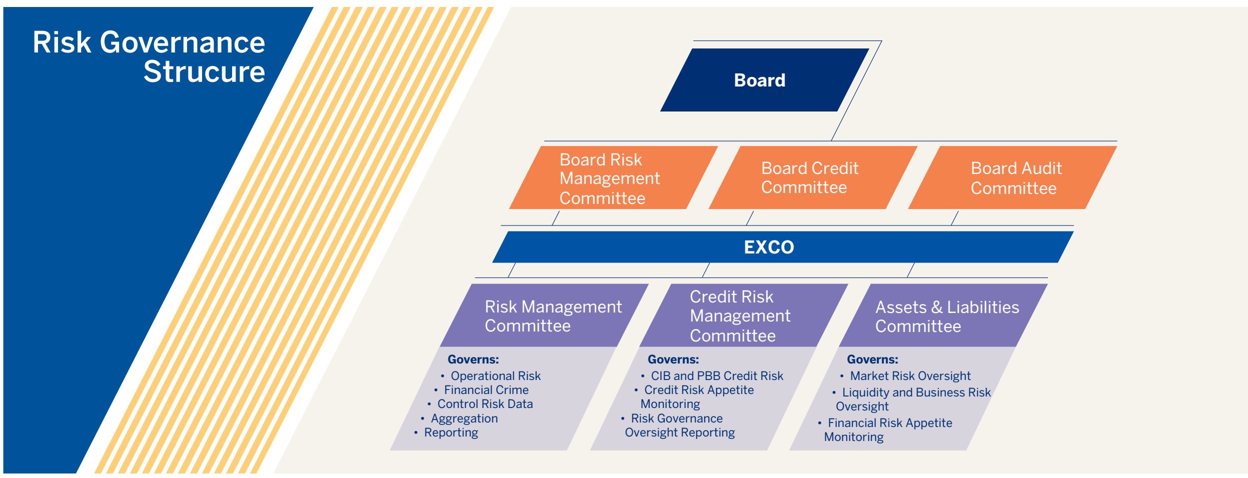
Liquidity risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligations as they fall due, or can only access these financial resources at excessive cost. It is our policy to maintain adequate liquidity at all times and for all currencies, and hence to be in a position to meet obligations as they fall due. We manage liquidity risk both on a short-term and structural basis. In the short term, our focus is on ensuring that the cash flow demands can be met where required. In the medium term, the focus is on ensuring that the balance sheet remains structurally sound and is aligned to our strategy.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Bank's liquidity risk management framework, however, is designed to measure and manage the liquidity position at various levels to ensure that all payment obligations can be met under both normal and stressed conditions without incurring unbearable costs.

Approach to managing liquidity risk The board is the responsible governing body that approves our liquidity management policies. The Asset and Liability Committee (ALCO) that receives delegated authority from the Board, is responsible for managing Liquidity within pre-defined liquidity limits and in compliance with liquidity policies and practices, as well as regulatory requirements.

The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, we have structured our funding base to be diverse and largely customer- driven. While



customer deposits are of short tenor (mainly current accounts), the behaviour is that they tend to be very stable.

In addition, we have contingency funding plans including a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

Liquidity contingency plans are supplemented by an extensive early warning indicators methodology supported by a clear and decisive crisis response strategy. These plans are reviewed periodically for relevance and reliability. The following elements are incorporated as part of a cohesive liquidity management process.

- Liquidity management at currency level
- Rolling forecast for demand and supply of overnight and term liquidity
- Undertaking regular liquidity scenario/ stress testing.

The cumulative impact of the above elements is monitored on a monthly basis by the Bank's Asset and Liability Committee and the process is underpinned by a system of extensive internal and external controls. The latter includes the application of purpose- built techniques, documented processes and procedures, independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system.

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow objections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and ALCO requirements. Long-term funding needs are derived from the projected balance sheet structures and positions are regularly updated to ensure the Bank's adherence to all funding regulations.

Market risk

Our exposure to market risk, which we recognize as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices, arises principally from customer-driven transactions.

We recognize market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Our exposure to market risk arises principally from customer-driven transactions.

The objective of our market risk policies and processes is to obtain the best balance of risk and return while meeting customers' requirements. Throughout the year, the Bank maintained its trading and banking book positions within the approved risk appetite and tolerance limits.

The Bank also continued to advance its interest rate risk management and make changes to its global markets and market risk technology. Non-trading interest rate risk Interest rate risk from non-trading book portfolios is managed by the Treasury desk under the supervision of the Asset and Liability Committees. The Treasury desk deals in the market, in approved financial instruments, in order to manage the net interest rate risk, subject to approved risk limits.

Operational risk

Any instance where there is a potential or actual impact to the Bank resulting from inadequate or failed internal processes, people, systems, or from an external event. The impacts to the Bank can be financial, including losses or an unexpected financial gain, as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Bank recognizes the significance of operational risk, and the fact that it is inherent in all business units and activities

Year in brief:

The Bank continued to make significant strides towards a matured and resilient control environment.

Operational losses were yet again well within our risk appetite of 1%, at 0.12% at the end of the year. This represented yet another strong operational losses performance that resulted in a net recovery position of Ugx 3.5bn, owing to successful efforts to recover on losses booked in previous reporting periods. The Bank continued to see benefit in the fraud and information risk awareness initiatives undertaken.

Fraud risk driven by impersonation fraud and card fraud where the card is not present (internet banking fraud) was the key driver in the first two quarters of the year. However, implementation of 3-dimension secure authentication protocols on all our card acquiring and issuing platforms ensured this fraud was largely muted for the second half of 2017.

Internal fraud continued a steady decline; from Ugx 407m in 2015, to Ugx 165m in 2016, to Ugx -3m in 2017. This has largely been on account of deliberate efforts to promote a culture of transparency, rewarding identification and reporting of suspicious and unethical behavior, and enhancing our processes.

The above statistics are matched by a lower number of staff dismissed or terminated due to dishonesty or gross negligence. 9 staffers were released on these grounds in 2017, compared to 97 the previous year.

In the course of the year, and with the increasing threat of cybercrime, the bank implemented various initiatives to respond to this threat. These included; installation of a security events monitoring capability, recruiting suitably qualified resources within our IT Security unit, implementing two factor authentication protocols on our critical applications, among other initiatives.

The implementations above and further enhancements to come in 2018 provide the bank with a platform to offer secure banking services to our customers.

Focus areas for 2018

We will focus on building awareness, thought leadership and controls aligned to emerging risks. This includes:

- Increased focus on emerging and current cybercrime and cybersecurity threats. We will further embed the cyber security framework.
- A cyber security operations center will be set up in 2018, and this will be supported by a digital forensics laboratory that will ensure the Bank is adequately enabled to timely respond to cybercrime related activity.
- Enhanced focus controls relating to on third party risk and outsourcing
- Continued deployment of fraud preventative measures through enhanced monitoring technology, awareness and enhanced detection capabilities
- Increased focus on business resilience and crisis management readiness as the market continues to evolve
- Information Security increased development of controls monitoring relating to both physical and logical access. This will also look at the implementation of the newly developed data protection and data leakage prevention policy.

Compliance risk

Compliance is an independent core risk management function, with unrestricted access to the Board Risk Management Committee, the Chief Executive and the Chairman of the Board. The Bank is subject to extensive supervisory and regulatory regimes. Executive management implements the Bank's compliance risk framework, by ensuring that the Bank conducts its business within the set legal and regulatory requirements and guidelines. The Bank operates a centralised compliance risk management structure run by a fully equipped specialised unit that grants oversight on all compliance related matters. The Compliance Unit provides leadership and guidance on compliance with Anti-money laundering, terrorist financing, occupational health and safety and any other emerging legislative developments. The unit also, provides training and awareness on regulatory developments.

Money laundering control and Anti- Terrorism Financing

The issue of Anti-Money Laundering and Anti-Terrorism Regulations in December, 2015 emphasizes the importance of having an effective compliance culture. Legislation pertaining to money laundering and terrorist financing control imposes significant record keeping and customer identification requirements on financial institutions, as well as obligations to detect, prevent and report money laundering and terrorist financing incidents to Financial Intelligence Authority. The Bank continues to strengthen its anti-money laundering and terrorist financing measures as the regulatory environment becomes more

Occupational health and safety

The health and safety of employees, clients and other stakeholders continues to be a priority. The Bank seeks to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The Bank continues to focus on ensuring compliance with current legal and regulatory framework and ensuring that occupational health and safety procedures are closely linked to the operational needs of the business.

Reputational risk

Safeguarding the Bank's reputation is of paramount importance to its continued operations and is the responsibility of every member of staff. Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. The Bank's strong reputation is dependent on the way it conducts its business, but it can also be affected by the way in which its clients, to whom it provides financial services, conduct themselves.

Effective management of all operating activities is emphasised to establish a strong internal control framework to minimise the risk of operational and financial failure and to ensure that a full assessment of reputational

implications is made before strategic decisions are taken. The Bank sets clear standards and policies on all major aspects of the business and these standards and policies are integral to the Bank's system of internal controls and are communicated through procedures, manuals and appropriate staff training.

Business/ Strategic risk

Strategic risk is the risk of adverse outcomes resulting from a weak competitive position or from a choice of strategy, markets, products, activities or structures. Major potential sources of strategic risk include revenue volatility due to factors such as macro-economic conditions, inflexible cost structures, uncompetitive products or pricing, and structural inefficiencies.

It is not cost effective to attempt to eliminate all business or strategic risk and it would not, in any event, be possible to do so. Events of immaterial significance are expected to occur and are accepted as inevitable; events of material significance are rare and the Bank seeks to reduce the risk from these in a framework consistent with its expected risk profile and appetite.

Year in brief:

The bank increased market share on a number of key fundamental metrics.

- Loans and advances grew by 8% (Ushs 157 billion) in 2017 compared to 3% growth rate in 2016. Notably this growth was above the industry growth rate of <1.5% and resulted in a loan market share gain for the bank to 19% from 17.8% at the start of the year. This was supported by growth under short term and working capital facilities to our corporate and retail clients off the back of 700bps (7.0%) drop on our prime rate compared to mid-2016.
- Customer deposits maintained a strong double-digit growth of 18% (Ushs 562billion) and a further gain on market share to approximately 20% from 18.7% at the close of 2016. This growth was from both new clients and increased flows from existing clients in both segments of the business (CIB and PBB). A clear strategy of growing the liability base, as well as deepening existing customer relations, continues to be the driving force behind these excellent results.
- Off-balance sheet assets grew by 33.4% owing to our continued support of key infrastructure development projects.

Capital adequacy

Minimum requirements

The capital adequacy ratio reflects the capital strength of an entity compared to the minimum requirement set out by the regulator.

Stanbic Bank Uganda Limited is required to meet the Central Bank capital requirements, set at a minimum capital adequacy ratio of 8% (based on core capital) and 12% (based on total capital). These regulations are based on guidelines developed by the Bank for International Settlements.

Our approach to managing capital

Our approach to capital management is to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times.

Strategic, business and capital plans are drawn up annually covering a three-year horizon and are approved by the Board. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained to support our strategy.

There is an expectation that the Bank of Uganda will increase the minimum capital requirements as a result of adoption of components of Basel 3 that speak to holding of additional Capital buffers. We anticipate a 4%-5% increase to the requirement which is attuned to ensuring banks protect depositors and equity stakeholders through adverse economic down turns. We as Stanbic Uganda are prepared and already hold enough capital in respect of these anticipated changes.

The ALCO is responsible for the ongoing assessment of the demand for capital and the updating of the Bank's capital plan. The capital plan takes the following into account:

- Current regulatory capital requirements and our assessment of future standards
- Demand for capital due to business growth forecasts, loan impairment outlook and market shocks or stresses
- Available supply of capital and capital raising options. The Bank formulates a capital plan with the help of internal models and other quantitative techniques.

The Bank uses a capital model to assess the capital demand for material risks, and supports this with our internal capital adequacy assessment. Other internal models help to estimate potential future losses arising from credit, market and other risks, and, using regulatory formulae, the amount of capital required to support them.

In addition, the models enable the Bank to gain an enhanced understanding of its risk profile, for example, by identifying potential concentrations and assessing the impact of portfolio management actions. Stress testing and scenario analysis are an integral part of capital planning, and are used to ensure that the Bank's internal capital adequacy assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events and how these could be mitigated through appropriate management actions. The capital modelling process is a key part of our management discipline. A strong governance and process framework is embedded in our capital planning and assessment methodology. The key capital management committee is the Asset and Liability Committee.

Stress testing Framework

Stress testing is a management tool and is used to assess the vulnerability of the Banks key resources, namely; profitability, capital, liquidity, and reputation, to a range of adverse events. Stress testing provides a forward looking assessment of risk. It assists in the proactive detection of vulnerabilities, so that mitigating actions can be assessed and implemented timely.

The stress testing process supports a number of business processes that include but are not limited to strategic planning and financial budgeting, liquidity planning, and risk appetite definition. The Bank's stress testing program uses one or a combination of the following sensitivity or scenario analysis methods to address various stress testing requirements.

Macro-economic stress testing

Macro-economic stress testing is conducted across major risk types, on an integrated basis, for a range of economic scenarios. The analysis is based on severe but plausible macro-economic shocks that may affect a number of different risk factors simultaneously, and the resulting impact, after consideration of mitigating actions, on the income statement, balance sheet and regulatory and economic capital demand and supply of the Bank

Management judgement and expert analysis

This form of analysis focuses on entity-specific vulnerabilities. The sensitivities are based on management's understanding of the business model and vulnerabilities in the business.

Book downgrade

This is a form of sensitivity analysis approach built on a conservative assumption that most credit counterparties are likely to be downgraded in a stress scenario and or environment.

Looking ahead

The Bank's risk management framework has proven effective in navigating an increasingly complex risk environment.

At the close of the year, the Uganda shilling 2017 was characterized by low volatility in the Uganda shilling. The average volatility on the currency for the year was at 2.48% down from 5.24% in 2016, while interest rates on T-Bills and T-Bonds edged lower in tandem with the accommodative monetary stance adopted by the central bank. The Central Bank Rate(CBR) was cut from 12% at the beginning of the year to 9.5% in December 2017. BOU adopted this stance in an effort to boost economic growth by making credit more affordable. Despite their efforts, private sector credit growth was slow to respond, which was one of the key drivers of the stability in the shilling.

The above macroeconomic environment provided some headwinds for the foreign exchange related component of our global markets business while the interest rate component was lifted by the downward move in rates.

In line with our focus on improving the Bank's economic profit and ROE, we will optimize financial resource allocation to enhance returns.

Table of top and emerging risks as assesed at the end of 2017

Risk	Trend	Mitigants
Technology risk	▶	We have enhanced our logical access management capability with initiatives like core banking system 2 factor authentication, and a new logical access system. We further enhanced our system monitoring processes to ensure availability of all our transaction channels
Fraud risk	▼	One of the key fraud types this year – card fraud was largely minimized with 2 critical initiatives implemented this year; 3D secure and disabling non-EMV cards. Robust awareness and fraud detection campaigns run throughout the year.
Information risk	▶	Implementation and monitoring of data leakage prevention controls has further secured all important information of our clients.
Process execution	▶	Enhancement and automation of our most engaged processes is a drive that we focused on this year, and remains a focus our operations units in 2018.
Business resilience	▼	Over the last 2 quarters of the year, business disruption incidents significantly reduced. Largely owing to improved IT problem management processes; coupled with robust business continuity plans testing.
Cyber risk	▲	One of the critical initiatives we implemented in 2017 was a cyber security operations and digital forensics capability and structure. Additionally, we now have in place Security Information and Events Monitoring system that has significantly boosted our cyber threats detection capability.

SUSTAINABILITY REPORT

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SUSTAINABILITY REPORT

CHAIRMAN'S SUSTAINABILITY STATEMENT

Increasingly the success and sustainability of an organization like Stanbic Bank is being measured not only by its profitability, provision of affordable credit, availability of savings and investment products but also by its investment in activities that directly impact on the community in which it operates. This is done through our shared value approach, SEE (Social Economic and Environmental) that seeks to address social, economic and environmental needs for both our stakeholders and the Bank.

Social: I am delighted that in 2017 our social investment increased by 28% to UGX 1.45 billion, the highest in the history of the bank, reaching over 120,000 beneficiaries.

Economic: Our loan disbursements increased by 40% to UGX 1.5trillion, providing financial intermediation to support varied sectors of the economy in accumulating income and wealth generating assets, to expand and create jobs. We further focused on growing local participation and supporting economic growth value drivers, through key Oil and Gas local content development forums, enabling housing development, agribusiness and energy, as well as supporting financial literacy with key capacity building support on IFRS9 and Basel III.

Environmental: Despite growth in our key environmental impact measures, we continued to ramp up on initiatives to reduce our environmental footprint through installation of energy efficient technologies and enhanced monitoring on our utility and energy consumption to identify key pressure points for proactive interventions

About this report

The 2017 Stanbic Bank Uganda Limited (the Bank) Sustainability Report presents a comprehensive analysis of our sustainability performance for the year ended 31 December, 2017. Any material events after this date and up to the board approval date of 26 March 2018. The intended readers of this report are SBU's broad base of stakeholders, specifically those with whom we have direct relationships and regularly communicate, including our shareholders, clients, employees, government and regulatory authorities, industry bodies and service providers.

More broadly, our stakeholders include those with whom we engage from time-to- time on particular issues or projects; who have an indirect impact and who may be impacted by our business activities. These stakeholders include the communities we operate in, business associations we participate in, civil society groups and environmental and community development non-governmental organisations.

Why sustainability?

Sustainability Performance Indicators focus attention on the impact the Bank has on the communities in which we operate, and disclosing how the risks that may arise from interactions with our stakeholders and other institutions, are managed and mediated. We recognise that we have a diverse set of stakeholders with different information needs. We seek to balance these needs with our regulatory requirements by preparing a number of reports . Our annual integrated report, our primary report for our shareholders, provides a holistic assessment of how our strategy, governance, performance and prospects create value over time.

This report, our report to society, is for a broader set of stakeholders It aims to communicate, in a concise and accessible way, how we create shared value for you. Our focus is on the material issues that affect you, our stakeholders, and our ability to deliver on our purpose – Uganda is our home, we drive her growth.

Scope and boundary

This report covers the Bank's operations in Uganda and the terms we use to describe the geographic regions in which we operate across Uganda. The report focuses on the most material aspects of our business in relation to our strategy. We consider an issue to be material if it is likely to impact our ability to achieve our strategy, and to remain commercially sustainable and socially relevant. In particular, material issues are those that have a strong bearing on our stakeholders' assessments of the extent to which we fulfil their needs over the long term. We also take into account the factors that affect the economic growth and social stability of the communities in which we do business. The material issues identified in 2016 have been reaffirmed as being the most relevant to the Bank for the period ending 2017. These issues are detailed in the reporting practices section.

Sustainability approach

Our ongoing sustainability is linked directly to our being a valuable member of our communities and of society in general, now and into the future. Our social compact sets out our commitment to positively contribute to the societies in which we operate through our business activities. This means that we have an implicit agreement with our society to cooperate for social benefit. When considering our social and environmental impacts, we look beyond our direct impacts to the indirect impacts of the services we offer and the finance we provide. This is considered material to our operation and our approach is discussed in the environmental and social risk management section. Our supply chain is not considered an area of material environmental risk, and this aspect is not extensively covered in this report. Where we identify a downstream risk within the supply chain we work with our suppliers to find mitigation measures.

Frameworks applied

Various benchmarks and international frameworks inform our reporting. The issues raised by our internal and external stakeholders in our day-to-day interactions are also taken into account. We report in reference to the Global Reporting Initiatives (GRI) guidelines supported by the G4 Financial Services Sector Supplement.

Our ability to create value depends on our use and impact on certain resources and relationships (capitals). We apply the capitals model, adopted by the International Integrated Reporting Council in the International (IR) Framework, in managing and accessing our ability to create value over time and our sustainability performance. The following six capitals are fundamental to the long-term viability of our business: natural, social, human, intellectual, manufactured (or manmade) and financial. The capitals are considered in commentary throughout this report.

Stanbic Bank's Sustainability Strategy: The **SEE** framework

At Stanbic Bank Uganda Limited (the Bank) sustainability is an integral part of our business strategy. We proactively embed sustainability thinking and sustainable business practices at every level of our business. We believe that our most important contribution to sustainable development is to operate an effective and profitable Bank. By providing access to credit, savings and investment products, we enable individuals to improve their quality of life and enhance their financial security. By providing finance to large and small businesses we facilitate economic growth and job creation, and by financing infrastructure and the development of key sectors, we assist in resolving national challenges such as energy and food security, access to primary health care, tourism, mining and Information Communications Technology(ICT).

At Stanbic Bank, we believe in **Doing the right business the right way.** This is our shared value that means being aware of the indirect impacts of our actions, including impacts on the societies in which we operate, and impacts on future generations. We continue to embed an approach we refer to as SEE – being very clear about the **Social, Economic and Environmental** impacts (SEE) of every project or deal in which we get involved.

What is SEE?

The purpose of our SEE framework is to create shared value for our stakeholders and Stanbic Bank – using our corporate assets to address social, economic and environmental needs, while simultaneously identifying and creating new business opportunities.

Social: Addressing social needs to help Uganda grow by: using our financial services to make life better for Ugandans.

Economic: Developing financial tools to help Uganda advance economically by: being a catalyst for economic transformation in Uganda. Stanbic Bank drives economic growth in Uganda through creating social and environmental value, which also leads to more innovative and profitable ways of doing business.

Environmental: Driving material efficient processes and investing in renewable and efficient energy provides a sustainable carbon neutral option, provides energy with the least environmental impact and the longest shelf-life. This also fits with financing sustainable energy solutions by partnering with solar energy providers.

Ensuring our sustainability

The very nature of our business positions us to help our customers and stakeholders manage social, economic and environmental challenges and invest for the future, which in turn contributes to the viability and sustainable growth of local markets. The success of our customers and stakeholders guarantees future business, which underpins our sustainability.

What is the SEE value driver?

Our commitment to doing the right business the right way is both a moral and a commercial imperative. The sustainability and competitiveness of our business are linked to the prosperity and well-being of the societies in which we operate. Our business therefore needs to support and contribute to this prosperity and wellbeing, through our core business activities.

The SEE value driver relates closely to ***shared value*** i.e. the commitment to generating economic value for the business in a way that produces value for society by addressing its challenges.

The SEE value driver does require us to think differently about the broad impacts of our business decisions, and to weigh these against the money to be made. It explicitly requires us to take a long-term view, to assess the positive and negative impacts of every business decision –not just for the Bank, but for the communities in which we operate- and to ensure we're comfortable that the positive social, economic and environmental impacts of any project, product or client relationship outweigh any negative impacts. We aim to deliver economic and social success simultaneously.

Common themes across these plans include the need for:

- Infrastructure development
- Employment creation and poverty alleviation, particularly through support for enterprise development and entrepreneurship
- Investment in education
- Sustainable use of resources, protection of ecosystems and stabilising the climate
- Good governance, and efforts to combat crime and corruption
- Improved financial inclusion
- Regional economic integration

SEE (Social, Economic and Environmental) Shared Value

We understand shared value quite simply: In order for us to continue as a successful and sustainable business we must measure value beyond financial outcomes. We determined that our progress on our strategy is measured with strategic value drivers, as follows:

Social, economic and environmental (SEE) outcome or shared value.

OUR SEE FRAMEWORK

OUR SEE FRAMEWORK

ECONOMIC

The value Stanbic Bank creates for our shareholders and more broadly for society, by driving inclusive economic growth in Uganda, developing and implementing better ways of doing business, and supporting Ugandan economic integration and development.

SOCIAL

The value Stanbic Bank creates for society, as measured by the value created for our people in areas such as skills development and transformation; the shared value our business generates for our customers and clients, and other stakeholders, through deepening financial inclusion, investing in infrastructure, and supporting job creation through enterprise development and financing entrepreneurs; and our investments in education that benefit communities and future generations.

ENVIRONMENTAL

The value Stanbic Bank creates for the natural environment, through businesses we finance or do not finance, investments towards reducing carbon emissions and any other environmental degradation, and by helping our customers and suppliers to lessen and adapt to the impacts of climate change.

Delivering Social, Economic and Environmental (SEE) value

What are the Social, Economic and Environmental (SEE) needs in Uganda?

What contribution can financial services make to meeting these needs?

SEE our impacts:
SOCIAL, ECONOMIC AND ENVIRONMENTAL

- **Invest in infrastructure** (energy, water, transport and ICT)
- Contribute to employment creation
- **Promote environmental sustainability** (and climate change mitigation and adaption)
- **Combat** (financial and cyber) crime and corruption
- Invest in financial inclusion
- **Invest in enterprise development**, entrepreneurship, and innovation
- **Invest in education**, learning and development
- Facilitate inclusive economic growth
- **Advance Ugandan economic** integration and development
- Support good governance

WE ARE MORE THAN A BANK

SHARED VALUE

HOW WE CREATE VALUE

The success of our customers and clients, and the trust and support of all our stakeholders, underpin our commercial sustainability. This interdependence requires that we conduct our business ethically and responsibly to create value in the long-term interest of society. We intermediate between providers of capital and employers of capital, providing the former with competitive returns on their investments, and the latter with access to the liquidity and capital they need to realize their objectives. These functions of our core business can in no way be separated from our developing social and environmental context. We believe that a community-minded worldview is integral to our legitimacy and represents a consistent and considered level of integrated thinking, which in effect corresponds to the capitals model of value creation.

OWEN TUSIIME: FINANCE MANAGER

OUR SEE SHARED VALUE....

SEE is the glue that holds together our purpose, “Uganda is our home and we drive her growth.” It’s a realisation that whatever we do in our respective roles has far reaching impact on our Society, Economy and Environment. SEE is more than something we do, it’s a value that underpins our strategic drivers and the decisions we make. We aspire to continue to strengthen our contributions and involvement in SEE, right from supporting economic drivers, to supporting our community initiatives, to our continued effort towards environmentally friendly technologies and optimisation initiatives.

Supporting economic drivers is represented by our economic thought leadership initiatives, incubating and developing SMEs, supporting financial inclusion as well as our core business of financial intermediation

Further, impact on society through key education and community initiatives as well as investing in our people

Our value chain

OUR BANKING LICENSE
The acquisition of our banking license from Bank of Uganda

CAPITAL INVESTMENT
We invest in our information technology (IT) systems , infrastructure and people so that we provide relevant products and services in Uganda.

INNOVATION, RESEARCH AND DEVELOPMENT
We develop new products and services, and improve on existing ones, to ensure that we meet the needs of our customer s and clients

DISTRIBUTION
We ensure a robust distribution network which is a critical enabler to our business and growth strategy and ensures our products and services are accessible.

CUSTOMER EXCELLENCE
We work and understand changing consumer needs and we up skill our staff to ensure we deliver a distinct customer experience. Our success determines our ability to attract and retain customers

Our code of ethics addresses the following:

- Treating customers fairly
- Providing secure banking facilities
- Providing professional development opportunities
- Evaluating performance objectively
- Sustainable value creation for shareholders
- Adhering to good corporate governance
- Protecting intellectual property
- Avoiding anti-competitive behaviour
- Rewarding innovation
- Working in unity
- Respecting human dignity
- Protecting our physical assets
- Honesty
- Addressing conflicts of interest
- Combating unethical and criminal activities
- Prohibiting giving and receiving of bribes
- Responsibly giving and receiving gifts.

SUSTAINABILITY SCORE CARD

			2017	2016	2015
ECONOMIC	Shareholders				
	Net Profit after Tax	Ushs 'millions	200,468	191,152	150,759
	Return on equity	%	25.3%	30.3%	29.2%
	IT spend as a % of Operating costs	%	12%	14%	17%
	Customers				
	Number of customers		551,896	665 417	584,188
	Number of branches		69	78	78
	Number of CSPs		10	04	12
	Number of ATMs		173	173	173
	Suppliers				
	Number of suppliers		861	799	754
	Total procurement spend	Ushs 'millions	158,419	164,841	162,600
	% of procurement spend with local suppliers	%	87%	88%	93%
ENVIRONMENTAL	**Environment**				
	Electricity purchased	kilowatt hours	4 916 616	4,063,358	4,816,580
	Fuel consumed	litres	519,755	543,205	391,476
	Water consumed	kilolitres	21,980	18,800	18,192
	Paper consumed	tons	73	66	65
SOCIAL	**Employees**				
	Number of employees		1751	1802	1,899
	Number of female employees		909	937	884
	Training spend	Ushs 'millions	2,658	2,713	3,042
	Number of Employees Trained		1660	1310	1719
	Number of Interns		75	81	60
	Number of female Managers		163	158	162
	Communities				
	Corporate social investment spend	Ushs 'millions	1 450	1,133	975

SUSTAINABILITY INPUTS

NATURAL CAPITAL

Renewable and non-renewable resources required to sustain our business. Natural capital underpins all other forms of capital, as such we must deploy our financial capital in such a way that promotes the preservation of natural capital.

ENERGY CONSUMPTION
4 916 616 KILOWATT HOURS

PAPER CONSUMPTION
73 TONS

WATER CONSUMPTION
21,980 LITRES

HUMAN CAPITAL

Competencies and capabilities of our people and their motivation to improve and develop products and services that meet the needs of our customers.

NUMBER OF EMPLOYEES (PERMANENT AND NON-PERMANENT):
1751

TRAINING SPEND:
Ush 2.66 BILLION

SOCIAL AND RELATIONSHIP CAPITAL

Our relationships with stakeholders and communities which gives us our social license to operate. Stakeholder engagement:

NUMBER OF **CUSTOMERS**
551 896

NUMBER OF **SUPPLIERS** IN 2017
861

NUMBER OF **DIRECT CSI BENEFICIARIES**
120 825

Sustainability Inputs continued

INTELLECTUAL CAPITAL

Our experience and brand strength which contributes to our reputation. This is closely related to financial, human and manufactured capital given the nature of our business.

STRONG BRAND & **BRAND RANKING**
LOCAL PRESENCE AND **KNOWLEDGE** IN UGANDA SINCE 1906

155 years of **EXPERIENCE WITHIN STANDARD GROUP**

SOCIAL AND RELATIONSHIP CAPITAL

Our investment in IT systems, distribution channels and head office buildings, required to conduct our business activities.

IT SPEND:
Ushs 36 billion

NUMBER OF **BRANCHES**
69

NUMBER OF **CUSTOMER SERVICE POINTS**
10

NUMBER OF **POINT OF SALE** TERMINALS
603

NUMBER OF **ATMS**
173

FINANCIAL CAPITAL

Economic and financial resources available for us to use to support our business activities and invest in our strategy.

CASH GENERATED THROUGH OPERATIONS AND INVESTMENTS
Ushs 2 140 billion

NUMBER OF **SHARES:**
51,189 million

RETENTIONS TO SUPPORT FUTURE BUSINESS GROWTH:
Ushs 110 467 million

SUSTAINABILITY OUTPUTS

NATURAL CAPITAL

Our digital strategy and the ongoing digitization of our operations seeks in part to reduce the paper intensiveness of our business.

Our reliance on diesel to counter the un stable national grid to power all our installations.

STANBIC BANK UGANDA'S **CARBON EMISSIONS**
2145 tonnes of CO_2
EQUIVALENT EMISSIONS FROM **ELECTRICITY** AND **DIESEL** USAGE

NATURAL CAPITAL

The salaries and wages we pay enable our employees to support our families and buy goods and services, contributing to economic activity.

Our development programmes help our employees adapt to rapidly changing labour markets in Uganda and beyond.

SALARIES, WAGES AND **OTHER BENEFITS**
Ushs **141** billion

OVERALL **EMPLOYEE TURNOVER**
17%

EMPLOYEES **TRAINED**
1660

Sustainability Outputs continued

MANUFACTURED AND INTELLECTUAL CAPITAL

We contribute to effective markets through secure and reliable transactional systems and procedures.

- We ensure that customers and clients have safe and convenient access to their savings and funds.
- Our IT systems enable us to provide innovative products and services that are affordable and accessible to our customers, specifically those in remote areas.
- Moving customers to digital channels reduces the operating costs associated with physical banking infrastructure.

REGISTERED **MOBILE BANKING CUSTOMERS**
▼ 233,415

REGISTERED **INTERNET BANKING** CUSTOMERS
▼ 244,658

REGISTERED **SMART APPS CUSTOMERS**
▼ 227,219

SOCIAL AND RELATIONSHIP CAPITAL

- We facilitate relationships between public and private sectors which drives investment in Uganda and stimulates economic development.
- We provide access to financial services which enables socioeconomic development, personal wealth creation and financial protection.
- We facilitate credit, investment capital, trade finance and infrastructure financing which supports economic growth.
- We make sizeable contributions to governments through taxes and facilitate tax payments for government.
- Our investment in education builds skills in the broader economy.
- We contribute to employment levels both through the people we employ and through the businesses we provide financing to.
- The goods and services we buy supports local businesses across all sectors of the economy.

GROSS LOANS AND **ADVANCES**
▲ Ushs 2.2 trillion

WEALTH CREATED IN 2017
▲ Ushs 428,613 million

CSI SPEND
▲ Ushs 1,450 million

TOTAL **PROCUREMENT** SPEND
▼ Ushs 158.4 billion

LOCAL PROCUREMENT SPEND
▼ Ushs 138.2 billion

FINANCIAL CAPITAL

Maintaining a robust business means we are able to provide returns to our providers of capital

RETURN ON **EQUITY**
▼ 25.3%

COST - TO - INCOME RATIO
▼ 50.5%

PROFIT AFTER TAX
▲ Ushs 200.5 billion

CREDIT LOSS RATIO
▼ 1.3%

IMPACTING SUSTAINABLE ECONOMIC DEVELOPMENT

Our General Contribution to the Economy

Stanbic Bank plays a pivotal role in the economic development of Uganda. Being one of the Domestic Systemically Important Banks, our imprint on the economy of Uganda is not only limited to provision of ordinary Banking services but it goes as far as facilitating economic growth in the country. Stanbic Bank lends to a wide range of growth sectors ranging from primary growth sectors such as real estate and oil and gas as well as others such as trade and services.

The size of our workforce is part of our commitment to providing employment opportunities to citizens, with the Bank directly employing over 1700 employees as well as several others indirectly. This directly enables on our contribution to improving the standards of living of several citizens as well as contributing to the growth of a middle class within the country that is a key ingredient for sustainable economic development.

Given our wide range of shareholders, profitability of the Bank is key as it impacts a wide range of the general citizenry. NSSF which is our second largest shareholder represents contributions from the general workforce in the largest part of the economy. As a result, our profitability stretches to impact the livelihoods of majority of Ugandans who subscribe to the fund.

Lending to the primary growth sector constituted more than 40% of our loan book in the year 2017. Primary growth sectors include Building and Mortgage Construction, Manufacturing, Oil and Gas, Mining and Quarrying, as well as Transport and Communication. This shows our unwavering commitment to supporting economic growth in the country through supporting these sectors.

At Stanbic Bank we understand that majority of Ugandans do not have access to collateral needed to access financial services and as result, we encourage unsecured lending and this has enabled a number of entities and individuals who can't access collateral access financial services needed to uplift their undertakings thereby transforming their lives.

Various initiatives have been undertaken by the Bank to enable access to financial services for the disadvantaged people and this has been done by availing several channels through which financial services can be accessed. These include ATMs in some of the remote areas, several point of sale terminals as well as through several digital channels and Mobile Banking.

In 2017, Stanbic Bank facilitated a number of Key Transactions in the country which included and are not limited to the following;

M – KOPA: Stanbic Bank funded Off-grid Power Solutions aimed at transforming Rural Economies (**M-KOPA**) in Uganda

Stanbic Financed innovative technology solutions to power Africa through M-KOPA (world leader in 'pay-as-you-go' energy provision, that is transforming lives in East Africa by providing affordable energy, financial inclusion and essential products for low-income households. This financial intermediation goes to empower M-KOPA customers economically and reduces greenhouse gas emissions. Our innovative financing solution, the largest commercial debt facility in the sector, is helping the company to make high-quality energy solutions, affordable for more people in East Africa and reach more homes in Africa.

Eaton Towers: Stanbic Bank supported US$ 15m & Ushs 73 billion Eaton Towers funding towards, obtaining additional towers to upgrade the signal through improved frequency, the various networks are now able to provide better services both for calls and internet to the masses.

EACOP: Stanbic Bank was appointed as the regional advisor as well as advisor for the Chinese Liquidity, a role that goes further to aid the oil & gas pipeline construction from Hoima to Tanga. This project will create many jobs for the people in the regions as well as earn revenues which will develop the specific areas.

Focus on Agriculture and Agribusiness

Stanbic Bank understands the unique challenges of Agribusiness from Farming, Processing, Trade and Agriculture services. The Bank has focused on financial intermediation into commodities (Coffee, Tea, Tobacco, Maize, Crude vegetable oil, Wheat, rice and financing milk cooperatives) basing on their far reaching impact on the economy

In the Agribusiness Sector, Stanbic Bank facilitated the purchase, sale & movement of goods & services between buyers & sellers using various payment modes to farmers in the grains, sugar, tea, coffee/cocoa, diary/beef, commercial farms and agricultural inputs segments. Major players included Agro ways Uganda Limited (Ushs 62bn) in crop and animal production, Savannah Commodities Company Ltd (Ushs 22bn), FOL logistics (U) Ltd (USD 21m), Afrokai Ltd (Ushs 15bn) towards agricultural support activities and postharvest crop activities and Equator Seeds Ltd (Ushs 7bn)

Financial Inclusion

Financial inclusion involves enabling individuals and businesses have full access to useful and affordable financial products and services that meet their needs, delivered with dignity for clients, in a responsible, convenient and sustainable way. Financial inclusion strives to address and proffer solutions to the constraints that exclude people from participating in the financial sector.

Stanbic Bank supports the Bank of Uganda Strategy on financial inclusion and has implemented the following innovations and interventions toward improved financial inclusion.

e-Cash: e-Cash solution is a customized payments platform which has been designed to support government payments for Ministries and Government Projects. Stanbic Bank Uganda at the request of the Ministry of Finance Planning and Economic Development designed the E-cash payments solution aimed at streamlining payments. The system has supported proper accountability of allocated Government funds, reducing the risk of carrying cash to make payments, aided clear reporting and reconciliation of processed payments and improved TATs for the payment process.

The solution has offered real time processing of government payments to various categories of beneficiaries through multiple channels with over 80,000 transactions worth Ushs 8.36 billion in 2017. Key payments include:

- NIRA, payment of over 50,000 individuals that conducted the National Identification Registration exercise in the entire Country.
- Electoral Commission, payment of over 40,000 individuals that participated in the registration exercise of citizens for LC1 elections in the entire Country.
- The Solution has also been used by other Key Government bodies like National Planning Authority, UCDA, MoFPED, MOH among others to process payments for different National activities.

Bulk Mobile Money payments: Stanbic Bank through the bulk mobile money payments solution was able to support unbanked customers who receive pay from Non-governmental organizations like the Red cross, AVSI, Maxwell stamp, Century bottling Company and Mildmay to their mobile money accounts easily and timely. Over the last year, Stanbic Bank processed 1,897 transactions on the platform worth Ushs 15 billion.

CATHERINE ASINDE,
HEAD CLIENT COVERAGE CIB:

OUR SEE SHARED VALUE....

To me SEE resonates with a shared long term and sustainable success for both our clients and the bank. Our Corporate clients operate within our communities, and their activities affect more than just their customers. Our clients share an expectation to operate ethically and with environmental responsibility. By sharing our expert knowledge and financial solutions, we help companies make well-grounded decisions so that they can achieve their plans and ambitions which in turn creates value for their customers, support for economic development as well as deliver long-term value to our shareholders

THE STANBIC BANK SME INCUBATOR

Stanbic Bank recognises that SMEs are a key engine of economic growth in Uganda. SMEs employ over 2.5 million people and account for about 90% of private sector employment. Despite their significant contribution to GDP, SMEs, face numerous challenges including skills and knowledge gaps and access to both finance and markets. Through the business incubator, the bank offers entrepreneur development programmes purposed to support and nurture SMEs and enable them to survive and grow. The business incubator was launched in February 2018 and is supported by various stakeholders both private and public.

STANBIC BANK HOSTED THE ANNUAL ECONOMIC OUTLOOK

The annual Stanbic Bank Uganda (SBU) Economic Outlook Breakfast was held to bring together 200 of our top clients, notably key economic players to discuss topical issues on the national macroeconomic outlook and upcoming domestic or regional market developments/ trends. The theme for 2017 was "Achieving Inclusive Growth: What Stimulus does Uganda need? Some of the key points discussed were as follows; Trump and what he means for East Africa. Why careful selection of public investment projects will be important for Uganda going forward. Are interest rate caps ever the solution? Uganda economic outlook, FX, Rates, GDP, Monetary Policy, Inflation among others.

IFRS 9 READINESS SUPPORT

IFRS 9, effective January 2018 is concerned with how organizations should determine the value of financial instruments as well as determining whether assets have deteriorated on regular basis. The key change is that IFRS 9 requires raising impairments to cater for losses likely within the next 12months and more stringent provisioning where loans are in arrears for more than 30 days. This will require closer understanding of Bank's customers to tailor lending to their requirements, ensure that features are aligned to customer requirements and on boarding credit worthy customers.

Preparations for this change as a bank have entailed a full scope project since 2016, with the key interventions impacting both internal and External parties summarized below;

- Training all staff in the Bank with a focus on managing relationships to ensure they can appropriately assess customer needs, credit worthiness as well as drive the right customer behavior to reduce the cost of credit.
- Driving the industry wide discussions through making presentations to the Uganda Bankers Association (UBA)-CFO forum and Heads of Credit Forum.

Presentations to the Uganda Securities Exchange to drive uniform approach for all listed entities.

BASEL 3 BOU TRAINING: INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Stanbic Bank carried out a training with the Central Bank on IRRBB standards, endowment risk, Basis risk and Central Bank stress testing in April 2017.

This enhanced guidance on the calculation of both Economic Value of Equity (EVE) and earning based approaches (Net Interest Income (NII), covering the treatment of NMDs, embedded optionality and prepayment rates.

The training guided on additional severe parallel shock scenarios (for EVE and NII) that have been provided with the inclusion of specific shock scenarios for all Basel member countries (there was still however a lack of shock scenarios for non-Basel member countries) and four additional yield curve shock scenarios were provided for EVE calculations.

In combination with the additional severe scenarios, the limit imposed on EVE sensitivity were lowered to 15% of Tier 1 Capital from the previous 20% of Tier 1 & 2 Capital.

STANBIC BANK OIL AND GAS BUSINESS FORUM

Stanbic Bank Uganda in collaboration with the Industrial and Commercial Bank of China Limited (ICBC), hosted an Oil & Gas Conference in Kampala on 18th August 2017. The conference aimed at promoting partnership opportunities and greater cooperation between Ugandan and Chinese businesses in the country's nascent Oil & Gas sector. The conference gave companies from both countries an in-depth understanding of possible partnership opportunities, guide Ugandan businesses on what it will take to participate in the sector and give invaluable business insights from two financial giants who are uniquely placed to help them get ahead in the Oil & Gas sector.

STANBIC BANK OIL & GAS CONFERENCE FOR LOCAL CONTENT PROVIDERS

Stanbic Bank hosted the 4th Oil and Gas Local Content Conference in partnership with the Association of the Oil and Gas Service Providers (AUGOS), the Ministry of Energy, MMAKS Advocates and Deloitte. With the Theme "Repositioning local service providers for the next phase of oil developments" the conference was a platform for idea exchange, insights gathering, assessing possible opportunities and examining standards required for local suppliers within Uganda's budding Oil and Gas sector.

The bank highlighted its objective to provide tailor-made financial solutions across the Oil and Gas value chain, transactional instruments, credit facilities and specialized financial support to enable the local companies gain a foothold in the industry.

STANBIC BANK HOUSING DEVELOPMENT FORUM IN PARTNERSHIP WITH LEADING UGANDAN PROPERTY DEVELOPERS

Stanbic Bank partnered with leading Ugandan property developers for a housing development forum. The forum brought together industry stakeholders, property developers, bank customers, land surveyors and prospective property buyers.

The Challenge: Growing need for affordable housing options as demand continues to soar with the growing population

Our Involvement: Bridging the gap between access to capital and execution capability and focus on reducing mortgage rates and working to strengthen partnerships with the developers.

Impact/outcome: Established partnerships to create more affordable housing options for customers, Created awareness about home loans and mortgages achieving a prudent behavioral change towards managing personal finances, The overall cost to borrow reduces offering more value and cost-effective financing option for their housing needs

SUPPORTING WOMEN IN BUSINESS

Central Region branches hosted a Women in business forum on 25th July 2017 at Explorer Hub Kololo. A total of 45 female business owners banking at the various Central region branches attended the forum which featured a presentation on taxation focusing on book keeping, timely and consistent tax payments and the common Tax obligations of businesses.

The Bank reassured customers of its continued commitment to addressing customer needs to support business growth and prosperity. And highlighted the various Enterprise Banking solutions and opportunities open for SME businesses especially in the Oil & Gas sector. This was an opportunity for the teams to appreciate the customers for their commitment, passion and efficiency in business. For the customers, the forum was an ideal learning and networking experience as well as an affirmation of their partnership with Stanbic Bank.

Payments to Stakeholders:

Our stakeholders are directly and indirectly integrated in our business activities and contribute greatly to our ability to serve our customers. We actively transact with our stakeholders that represent a cross-sectional view of our economic bodies represented by the Government of Uganda and Regulators as well as the Institutional shareholders representing the organisational sections of the economy. Our economic contribution to the different stakeholder is represented below:

	2017 Ushs 000	2016 Ushs 000	2015 Ushs 000
Suppliers	**213 871 211**	218,700,000	162,600,000
Payments to Government (Direct & Indirect)	**85,202,873**	80,458,519	67,420,255
Payments to Regulators	**9,536,274**	7,752,109	4,449,436
Payments to Shareholders	**90,000,000**	60,000,000	40,000,000
Payments to Employees	**141,491,545**	136,769,846	120,118,291

OUR FINANCIAL INTERMEDIATION TO THE ECONOMY

Financial intermediation is central to our operations as a Financial Institution. Financial Intermediation through our credit facilities directly links into the engines that drive the economy and its development. Stanbic continued to contribute greatly to the institutions and households that make up the backbone of our economy in 2017. Amidst economic head winds and challenged credit performance within the financial services sector, Stanbic Bank increased its credit disbursements by 40%, up from Ushs 1,077 billion in 2016 to Ushs 1,513 billion in 2017

Financial Intermediation by Segment category

Loan Disbursement Per Category			
	2017 Ushs 000	**2016 Ushs 000**	**2015 Ushs 000**
Corporate Banking	**805 133 552**	698 678 717	423 375 271
Business Banking	**412 848 105**	219 688 003	136 061 552
Personal Banking	**295 130 222**	158 907 493	167 262 613

Stanbic Bank increased its credit disbursements by 40%, up from Ushs 1,077 billion in 2016 to **Ushs 1,513 billion** in 2017

Financial Intermediation by Sector and Focus factions

The Bank through a diverse range of products, in part tailored for particular sectors and focus groups, serves a financial intermediation role targeted at boosting the impact of the sector and improving productivity in the focus group. Cognisant of economic and structural pitfalls in the different sectors and focus sections, the bank has extended the below financial influence into the varied sectors and focus sections.

Loan Balances per Sector

Economic Sector	2017 Ushs 000	2016 Ushs 000	2015 Ushs 000
Agriculture, Fishing & Forestry	**350 212 600**	251 000 236	234 908 943
Mining and Quarrying	**393 746**	1 296 243	2 972 498
Manufacturing	**260 125 972**	313 232 808	359 432 917
Trade	**253 928 451**	221 692 164	191 837 270
Transport and Communication	**265 428 459**	277 610 391	149 840 968
Electricity and Water	**107 304 832**	113 275 580	116 917 692
Building, Mortgage, Construction and Real Estate	**349 008 003**	361 014 598	413 454 807
Business Services	**36 056 222**	35 529 626	23 798 196
Community, Social & Other Services	**75 986 329**	25 093 510	20 876 170
Personal Loans and Household Loans	**519 761 965**	421 234 798	440 835 026
Others Activities	**-**	13 948 180	9 144 098
TOTAL	**2 218 206 579**	2 034 928 134	1 964 018 585

Financial Enablement for Our Employees

We firmly believe in empowering the communities in which we operate. We are deeply rooted in our communities and our employee capability is built from the communities in which we operate. Financial Intermediation for our employees is at the heart of empowering our communities, but most importantly the employees that bring a diverse range of capability to contribute in delivering the bank.

The Bank through its employee value proposition has enabled acquisition of 52 staff homes in 2017 and extended Ushs 11bn financial enablement to 1,345 employees in 2017

	2017		2016		2015	
	No. of Staff	Amount Ushs 000	No. of Staff	Amount Ushs 000	No. of Staff	Amount Ushs 000
Staff Home Loans	52	**4 741 604**	50	4 966 079	37	4 061 625
Staff Personal Loans	1345	**11 526 030**	968	8 080 524	743	7 282 338
Total	**1397**	**16 267 634**	**1 018**	**13 046 603**	**780**	**11 343 963**

Value Added Statement

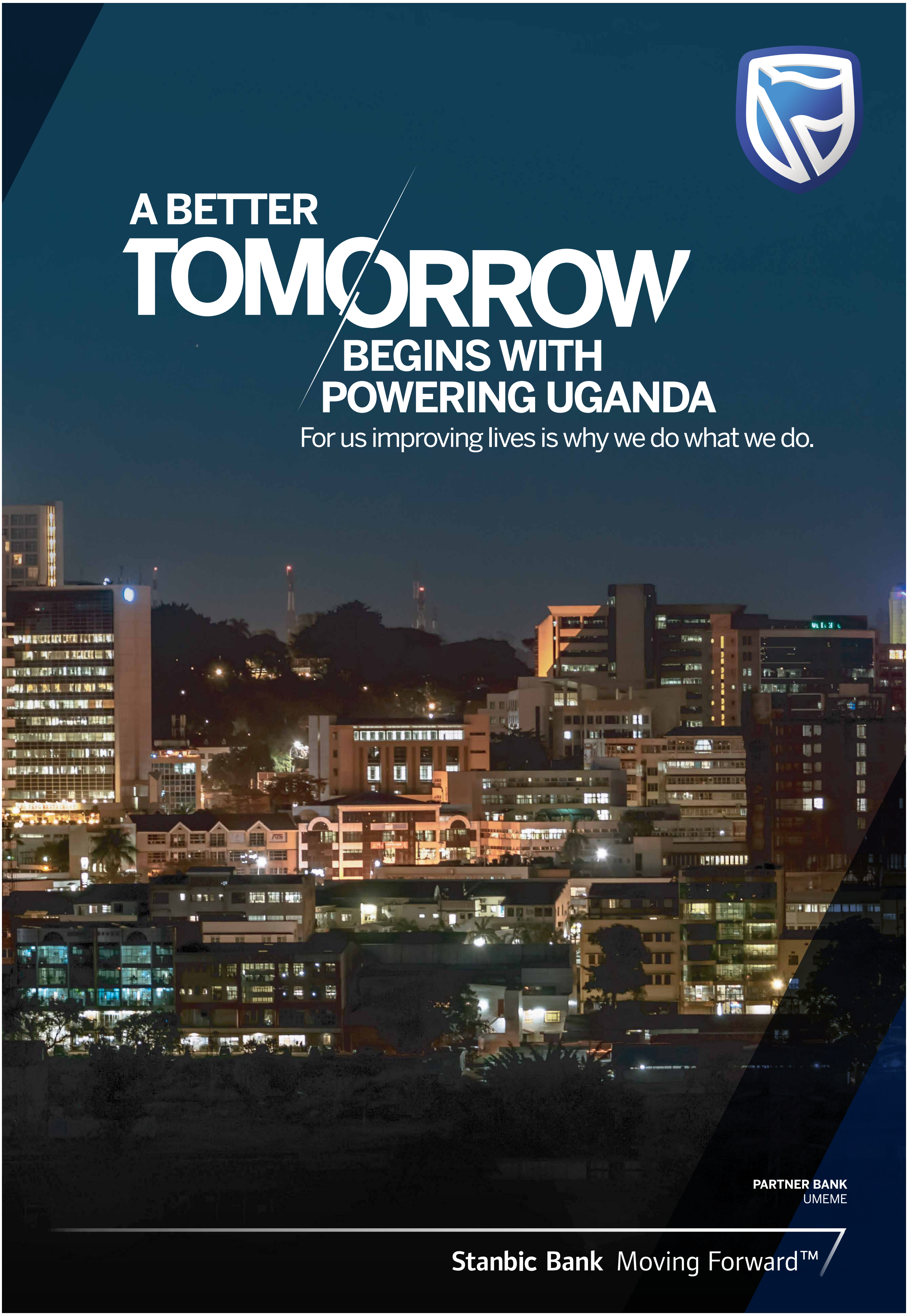
Value added is calculated as the company's revenue performance minus payments such as cost of materials, depreciation and amortization. The resulting amount is distributed to the stakeholders who include employees, shareholders, community investments and government. The total wealth created by the bank in 2017 is Ushs 428 billion as shown in the value-added statement below.

Of the total wealth created in 2017 the following is the total flow of capital among some key stakeholders:

- Ushs 141 billion or 33% was distributed to employees as remuneration and benefits (Up from Ushs 136 billion in 2016).
- Ushs 85 billion or 20% was distributed to the Ugandan government in form of taxes: (Up from Ushs 80 billion in 2016).
- Ushs 90 billion or 21% was paid in dividends to shareholders both ordinary and non-controlling interests

The value added statement below shows our economic impact on society in 2017

Value added statement for year ended 31st December 2017	2017 Ushs '000	% of wealth created	2016 Ushs '000	% of wealth created	2015 Ushs '000	% of wealth created
Value added						
Interest Income	403 527 401	94%	423 855 935	103%	350 330 210	100%
Commission fee income	131 246 286	31%	114 632 676	31%	105 699 659	35%
Other revenues	152 011 393	35%	152 458 492	34%	115 353 668	34%
Interest paid to depositors	(50 780 272)	-12%	(47 500 476)	-11%	(38 850 179)	-11%
Other operating expenses & impairments	(207 391 713)	-48%	(233 932 487)	-57%	(193 260 531)	-57%
Wealth Created	**428 613 095**	**100%**	**409 514 140**	**100%**	**339 272 827**	**100%**
Distribution of wealth						
Employees	141 491 545	33%	136 769 846	35%	120 118 291	38%
Government	85 202 873	20%	80 458 519	20%	67 420 255	19%
Ordinary shareholders - (Dividends)	72 000 000	17%	48 000 000	9%	32 000 000	22%
Non Controlling Interests	18 000 000	4%	12 000 000	2%	8 000 000	5%
Corporate Social Investment (CSI) spend	1 450 887	0%	1 133 941	0%	975 000	0%
Retentions to support future business growth	110 467 790	26%	131 151 834	33%	110 759 281	16%
Wealth Distributed	**428 613 095**	**100%**	**409 514 140**	**100%**	**339 272 827**	**100%**


A BETTER
TOMORROW
BEGINS WITH
POWERING UGANDA
For us improving lives is why we do what we do.
PARTNER BANK
UMEME
Stanbic Bank Moving Forward™

BUILDING A RESPONSIBLE BUSINESS

How we engage with Stakeholders

Our relationships with all our stakeholders impact directly and indirectly on our business activities and reputation. We proactively engage with stakeholders to inform our business strategy and operations, shape our products and services, manage and respond to social expectations, minimise reputational risk and influence the environment in which we do business. The ways in which we engage with our stakeholders, and the frequency with which we do so, vary according to each stakeholder group as shown below.

If you're reading this report, you're a Stanbic Bank stakeholder. You're someone we recognise as a partner in driving Uganda's growth. Whether you are a first-time home buyer looking for a home loan, a small business needing working capital, an employee growing your career, a shareholder wanting to better understand our strategy, a supplier in our value chain, a policymaker in government, a parliamentarian, a regulator overseeing our conduct, a student with a Stanbic Bank bursary, or a young professional considering a career in banking, you are affected by our activities.

We are working to better understand what matters to you and to create long-lasting shared value. We seek to do this by providing financial solutions tailored for Ugandan markets, which contribute to Uganda's economic growth, support job creation, and help to economically empower individuals and businesses. In doing so, we simultaneously expand the market for our products and services, making Stanbic Bank a more viable and sustainable business.

Key stakeholder group	How we engage	Concerns/ Issues raised	Our response
Shareholders	· Analyst briefings, results presentations. · Annual general meeting. · Company website. · Annual report · Investor roadshows	Return on Equity Competitive performance, good governance, transparency and a good present and future value for their investment	We continued to generate record earnings, remaining the best capitalized and most profitable bank in Uganda with a continued aspiration to deliver superior returns to our shareholders. We continue to invest in Information technology (IT) and position our digital growth strategy in order to better serve our customers and improve business efficiency.
Customers and clients	· Satisfaction surveys. · Various customer channels including the distribution network. · Marketing initiatives. · Relationship and business managers.	Service and fit for purpose products Cybercrime Convenience	We revised our product offering to include a **Pay As You Go** value proposition towards enabling client choice on consuming bank services. Our digital banking solutions provide great convenience and autonomy to client, with strong investment in cyber security to safeguard client interface.
Government and Regulators	· **BOU** · Formal meetings, policy discussions, conferences. · Onsite visits and compliance inspections.	**BOU** Emphasis on consumer protection: Bank of Uganda directive to introduce to all customers a "key fact "document that outlines all the facts, terms & conditions of any product before customer assents to use of the product. This ensures that the customer understands the product they are using before they contract with the bank to use it Financial inclusion: Bank of Uganda urged banks to avail financial services to people usually left out of traditional banking services Cybersecurity	**BOU** We fully support the bank of Uganda position regarding customer protection. We therefore fully implemented this directive and introduced the key fact document across all our points of representation. All customers are required to read and sign their consent before they make use of our products. Our product development strategy in the digital channel space will enable more people to access financial services in a more cost efficient and client friendly manner.
	URA · Formal meetings, adhoc discussions, workshops and conferences, · Onsite visits and audits	**URA** URA's key expectation is to ensure effective Tax Compliance Strategic partnerships; act as a tax agent in ensuring tax compliance and collection	**URA** The bank has firm processes in place for ensuring timely tax and return submission both as a Corporation and an Agent. The bank further engages services of the Tax experts and consultants to ensure and sustain highest levels of tax compliance
	CMA Formal meetings, adhoc discussions, analysts' briefings	**CMA** Build confidence and trust in the Uganda Capital Markets through providing a true and fair view of the bank operations and performance. Intra – Africa trade Exchange controls and forex shortages	**CMA** Partner with CMA in enhancing financial literacy for media stakeholders Elaborate and detailed annual reports providing a transparent impartial view of the bank operations and performance

Employees	Employee Engagement surveys, Training programmes, conferences, staff events, Connect Sessions, Internal Communications, internal meetings and discussions	An inclusive, engaging and enabling work environment Employment equity Managing costs Higher education funding	The Bank has invested in technology to enable and simplify staff processes. Committed to developing employee capability in our ever evolving environment, the bank through learning and development interventions facilitated capability enhancement for 95% of the total number of the staff. The bank is further strongly vested in employee wellness programmes as well as a robust performance and reward system.
Suppliers	Supplier Engagement Forums, Supplier Awareness forums, Vendor performance meetings, Regular vendor meetings	Collaborative relationship and mutual partnership on delivering commensurate value and benefit. Preferential procurement.	The Bank holds regular Supplier and vendor awareness forums that present an open and transparent platform for suppliers to interact with the bank management and Procurement functions, refresh understanding of bank procurement policies, practices and commitment to building trusted supplier relations.

Accolades from our Stakeholders:

Over the year 2017, our stakeholders recognised varied areas of excellence and outstanding and contributions to society, economy and environment. Areas of recognition ranged from outstanding integrated reporting to best Bank in Uganda as below highlighted.

STANBIC BANK AWARDED BEST BANK IN UGANDA – EURO MONEY AWARDS UK

Stanbic Bank was recognized as the best financial institution in Uganda at the 2017 Euromoney Awards, the world's most recognised accolade in the Global Banking Industry. It is an affirmation of our relentless focus on meeting our customer needs both at the retail and institutional segments. With this achievement, I would like to thank our customers for their continued loyalty and look forward to working together to achieve greatness while making real contributions to the Ugandan economy.

FINANCIAL REPORTING AWARDS (FIRE) AWARDS 2017

Stanbic Bank won an unprecedented five accolades including the overall Gold award at the 2017 Financial Reporting awards held at the Serena Hotel in Kampala. Held under the theme, 'Moving beyond numbers: Unlocking the value through reporting' different institutions were awarded in 13 categories, with Stanbic Bank winning the Annual Report of the Year for a record 4th time. Stanbic Bank also won four other awards the Best Banking services category, Best Listed Entity award and Sustainability Reporting of the Year award in addition to being recognized for excellence in Corporate Governance reporting.

BUSINESS CHAMPION FOR YOUNG CHILDREN - PSFU CSR AWARD:

Stanbic Bank won an excellence award in Corporate Social Responsibility for 'Business Champion for Young Children' at the private sector development awards (PSFU Awards). Stanbic Bank was awarded for its continuous support to vulnerable children and for supporting innovations in the education sector. The Bank was specifically recognised for its efforts in establishing the Early Childhood Centre in Gaba.

BEST EMPLOYER IN LEARNING AND DEVELOPMENT

Stanbic Bank won the 'Best Employer in supporting Learning and Development of its Employees' award at the 2017 Employer of the Year Awards.

BEST FEMALE CORPORATE LAWYER AWARD

Head of Legal, Candy Wekesa Okoboi's was recognised by the Uganda Lawyer Society as Best Female Corporate Lawyer in the corporation's category for her outstanding performance. Through the women Lawyers' Committee of the association, Candy was among 11 female lawyers recognised for their outstanding performance in the legal profession.

DIGITAL IMPACT AWARDS - BEST PROMOTER OF FINANCIAL LITERACY AND BEST MOBILE BANKING SERVICE PROVIDER

Stanbic Bank won two category awards at the 2017 Digital Impact Awards Africa; Best Promoter of Financial Literacy and Best Mobile Banking Service provider

- **Best promoter of Financial Literacy**: The award recognised Stanbic's National School Schools Championships which reached over 17,000 students and promoted financial literacy in secondary schools and general knowledge.
- **Best Mobile Banking Service provider**: Stanbic Bank was recognised for its exceptional services in providing digital Banking solutions for customers with products like the Stanbic App, Mobile Banking and internet Banking.

Chief Financial Officer Sam Mwogeza won the category award for best CFO for Finance Transformation. This award recognises a CFO who has championed transformative solutions in their finance function and have been successful in redefining the function, made great efforts to become a cost-effective, service-oriented partner to the business. The transformation speaks to evolving finance into a more business enabling partner that supports strategic and sustainable growth of the organisation

BEST CFO FOR FINANCE TRANSFORMATION

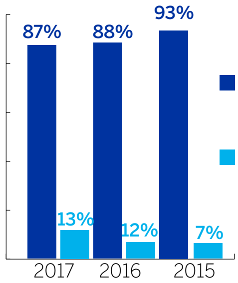
Procurement Practices

Stanbic Bank Uganda Limited subscribes to principles of openness, integrity and fairness in its drive to implement procurement international best practices. The Bank is committed to delivering mutually beneficial and sustainable commercial advantage from its external supplier relationships through application of transparent, structured and risk aware procurement practices, applied consistently across all external supplier engagements.

Our influence on the local economy goes beyond provision of direct employment opportunities and payment of wages and taxes. The Bank endeavors to give as many suppliers as is reasonably possible opportunities to participate in its Tender processes, while at the same time ensuring that there is alignment to the Bank's standards for solution quality, sustainability and commercial viability. This approach not only enhances SME growth but maintains community relations. Our Commitment to this is demonstrated by the spend breakdown between local & foreign suppliers over the 2015 to 2017 period.

PROCUREMENT SPEND

	2017 Ushs (millions)	2016 Ushs (millions)	2015 Ushs (millions)
Total Procurement Spend	**158,419**	164,841	162 600
Amount Spent on Local Suppliers	**138,221**	144,650	151 218
Amount Spent on Foreign Suppliers	**20,198**	20,191	11 382
%age Spent on Local Suppliers	**87%**	88%	93%



SUSTAINABLE PROCUREMENT

As provided for by our Procurement Policy, it is the Bank's practice to initiate and nurture supply relationships with partners that adhere to principles and practices that protect the environment, respect basic human rights and are committed to upholding the highest standard of ethics and integrity, as well as providing equal opportunities to all their employees.

Our vendor selection and award principles (through prequalification and RFP processes) are structured to establish supplier compliance to these standards/expectations at the onset. Supplier commitment to the standards is enforced through related contract clauses and ongoing compliance monitoring throughout the tenure of the various contractual relationships.

SUPPLIER DEVELOPMENT

During the year 2017, the Bank endeavoured to drive strategic partnerships with its service providers through focus on extending Financial support to SME providers to aid the satisfactory performance of their contractual obligations. These providers have also benefited from knowledge disseminated through targeted Supplier Forums to support them address challenges of bid preparation, financial management and book keeping, to mention but a few.

OVER
USHS 138 BN
SPENT ON LOCAL SUPPLIERS

OUR EMPLOYEES

Stanbic Bank Finance team: Gold Award winners, Financial Reporting (FiRe) Awards 2017

Investing in our Employees (Highlights)

	2017	2016	2015
Total Employees	**1751**	1802	1899
Staff Costs (Ushs millions)	**141 492**	136 769	120,118
Female Employees	**909**	931	884
Interns	**75**	52	60
Employee Turn Over	**17%**	14%	13%
No of Temporary Staff	**117**	114	157
Revenue Per Staff(Ushs millions)	**362.8**	357.1	280.4
Cost Per Staff(Ushs millions)	**183.1**	185.9	150.5
Males trained	**804**	632	866
Females trained	**856**	678	853
Total no of staff trained	**1660**	1310	1719
Training Spend (Ushs millions)	**2,658**	2,713	3,042

MOSES MBUBI,
HEAD HUMAN CAPITAL:

OUR SEE SHARED VALUE....

To me, SEE resonates with how the bank provides great career opportunities to our local population where we operate and equipping these employees with relevant knowledge and skills that enable them to tackle real business challenges faced by our clients and customers. Our people pride themselves in solving real business challenges that build our clients businesses into sustainable entities that provide more employment opportunities and build our economy for the foreseeable future

The confidence in our ability to continue to deliver great results and drive Uganda's growth stems from our great people and teams. This is premised on the Bank's commitment to continue to provide an inclusive, engaging and enabling work environment where people can find opportunity, make a difference and grow their careers. An Engagement Survey "Are you a fan" conducted in October 2017showed an overall Employee Net Promoter Score of +27. This implied that the Bank had more promoters than detractors who would recommend Stanbic Bank Uganda as a great place to work and The Emotional Promoter Score was +61 implying that our staff are proud to be associated with Stanbic Bank Uganda. This has been the result of the Bank's investment in in its people which has translated into high performance.

A POSITIVE OVERALL EMPLOYEE NET PROMOTER SCORE OF:

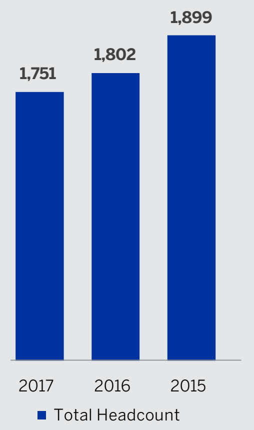
+27

A POSITIVE OVERALL EMOTIONAL PROMOTER SCORE OF:

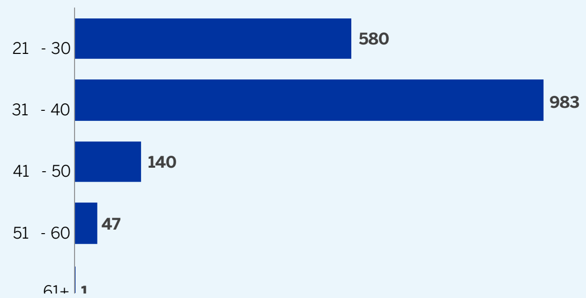
+61

HOW DO YOU FEEL ABOUT WORKING FOR STANDARD BANK? LOVE IT? HATE IT? TELL US...

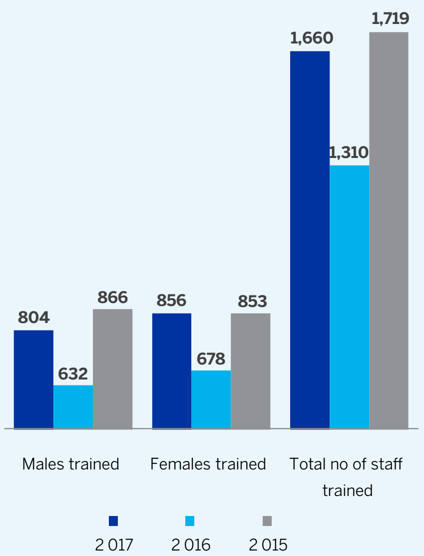
TOTAL HEADCOUNT



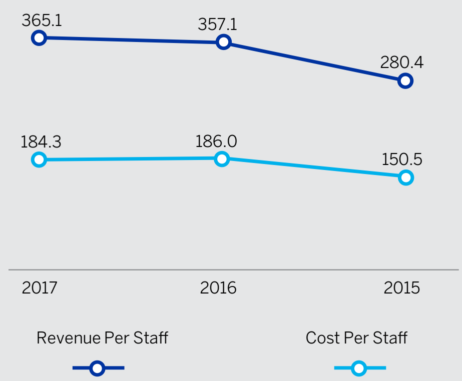
EMPLOYEE AGE BREAKDOWN



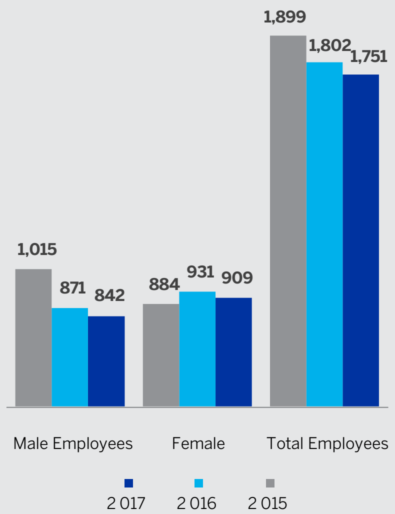
NUMBER OF STAFF TRAINED



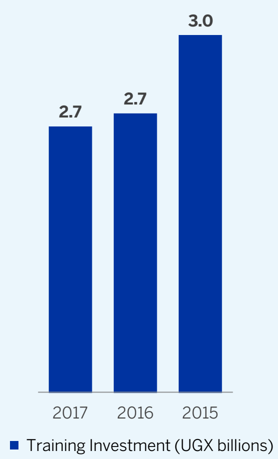
STAFF PRODUCTIVITY TRENDS (USHS MILLIONS)



NUMBER OF EMPLOYEES

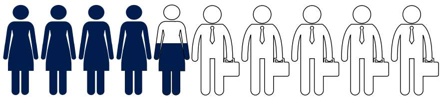


TRAINING INVESTMENT (USHS BILLIONS)



Diversity

Having an employee base that reflects the diversity of the societies in which we operate enables us to better understand and serve our unique universe of diverse customers, which is crucial to our continued success. It also gives us access to a range of skills and talent, as well as diverse thinking which facilitates innovation and sustainable solutions for the organisation and for our customers. The Bank had a total Headcount of 1,751 staff in 2017, of which 52% are female. Female employees also held 46% of the Managerial roles in 2017, up from 44% in 2016. The Bank provides equal opportunities to all Ugandans and hire is based on merit. A total of 210 employees were hired in 2017 and 136 employees were promoted.



46%

WOMEN HOLD
MANAGERIAL ROLES

Nurturing young talent

We aim to attract and retain smart, independent thinkers who are focused, tenacious and energetic, and who will keep our business agile and innovative. We invest in hiring and developing young people with specialised skills and with the potential to become future leaders.

We are committed to developing young employees with future leadership potential, and invest in ongoing management and leadership development programmes to accelerate their career growth. In December 2017, as part of young leadership development, our young talent shared part of their views and input into Bank strategy and direction with the Board at the Board Strategy Offsite, furthering key proposition towards young talent.

Technology Investment on Employee platforms

The Bank upgraded its HR Management system SAP which provides capability for employees to self-serve with anywhere anytime any device access in line with the digital agenda. This employee self-service capability has eased employees work life cycle by automating processes like performance management, Leave, overtime, salary and benefits information. In addition, it allows for speed of service delivery to staff and improved overall service experience.

Further, the HC People Portal was launched in early August 2017 with progressive Change management communications, taking on a multimedia approach to enhance effective communication. The successful implementation of the portal will improve efficiency, communication, HC data and employee experience

We continue to invest in simplifying employee HC processes with the automation of the relocation & club membership processes. There is continuous support in sensitisation on the automated tool aimed at enabling seamless employee interface.

136
NUMBER OF EMPLOYEES PROMOTED IN IN 2017

210
NUMBER OF EMPLOYEES HIRED IN 2017

The bank provides **equal opportunities** to all Ugandans and hire is based on merit,

The wellbeing of our people

Employee wellness is central to shaping and reviewing our people strategies. We consider performance, with broader people aspects around engagement and organisational health. The 2017, Health and wellness month which took place in October 2017, focused on detoxification, breast cancer screening, cervical cancer screening, healthy cooking & nutrition, ergonomics, medical insurance, bancassurance, physical fitness, eye checks, fitness classes, stress management and work life balance. The activities were well attended; reinforcing simple, creative and cost effective ways to improve wellness in all dimensions of life whether at home or at work.

The Bank has focused on providing support through a comprehensive wellness program not only focused on health but financial wellness as well. The Bank provides 24-hour counselling services through The International Counselling & Advisory Services (ICAS) Organisation for all staff and their family and friends to help them with personal problems, work stress, indebtedness, and illness among other. This is in line with recognising that staff are a representation of their environments. This is augmented by a series of wellness activities which include education and awareness at wellness/ health weeks, financial education classes and an e-care platform.

The Bank also provides a cost share medical scheme where it pays up to 75% of the medical care cost with a best in class insurance provider, with access to the best health care in Uganda and within the region as well as management of acute cases in locations like India and Uganda. Bank employees participate in sports activities like the Corporate league and the Banker's Gala to enhance fitness & brand loyalty.

STANBIC BANK STAFF PARTICIPATED IN THE 2017 BANKERS' SPORTS GALA & CORPORATE LEAGUE.

The competition featured various games including football, basketball, volleyball, netball and indoor games. Other games included Football, Athletics, Basketball and Tug of War. Stanbic won Gold in the 3-legged race and declared overall winners in this discipline among the 46 corporate companies

SPORTS GALA AND CORPORATE LEAGUE

STANBIC BANK HEALTH WEEK

THE 2017 HEALTH AND WELLNESS EVENT focused on detoxification, breast cancer screening, cervical cancer screening, medical insurance, bancassurance, physical fitness, health promoting products, eye checks, aerobics, stress management / work life balance took place in October where several staff participated and explored simple, creative and cost effective ways to improve wellness in all dimensions of life whether at home or at work.

LEARNING AND DEVELOPMENT

At Stanbic Bank Uganda, Learning and development continues to be a leading competitive advantage for us.

The Bank recognises that with the 4th industrial revolution, skills are going to be the currency of the future. It is therefore important to make sure our learning and development allows our employees to remain productive in the changing times.

Our learning response was based on 6 guiding principles; being learner driven, hence focusing on knowing our learners and what matters to them; Digital, learning anywhere, everywhere, anytime; remaining relevant and recognising the need to learn, unlearn and relearn; Learning at the speed of business and recognising the need to remain future proof.

Our people's ability to learn faster than the world is changing and the demands of the customer keeps us at the forefront of the market. In 2017, the Bank was awarded the Special Category award for Learning & Development Excellence at the Federation of Uganda Employers of the Year awards.

Our story in 2017 shows that 95% of all staff completed at least one learning intervention up from 73% in 2016. 63% attended a classroom or instructor led interventions in 2017

CELEBRATING OUR HERITAGE

It was a night of laughter, colour and glamour as Stanbic Staff came together to celebrate 2017, the end of year staff party was held on 9th December 2017 at Legends Rugby grounds. Our staff, clad in African and cultural wear attended the event from across the country. In his speech, the CE, Patrick Mweheire emphasised our purpose as Stanbic Uganda. Uganda is our home; we drive her growth! The evening celebrated traditional dances from the different regions North, Central, West and Eastern Uganda as well as the Beyond Excellence recognitions for staff who were outstanding in various aspects.

The Academy was conceived as part of several solutions towards responding to change, in and outside the Bank. The aim was to continuously build the agility of our people through skills development as well as nurturing the right business approach for the future.

The learning element comprised a blended learning programme of formal training, mentoring / coaching and experiential learning. Three teams competed and presented work projects on Information Management, Customer Centricity and People & Culture.

THE OPERATIONS TEAM LAUNCHED THE OPS ACADEMY IN JULY 2017.

MARK OF EXCELLENCE AND BEYOND EXCELLENCE PERFORMANCE RECOGNITIONS

All Employees play an important part in delivering our promise to our customers. There are however those who went the extra mile and stood out in their performance in 2017. The Mark of Excellence and Beyond Excellence philosophies seek to reward outstanding performance for teams and individuals that set the example on our values and core strategic drivers around client obsession, risk management, team work, leadership, innovation and more.

Performance and reward

HC introduced a new online journal (Perform to grow) that helps staff track notes from their coaching conversations with line managers during the year. This helps staff to keep their profile and development plan s up to date. Our performance management philosophy emphasises that Performance management is something teams do together and that it is a business management process, whereby we entrust our competitive advantage to our people.

It provides consistent and continuous clarity of vision and purpose through conversations, calibration and understanding for our people. The role of our Values in performance management is critical and the process looks to uphold and stay true to them. High performance contracting through stretch goals and by evaluating their contribution, we can reward our people for superior performance and identify and address their development needs. In 2017, 72% of our staff met or exceeded their goals, up from 70% in 2016, which is in line with the organisations performance. Our reward philosophy supports high performance, fairness, and a focus on total reward that is competitive.

Occupational Health and Safety

Occupational Health and Safety remains a key focus area for the Bank. In 2017 a number of actions were taken to address OHS requirements and ensure that employees have a safe and secure workplace. These initiatives include OHS specific inspections which were conducted at all bank premises and GAP analysis done. The OHS requirements are now incorporated in the premises maintenance plans. OHS guidelines were designed and circulated to all staff. Safety committees were instituted and OHS officers were trained and a full OHS risk assessment was incorporated on the 2017 work plan.

The bank has further received work certificates for all the banks branches from the ministry of Labour. A total of 5 branches were refurbished in 2017 to ensure compliance with the OHS standards and a further 22 branches scoped for 2018. Staff have been trained on first aid, fire safety, wellness, ergonomics and lifting technics in areas where the work involves lifting

COMPLIANCE PRACTICES

The bank's compliance framework ensures that we stay abreast of the evolving laws and regulations impacting our business. As we embarked on agency banking and bancassurance in 2017, the regulatory scope of the bank was widened to ensure that our strategies were aligned and that all stakeholders had a sound understanding of the new regulatory requirements. A comprehensive Regulatory Universe is in place with controls embedded and designed to ensure that we remain compliant with all existing legislations. The overall objective for the bank is to embed a culture of compliance in all areas of business and that all staff understand the different parameters within which we can operate.

Compliance Policy focus in 2017

The Anti Bribery and Corruption Policy ensures that we periodically assess and monitor our operations for risks related to corruption. All areas across the bank are monitored to ensure that they have established controls in place to address bribery and corruption risks specifically within the areas that deal with vendor management, customers and staff. A wide range of avenues are used to communicate and train all staff on Anti- bribery and corruption including partnering with public bodies such as the DPP and the Anti-Corruption Court to train and upskill staff on requirements of existing regulations. Both online and face to face training is provided to staff in addition to various awareness initiatives aimed at ensuring that knowledge is disseminated continuously. The bank has conducted investigations into whistleblowing, fraud and corruption related incidences, the outcomes of which have informed revisions of policies and procedures which are aimed at strengthening controls mainly in the areas of cash management and fraud prevention.

As part of Standard Bank Group, the bank has proactively adopted global best practice in developing a Competition Policy which addresses the requirement to conduct business in an honest, open, fair and transparent manner.

The bank has a keen focus on managing risks related to customer privacy and loss of customer data. A comprehensive Data Privacy and Information Risk Management Policy is in place to guide staff on how to deal with all personal information collected from our customers. A robust business resilience framework is in place and periodic testing is done to ensure that we have adequate controls in place to mitigate the risk of loss of data.

Regulatory Updates in 2017

The Insurance (Bancassurance) Regulations, 2017: The Insurance (Bancassurance) Regulations, 2017 regulate the distribution by financial institutions of insurance products or services to their customers. The bank is now licensed by the Insurance Regulatory Authority and is required to comply with the requirements of the new regulator while engaging in bancassurance business.

The Financial Institutions (Agent Banking Regulations) 2017: The Financial Institutions (Agent Banking Regulations) 2017 provide for agent banking as a delivery channel for offering banking services. The bank is required to ensure that all agents of the bank are approved by the Bank of Uganda and that they have received adequate training to engage in the provision of banking services.

The Trade (Licensing) (Amendment of Schedule) Instrument, 2017: The amendment to the Trade Licensing Schedule Instrument in 2017 widened the scope of trade businesses which are required to pay license fees to KCCA including Banks. Banks now have an obligation to pay trade license fees.

Tier 4 Microfinance Institutions & Money Lenders Act, No 18 of 2016: The Tier 4 Microfinance Institutions and Money Lenders Act was passed in July 2017 to regulate, license and supervise tier 4 microfinance institutions like SACCOS and non-deposit taking microfinance institutions as well as to license and regulate money lending businesses.

1st money laundering conviction passed in Ugandan courts: The first money laundering judgement in Uganda was delivered in the case of Uganda Vs Sserwamba David and 6 others on charges of embezzlement, causing financial loss and money laundering. Further to this, An International Cooperation Review Group for Anti-Money Laundering, Financial Action Task Force (FATF), in September 2017 inspected Uganda on the progress of implementing the recommendations of FATF in light of Anti-Money Laundering and Combatting the financing of terrorism. Following this review, Uganda was taken off FATF's grey list for successfully implementing the recommendations of FATF especially in regard to combatting the financing of terrorism.

Regulators and Government

At Stanbic Bank we understand the importance of providing our governing bodies with financial solutions that support our people in addressing existing and emerging challenges which cut across strategic, technical, administrative, regulatory and constitutional obligations to the people of Uganda. We have a commitment embedded in our purpose to drive Uganda's growth and fulfil aspirations of the people of Uganda. Our line of thought to deliver this embraces a strong partnership with the Government of Uganda at the broader level and public sector organizations at the granular level.

The breadth of our focus under the public sector captures the entire value chain of client relationships which includes Government (authorities, agencies, parastatals, Local Governments, Development Organizations (Embassies, High commissions, Donor agencies, Development partners, and United Nations Agencies clients within Uganda. The structure of our businesses ensures that services reach the intended grass root beneficiary.

We have a long history in the sector supported by our origins in Uganda as a bank of the people. It was not until 2007 that the Government of Uganda floated its 10% shareholding to the public. We have however maintained the culture of supporting Government programs and our commitment is manifested in some of the landmark transactions executed across Uganda's Public sector.

Our support to the public sector is also reinforced by our revenue contributions to the national budgeted and 2017 saw us contribute Ushs 85.2 billion in form of tax (direct and indirect). We further collected over Ushs 3.5 trillion worth of taxes on behalf of URA

CUSTOMER EXPERIENCE

Our business depends on the trust our customers place in us, and on our ability to provide them with consistently excellent customer experiences. To deliver exceptional customer experience means putting the customer at the centre of everything we do. This increasingly saw us realign ourselves from a group and country perspective to constantly deliver an excellent and consistent customer experience with client focus being the number one strategic value drivers.

Our customer focus means that we will be deliberate about understanding our customers and offer products, services and solutions that they need to achieve their goals; we will serve our customers quickly, efficiently, reliably and respectfully and continue to earn and keep our customers' trust. We will measure our success in this area using customer experience, Net Promoter Score, Customer Service Index and Brand Appeal measures

In addition, we have implemented major changes to our operational structure and the ways in which business units work together, to incentivise and facilitate collaboration and information sharing within Stanbic Bank, and to remove unnecessary duplication. We aim to be the byword for quality, reliability and convenience across the full range of financial services that our customers and clients require.

We have in the last years been more engaging with our customers by holding customer led meetings where we invited a few of our customers into the branches from which they are served to give us feedback on their experience with us.

We also held customer focus group meeting where a number of our customers are invited for an engagement with the bank. Increasingly customers are using the social media channels we launched to give us their feedback about their experience with the bank in addition to communication through our Customer Contact Centre and branches.

The customer feedback is fed into our Customer Relationship Management system, analysed to understand our customer feedback and presented at our management meetings for action as the "Voice of the Customer". This customer feedback is informing the number of changes we are making within the bank to deliver on our customer promise. We have adopted the "new ways of work" to enable us design more for the customer. This involves empowering the staff that interact with the customer to make changes to our processes supported by the various enablers across the bank to deliver better to our customers

We adopted this more agile way of work in our Information Technology function to support our digital strategy. This saw us deliver a number of new enhancements on our digital solutions for our customers and improved experience as demonstrated by the increased adoption and usage of our digital channels. Innovative changes being made in view of the 'Voice of the Customer' are;

› Branch and ATM look and feel to improve the ambience for our customers. We undertook refurbishments of a number of our branches and ATMs following the customer feedback received and the need for us to make banking with us more pleasurable. We also relocated our ATMs to more strategic locations i.e. at the fuel stations that operate 24/7, are more secure and provide better ATM uptime.

› Simplifying and developing our products and services to suit our customers' needs. During the year we introduced the Everyday banking proposition to empower customers more to manage their banking by providing ability for client to determine how they will pay for the banking services received. We also partnered with Fintech companies to provide school fees solutions. We introduced other payments solutions for our clients through merchant collections, Ecommerce and Agent Banking. We further introduced a new internet banking solution that is more tailored to meet the needs of our Enterprise and SME customers. All these together with continued improvements are expected to create alternative channels through which customers can bank with us to improve client convenience and autonomy.

› We continue to make significant investment in building capabilities to enable us maximise the big data we have to better understand our customers and provide them with relevant solutions. This will integrate all our customer information, interactions with the bank both structured and unstructured to have a single view of each customer, therefore, our future designs for customers will be informed by the better understanding from the voice of our customer and their interactions with us.

Leveraging our investments in I.T

Through our significant strategic investments, we have established the foundation to enable us to become a first-class universal and digital bank in Uganda. The investments we've made in our core platforms provide a significant competitive advantage enabling us to rapidly respond to customer needs and continue to leverage the investments to deliver leading digital banking solutions, driving benefits for client centricity, agility, integration of operations and risk optimisation.

We have replaced ageing systems with modern, integrated, agile and secure solutions and greatly enhanced our capacity to offer digital solutions across our products and services.

In 2017, we continued to release new features and drive adoption of our mobile banking app. We continued to invest in our internet banking platform and implemented our internet banking solution for SME clients.

More and more of our customers are transacting online, primarily through their mobile devices. We're continually expanding our range of digital services and products, and developing more convenient, more individually targeted solutions.

We have strengthened our resilience against cybercrime and have improved integration across our business units and Branches of operation.

Our focus going forward is to derive maximum value from our technology investments.

Cybersecurity

CYBERCRIME

is ranked as one of the main risks to banks and our clients, which is why security is built into everything we do. We continue to substantially invest in our cybersecurity capability, to strengthen the protection of our customers and Stanbic Bank.

Inherent in the advances of digitisation is the growing risk of cybercrime; the increasing sophistication and extent of cybercrime affecting our industry, which has resulted in a review of our cybersecurity strategy. The emphasis is on accelerating the delivery of security capabilities to counter the growing sophistication of cybercrime.

Like all banks, we rely on our customers to take reasonable measures to protect themselves, including choosing strong pin numbers (not ones that are easy to guess, like birthdates, or consecutive numbers), keeping their cards within sight at all times, being vigilant when withdrawing cash at ATMs, never responding to phishing emails, and promptly reporting such emails to the bank.

We have non the less, enhanced our cybersecurity framework to protect the customers' and the bank's assets. This framework includes policies, process and procedures and technical capabilities working together to preserve the confidentiality, integrity and availability of the Banking systems and data. The framework is a part of our wider strategic risk management initiatives, follows a carefully considered risk assessment process, and is continuously tested, updated and monitored for control effectiveness against threats, responsiveness to changes in business needs and compliance to industry regulations. The major capabilities activated over the last one year as part of our deliberate strategy to enhance our security posture include:

- Strengthening access to Banks systems through use of One Time Passwords (OTPs) which are difficult to steal and dynamic.
- Establishing capability to detect, alert, report on and respond immediately to suspicious activity on our systems – Cybersecurity Operations Center
- Upgraded our firewalls to protect the bank's assets and infrastructure against Internet based intruders
- Significantly improved protection of card transactions through use of Euro MasterCard Visa (EMV) technology to safe guard the cards and their data and one-time password to approve transactions when used on the Internet
- Providing an online self-service Security Center accessible on the link https://www.stanbicbank.co.ug/Uganda/Personal/Digital-Banking/Security-Centre to enable customers readily obtain guidelines on how to protect their Bank accounts, Cards, Data and devices.
- Establishing an Information Technology Third-party Security Management policy to guide our strategic partnerships where required to enrich the value of our service
- Lastly but not least, the Bank invested in the capability to restore bank operations/continue serving customers in the event of disruption or unavailability at our primary data centre.

The Bank will continue to deliberately harness advancements in technology for opportunities to better secure client transactions, protect personal information shared with us and enrich the options available to you to do business at your convenience.

Customer Satisfaction.

2017 was a remarkable year with many more of our customers giving us positive feedback for their improved experience with the bank. This was evident in the improved NPS (Net Promoter Score) rating for the year. The Net Promoter Score is the main measure of customer satisfaction we use and it is a question that asks customers whether or not they would recommend the Bank to a family member, a friend or a colleague. The improved NPS rating is an affirmation of the focus we have placed as a bank on the customer by putting the customer at the centre of everything we do supported by a number of other customer satisfaction metrics we track as a bank.

The feedback from the survey indicated that our customers promote us for the good products and services, quick and efficient service, for being accessible across the entire country, and for being a reputable and international bank. We were also pleased to learn that our customers are starting to promote us for the alternative channels that are making banking with Stanbic more convenient for both our bank and non-bank customers. This is supported by the transformation journey the bank embarked on including upgrading our Customer Relationship Management tool to enable us have a single view of our customers and better resolution of customer queries and complaints across all our engagement channels. We continue to realign ourselves internally and adopt a more agile approach to work to enable us respond quickly to customer needs to be a relevant partner to them as we believe this way we will be enabling our customers to grow and thus driving Uganda's growth.

IMPROVED NET PROMOTER SCORE

The feedback from the survey indicated that our customers promote us for the **good products** and **services, quick** and **efficient** service, for being **accessible** across the entire country, and for being a **reputable** and **international bank**.

Managing complaints

Our aim is to develop a consistent approach to complaints management aligned to regulatory requirements and ensure that customer complaints are handled in an accessible, transparent and efficient manner in line with the Bank's commitment to treating its customers fairly. The diversity of our client base by age, location, banking needs, nationality, business lines and gender means that every interaction with the Bank is an opportunity for us to make a memorable contribution to their lives but also means we can jeopardize this valuable relationship being unresponsive to complaints from our customers. Having strengthened our complaints framework in 2017 to include all operations across the Stanbic Bank, this has improved our time taken to resolve customer queries and complaints.

We further enhanced our quality assurance to ensure these are resolved to the satisfaction of the customer on first call. We also embarked on identifying and resolving the systemic customer queries and complaints from our customers which when resolved will result in improved customer experience for many of our customers. These are currently a focus area for resolution across all our departments. In the spirit of placing the customer at the centre of everything we do, we will continue to encourage our customers to log in time all queries and complaints they have with using the existing channels we have such as through our branches, telephonic, email or postal correspondence, dedicated customer care centres, our website, individual staff members, media & social networks, Bank of Uganda, senior management and the Office of the Chief Executive and any other channels we will introduce.

Inclusive customer value propositions

Key achievements in the year were being the first bank to roll out Bancassurance and Agent Banking Services. Customers will now be able to obtain insurance products within the bank making us a one stop shop for financial services. With Agent Banking we are making banking with us available and closer to your doorstep to further complement our branch footprint. We are enabling the key services offered by the branch to be available at our Agent locations as far as the regulations enable us to do. These 2 key developments within the banking industry offer us opportunities to enrich and extend our services to the benefit of more Ugandans.

YVONNE NAMUTOSI, SERVICE QUALITY:

OUR SEE SHARED VALUE....

To me SEE means recognising that our world is made of individuals that each have unique needs. Our understanding of each individual's needs and earning their trust as their trusted adviser will enable us find solutions to make progress real to improve their livelihood and in turn improve their environment and ability to create wealth. This we do by serving our customers quickly, efficiently, reliably and respectfully

ENVIRONMENTAL RESPONSIBILITY

Climate change has never been more important than it is today in order to secure the sustainability of not only humans but also that of other species. Good environmental practices are encouraged as they secure the wellbeing of the general ecosystem. This section assesses the bank's impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs (e.g., material, energy, water) and outputs (e.g., emissions, effluents, waste). In addition, they cover performance related to biodiversity, environmental compliance, and other environmental expenditure and the impacts of bank products and services.

Stanbic bank Uganda is committed to supporting of the environmental conservation programmes through ensuring use of adequate infrastructure, tools and methods for environmental sustainability. The bank's employees' awareness and training programmes are designed to address environmental requirements. Bank operations are governed by standard processes and procedures that promote varied aspects of environmental sustainability.

Stanbic Bank Uganda's goal is to reduce environmental emissions through green technologies and processes. We subscribe to the same Environmental Policies of Standard Bank Group. The bank continuously tracks the consumption trends for its energy resources including water, diesel and electricity and implements any observed/recommended requirements for dealing any deviations from the desired trends.

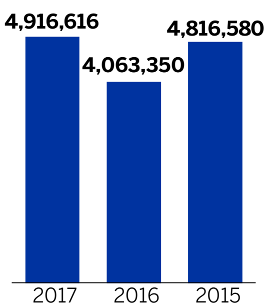
Environmental Highlights

		2017	2016	2015
Electricity purchased	kilowatt hours	**4 916 616**	4,063,357	4,816,580
Fuel consumed	liters	**519,755**	543,205	391,476
Water consumed	kiloliters	**21,980**	18,800	18,192
Paper consumed	tonnes	**73**	66	65
Carbon Emissions	tonnes	**2145**	1919	1223

Energy Consumption

Energy consumption has a direct effect on operational costs and exposure to fluctuations in energy supply and prices. Our environmental footprint is shaped in part by our choice of energy sources. Energy utilized at Stanbic bank is basically in the form of hydro-electric power that is required to power our machines and at the same time provide lighting amongst other uses. Hydroelectric power is regarded as clean energy and thus does not pose any negative material impact to the environment. The Bank however also runs diesel powered generators as back up supply for instances when the hydroelectric power is unavailable and as primary supply at two locations that are not yet connected to grid supply (Kotido and Kabong branches). Alternative sources of power that are robust enough to run full branch infrastructure are being explored and proof of concept studies are planned for early 2018 prior to decommissioning of the diesel generators at these two locations.

		2017	2016	2015
Electricity purchased	kilowatt hours	**4 916 616**	4,063,357	4,816,580



Our electricity consumption slightly increased in 2017 despite various initiatives undertaken in 2016 to reduce our total energy consumption. This was due to higher availability of the grid supply and a corresponding drop in running of backup diesel generators.

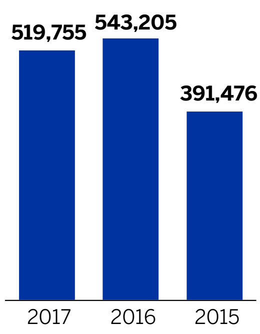
The energy efficiency initiatives deployed include the LED project which saw us move from fluorescent lighting to LED lighting across the Bank network. A 35% reduction in electricity costs has been attained due to this. Furthermore, presence of the environmentally harmful mercury content of fluorescent tubes and incandescent bulbs was drastically reduced.

Automation of Air Conditioners was also done at one of the Head Office buildings for optimisation of usage to reduce the power consumption and extend their useful life. This initiative has resulted into 30% energy savings on that building and is planned for full roll out across the network in 2018 for full benefit.

Fuel Consumption

Fuel Consumption has a direct impact on the emissions released to the environment. At Stanbic, our fuel usage usually comes in the form of Motor Vehicle and Generator Fuel. Stanbic utilises electronic tracking & monitoring of fuel technology for both Vehicles and generators in order to check efficiency and total consumption by the bank.

		2017	2016	2015
Fuel consumed	liters	**519,755**	543,205	391,476



Our fuel consumption reduced in 2017. This is because the Logistics team sensitised the network to timely contact Umeme to restore power and fix faulty circuit breakers, contactors in the event of power outages as opposed to running on generator

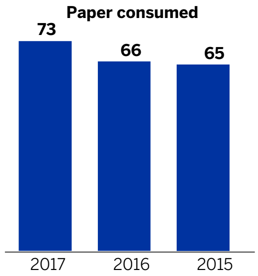
In 2017, ten branches had higher capacity inverters installed to avoid running of generators in the night and over the weekend when grid supply is off. Standalone ATM sites had their inverters serviced and batteries replaced as backup to avoid use of diesel generators

Materials

Our value creation process requires marginal input of materials and as such our major input is paper which is used in form of stationery of varied nature. This is used to print necessary source documents as well as various reports.

		2017	2016	2015
Paper consumed	tons	**73**	66	65

Paper consumption is marginally up in view of broad growth in business operations despite digitization of some of the processes. The rise is attributed to increase in customers as well as products, which has led to the increase in processing requirements required for the customers hence introduction of new units

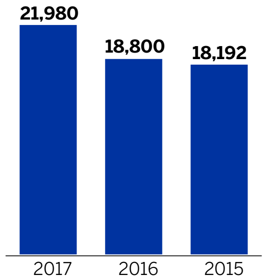


Water Usage

Clean freshwater is becoming increasingly scarce, and can impact production processes that rely on large volumes of water. Our value chain at Stanbic Bank does not require significant volumes of water and as such much of the water used is for basic laundry and sanitary services. The levels of water consumption do not pose a systemic risk to the environment.

		2017	2016	2015
Water consumed	kiloliters	**21,980**	18,800	18,192

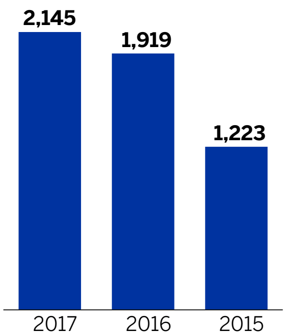
The increasing trend in water over the years' results from a general increase in operations over the years, an uptake of piped water at several branches that initially relied on ordinary suppliers



Green House Gas Emissions

Greenhouse gas emissions are the main cause of climate change. In July 2015 Uganda signed to the ratifications of the Kyoto Protocol an initiative of the United Nations Framework Convention on Climate Change. Under the Protocol, countries' actual emissions have to be monitored and precise records have to be kept of the trades carried out. Much of our value chain doesn't result into significant emissions into the environment, our operational practices however, cause emissions to the environment which arise in form of motor vehicle and Generator diesel combustion, flight, air- conditioning and Fluorescent emissions. Various initiatives are currently in place to reduce our emissions to the environment as indicated further on.

	2017	2016	2015
Carbon emissions(tons)	**2,145**	1,919	1,223



Our carbon footprint decreased in 2017 driven majorly by our lower reliance on diesel due to power stability as well as a drop in commercial flights. Various initiatives are being undertaken in 2018 to reduce our carbon foot print and these include installation of alternative energy supply systems such as solar power to branches that do not have grid supply and presently fully rely on generators. Remote energy monitoring systems are also being installed at key branches for real time monitoring of the energy supply and trends to further inform optimisation decisions/actions.

Automatic Air Conditioners which do not require human control were also introduced during the year. These are automatically switched off at specific times and switch on relative to given temperatures. This is expected to reduce wasteful consumption.

Strategic Environmental Initiatives

The Bank continues to take deliberate steps to cut down its energy consumption and optimize the spend on energy. To this end the following initiatives are being driven;

Installation of LED lights across the Banks network – this project was completed in January 2017. It is projected to cut down the energy by 10% and total cost of lighting by up to 40%. The LED lights are also environmentally safer as they do not contain the mercury and phosphor traces found in some fluorescent lights.

Installation of Air Conditioning (AC) control systems – a successful pilot was done in 2016 whereby the functionality of ACs is automated and it resulted into 25% savings in energy spend. The solution was rolled out in 2017 at one of the Head Office buildings and will be rolled

out to all the bank's branches in 2018.

Remote Energy Monitoring systems being rolled out in 2018 after successful POCs done in 2017. Objective is to enable real time analysis of power characteristics and inform proactive interventions to lower the consumption and rectify faults for improved uptime.

OUR SEE SHARED VALUE....

SEE to me resonates with humanity. It means protecting and preserving the communities we serve; for the next generations. This entails consciously and purposely working towards these communities' longevity and prosperity by providing a healthy workplace for employees to thrive in, offering responsible, needs-based products and services to our clientele and partnering with counter parties, whose practices echo this vision

PATRICIA N. MUSIIME:
HEAD OPERATIONS

TRANSFORMING LIVES

Our existence is intertwined with the communities we operate in and as such we aim to provide value to the societies in which we operate in a bid to transform lives. Our proactive aim to transform lives manifest in a number of ways that range from providing affordable financial services for members of our communities, providing directly to members in the community through various CSI initiatives and above all supporting our customers as well as suppliers. The existence of the bank has been beneficial to a number of other entities and individuals that range from customers to whom we provide financial services, employees who directly work for the bank to suppliers and service providers who directly support our value chain. This year we have profiled one of our key clients that has grown with us and shared their success story on how their business has transformed.

CASE STUDY

RUSEKERE GROWERS TEA FACTORY

RUSEKERE TEA GROWERS IS A LARGE SCALE TEA PROCESSOR AND BUYER, LOCATED IN FORT PORTAL. STANBIC PROVIDES ABOUT 90% OF ALL THE LOANS AND CREDIT NEEDED BY THE COMPANY IN ITS OPERATIONS AND INVESTMENT ACTIVITIES.

The business relationship between the bank and Rusekere started in earnest 2012 when the owner of the company decided to scale up his operations and was given a loan by Stanbic to finance a new production line. This allowed the company to significantly increase its processing capacity which at the time was about 1.5 million tonnes of tea leaves a year.

Today as a result of the owners resilience, foresight and hard work backed by Stanbic's banks invaluable support, Rusekere Growers Tea Factory exports over 3.5 million tonnes of tea and is in the process of investing in a 3rd tea production line to further increase its export capacity.

Rusekere, Tea growers employs 250 workers directly and 1,200 indirectly through out-growers and other service providers in the process supporting an ecosystem of about 7,000 Ugandans.

250
WORKERS EMPLOYED

3.5m
TONNES EXPORTED

CONTRIBUTIONS TO SOCIETY

Introduction

While achieving growth, Stanbic Bank continues to reaffirm its commitment to supporting and transforming the lives of people in our communities through our Corporate Social Investments (CSI) programmes, in line with our Purpose, "Uganda is our home and we drive her growth." We focus on developing sustainable programmes that have a positive impact and enable the communities to benefit in the long term.

The key focus area for our Corporate Social Investments is Education. We believe that quality education is critical to achieving social and economic growth. We therefore focus on creating sustainable interventions that support education at different levels including; early childhood development, primary and secondary level education, tertiary education, adult education in financial literacy and entrepreneurship training.

Through our renewed approach to social investments, our varied programmes reached over **120,825** lives in 2017, up from 10,145 in 2016, through interventions in this report. We will continue to make progress towards improving the learning experience of our children and generally empower individuals with entrepreneurial skills to provide greater impact and generate long-term sustainable development in communities where we operate.

Our focus on Education in 2017 focused on the following areas:

- Early Childhood Development: Launched the ECD in Ggaba Market. Providing safe learning environments for children to develop their numeracy, literacy and social skills.
- Secondary Schools: National Schools Championship. Flagship programme that inspires excellence among secondary school students by sharpening critical thinking skills.
- Primary School: Various interventions address educations needs supporting primary school children. Mostly supported through donations and sponsorships
- Financial Literacy: Initiatives encouraging financial literacy among youth and adults in partnership with the central bank

Our CSI interventions

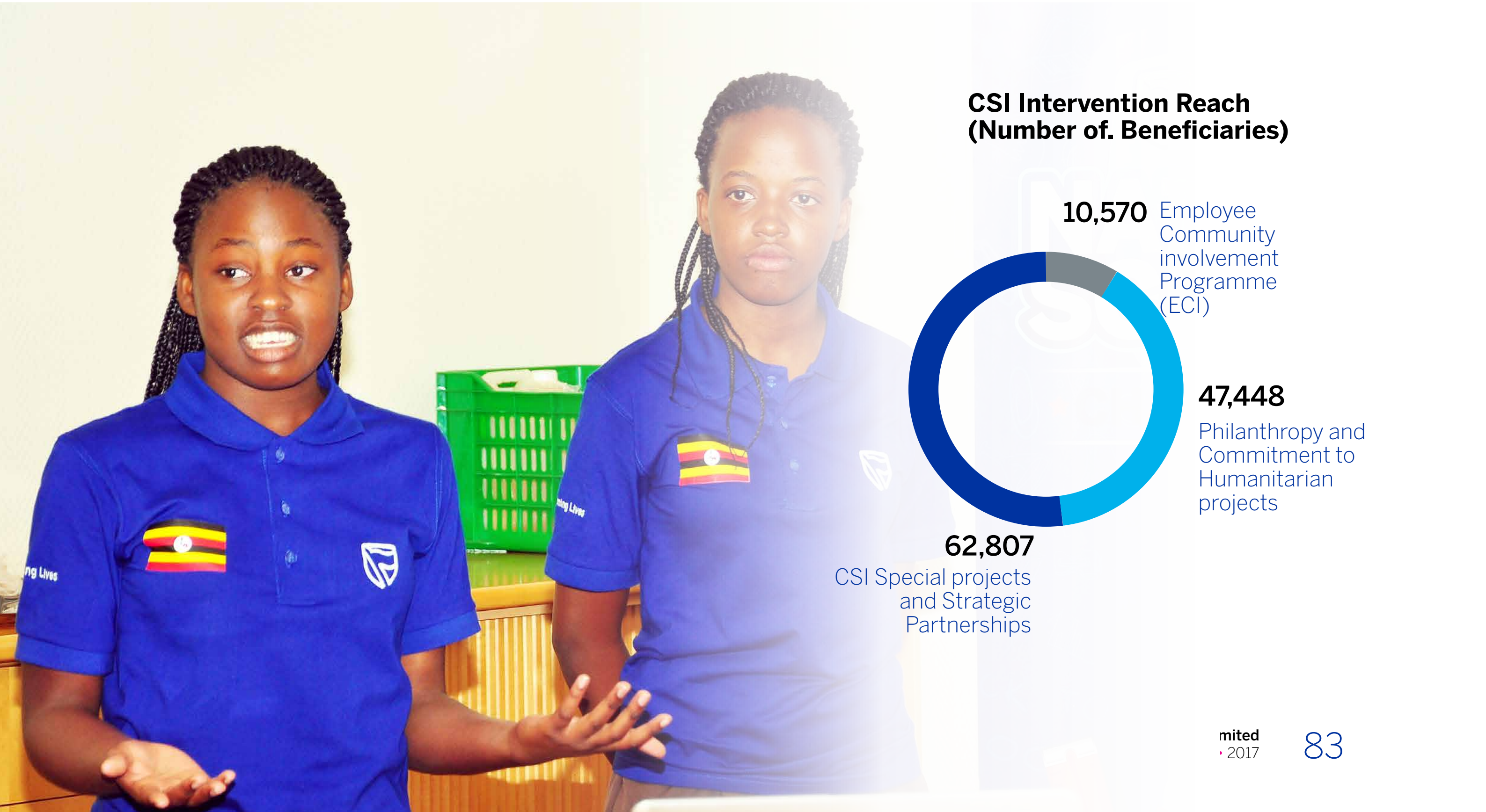
Our CSI reach and related Investment in society initiatives

Our Investment in society initiatives grew by 28% in the financial year 2017 to Ushs 1 450 886 855 from Ushs 1 133 941 274 in 2016. This was notably ahead of our Revenue growth, that dropped by 1% in the same period, further affirming our commitment to investing and supporting long term sustainable development in the communities where we operate.

CSI Intervention Reach (Number of. Beneficiaries)	**2017**	**2016**
Employee Community Involvement (ECI)	**10 570**	627
Philanthropy and Commitment to Humanitarian projects	**47 448**	1 474
CSI Special Projects and Strategic Partnerships	**62 807**	8 044
Total	**120 825**	**10 145**

*Key uplift on CSI beneficiaries partly on account of better reporting practices and improved impact assesment on varied CSI intervations.

CSI Investment	**2017**	**2017**
CSI Investment (Ushs)	**1 450 886 855**	**1 133 941 274**



CSI SPECIAL PROJECTS AND STRATEGIC PARTNERSHIPS

Our CSI Special Projects carry our flagship society interventions in areas of Education and Economic Development, with key programmes like the National Schools Championships, Seed Stars among others. The reach, size and uniqueness of these projects enables us to partner with key institutions to further a shared commitment to developing the communities in which we operate. We've continued to harness the expertise and unique experience that partners bring in helping us achieve our shared mission.

Below are some of 2017's key special projects and partnerships that were able to make a significant improvement in beneficiaries' livelihoods:

THE STANBIC BANK NATIONAL SCHOOLS CHAMPIONSHIP

The Stanbic Bank National Schools Championship is the Bank's flagship education development initiative aimed at improving employable skills among the students, by sharpening students' critical thinking, while creating problem-solving skills. It's an exciting competition that saw students from 40 secondary schools participate in a series of educational activities from class debates, quiz competitions and dynamic group projects.

The competition involves four major stages i.e. the patron teachers' induction, essay competition, quiz competition and a skill enhancement assimilation project.

OUR INVOLVEMENT

Stanbic Bank partnered with the Ministry of Education for the second season of the national school's competition targeted for secondary schools across Uganda to stimulate students to sharpen their critical thinking, while creating problem-solving skills.

The objective is to nurture young people to develop positive attitudes, values and coping skills which subsequently prepares them for greater responsibilities in the future, Encourage healthy competition and innovativeness among secondary school students, Develop students' critical thinking skills, Develop students presentation skills, Build their confidence, Promote creativity, Promote financial literacy and entrepreneurship among student, Transform the lives of students who will be a part of this experience.

IMPACT/OUTCOME

- 40 Patron teachers from 40 schools were comprehensively inducted to help them prepare students for the competition.
- Over 15,000 students from 40 secondary schools participated in the competition in which they were trained on the following skills among others; Financial Literacy, Leadership, Crisis Management, Conflict resolution, Selling skills, Communication and self-expression, and Entrepreneurship

The Project reached 17,940 Students as per below breakdown

Project Activity	*Numbers Reached*
Class room Quizzes	3,840
School Debate	12,000
Regional Quizzes	1,600
National Finals	500
TOTAL	**17,940**

STANBIC BANK PARTNERED WITH SEEDSTARS WORLD TO NURTURE YOUNG AND UPCOMING UGANDAN ENTREPRENEURIAL TALENT

Stanbic Bank in partnership with Seedstars World to nurture young and upcoming Ugandan entrepreneurial talent.

Stanbic Bank partnered with Seedstars World in an impressive showcase of the best from the exciting, innovative and growing Ugandan start-ups.

THE CHALLENGE:

With over 40,000 Small and Medium Enterprises (SME) clients, Stanbic bank recognised that this is a key segment which is very important to the country's growth for young and upcoming entrepreneurs across the country to be offered the opportunity to show case creativity and innovation in business.

OUR INVOLVEMENT:

Stanbic Bank Uganda helped to identify and nurture young and upcoming Ugandan entrepreneurial talent by sponsoring the Ugandan edition of the Seedstars project for 2017.

IMPACT/OUTCOME

› Strategic networking opportunities for young and upcoming entrepreneurs with investors and mentors from around the world.

› Transformational initiative and growing businesses.

› Opportunity for young and upcoming entrepreneurs across the country to show case creativity and innovation in business.

› The platform connected investors to the next generation of start-up entrepreneurs.

PHILANTHROPY AND COMMITMENT TO HUMANITARIAN PROJECTS

At Stanbic Bank we are cognizant of the fact that every community is different and their needs divergent. We provide both financial and in-kind support to our communities to enable each of them reach their distinct goals. In 2017, we contributed to a wide variety of initiatives in form of donations and sponsorships. Below are some of the key initiatives we supported:

STANBIC BANK SUPPORTS YOUNG LEADERS

Stanbic Bank contributed Ushs 10 million to the Young and Emerging Leaders Project (YELP), an initiative of Leo Africa Institute.

OUR INVOLVEMENT

The project inducted 20 outstanding thought leaders annually into a fellowship program designed to train and orient values of self-advancement, integrity, social responsibility and socio economic transformation. Stanbic Bank affirms the importance of supporting youth in view of the key role to play in the transformation of Uganda and East Africa. The Young and Emerging Leaders Project which is a high impact youth oriented initiative fits very well into this plan.

IMPACT

- The workshop was a training and platform to discuss personal leadership and how to define success as a leader.
- 20 outstanding leaders were trained and oriented values of self-advancement, integrity, social responsibility and socio economic transformation.

Stanbic Bank Uganda, provided an online practical and fun way of understanding how to manage a virtual portfolio of funds through trading in virtual shares and bonds listed on the USE as well as loans and fixed deposits to University students.

This was an initiative that enhanced financial literacy among our youth while nurturing a culture of saving and investing. Students got the opportunity to experience a fun way of learning how to manage virtual portfolios of funds through trading virtual shares and bonds as well as loans and fixed deposits

STANBIC SPONSORS UNIVERSITY CHALLENGE

Other philanthropy and sponsorship projects:

Initiative / Project	Our Involvement and Impact	Support Offered	Beneficiaries
Rotary Blood Bank Project	Hugh Masekela Rotary Blood Bank Fundraising Concert Sponsorship	Ushs 10 000 000	1 500
MTN Marathon	Support school sanitation initiatives in partnership with MTN	Ushs 225 000 000	42000
Leo Africa Institute	Empowering and skilling young leaders	Ushs 10 000 000	25
BOU/GIZ	Financial Literacy training program across	Ushs 71 000 000	10 000
Rotary	Cancer initiative	Ushs 2 000 000	200
The missionaries of the Poor	Built cabinets for the school	Ushs 135 000 000	198
40 days over 40 smiles	Supports education for vulnerable children. Setting up learning centres in five divisions of Kampala.	Ushs 3 500 000	600
Makerere University- Face of MUK Breast Cancer Awareness Project	Breast cancer awareness day	Ushs 1 500 000	2 500
New Midland Islamic Orphanage Primary School	Catering to the social needs of pupils at the orphanage.	Ushs 2 000 000	700
Embassy of the Republic of France-Bastille Day 2017	Sponsoring the French Embassy Bastille Day.	Ushs 6 000 000	300
Nyaka Aids Foundation	Fundraising Dinner	Ushs 10 000 000	2 000
Women Entrepreneurship Day	Encourage women and youth to become active in the economy	Ushs 5 000 000	1 000
Alur kingdom activities	Ker Alur 7th annual coronation activities	Ushs 5 000 000	2 000
Smart Toto - Mpigi Flourishing Center	One million books to 1million kids	Ushs 15 000 000	650
Action for Children	Keeping children in loving and caring families	Ushs 10 000 000	600
UCU	The university sports day support	Ushs 2 000 000	1 000
Project Breath	Contribution towards buying paediatric bronchoscope	Ushs 5 000 000	5 000
CERU Foundation	Support the Children's Christmas party	Ushs 2 000 000	1 000
UPDF	Support the Forces' Children's Christmas party	Ushs 5 000 000	3 200
Rotary Cancer Run	In support of cancer institute through Rotary	Ushs 8 000 000	5 000
Nssf Hash Run	In support of Kcca Primary schools	Ushs 15 000 000	10 000

EMPLOYEE COMMUNITY INVOLVEMENT (ECI)

Through our Employee Community Involvement program, we encourage staff to actively volunteer on community programs they are both passionate about and are aligned with our CSI focus areas. The Bank through its Grant Matching policy extends the impact of volunteerism by contributing to causes that staff have donated. In 2017, over 100 staff volunteered their expertise, time and financial contributions to help solve some of the social challenges encountered by our communities.

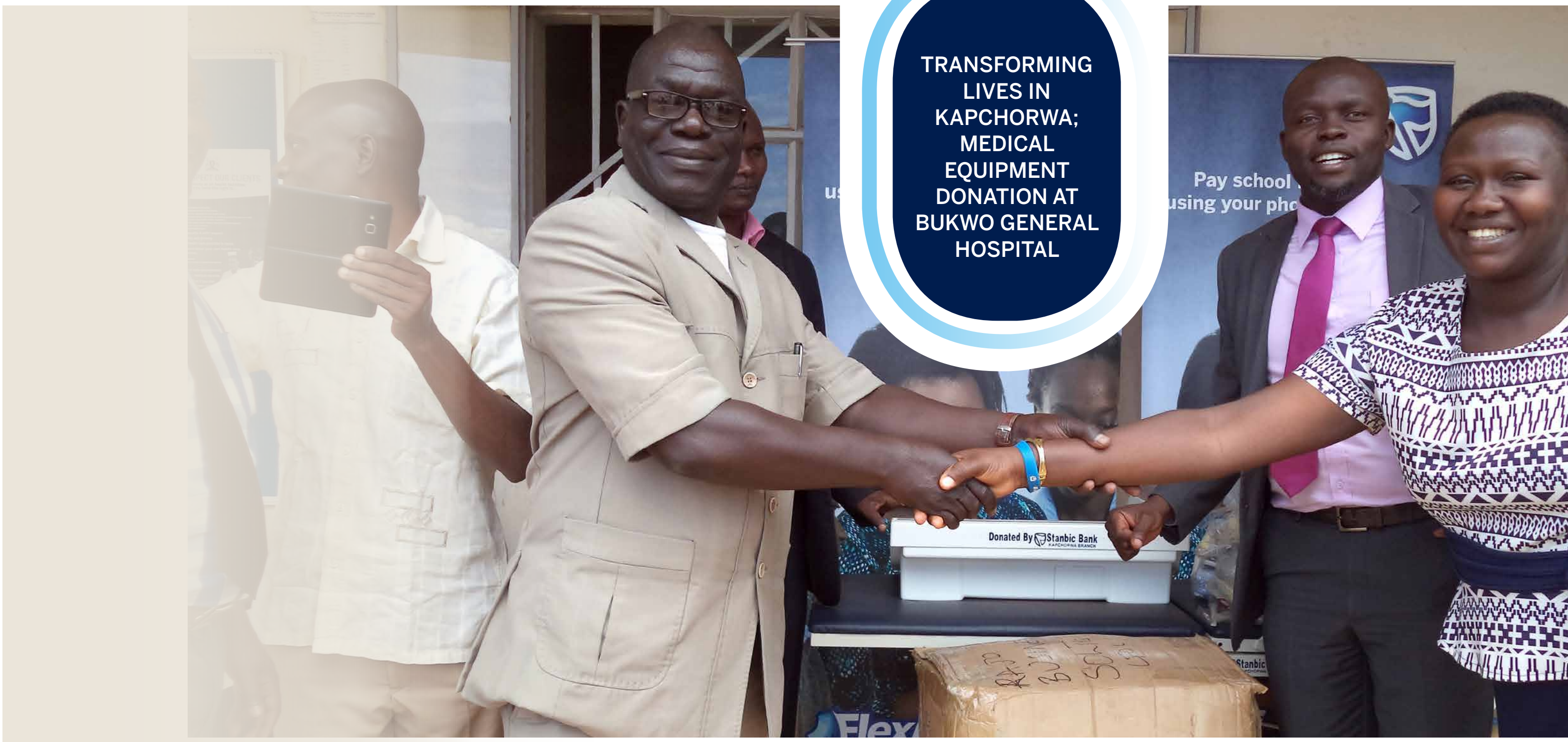
Besides grant matching, our staff also volunteer on some of the programs that the bank is undertaking such as the Stanbic Bank World Aids Day Program. In all, our volunteering programs, we focused on building on our staff's talents and skills to make a positive difference within the communities. We are confident that encouraging volunteerism and engaging staff in CSI activities they are truly passionate about makes them believe in our mission and work towards delivering on it while supporting their leadership development thereby creating a lasting transformation in the communities where we operate. Below are key Employee Community Involvement (ECI) initiatives;

DANIEL OGONG, HEAD MARKETING AND COMMUNICATIONS:

OUR SEE SHARED VALUE....

Our higher purpose is to enable a better tomorrow for the communities within which we operate. This is a commitment that goes beyond providing financial services to becoming an organization that is conscious about how we can impact lives through what we do.

TRANSFORMING LIVES IN KAPCHORWA; MEDICAL EQUIPMENT DONATION AT BUKWO GENERAL HOSPITAL



The Stanbic Bank Team in Kapchorwa Branch carried out a branch CSI activity in support of Bukwo District. The team donated the following items to Bukwo General Hospital:

- A delivery bed for expectant mothers
- A digital weighing scale for the new born babies
- 30 pairs of bedsheets

The aim was to improve the welfare of the mothers and the community as a whole. Other stakeholders who attended the handover ceremony included representatives from the District Administrative office and the Hospital staff. The donation was well received and Stanbic Bank was commended for their continued support towards improving the lives of many in the communities.

IMPACT/OUTCOME:

- Improved the welfare of the mothers and the community as a whole.

STANBIC FINANCE DEPARTMENT DONATED TO ST. MBAGA TUZINDE PRIMARY SCHOOL

As part of Stanbic's Employee Community Involvement programmes, the Finance department donated over 600 books worth over Ushs 10 million, 5 computers and a printer to St. Mbaga Tuzinde Primary School as they strive to improve learning and teaching conditions for both the students and teachers.

The team handed over the contribution re-affirming the bank's CSI focus on promoting education and pointed out that encouraging the advancement of education at all levels gives children today the foundation for their success tomorrow. "It is also essential to provide equal opportunities for every child and quality education to foster their development through a variety of learning opportunities"

As a government-funded school, St Mbaga Tuzinde Primary School is supervised by Kampala Capital City Authority with an enrollment of 761 students comprising both a nursery and primary sections. The contribution was timely as the school was facing several challenges affecting the teacher's ability to nurture the pupils. The School management thanked Stanbic Bank for the generous contribution which will improve the creativity, innovation and delivery in the classroom.

The Team at Kabalagala Branch supported Mama's Club in their community. They are a Local Community Based organisation providing psychosocial support to HIV positive mothers and their families. Since banking with Stanbic form 2014, the organisation has grown from a local Community Based Organization to a fully-fledged Non-Governmental Organization.

Team Kabalagala went over to the Mama's club to handover the donation of three full boxes of cloths and a box of soap to support Mama's club stressing the importance of involving men more in the Fight against HIV and encouraging them to support to their wives.

THE TEAM AT KABALAGALA BRANCH DONATED TO MAMA'S CLUB WOMEN WITH HIV

STANBIC OPERATIONS TEAM GAVE USHS 10 MILLION TO BBIRA PRIMARY SCHOOL

A good education can only be achieved through a better and friendly learning environment, sanitation being one of the core elements. As a bank, we believe a fully supported education ecosystem in our communities is enabled not only through the class room but also elements such as safe water and health sanitation which contribute to empowerment and prosperity.

As part of our employee community initiatives, the Operations team visited Bbira Primary School in Wakiso District and made a Ushs 10 million donation towards construction of a water tank. Part of the money was to be used for necessities such as clothes and shoes to improve the welfare of the children.

Other Employee Community Involvement (ECI) initiatives:

Initiative / Project	Our Involvement and Impact	Support Offered	Beneficiaries
Sanyu Babies Home	Donated a washing machine to improve Sanitation in the home	Ushs 3 500 000	100
Umbrella Children	2nd annual youth conference	Ushs 10 000 000	2 500
Baylor Institute	World AIDS day clothe drive for the children	Ushs 2 000 000	4 000
Kangole Senior Secondary	Computer equipment for ICT lab	Ushs 10 000 000	2 000
Rotary Club of Kampala North	Support Vijana Poa Initiative	Ushs 20 000 000	N/A

REPORTING PRACTICES

GRI Index

The 2017 Sustainability report was compiled in reference to the Global Reporting Initiative (GRI) guidelines and supported by the G4 Financial Services Sector Supplement.

CLAIM: Material references Disclosures 102(1-39), GRI 201(1-4), GRI 202(1-2) GRI 203(1-2), GRI 204 (1), GRI 205 (1-2), GRI 206(1) GRI301(1-3), GRI 302(1-5), GRI 303(1-3), GRI 304(1-3), GRI 305(1-7), GRI 306(1-5), GRI 307(1), GRI 308(1-2), GRI 401(1-3), GRI 402(1), GRI 403(1-4), GRI 404(1-3), GRI 405(1-2), GRI 406(1), GRI 407(1), GRI 408(1), GRI 409(1), GRI 410(1), GRI 411(1), GRI 412(3), GRI 413(1-2), GRI 414(2), GRI 415(1), GRI 416(1-2), GRI 417(1-3), GRI 418(1), GRI 419(1)

Disclosure Number	Description	Required for CORE	Cross Reference/ Heading	Page Reference
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102-2	Activities, brands, products, and services	Core	Supplementary Information	11-13
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102-6	Markets served	Core	Who we are and Supplementary Information	13
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102-11	Precautionary Principle or approach	Core		N/A
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201-1	Direct economic value generated and distributed		Value Added Statement	64
201-2	Financial implications and other risks and opportunities due to climate change		Environmental Responsibility	80-81
201-3	Defined benefit plan obligations and other retirement plans			N/A
201-4	Financial assistance received from government			N/A
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202-1	Ratios of standard entry level wage by gender compared to local minimum wage			N/A
202-2	Proportion of senior management hired from the local community			N/A
Indirect Economic Impacts				
203-1	Infrastructure investments and services supported			N/A
203-2	Significant indirect economic impacts		Contributions to the Economy	59-64
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204-1	Proportion of spending on local suppliers		Procurement Practices	69
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205-1	Operations assessed for risks related to corruption			N/A
205-2	Communication and training about anti-corruption policies and procedures		Compliance Practices	76
205-3	Confirmed incidents of corruption and actions taken			N/A
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206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		Compliance Practices	76
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301-1	Materials used by weight or volume		Environmental Responsibility	80-81
301-2	Recycled input materials used			N/A
301-3	Reclaimed products and their packaging materials			N/A
Energy				
302-1	Energy consumption within the organization		Environmental Responsibility	80-81
302-2	Energy consumption outside of the organization		Environmental Responsibility	80-81
302-3	Energy intensity		Environmental Responsibility	80-81
302-4	Reduction of energy consumption		Environmental Responsibility	80-81
302-5	Reductions in energy requirements of products and services		Environmental Responsibility	80-81
Water				
303-1	Water withdrawal by source		Environmental Responsibility	80-81
303-2	Water sources significantly affected by withdrawal of water		Environmental Responsibility	80-81
303-3	Water recycled and reused		Environmental Responsibility	80-81

Bio-Diversity				
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas			N/A
304-2	Significant impacts of activities, products, and services on biodiversity			N/A
304-3	Habitats protected or restored			N/A
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Emissions				
305-1	Direct (Scope 1) GHG emissions		Environmental Responsibility	80-81
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305-4	GHG emissions intensity		Environmental Responsibility	80-81
305-5	Reduction of GHG emissions		Environmental Responsibility	80-81
305-6	Emissions of ozone-depleting substances (ODS)		Environmental Responsibility	80-81
305-7	Nitrogen oxides (NO_X), sulfur oxides (SO_X), and other significant air emissions			N/A
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306-1	Water discharge by quality and destination		Environmental Responsibility	80-81
306-2	Waste by type and disposal method			N/A
306-3	Significant spills			N/A
306-4	Transport of hazardous waste			N/A
306-5	Water bodies affected by water discharges and/or runoff			N/A
Environmental Compliance				
307-1	Non-compliance with environmental laws and regulations			N/A
Supplier Environmental Assessment				
308-1	New suppliers that were screened using environmental criteria			N/A
308-2	Negative environmental impacts in the supply chain and actions taken			N/A
Employment				
401-1	New employee hires and employee turnover		Investing in our employees	70-75
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		Investing in our employees	70-75
401-3	Parental leave		Investing in our employees	70-75
Labour / Management Relations				
402-1	Minimum notice periods regarding operational changes			N/A
Occupational Health and Safety				
403-1	Workers representation in formal joint management–worker health and safety committees		Investing in our employees	70-75
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		Investing in our employees	70-75
403-3	Workers with high incidence or high risk of diseases related to their occupation		Investing in our employees	70-75
403-4	Health and safety topics covered in formal agreements with trade unions		Investing in our employees	70-75
Training and Education				
404-1	Average hours of training per year per employee		Investing in our employees	70-75
404-2	Programs for upgrading employee skills and transition assistance programs		Investing in our employees	70-75
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405-1	Diversity of governance bodies and employees		Investing in our employees	70-75
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Non-Discrimination				
406-1	Incidents of discrimination and corrective actions taken			N/A
Freedom of Association and Collective Bargaining				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk			N/A
Child Labour				
408-1	Operations and suppliers at significant risk for incidents of child labor			N/A
Forced and Compulsory Labour				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor			N/A

Security Practices				
410-1	Security personnel trained in human rights policies or procedures			N/A
Rights of Indigenous People				
411-1	Incidents of violations involving rights of indigenous peoples			N/A
Human Rights Assessment				
412-1	Operations that have been subject to human rights reviews or impact assessments			N/A
412-2	Employee training on human rights policies or procedures		Investing in our employees	70-75
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening			N/A
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Supplier Socio Assessment				
414-1	New suppliers that were screened using social criteria			N/A
414-2	Negative social impacts in the supply chain and actions taken			N/A
Public Policy				
415-1	Political contributions			N/A
Customer health and Safety				
416-1	Assessment of the health and safety impacts of product and service categories			N/A
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services			N/A
Marketing and Labeling				
417-1	Requirements for product and service information and labeling			N/A
417-2	Incidents of non-compliance concerning product and service information and labeling			N/A
417-3	Incidents of non-compliance concerning marketing communications			N/A
Customer Privacy				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data			N/A
Socioeconomic Compliance				
419-1	Non-compliance with laws and regulations in the social and economic area			N/A

BOARD OF DIRECTORS

CORPORATE GOVERNANCE

95

BOARD OF DIRECTORS

1. **JAPHETH KATTO** [66]
Chairman Board
Bcom Honours, ACCA
Appointed: 2014
Committee: None

2. **PATRICK MWEHEIRE** [47]
Chief Executive
BSc (Econ, Daemen)
MBA (Harvard)
Appointed: 2012
Committee: Credit and Risk

3. **KEVIN WINGFEILD**[50]
Executive Director
BCom.University of Natal,
Pietermaritzburg
Chatered Accountant South Africa
Appointed: 2016
Committee: None

4. **SAM ZZIMBE** [54]
Non-Executive Director
MSc Finance and Investment, ACCA
Appointed 2017
Committee: C/M Audit

5. **BARBARA MULWANA** [53]
Non-Executive Director
BSc (Electrical Engineering and
Computer
Science, Northwestern),
Appointed 2009
Committee: C/M Human Capital,
Credit

6. **RUTH EMUNU** [67]
Non-Executive Director
BA. (Minnesota),
PGD (Public Administration)
(Makerere)
Appointed: 2009
Committee: Audit, C/M Risk

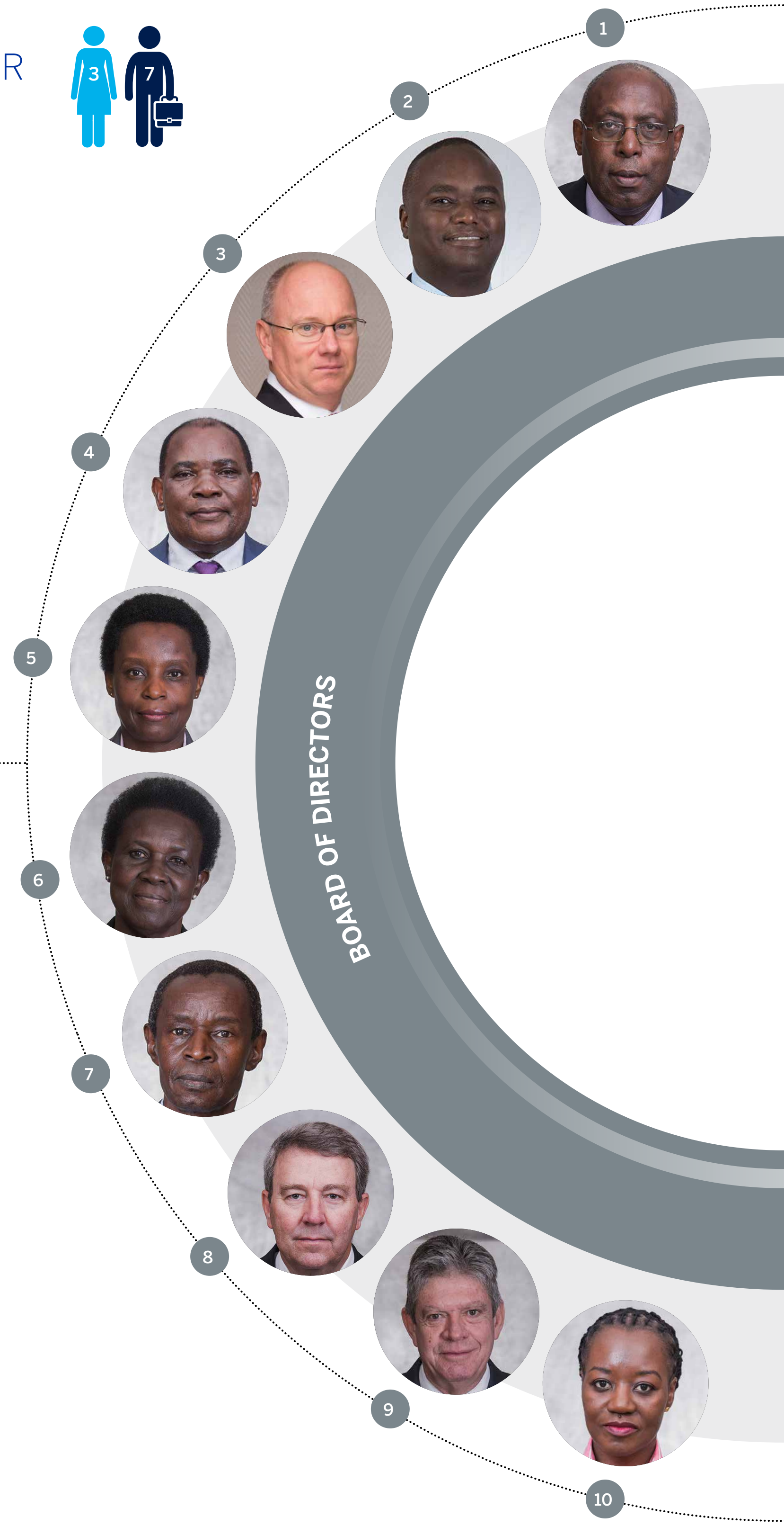
7. **PATRICK J. MANGHENI** [66]
Non-Executive Director
PhD Functional Analysis (Oxford)
Appointed: 2015
Committee: Risk and Credit

8. **CLIVE TASKER**[62]
Non-Executive Director
BA. LIB (Natal)
AMP (Wharton, Pennsylvania)
Appointed: 2016
Committee: Audit, C/M Credit

9. **GREG BRACKENRIDGE**[59]
Non-Executive Director
Chief Executive East Africa region
Standard Bank Group
Associate Institute of Bankers
South Africa
Appointed: 2016
Committee: Human Capital

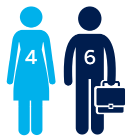
10. **EVA KAVUMA** [56]
Non-Executive Director BSc Business
Administration
(Ithaca, New York)
MA Interntional Management
(Thunderbird, Arizona)
Appointed: 2016
Committee: Credit and
Human Capital

GENDER



EXECUTIVE COMMITTEE

GENDER



1. **PATRICK MWEHEIRE**
   Chief Executive
   Joined the Bank: 2012
   Joined Exco: 2012

2. **KEVIN WINGFIELD**
   Head, Personal & Business Banking
   Joined the Bank: 2015
   Joined Exco: 2015

3. **EDWIN MUCAI**
   Head, Corporate & Investment Banking
   Joined the Bank: 2015
   Joined Exco: 2015

4. **SAMUEL FREDRICK MWOGEZA**
   Chief Financial Officer
   Joined the Bank: 2010
   Joined Exco: 2015

5. **HERBERT OLOWO**
   Chief Information Officer
   Joined the Bank: 2015
   Joined Exco: 2015

6. **MOSES MBUBI WITTA**
   Head, Human Capital
   Joined the Bank: 2013
   Joined Exco: 2013

7. **CANDY WEKESA OKOBOI**
   Head, Legal / Company Secretary
   Joined the Bank: 2016
   Joined Exco: 2016

8. **RITA BALAKA**
   Head, Compliance
   Joined the Bank: 2014
   Joined Exco: 2014

9. **Patricia N. Musiime**
   Ag. Head, Operations
   Joined the Bank: 2014
   Joined Exco: 2017

10. **Gladys Muchae**
    Ag. Head, Credit
    Joined the Bank: 2017
    Joined Exco: 2017

Chief Risk Officer, George Mukasa resigned in 2017.

CORPORATE GOVERNANCE STATEMENT

Corporate Governance statement sets out the governance framework adopted by the Board of Stanbic Bank Uganda Limited (the Bank) and highlights the key activities during the 2017 financial year.

In its approach to governance, the Board embraces best practice principles based on the understanding that sound governance practices are fundamental to earning the trust of each stakeholder. This is critical to sustaining the performance of the Bank and preserving shareholder value. The Bank applies a broad based Corporate Governance approach which it has detailed in a policy for that purpose.

The Board strives to embrace relevant local and international best practices and is committed to upholding the fundamental tenets of governance which include independence, social responsibility, discipline, accountability and fairness to stakeholders. Owing to the Bank's relationship with the Standard Bank Group and where appropriate, the principles of the King Code inform a significant portion of the governance framework and practices of the Bank.

In the year under review, the Bank complied with all applicable laws, rules, regulations and guidelines on Corporate Governance.

The Bank's governance framework enables the Board to fulfil its role of providing oversight and strategic counsel in balance with its responsibility to ensure conformance with regulatory requirements and risk tolerance. It also provides the parameters for delegating its authority.

Codes and regulations

As a licensed commercial bank and listed entity, the Bank operates in a highly regulated environment and is committed to complying with legislation, regulations, and codes of best practice.

Complying with all applicable legislation, regulations, standards and codes is integral to the Bank's culture. The Board delegates responsibility for compliance to management and monitors this through the Compliance function. The compliance function and governance standards are subject to review by Internal Audit. Oversight of compliance risk management is delegated to the Board Risk Management Committee, which annually reviews and approves the compliance plan. On a quarterly basis the Board Risk Management Committee receive reports from the Compliance function on, among other things, the status of compliance risk management in the Bank and significant areas of non-compliance. The Committee also reviewed the significant interactions and correspondences with the Regulator.

The impact of new and proposed legislation and regulations is assessed by management and material regulatory issues and legislative developments are escalated to the Board Risk Management and Audit Committees.

The Bank continues to nurture a strong culture of governance and responsible risk management in line with Standard Bank Group Risk appetite and governaceframework. Stanbic Bank is constantly monitoring its practices to ensure that they well suited for it and serve to enhance business and community objectives.

The Bank is committed to social responsibility and sound environmental management in its lending and other activities.

Board of Directors

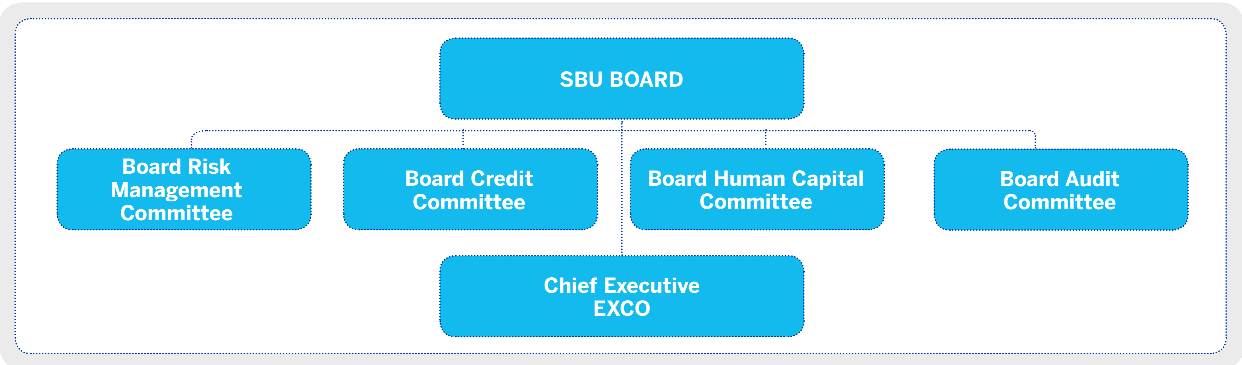
Board structure and composition, including independence classification

The Board of Directors is the Bank's highest decision-making body and is ultimately responsible for governance. Directors go through a strict internal vetting process prior to Bank of Uganda approval and are finally elected by the shareholders. The Bank has a unitary Board structure and the roles of the Chairman and Chief Executive are separate and distinct.

Classification	No.
Executive Director	2
Non-Executive Director	2
Independent Non-Executive Director	6

The Chairman is an independent Non-Executive Director, as are the majority of Directors on the Board. The balance of Executive, Non-Executive and Independent Directors ensures power and diversity on the Board, so that no individual or group can dominate Board processes or decision making. This balance also ensures the appropriate level of challenge. The number of independent non-executive directors on the Board ensures that board decision-making is sufficiently informed by independent perspectives.

Should we consider having 1 of the Directors, Patick Mangheni represent the shareholders, as CMA guidelines point to this



Succession Planning

Succession planning is a key focus of the Board which on an ongoing basis, considers the composition of the Board and its committees to ensure continued effectiveness. The retention of the Board members with considerable experience is sought to ensure that appropriate levels of management are maintained.

As part of the Board's responsibility to ensure that effective management is in place to implement Bank strategy, management succession planning is an ongoing consideration, and under the oversight of the Board Human Capital committee.

Skills, knowledge, experience and attributes of Directors

The Board ensures that Directors possess the skills, knowledge and experience necessary to fulfil their duties. The Directors bring a balanced mix of attributes to the Board, including:

- Exposure to domestic and international financial services sector;
- Operational matters
- Knowledge and understanding of both macro-economic and micro-economic factors affecting the Bank and the banking industry
- Regulatory experience;
- Expertise in risk management and internal financial control
- Financial, entrepreneurial and banking skills.

The Directors' qualifications are summarised on page 96.

Access to information and resources

Executive Management and the Board interact regularly. The Executive Committee Members are invited to attend Board Meetings where necessary. In addition, Non-Executive Directors meet without the Executive Directors in closed sessions, where necessary.

Directors have unrestricted access to management and the Bank information, as well as the resources required to carry out their roles and responsibilities. This includes external legal and other professional advice at the Bank's expense where necessary. A policy to regulate this process was first adopted by the Board in 2012, in addition to a policy that regulates the periodic review of these policies to cater for any changes in and outside the industry. It also includes unlimited access to the advice and services of the Bank Secretary, who assists in providing any information or documentation that may be required to facilitate the discharge of their duties and responsibilities.

Appointments

The appointment of Directors is governed by the Bank's articles of association and is subject to regulatory approval in line with the applicable legislation and regulations. While Directors are elected by shareholders at the AGM, interim Board appointments are allowed between AGMs. These appointments are then confirmed at the next following AGM.

There is a formal process for the appointment of Directors. Information is provided to shareholders of the Director's education, qualifications, experience and other Directorships.

The Board takes cognisance of the knowledge, skills and experience of prospective Directors, as well as other attributes considered necessary for the role. The Board also considers the need for demographic and gender representation. Furthermore, candidates are subject to a "fit and proper test", as required by the Financial Institutions Act.

During the year 2017, the Board underwent a few changes with the retirement of Samuel Sejjaaka at the AGM held on 10th May, 2017. Sam Zimbe was appointed to the Board in May 2017 to fill a casual vacancy and shall be presented to the annual general meeting in 2018 for reelection

The role of the Board

- The Board's role is reflective of its corporate governance objectives:
- Reviews annually the corporate governance and risk management process and assesses achievement against objectives
- Reviews the Board mandate at least annually and approves recommended changes
- Delegates to the Chief Executive or any Director holding any Executive Office or any Senior Executive any of the powers, authorities and discretion vested in the Directors, including the power of sub-delegation
- Delegates similarly such powers, authorities and discretions to any committee and subsidiary Bank boards as may exist or may be created from time to time
- Determines the terms of reference and procedures of all Board Committees and review their reports and minutes
- Considers and evaluates reports, submitted by members of the Executive;
- Ensures that an effective risk management process exists and is maintained throughout the Bank
- Reviews and monitors the performance of the Chief Executive and Executive Management
- Establishes and reviews annually and approves major changes to relevant policies
- Approves the remuneration of Non-Executive Directors on the Board Committees and make recommendations to shareholders for approval
- Ensures that an adequate budget and planning process exists and measures performance against budgets and plans and approves annual budgets for the Bank
- Considers and approves the annual financial statements, interim results, dividend payable, distribution announcements and notices to shareholders
- Assumes ultimate responsibility for financial, operational and internal systems of control and ensures adequate reporting of these by respective committees and
- Takes ultimate responsibility for regulatory compliance and ensures that reporting to the Board is comprehensive.

Strategy

The Board is responsible for the Bank's strategic direction. The Bank's strategic plan is reviewed annually and any updates presented by Management are discussed and agreed with the Board. The Board ensures that the strategy takes account of any associated risks and is aligned with the Bank vision, values, performance and sustainability objectives.

Once the financial, governance and risk objectives for the following year have been agreed the Board monitors performance against these objectives on a quarterly basis. Financial performance is also monitored through quarterly reports from Management, and governance and risk are monitored by the relevant risk committees, and reviewed by the Board.

Delegation of Authority

The Board retains effective control through a well-developed governance structure that provides the framework for delegation. Board Committees facilitate the discharge of the Board's responsibilities by providing in-depth focus on specific areas of Board responsibility. Each of the Committees have a mandate that is regularly reviewed and approved by the Board. Details of how these Committees operate are elucidated below.

The Board delegates authority to the Chief Executive and Executive Committee to manage the business and affairs of the Bank. The Executive Committee assists the Chief Executive in the execution of his mandate. The Chief Executive is tasked with the implementation of Board decisions with a clear flow of information between management and the Board, which facilitates the qualitative evaluation of the Bank's performance.

The Bank Secretary's office monitors board-delegated authorities.

The Executive Committee is set out on page 97.

Board Committees

Board Committees operate in accordance with mandates which are reviewed and approved by the Board on an annual basis. Each of the Committees have a mandate that sets out the role, responsibilities, scope of authority, composition and procedures to be followed. All Board Committee mandates take into account amendments to relevant legislation and other pertinent changes in the Bank's operating environment.

Board Audit Committee

The Committee is constituted in accordance with the Financial Institutions Act which requires the Board to appoint at least two Non-Executive Directors to the Committee.

As per the law, the Board has appointed the members of the committee which is comprised solely of independent Non-Executive Directors.

The role of this Committee is to review the Bank's financial position and make recommendations to the Board on all financial matters, risks, internal financial controls, fraud and IT risks relevant to financial reporting. This includes assessing the integrity and effectiveness of accounting, financial compliance and control systems. The committee has a constructive relationship with the Head Internal Audit, who has access to the committee members as required. The Committee also ensures effective communication between the internal auditors, external auditors, the Board, management and regulators.

The Committee is responsible for, amongst other things, the internal control framework, which combines the Bank's three lines of defence model with the Bank's Corporate Governance Framework. The three lines of defence model seeks to separate the relevant duties and ensure independent reporting lines to underpin effective internal control and risk management. More detail on the approach to risk management is provided in the Risk and Capital Management section which starts on page 43.

Internal Financial Controls are in place to ensure the integrity of the Bank's qualitative and quantitative financial information, which is used by a variety of stakeholders. The Chief Financial Officer is ultimately responsible for implementing and maintaining internal Financial Controls.

Assurance of the effectiveness of Internal Financial Controls is achieved through management confirmation that the Financial Governance Controls and Internal Financial Controls supporting the assertions in the financial statements operated effectively during the year and coordinated audit work by the internal and external auditors as part of their annual risk based audit plans.

The committee considers reports from internal audit on any weaknesses in controls that have been identified, including financial controls, and considers corrective actions to be implemented by management to prevent such incidences recurring. This takes place on an ongoing basis.

The audit committee has complied with its mandate in the year under review, as well as its legal and regulatory responsibilities.

Board Risk Management Committee

The Board is ultimately responsible for risk management. The main purpose of the committee is to provide independent and objective oversight of risk management within the Bank. A number of management committees help the committee to fulfil its mandate, the main one of these being the risk management committee.

To achieve oversight, the committee reviews and assesses the integrity of risk control systems and ensures that risk policies and strategies are managed effectively and contribute to a culture of discipline and control that reduces the opportunity of fraud. Assurance on the effectiveness of the risk management processes is provided to the committee through management reporting.

The committee's composition includes Executive and Non-Executive Directors. The committee complied with its mandate for the year under review. Four scheduled meetings were held.

A comprehensive risk management report is provided starting on page 43, which sets out the framework for risk and capital management in the Bank.

Board Credit Committee

The role of this committee is to ensure that effective frameworks for credit governance are in place in the Bank. This involves ensuring that the Management Credit Risk Committee and the credit function operate according to clearly defined mandates and delegated authority, and providing for the adequate management, measurement, monitoring and control of credit risk, including country risk.

The Committee reports to the Board on credit portfolios, adequacy of provisions and status of non-performing loans. It does not approve individual credit applications which remain within the ambit of the Credit Risk Management Committee, credit function and the Board, for significant facilities. Further detail on the management of credit risk is set out in the comprehensive risk management report provided starting on page 43.

The Committee's composition includes an Executive Director and Non-Executive Directors.

The Credit Committee complied with its mandate for the year under review. Four scheduled meetings were held.

Board Human Capital Committee

The Board Compensation Committee was renamed the Board Human Capital Committee and in addition to 1 and 2 below, its role was expanded to:

1. Provide oversight on the compensation of Directors, Executive and Senior Management and other key personnel and ensure that the compensation is consistent with the Bank's culture, objectives, strategy and control environment.
2. Perform other duties related to the Bank's compensation structure in accordance with applicable laws, rules, policies and regulations.
3. Attend to human capital matters.

The goal of the committee is to maintain compensation policies which will attract and retain the highest quality executive and senior managers and which will reward the executives and senior managers of the Bank for the Bank's progress and enhancement of the shareholder

value. In light of its expanded mandate, the committee oversees the welfare, talent and skill development, and other human capital matters. In fulfilling its mandate, the committee is guided by the Standard Bank Group philosophy and policy as well as by the specific social, legal, economic context of Uganda.

The committee comprises solely Non-Executive Directors. The Chief Executive attends the meetings by invitation. Other members of Executive Management can be invited to attend when appropriate to assist the committee in fulfilling its mandate.

No individual, irrespective of position, is present when his or her remuneration is discussed.

Board Meetings

The Board meets once a quarter with an additional meeting annually to consider strategy. Ad hoc meetings are held when necessary, and Directors are provided with comprehensive documentation at least five days prior to each of the scheduled meetings in the annual board calender.

The attendance of Board meetings in 2017 is set out in the following table:

Name of Director	Q1					Q2				
	14-Feb	14-Feb	14-Feb	14-Feb	15-Feb	07-Jun	07-Jun	07-Jun	07-Jun	08-Jun
	HC	BAC	BCC	BRMC	Board	HC	BAC	BCC	BRMC	Board
J.B Katto Chairman	NA	NA	NA	NA	√	NA	NA	NA	NA	√
S. Sejjaaka	NA	√	NA		√	NA	NA	NA	NA	NA
R. Emunu	NA	√	NA	√	√	NA	√	NA	√	√
S. Zimbe	NA	NA	NA	NA	NA	NA	√	NA	NA	√
B. Mulwana	√	NA	√	NA	√	√	NA	√	NA	√
K. Wingfield	NA	NA	NA	NA	√	NA	NA	NA	NA	√
P. Mweheire	NA	NA	√	√	√	NA	NA	√	√	√
E. Kavuma	√	NA	√	NA	√	√	NA	√	NA	√
P. Mangheni	NA	NA	√	√	√	NA	NA	√	√	√
C. Tasker	NA	NA	NA	NA	√	NA	√	√	NA	√
G. Brackenrigde	A	NA	NA	NA	√	A	NA	NA	NA	√

√ = Attendance; A = Apology; NA = Not Applicable;

Name of Director	Q3					Q4					Offsite strategy
	01-Aug	01-Aug	01-Aug	01-Aug	02-Aug	31-Oct	31-Oct	31-Oct	31-Oct	01-Nov	02-Dec
	HC	BAC	BCC	BRMC	Board	HC	BAC	BCC	BRMC	Board	
J.B Katto Chairman	NA	NA	NA	NA	√	NA	NA	NA	NA	√	√
S. Sejjaaka	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
R. Emunu	NA	√	NA	√	√	NA	√	NA	√	√	√
S. Zimbe	NA	√	NA	NA	√	NA	√	NA	NA	√	√
B. Mulwana	A	NA	√	NA	A	√	NA	√	NA	√	√
K. Wingfield	NA	NA	NA	NA	A	NA	NA	NA	NA	√	√
P. Mweheire	NA	NA	√	√	√	NA	NA	√	√	√	√
E. Kavuma	√	NA	√	NA	√	√	NA	√	NA	√	√
P. Mangheni	NA	NA	√	√	√	NA	NA	√	√	√	√
C. Tasker	NA	√	√	NA	√	NA	√	√	NA	√	A
G. Brackenrigde	√	NA	NA	NA	√	√	NA	NA	NA	√	A

√ = Attendance; A = Apology; NA = Not Applicable;

Board effectiveness and evaluation

The Board is committed to continued improvements to its effectiveness and performance. The Board's performance and that of its Committees is assessed annually against their respective mandates. The objective of these evaluations is to assist the Board and Committees to constantly improve their effectiveness by addressing areas requiring improvement and providing Directors with the necessary training. The results of this assessment are then considered by the Board.

The Board assessed its performance and that of its Committees in 2017. The evaluations assessed the Board's performance in terms of structure, process and effectiveness. Individual questionnaires were completed, the results collated, and feedback discussed by the Board.

The relevant action points from the assessments were noted for implementation. No major areas of concern were highlighted other than the Board's increasing information needs due to the changing regulatory landscape. In 2017, the increasing need for information saw the Board continue its education programme started in 2015 in emerging areas such as cyber security and technology in banking.

The performance of the Chairman and Chief Executive is also assessed annually. In 2017, the performance of individual Directors was evaluated by the Chairman who discussed the results with each individual Director.

Education and induction

Ongoing board education remains a focus for the Bank. The directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments, which could potentially impact the Bank and its operations. Additional time is scheduled outside of Board meetings to run dedicated sessions highlighting key issues for the Board. This programme is supplemented by external courses and on-site visits where relevant.

This year, the directors undertook the following trainings: Big Data Training; IFRS 9; King IV Corporate Governance; Cyber Security; Cloud computing; Succession planning and Group Compliance.

On appointment, each new Director receives an induction pack that includes all relevant governance information such as mandates, management structures, significant reports, important legislation and policies. In addition, one-on-one meetings are scheduled with management to introduce new Directors to the Bank and its operations. The Bank Secretary is responsible for the induction and ongoing education of Directors.

Bank Secretary

The role of the Bank Secretary is to ensure the Board remains cognizant of its duties and responsibilities. In addition to guiding the Board on discharging its responsibilities, the Bank Secretary keeps the Board abreast of relevant changes in legislation and governance best practices. The Bank Secretary also oversees the induction of new Directors as well as the ongoing education of Directors. To enable the Board to function effectively, all Directors have full and timely access to information that may be relevant to the proper discharge of their duties. This includes information such as corporate announcements, investor communications and other developments which may affect the Bank and its operations. All Directors have access to the services of the Secretary.

Going concern

The Directors have sufficient reason to believe that the Bank has adequate resources to continue operating as a going concern.

Relationship with shareholders

Regular, pertinent communication with shareholders is part of the Bank's fundamental responsibility to create shareholder value and improve stakeholder relationships. In addition to the ongoing engagement facilitated by the Investor Relations Manager and Governance Officer, the Chairman encourages shareholders to attend the annual general meeting where interaction is welcomed. The other Directors are available at the meeting to respond to questions from shareholders. Voting at General Meetings is conducted by show of hands. The Board proposes separate resolutions on each issue put forward to shareholders.

In line with cost reduction initiatives, shareholders who still hold shares in certificated form were encouraged to receive annual and interim reports and dividend announcements in electronic format.

The articles of association of the Bank require every shareholder to register his or her address in Uganda with the Bank. Shareholders who still hold shares in certificated form are advised to notify the Bank's Share Registrars in writing of any change in their postal or email addresses or bank account details.

Connecting with stakeholders

The Bank's relevance to the markets and societies in which we operate depends on continued and meaningful engagement with all stakeholders.

Stakeholder management at the Bank involves the optimal employment of the organisation's resources to build and maintain good relationships with stakeholders. This helps the Bank to manage the expectations of society, minimise reputational risk and form strong partnerships, which all underpin business sustainability.

Stakeholder relationships and related issues are discussed at Board meetings.

Several stakeholder engagement initiatives took place during the year. More information on these initiatives can be found in the Sustainability report on page 51.

Dealing in securities

In line with its commitment to conducting business professionally and ethically, the Bank has a policy that restricts dealing in securities by Directors and Employees. A personal account trading policy and an insider trading policy are in place to prohibit Employees and Directors from trading in securities during closed periods, which are in effect from 1 June to the publication of the interim results and from 1 December to the publication of final results. During other periods, where employees are in possession of price sensitive information, closed periods are imposed on these employees. Compliance with the policies is monitored on an ongoing basis.

Sustainability

The sustainability report on page 51, aims to provide a balanced analysis of the Bank's sustainability performance in relation to issues that are relevant and material to the Bank and to its stakeholders. The report provides:

An overview of the Bank's sustainability performance in 2017

An overview of stakeholder interaction during the year and

Material issues affecting the Bank.

Ethics and organisational integrity

The code of ethics is designed to empower employees and enable effective decision making at all levels of our business according to defined ethical principles. It also aims to ensure that. As a significant organisation in the financial services industry, we adhere to the highest standards of responsible practice. The code interprets and defines Standard Bank Group "Group" and the Bank's values in greater detail and provides value-based decision making principles to guide our conduct. It is aligned with other Bank policies and procedures, and supports the relevant industry regulations and laws.

The code specifies acceptable and unacceptable practices and assists in making ethical infringement easy to identify. It also promotes awareness of, and sensitivity to, ethical issues.

The Chief Executive is the formal custodian of the code of ethics and is ultimately responsible for its implementation.

Ethics incidents are reported via the ethics and fraud hotline, human resources department, risk department and business unit ethics officers. Reported incidents include fraud and human resources-related issues.

REMUNERATION REPORT

All Board Human Capital Committee decisions are guided by the Bank and the Group philosophy and policy, as well as by the specific social, legal and economic context of the country.

Where considered appropriate, the Board Human Capital Committee of the Bank initiates modifications to remuneration designs to ensure that regulatory requirements are met and our remuneration policies, are progressive and are consistent with, and promote effective risk management.

Remuneration philosophy and policy

The Bank is committed to building a leading emerging markets bank that attracts and retains world-class people. Consequently, we work to develop a depth and caliber of human resource that is capable of delivering sustainable growth across multiple geographies, products and regulatory regimes, and always within our agreed risk tolerance.

At the heart of this commitment lies the value we place on our people. Therefore, effective management and remuneration of our talent must be a core competency of our Bank.

As an integral part of growing and fortifying our human capital skills, the Human Capital Committee continually reviews the Bank's remuneration philosophies, structures and practices.

To determine the remuneration of employees of the Bank, the Board Human Capital Committee reviews market and competitive data, and considers the Bank's performance against financial objectives and individual performance. A key step in this development was taken by the committee and management to seek benchmarking guidance from Hay Group and Global Remuneration Services (GRS).

Certain specialist departments, for example, human resources and finance, provide supporting information and documentation relating to matters considered by the Board Human Capital Committee.

Structure of remuneration for managerial and general employees

Terms of service

The terms and conditions of employment of all managers and general employees are guided by local legislation and are aligned to Group practices. Notice periods are stipulated by legislation and can go up to three months.

Structure of the remuneration

Fixed pay

Fixed pay is intended to attract and retain employees by ensuring competitive positioning in the local market and in certain cases, globally. Fixed pay is normally reviewed annually, in the first quarter of the year and market data is used for benchmarking.
In longer term the aim of the Board Human Capital Commitee is to move from a fixed salary and benefits to a 'cost-to-Bank' philosophy whereby a cash sum is delivered from which all benefits are deducted.

Benefits

Benefits are provided in line with market practice and regulatory requirements. The Bank provides medical cover and death benefits for staff and dependents. In addition, retirement benefits are provided on a deferred contribution basis linked to fixed pay.

Variable pay

Annual Incentive

Annual incentives are provided to ensure appropriate reward for performance. Incentive pools are allocated to teams shaped by a combination of overall bank and team performance within the set risk tolerance levels.

Individual awards are based on personal performance, both financial and non-financial. In some cases, a portion of the annual incentive above a certain threshold is deferred.

Deferral Schemes

Deferred Bonus Scheme (DBS)

The Bank has implemented a DBS, to compulsorily defer a portion of incentives over a minimum threshold for some senior managers and executives. This improves alignment of shareholder and management interests and enables claw back under certain conditions, supporting risk management. All employees who are awarded an incentive over a certain threshold are subject to a mandatory deferral of a certain percentage of their bonus into the DBS for up to 42 months.

To enhance the retention component of the scheme, additional increments of the deferred bonus become payable at vesting and one year thereafter.

Claw back provision

A claw back provision was introduced on the deferred remuneration plan. A key provision in the plans is that unvested awards may be reduced or forfeited, in full or in part, at the Board Human Capital Committee's discretion subject to prescribed conditions

Long term incentives

Share incentive schemes

The Standard Bank Group runs a Standard Bank Equity Growth Scheme (EGS) and Group Share Incentive Scheme (GSIS) to which certain employees of Stanbic Bank Uganda are eligible to participate in. Participation rights under the EGS and share options under the GSIS are granted to qualifying employees. Grants of rights or options are typically made annually as part of the annual reward review; however, grants are also made to new employees on appointment or as ad hoc awards for retention purposes. EGS and GSIS long term incentives are awarded to key talent and are motivated by an individual's current performance and future potential. No awards are made to Non-Executive Directors.

No participation rights or options are issued at a pricing discount, nor can they be re-priced, except as provided for in terms of the scheme in relation to a reduction or re-organisation of the issued share capital of Standard Bank Group.

The table below sets out the general vesting conditions of the various options or participating rights issued. The Standard Bank Group Directors have the discretion to vary the vesting categories but not the expiry periods.

Long term incentives continued

Vesting Category	Year	Cumulative Vesting %	Expiry
A	3, 4, 5	50, 75, 100	10 years
B	5, 6, 7	50, 75, 100	10 years
C	2, 3, 4	50, 75, 100	10 years

Terms of employment

Retention agreements

Retention agreements are only entered into in exceptional circumstances and retention payments have to be repaid should the individual concerned leave within a stipulated period.

Severance payments

Severance payments are determined by legislation, market practice and where applicable, agreement with recognised trade unions to employee forums. It is not the practice of Stanbic Bank Uganda to make substantial severance awards.

Restrictive covenants

Some executive employment contracts include restrictive covenants on poaching of employees or customers. No other restrictions are included in contracts at present.

Sign on payments

In attracting key employees, it may be necessary to compensate for the loss of unvested awards with their prior employer. In such cases we would consider compensating such new employees in the appropriate share incentive scheme or in certain situations a cash sign on payment may be made on joining, subject to repayment should the employee leave the Bank within a certain period.

Directors' remuneration

Remuneration of Executive Directors

The remuneration packages and long term incentives for Executive Directors are determined along with other employees on the same basis and using the same qualifying criteria.

The compensation of the Chief Executive is subject to an annual review process that includes the Board.

The disclosure of the remuneration of the highest paid employees who are not Directors, is considered competitor sensitive and after due consideration, the Board has resolved not to publish this information.

Non-Executive Directors' remuneration and terms of engagement

Terms of service

All Non-Executive Directors are provided with a letter of appointment setting out the terms of engagement.

Directors are appointed by shareholders at the AGM. Between AGMs interim appointments may be made by the Board. These interim appointees are required to retire at the following AGM where they then offer themselves for re-election by shareholders. In addition, one -third of Non-Executive Directors are required to retire at each AGM and may offer themselves for re-election.

If supported by the Board, the Board then proposes their re-election to shareholders.

There is no limitation on the number of times a Non-Executive Director may stand for re-election. Proposals for re-election are based on individual performance and contribution.

Fees

Non-Executive Directors receive a fee for their service on the Board and a meeting attendance fee for Board Committee meetings. Fees are paid quarterly in arrears.

There are no contractual arrangements for compensation for loss of office. Non-Executive Directors do not receive short-term incentives, nor do they participate in any long term incentives schemes. The Board Human Capital Committee reviews the fees paid to Non-Executive Directors annually and makes recommendations to the Board for consideration.

In determining the remuneration of the Non-Executive Directors, the Board considers the extent and nature of their responsibilities, and reviews of comparative remuneration offered by other major Ugandan and International Banks.

The table below shows the breakdown of Directors' Emoluments for the year ended 2017.

Category	Services as Directors	Board Committee Fees	Cash Portion Of package	Performance Incentives *	Other Benefits	Pension Contributions	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Executive Directors	-	-	2,317,269	1,764,589	3,757,636	612,279	8,451,773
Non-Executive Directors	354,822	149,743	-	-	-	-	478,075
Former Non-Executive Directors	21,259	6,222	-	-	-	-	27,861
Total	**376,081**	**129,855**	**2,317,269**	**1,764,589**	**3,757,636**	**612,279**	**8,957,709**

The table below shows the breakdown of directors' emoluments for the year ended 2016

Executive Directors	-	-	2,168,500	1,245,938	1,995,520	512,166	5,922,124
Non-Executive Directors	302,495	149,743	-	-	-	-	452,238
Former Non-Executive Directors	40,493	6,222	-	-	-	-	46,715
Total	**342,988**	**155,965**	**2,168,500**	**1,245,938**	**1,995,520**	**512,166**	**6,421,077**

Performance-related pay is aligned to the financial year. Performance is assessed at the end of the year and paid in the following year. The amounts herein are performance awards paid in the current year but relate to performance in the prior year.

REPORT OF THE AUDIT COMMITTEE

This report is provided by the Audit Committee in respect of the 2017 financial year of Stanbic Bank Uganda Limited. The Committee's operation is guided by a detailed mandate that is informed by the Companies Act 2012, the Financial Institutions Act (2004 as amended) and is approved by the Board.

The Committee is appointed by the Board annually. Information on the membership and composition of the Audit Committee, its terms of reference and its activities is provided in greater detail in the corporate governance statement.

Execution of functions

The Audit Committee has executed its duties and responsibilities during the financial year in accordance with its mandate as it relates to the Stanbic Bank accounting, internal auditing, internal control and financial reporting practices.

During the year under review, the committee, among other matters, considered the following:

In respect of the external auditors and the external audit:

- Recommended to the Board for an approval of the appointment of KPMG Certified Public Accountants Uganda, as external auditors for the financial year ended 31 December, 2017, in accordance with all applicable legal requirements
- Approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable
- Reviewed the audit process and evaluated the effectiveness of the audits
- Obtained assurance from the external auditors that their independence was not impaired
- Considered the nature and extent of all non-audit services provided by the external auditors
- Through the Chairman, approved proposed contracts with the external auditors for the provision of non-audit services and pre-approved proposed contracts with the external auditors for the provision of non-audit services above an agreed threshold amount
- Confirmed that no reportable irregularities were identified and reported by the external auditors.

In respect of the financial statements:

- Confirmed the going concern principle as the basis of preparation of the annual financial statements
- Examined and reviewed the interim and annual financial statements prior to submission and approval by the Board
- Reviewed reports on the adequacy of the provisions for performing and non- performing loans and impairment of other assets, and the formulae applied by the Bank in determining charges for and levels of impairment of performing loans
- Ensured that the annual financial statements fairly present the financial position of the Bank, as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the Bank determined to be a going concern
- Ensured that the annual financial statements conform with IFRS
- Considered accounting treatments, significant unusual transactions and accounting judgements
- Considered the appropriateness of the accounting policies adopted and changes thereto
- Reviewed and discussed the external auditors' audit report
- Considered and made recommendations to the Board on the interim and final dividend payments to the shareholder
- Noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of the annual financialstatements, internal controls and related matters.

In respect of the annual report:

- Recommended the annual report to the Board for approval
- Evaluated management's judgments and reporting decisions in relation to the annual report and ensured that all material disclosures are included
- Reviewed forward-looking statements, financial and sustainability information in respect of internal control, internal audit and financial crime control
- Reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter
- Considered reports of the internal and external auditors on the group's systems of internal control, including internal financial controls and maintenance of effective internal control systems
- Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings
- Noted that there were no significant differences of opinion between the internal audit function and management
- Assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory
- Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof
- Based on the above, the committee formed the opinion that, at the date of this report, there were no material

  Breakdowns in internal control, including internal financial controls, resulting in any material loss to the group
- Reviewed and approved the mandate of financial crime as an independent risk function
- Discussed significant financial crime matters and control weaknesses identified
- Reviewed any significant legal and tax matters that could have a material impact on the financial statements
- Considered quarterly reports from the group and company's internal financial controls committee

- Considered the independent assessment of the effectiveness of the internal audit function
- In respect of legal, regulatory and compliance requirements
- Reviewed, with management, matters that could have a material impact on the Bank
- Monitored compliance with the Ugandan Companies Act, the Financial Institutions Act, all other applicable legislation and governance codes and reviewed reports from internal audit, external auditors and compliance detailing the extent of this
- Noted that no complaints were received through the Banks's Ethics and Fraud Hotline concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters
- Reviewed and approved the annual compliance mandate and compliance plan.In respect of risk management and it:
- Considered and reviewed reports from management on risk management, including fraud and its risks as they pertain to financial reporting and the growing concern assessment

In respect of the coordination of assurance activities, the committee:

- Reviewed the plans and work outputs of the external and internal auditors as well as compliance and financial crime control, and concluded that these were adequate to address all significant financial risks facing the business
- Considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate
- Considered the appropriateness of the experience and expertise of the Group Financial Director and concluded

Independence of the external auditors

The Audit Committee is satisfied that KPMG Certified Public Accountants. are independent of the Bank. This conclusion was arrived at, inter alia, after taking into account the following factors:

- The representations made by KPMG Certified Public Accountants Uganda to the Audit Committee
- The auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the Bank
- The auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors
- The auditors' independence was not prejudiced as a result of any previous appointment as auditor
- The criteria specified for independence by the independent regulatory.

Board for Auditors and international regulatory bodies were met.

In conclusion, the Audit Committee has complied with its legal, regulatory and governance responsibilities as set out in its mandate.

On behalf of the Audit Committee
Chairman, Audit Committee
26 March 2018

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December, 2017, which disclose the state of affairs of Stanbic Bank Uganda Limited ("the Bank").

Principal activities

The Bank is a licensed financial institution under the Financial Institutions Act and is a member of the Uganda Bankers Association.

The Bank is engaged in the business of commercial banking and the provision of related banking services. The Bank is also among the six primary dealers selected by the Bank of Uganda to deal in Government of Uganda securities.

Results

The Bank's results for the year ended 31 December, 2017 are shown in the income statement on page 114 and an operating and financial review of the results for the year is given on pages 30.

A general review of the business is given by the Chairman and Chief Executive on pages 22-28.

Dividends

The Directors recommend the payment of final dividends of Ushs 90 bn for the year ended 31 December, 2017.

Share Capital

The total number of issued ordinary shares as at year end was 51,188,669,700 of Uganda Ushs 1 each.

Directors and Secretary

The Directors who held office during the year and to the date of this report were:

Japheth Katto - Chairman
S Zimbe - Non-Executive Director
B Mulwana - Non-Executive Director
R Emunu - Non-Executive Director
S Sejjaaka - Non-Executive Director
J Mangheni - Non-Executive Director
E Kavuma - Non Executive Director
C Tasker - Non Executive Director
G Brackenridge - Non Executive Director
P Mweheire - Chief Executive
C Okoboi - Secretary

Directors' interest in shares

At 31 December, 2017, the following Director has held a direct interest in the Bank's ordinary issued share capital as reflected in the table below:

Director	Number of Shares
P Mangheni	100,000
Total	100,000

Insurance

The Bank maintained Directors and officers' liability insurance during the year.

Events subsequent to balance sheet date

There is no material event that has occurred between the reporting date and the date of this report that would require adjustment to these financial statements.

Management by third parties

None of the business of the Bank has been managed by a third person or a company inwhich a director has had an interest during the year.

By order of the Board

Candy Okoboi
Secretary, Board of Directors
26 March, 2018

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation and fair presentation of the financial statements of Stanbic Bank Uganda Limited set out on pages 114-119 which comprise the statement of financial position as at 31 December 2017, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the Companies Act of Uganda and the Financial Institutions Act, 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.

The Directors' responsibilities include; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. They are also responsible for the safeguarding the assets of the Company.

Under the Companies Act of Uganda, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the operating results of the Company for that year. It also requires the Directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards, and the reporting requirements of the Financial Institutions Act and the Companies Act of Uganda. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results for the year ended 31 December, 2017.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements as well as adequate systems of internal financial control.

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

Approval of the financial statements

The financial statements of Stanbic Bank Uganda Limited, were approved by the Board of Directors on 26 March, 2018 and were signed on its behalf by:

Chairman	Chief Executive
26 March, 2018	26 March, 2018

KPMG

INDEPENDENT AUDITORS' REPORT

To the members of Stanbic Bank Uganda Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Stanbic Bank Uganda Limited ("the Bank") set out on pages 114-165 which comprise the statement of financial position as at 31 December 2017, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of Stanbic Bank Uganda Limited as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act of Uganda and the Financial Institutions Act, 2004 (as amended 2016).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Uganda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements taken as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matter	**How the matter was addressed in our audit**
Impairment of loans and advances to customers Refer to notes 2(i) and 3(c) to the financial statements.	
Impairment represents the Directors' best estimate of the non recoverable portion of Loans and Advances. Impairment is calculated on an individual and collective basis on non-performing and performing loans respectively. The Bank uses financial models developed by experts to determine the individual and collective impairment for loans and advances. The models are complex and require high levels of judgment in determining key inputs which mainly include; - Probability of default; - Exposure at default; - Emergence period; - Roll rates; and - Loss given default. Because of the significance of these judgements on the loan impairment balance and the amount of loans and advances in the financial statements, the impairment of loans and advances was considered a key audit matter.	Our audit procedures in this area included, among others: For both individual and collective portfolios: • Obtaining an understanding of the credit impairment process and testing the design and operating effectiveness of the key controls. These included testing: - System-based and manual controls over the timely recognition of impaired loans and advances; - Controls over the impairment calculation models including data inputs; and - Controls over collateral valuation estimates. • Assessing whether the financial statement disclosures appropriately reflect the Bank's exposure to credit risk. For individual portfolios: • Testing a sample of loans and advances including those that had not been identified by management as potentially impaired to determine whether impairment events had occurred and to assess whether impairment had been identified in a timely manner. • Evaluating whether all loans were considered for individual impairment. • Challenging management's assumptions on projected cash flows when assessing individual impairment by evaluating the assumptions against current economic performance, assumptions most commonly used in the Banking industry, and also comparison with external evidence and historical financial trends; For collective portfolios: • Evaluating work done by credit risk modelling experts to determine the appropriateness of the assumptions and financial models used in arriving at the collective impairment; and • Assessing the experts' competence and their professional qualifications, experience, and independence.

To the members of Stanbic Bank Uganda Limited (continued)

Report on the audit of the financial statements (continued)

Key audit matter	How the matter was addressed in our audit
Fair value measurement of financial instruments Refer to note 3(g) – 3(h) and 4(c) to the financial statements	
The Bank has Ushs 941 ,980,178,000 of its financial instruments held at fair value and qualifying under level 2 and 3 of the fair value hierarchy. The levels 2 and 3 require the Directors to determine the fair value of the qualifying financial instruments which is based on complex and significant judgement around fair value methodologies. These fair value calculations are dependent on various sources of data inside and outside the Bank and complex modelling techniques. The valuation of the Bank's financial instruments was determined to be a key audit matter due to the degree of complexity involved in determining fair value for level 2 and level 3 financial instruments and the significance of the judgments and estimates made by the Directors.	Our audit procedures in this area included among others; • Testing the design and operating effectiveness of the key controls in the Bank's financial instrument valuation processes including the controls over data inputs into valuation models and the controls over testing and approval of new models or changes to existing models. • Assessing the effectiveness of the general IT controls on the fair valuation models • Testing a sample of financial instruments using independent models and source data from reputable independent third parties and comparing the results to the Bank's valuations. • Checking the accuracy of inputs into the model against the source data.

Key audit matter	How the matter was addressed in our audit
Transfer pricing on related party transactions Refer to note 38 in the financial statements	
In the normal course of business, the Bank incurs expenses with related parties mainly arising from, recharges by the parent company in South Africa. These expenses are reported under operating expenses in the financial statements. The tax treatment of these expenses is subject to transfer pricing rules issued by Uganda Revenue Authority (URA). Under these rules the Bank is required to maintain documents of sufficient quality so as to accurately and completely describe the transfer pricing analysis conducted and efforts to comply with the arm's length principle. Also among other requirements is the need for the Bank to document assumptions and information regarding factors that influenced the setting of prices or the establishment of policies with the related party. The Bank is also required to demonstrate comparability for similar services and goods received. These rules are complex and there is a high level of judgment in determining an appropriate amount for these related services which are recognised in the financial statements. The amounts arrived at may also be challenged by the tax authority. Due to the complexity and judgement involved, transfer pricing on these related party transactions was considered a key audit matter.	Our audit procedures in this area included, among others; • Obtaining an understanding of the process followed by the Directors in determining the appropriate tax treatment of related party expenses. • On a sample basis, recomputing and assessing the reasonableness of the recharges relating to expenses against the principles agreed between the Bank and its parent. • Using our tax specialists to assist us in assessing whether a transfer pricing report prepared by the Bank's external tax experts is consistent with the URA transfer pricing regulations. The report also assessed the methodology applied in arriving at the recharges for consistency with the Organisation for Economic Co-operation and Development (OECD) guidelines.

Key audit matter	How the matter was addressed in our audit
IT Systems and Controls	
The Bank's financial accounting and reporting systems are heavily dependent on complex systems. Significant reliance on IT systems presents a significant risk to the bank as the core banking system is considered complex due to the multiple significant functionalities and interdependence with other systems. The calculations, recording and financial reporting of transactions and balances recorded in the financial statements is highly dependent on IT automated system and processes. The possible financial implications of errors or fraud on the financial statements either directly or indirectly will usually be significant.	Our audit procedures in this area included, among others: • General IT controls: we tested the governance and other higher controls operating over the information technology environment across the company, including system access and system change management, program development and computer operations. • Application controls: we tested the design and operating effectiveness of automated controls critical to financial reporting. For any identified deficiencies, we tested the design and effectiveness of compensating controls and, where necessary, extended the scope of our substantive audit procedures. • We considered the appropriateness of the access rights granted to applications relevant to financial accounting and reporting systems and the operating effectiveness of controls over granting, removal and appropriateness of access rights. • Where we identify the need to perform additional procedures, we place reliance on manual compensating controls, such as reconciliations between systems and other information sources or performing additional testing such as extending the size of our sample to obtain sufficient appropriated audit evidence over balances impacted.

KPMG

To the members of Stanbic Bank Uganda Limited (continued)

Report on the audit of the financial statements (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the Companies Act of Uganda and the Financial Institutions Act, 2004 (as amended 2016), 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.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial statements of the Bank to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

We communicate with Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

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

ii. In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and

iii. The Bank's statements of financial position, income statement and comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Benson Ndung'u - P0116.

KPMG

Certified Public Accountants
3rd Floor, Rwenzori courts
Plot 2 & 4A, Nakasero Road
P O Box 3509
Kampala, Uganda
Date: 27 March 2018

FINANCIAL STATEMENTS AND NOTES

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Ushs' 000	2016 Ushs' 000
Interest income	6	**403 527 401**	423 855 935
Interest expense	7	**(50 780 273)**	(47 500 475)
Net interest income		**352 747 128**	376 355 460
Fee and commission income	8	**135 830 032**	116 447 582
Fee and commission expenses	8	**(4 583 746)**	(1 814 906)
Net fees and commission income		**131 246 286**	114 632 676
Net trading income	9	**144 964 170**	151 834 914
Other operating income	10	**7 047 223**	623 578
Total income before credit impairement charge		**636 004 807**	643 446 628
Impairment charge for credit losses	11	**(28 922 014)**	(36 640 522)
Total income after credit impairement charge		**607 082 793**	606 806 106
Employee benefit expenses	12	**(141 491 545)**	(136 769 846)
Depreciation and amortisation	24 & 25	**(26 311 737)**	(22 714 254)
Other operating expenses	13	**(173 613 553)**	(193 373 385)
Profit before income tax		**265 665 958**	253 948 621
Income tax expense	14	**(65 198 169)**	(62 796 786)
Profit for the year		**200 467 789**	191 151 835
Earnings per share for profit attributable to the equity holders of the Bank during the year (expressed In Ushs per share):			
Basic & diluted	15	**3.92**	3.73

The notes set out on pages 120 to 165 form an intergral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Ushs' 000	2016 Ushs' 000
Profit for the year		**200 467 789**	191 151 835
Other comprehensive income for the year after tax:			
Items that are or may be reclassified to profit or loss			
Net gains on available for sale financial assets	27	**16 717 213**	19 009 663
Total comprehensive income for the year		**217 185 002**	210 161 498

The notes set out on pages 120 to 165 form an intergral part of these financial statements.

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Ushs' 000	2016 Ushs' 000
Assets			
Cash & balances with Bank of Uganda	16	**856 532 804**	709 350 387
Derivative assets	29	**12 117 502**	10 066 617
Government securities - held for trading	17	**392 911 207**	250 484 271
Government securities - available for sale	17	**516 269 586**	640 941 821
Other investment	20	**71 906**	62 930
Current income tax recoverable	14	**23 748 226**	12 496 197
Loans and advances to banks	18	**1 100 636 288**	758 656 662
Amounts due from group companies	38	**177 449 478**	36 147 113
Loans and advances to customers	19	**2 133 986 423**	1 976 748 072
Other assets	23	**47 493 184**	49 330 012
Property and equipment	25	**69 292 586**	63 318 002
Goodwill and other intangible assets	24	**71 909 841**	79 601 588
Prepaid operating leases	22	**88 322**	98 660
Deferred tax asset	21	**1 651 991**	1 307 349
Total assets		**5 404 159 344**	4 588 609 681
Shareholders' equity and liabilities			
Shareholders' equity			
Ordinary share capital	26	**51 188 670**	51 188 670
Available for sale revaluation reserve	27	**19 788 336**	3 071 123
Statutory credit risk reserve	28	**19 171 113**	22 893 968
Retained earnings		**692 131 502**	577 788 232
Proposed dividend	35	**90 000 000**	60 000 000
		872 279 621	714 941 993
Liabilities			
Derivative liabilities	29	**4 211 626**	592 135
Deposits from customers	30	**3 620 945 573**	3 058 504 763
Deposits from banks	31	**342 769 174**	293 726 727
Amounts due to group companies	38	**266 614 006**	242 805 246
Borrowed funds	32	**16 364 653**	11 579 364
Subordinated debt	34	**72 801 196**	72 137 386
Other liabilities	33	**208 173 495**	194 322 067
Total liabilities		**4 531 879 723**	3 873 667 688
Total equity and liabilities		**5 404 159 344**	4 588 609 681

The financial statements on pages 114-165 were approved for issue by the Board of Directors on 26 March, 2018 and signed on its behalf by:

Chairman

Chief Executive

Director

Company Secretary

The notes set out on pages 120 to 165 form an intergral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital Ushs' 000	Available for sale revaluation reserve Ushs' 000	Statutory Credit Risk Reserve Ushs' 000	Proposed dividends Ushs' 000	Retained earnings Ushs' 000	Total Ushs' 000
At 1 January 2017		**51 188 670**	**3 071 123**	**22 893 968**	**60 000 000**	**577 788 232**	**714 941 993**
Profit for the year						200 467 789	200 467 789
Net loss / gain in available for sale revaluation reserve	27	-	16 717 213	-	-	-	16 717 213
Total comprehensive income for the period		**-**	**16 717 213**	**-**	**-**	**200 467 789**	**217 185 002**
Transactions with owners recorded directly in equity							
Dividend paid		-	-	-	(60 000 000)	-	(60 000 000)
Statutory credit risk reserve		-	-	(3 722 855)	-	3 722 855	-
Equity-settled share-based payment transactions		-	-	-	-	152 626	152 626
Proposed dividend	35	-	-	-	90 000 000	(90 000 000)	-
Balance at 31 December 2017		**51 188 670**	**19 788 336**	**19 171 113**	**90 000 000**	**692 131 502**	**872 279 621**

The notes set out on pages 120 to 165 form an intergral part of these financial statements.

	Notes	Share capital	Available for sale revaluation reserve	Statutory Credit Risk Reserve	Proposed dividends	Retained earnings	Total
		Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000
At 1 January 2016		51 188 670	(15 938 540)	19 901 192	40 000 000	449 606 422	544 757 744
Profit for the year						191 151 835	191 151 835
Net change in available for sale investments	28	-	19 009 663	-	-	-	19 009 663
Total comprehensive income for the period		-	19 009 663	-	-	191 151 835	210 161 498
Transactions with owners recorded directly in equity							
Dividend paid		-	-	-	(40 000 000)	-	(40 000 000)
Statutory credit risk reserve		-	-	2 992 776	-	(2 992 776)	-
Equity-settled share-based payment transactions		-	-	-	-	22 751	22 751
Proposed dividend	35	-	-	-	60 000 000	(60 000 000)	-
Balance at 31 December 2016		51 188 670	3 071 123	22 893 968	60 000 000	577 788 232	714 941 993

The notes set out on pages 120 to 165 form an intergral part of these financial statements.

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Ushs' 000	2016 Ushs' 000
Cash flows from operating activities			
Interest received		397 013 080	458 139 781
Interest paid		(50 366 037)	(48 273 398)
Net fees and commissions received		137 555 397	114 918 322
Net trading and other Income/recoveries		161 244 419	162 552 205
Cash payment to employees & suppliers		(345 757 785)	(351 673 270)
Cash flows from operating activities before changes in operating assets & Liabilities		299 689 074	335 663 640
Changes in operating assets & liabilities			
Income tax paid	14	(83 959 360)	(55 721 957)
Increase in derivative assets		(2 050 885)	(7 428 544)
Decrease in government securities - available for sale		81 767 514	87 705 289
Increase in government securities - trading		(142 426 936)	(72 674 554)
Increase in cash reserve requirement		(42 540 000)	(48 980 000)
Increase in loans and advances to customers		(188 677 753)	(140 476 308)
(Increase)/Decrease in other assets		(4 481 259)	29 103 910
Increase in customer deposits		562 026 574	620 856 821
Increase/(Decrease) in deposits and balances due to other banks		49 042 447	(71 483 187)
Increase in deposits from group companies		23 808 760	52 397 366
Increase/(Decrease) in derivative liabilities		3 619 491	(1 527 387)
Increase in other liabilities		44 667 079	62 510 735
Net cash from operating activities		600 484 746	789 945 824
Cash flows from investing activities			
Purchase of property & equipment	25	(25 130 425)	(30 390 727)
Purchase of computer software		-	(83 405 154)
Proceeds from sale of property & equipment		334 534	136 571
Net cash used in investing activities		(24 795 891)	(113 659 310)
Cash flows from financing activities			
Dividends paid to shareholders		(60 000 000)	(40 000 000)
Increase in borrowed funds		4 785 289	468 824
Increase in subordinated debt		663 810	48 397 300
Net cash (used in)/from financing activities		(54 550 901)	8 866 124
Net increase in cash and cash equivalents		521 137 954	685 152 638
Cash and cash equivalents at beginning of the year		1 619 578 977	934 426 339
Cash and cash equivalents at end of the year	37	2 140 716 931	1 619 578 977

The notes set out on pages 120 to 165 form an intergral part of these financial statements.

1. GENERAL INFORMATION

Stanbic Bank Uganda Limited provides personal, business, corporate and investment Banking services in Uganda. The Bank is a limited liability company and is incorporated and domiciled in Uganda. The address of its registered office is: Plot 17 Hannington Road Short Tower - Crested Towers, PO Box 7131, Kampala.

The Bank's shares are listed on the Uganda Securities Exchange (USE).

For Ugandan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the income statement in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

The annual financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies Act 2012 and the Financial Institutions Act. The financial statements are presented in the functional currency, Uganda Shillings (Ushs), rounded to the nearest thousand, and prepared under the historical cost convention except for assets and liabilities held for trading, financial instruments designated at fair value through profit or loss; liabilities for cash-settled share-based payment arrangements and available-for-sale financial assets that are measured at fair value.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The following principle accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- Purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using Trade Date Accounting (accounting policy (i));
- The portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy (i)).
- Intangible assets and property and equipment are accounted for using the cost model (accounting policy J and T).

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 4.

New and amended standards adopted by the Bank

Amendment to IAS 7 Statement of Cash Flow (The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted).

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities. Management has included the required disclosures in these financial statements at note 37.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendments applied for annual periods beginning on or after 1 January 2017.

The adoption of these changes did not have a significant impact on the financial statements of the company.

Standards and Interpretations issued but not yet effected

IAS 19 Employee Benefits–amendments (effective for periods beginning 1 January 2019 but earlier application permitted)

The amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an investor and its associate or joint venture (The effective date is yet to be confirmed).

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and have no impact on the Bank's financial statements.

IFRS 16 Leases(effective for annual periods beginning on or after 1 January 2019).

This standard will replace the existing standard IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a Right Of Use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17.

In addition, the standard requires lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

IFRS 15 Revenue from Contracts with Customers (applicable beginning on or after 1 January 2018)

This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The standard incorporates a five step analysis to determine the amount and timing of revenue recognition.

The standard will be applied retrospectively. The standard does not apply to revenue associated with financial instruments, and therefore does not impact majority of the Bank's revenue. The Bank has identified and reviewed the contracts with customers that are within the scope of this standard which indicate that IFRS 15 will not materially impact the Bank on transition.

Financial Instruments IFRS 9 (effective annual periods beginning on or after 1 January 2018).

Background

IFRS 9 Financial Instruments (IFRS 9) will replace the existing standard dealing with the accounting treatment for financial instruments IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) from 1 January 2018.

IFRS 9 consists of the following key areas which represent changes from that of IAS 39:

- Revised requirements for the classification and measurement of financial assets and consequential changes in the classification and measurement of financial liabilities, mainly relating to the recognition of changes in fair value due to changes in own credit risk on fair value designated financial liabilities in OCI as opposed to the income statement;
- An expected credit loss (ECL) impairment model, and;
- Revised requirements and simplifications for hedge accounting

IFRS 9 is required to be adopted retrospectively from 1 January 2018, with the exception of IFRS 9's hedge accounting requirements where the standard permits an entity to choose as its accounting policy to continue to apply IAS 39 hedge accounting requirements instead of the requirements in Chapter 6 of IFRS 9.

IFRS 9 adoption implies that the Bank will be required to increase its provisions on adoption of IFRS 9 via a day one impact. IFRS 9 allows two approaches for recognizing this day one impact;

Option 1 Processing an entry through retained earnings – The net difference between IAS 39 provisions and IFRS 9 Provisions to be adjusted through retained earnings on 1st January 2018.

Option 2 Restating the prior period financial statements- The 2017 financial statements to be restated by incorporating the IFRS 9 provision under loan provision balances in the balance sheet and credit impairments in the profit and loss statement

The difference in presentation of financial statements of the Bank based on the two different options above is significant and comparability complexity is heightened were option 2 is chosen. Stanbic Bank Uganda has elected to adopt the standard using option 1. Accordingly, the difference between the previous IAS 39 and the new IFRS 9 carrying value will be recognised in the Bank's opening retained earnings as at 1st January 2018.

Project governance

The Bank structured its IFRS 9 implementation project in such a way as to effectively enable the delivery of the IFRS 9 requirements across the Bank. The IFRS 9 implementation project team provides direction to the project, monitors the project's progress, and identifies required interventions and project interdependencies with other Bank initiatives. In addition, an overall project steering committee was established.

In order to ensure appropriate board oversight, the IFRS 9 project team reports on its activities, status and outcomes to the Banks Audit Committee (BAC).

The Bank's IFRS 9 implementation project included a September 2017 hard close process (hard close) which was used to asses the Bank's readiness for the transition to IFRS 9. The results of the hard close were reviewed by external audit to assist management in determining the Bank's readiness and the results and findings were communicated to both the BAC and the Bank's Board.

The cost incurred on review of IFRS 9 by external auditors was Ushs 135 million.

Challenges faced in Implementing IFRS 9

- Lack of a uniform industry position on significant areas including transition approach, tax, regulator interpretations on Capital among others.
- The process involves a high level of estimates and assumptions in arriving at forward looking requirements in computing the expected credit loss.

IFRS 9 requirements

The following is a summary of IFRS 9's key requirements and the estimated impact on the Bank:

Classification of financial assets and liabilities

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics.

The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI.

All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised in OCI with no subsequent recognition in the income statement.

Expected credit loss (ECL) impairment model

IFRS 9's ECL impairment model's requirements will represent the most material IFRS 9 impact.

The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected loss model which will require entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The ECL model will apply to financial assets measured at either amortised cost or at fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss).

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is recognised for a financial asset where the credit risk of that financial asset increased significantly since initial recognition (unless the financial asset is exposed to a low level of credit risk) as well as for certain contract assets and trade receivables or where the exposure is classified as in default. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses.

Significant increase in credit risk or low credit risk

The assessment of significant increase in credit risk for the Bank's PBB exposures will be based on changes in a customer's credit score and for the Bank's CIB exposures on changes in internal credit ratings, together with the expected outlook for the specific sector and industry and other relevant available information. For both the Bank's PBB and CIB exposures, the determination will be set to identify significant deterioration in credit risk before the exposure reaches a past due status of 30 days. Exposures for which there is a significant increase in credit risk but for which the credit risk is low remain in stage one. Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions are unlikely to reduce the exposure's ability to fulfil its contractual obligations.

Forward-looking information

In determining whether there has been a significant increase in credit risk and in determining the expected credit loss calculation, IFRS 9 requires the consideration of forward-looking information. The determination of significant increase in credit risk is required to include consideration of all reasonable and supportable information available without undue cost or effort. This information will typically include forward-looking information based on expected macro-economic conditions and specific factors that are expected to impact individual portfolios.

The incorporation of forward-looking information represents a significant change from existing accounting requirements which are based on observable events. The use of such forward-looking information will increase the use of management judgement and is expected to increase the volatility of impairment provisions as a result of continuous changes in future expectations. The forward-looking framework will be based on the Bank's economic expectations, industry and sub-sector-specific expectations, as well as expert management judgement.

Default

While default is not specifically defined by IFRS 9, the Bank has aligned the determination of default with its existing internal credit risk management definitions and approaches. Default is determined as occurring at the earlier of:

- when either, based on objective evidence, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

In some cases, additional specific criteria are set according to the nature of the lending product.

Impact on reserves

The IFRS 9's requirements noted above are expected to reduce the Banks's reserves as at 1 January 2018 by approximately Ushs 25.1 billion (see Note 40). This adjustment mainly arises from IFRS 9's ECL requirements.

The following table details the key drivers of this estimated range:

IFRS 9 ECL Driver	Reason
Stage one (12-month expected loss)	PBB's existing emergence period is between three to six months and for CIB exposure is 12 months. The change to a 12 month expected loss requirement for exposures will hence result in an increase in impairments for PBB.
Stage two (lifetime expected loss for items for which there is a significant increase in credit risk)	IFRS 9 will require a lifetime loss to be recognised for items for which there has been a significant increase in credit risk. This requirement will affect both PBB and CIB's credit impairments.
Stage three (lifetime expected loss for credit impaired exposures)	Whilst IFRS 9 contains similar requirements to that of existing accounting requirements, an increase in impairment provisions will be recognised as a result of the requirement to include the probability of multiple lifetime defaults.
Off-balance sheet exposures	The IFRS 9 requirement for impairments for off-balance sheet facilities results in the requirement for additional credit impairments for both PBB and CIB.
Forward-looking information	The inclusion of forward-looking economic information could increase the level of provisions as a result of the possible consequence of deteriorating economic conditions.

Hedge accounting

The revised general hedge accounting requirements are better aligned with an entity's risk management activities and provide both additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting. The Bank's date of adoption of the IFRS 9 revised hedge accounting requirements will be based on further IFRS developments with respect to the IASB's macro hedge accounting project or on the Bank deeming it opportune to adopt the revised requirements. The Bank has elected to continue with IAS 39's hedge accounting requirements, but will implement IFRS 9's revised hedge accounting disclosures.

Tax implication

The Adoption of IFRS 9 will result in an increase in the deferred tax asset carrying value of approximately Ushs 10.7 billion for the Bank. Refer to Note 40 for additional disclosures and analysis of the impact of IFRS 9 on the financial statements of the Bank.

Share-based Payment IFRS 2 (amendment) effective for annual periods beginning on or after 1 January 2018.

The amendments are intended to eliminate diversity in practice in three main areas of the classification and measurement of share based payment transactions. These include;

- The effects of vesting conditions on the measurement of a cash-settled share based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments will be applied prospectively. The impact on the annual financial statements has not yet been fully determined.

Foreign Currency Transactions and Advance Consideration IFRIC 22 effective for annual periods beginning on or after 1 January 2018

The IFRIC provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The IFRIC will be applied retrospectively or prospectively. The impact on the annual financial statements has not yet been fully determined but is not expected to have a significant impact on the Bank.

Annual Improvements 2015 – 2017 cycle Various effective dates, the earliest being for the Bank's 2018 financial year.

The IASB has issued various amendments and clarifications to existing IFRS.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would have a material impact on the financial statements of the Bank.

(b) Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method for all interest bearing financial instruments, except for those classified at fair value through profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and expense presented in the income statement include interest on financial assets and financial liabilities measured at amortised cost.

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the original effective interest rate that is used to discount future cash flows for the purpose of measuring the recoverable amount.

Fair value gains and losses on realised debt financial instruments, including amounts reclassified from OCI in respect of available- for-sale debt financial assets, and excluding those classified as held-for-trading, are included in net interest income

(c) Net fees and commission

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period.

Loan syndication fees, where the Bank does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised to the income statement as interest income. The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expenses, included in net fee and commission revenue, are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

(d) Net trading revenue

Net trading revenue comprises gains or losses related to trading assets and liabilities, and include all realised and unrealised fair value changes, interest and foreign exchange differences.

(e) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of other operating income based on the underlying classification of the equity investment.

(f) Segment reporting

An operating segment is a distinguishable component of the Bank engaged in providing products or services that are subject to risks and returns that are different from those of other business segments and whose operating results are reviewed to assess its performance and for which discrete financial information is available. The Bank's primary business segmentation is based on the Bank's internal reporting about components of the Bank as regularly reviewed by the Board and executive management committees. Segments results include items directly attributable to a segment as well as those that are allocated on a reasonable basis. Business segments are the only segments presented since the Bank operates in a single geographical segment, Uganda.

In accordance with IFRS 8, the Bank has the following business segments: Personal and Business Banking, Corporate and Investment Banking and Treasury and Capital Management The Transactions between segments are priced at market related rates.

(g) Foreign currency translation

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates Uganda Ushs ("the functional currency"). The financial statements are presented in Uganda Ushs (Ushs) and figures are stated in thousands of Ushs unless otherwise stated.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non- monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognised in profit or loss, and other changes in the carrying amount, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non- monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

(h) Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables and available-for-sale financial assets and liabilities. Management determines the appropriate classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so classifying eliminates or significantly reduces a measurement inconsistency. Derivatives are also categorised as held for trading.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) Those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss

(c) Those that the entity upon initial recognition designates as available for sale

(d) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value plus transaction cost and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the statement of financial position as loans and advances to Banks or customers. Interest on loans is included in the income statement and is reported as 'Interest income'.

In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as 'Impairment charge for credit losses'.

(iv) Available-for-sale

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or those that are non-derivative financial assets that are not classified under any of the categories (i) to (iii) above.

Purchases and sales of financial assets at fair value through profit or loss, held- to-maturity and available-for-sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument.

A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

Financial assets that may be sold or repledged by the Bank's counterparty in the absence of default by the Bank would be represented in the statement of financial position as pledged assets.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

(vi) offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(i) Impairment of financial assets

(i) Assets carried at amortised cost

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "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 be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal repayments;
- The Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter Bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - Adverse changes in the payment status of borrowers in the group.
  - National or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. 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 income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statements.

In addition to the measurement of impairment losses on loans and advances in accordance with the International Financial Reporting Standards as set out above, the Bank is also required by the Financial Institutions Act (FIA) 2004 to establish minimum provisions for losses on loans and advances as follows:

i) A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Bank of Uganda, as;

   a) Substandard assets being facilities in arrears between 90 and 179 days – 20%.

   b) Doubtful assets being facilities in arrears between 180 days and 364 days – 50%.

   c) Loss assets being facilities in arrears between over 364 days – 100%.

ii) A general provision of at least 1% of their total outstanding credit facilities net of specific provisions and interest in suspense.

Where provisions for impairment of loans and advances determined in accordance with the Financial Institutions Act 2004 exceed amounts determined in accordance with International Financial Reporting Standards, the excess is taken to the statutory credit risk reserve as an appropriation of retained earnings. Otherwise, no further accounting entries are made.

(i) Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised is redetermined based on the loan's renegotiated terms.

(ii) Assets carried at fair value

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the statement of financial position date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. Where an available-for-sale asset, which has been re-measured to fair value directly through equity, is impaired, the impairment loss is recognised in the income statement. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to the income statement and is recognised as part of the impairment loss. The amount of the loss recognised in the income statement is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement. This is applicable to debt instruments only as for equity instruments the revisal is through OCI

Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from Banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortized cost.

(j) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably.

The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

Leasehold buildings	over the shorter period of lease or 50 years
Furniture and fittings	5 years
Motor vehicles	5 years
Other computer equipment	5 years
Laptops and personal computers	4 years
Office equipment	8 years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(k) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (Cash – generating units). Prior impairments of non- financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

(l) Income tax

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and deferred income tax. Current tax is determined for current period transactions and events and deferred tax is determined for future tax consequences.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act. The rates used are based on laws enacted or substantially enacted at the reporting date.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised or for items recognised in OCI and Equity.

Deferred tax is recognised in income tax expense except to the extent that it relates to a business combination (relating to a measurement, period adjustment where the carrying amount of the good will is greater than zero).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using tax rates currently enacted.

(m) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central Banks, treasury bills and other eligible bills, loans and advances to Banks, amounts due from other Banks and government securities.

(n) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Leases where the lessee assumes substantially all the risks and rewards incidental to ownership are classified as finance leases.

(i) With the Bank as lessee

To date, all leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) With the Bank as lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised under loans and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before income tax), which reflects a constant periodic rate of return.

(o) Employee benefits

(i) Retirement benefit obligations

The Bank operates a defined contribution pension scheme for its employees. The defined contribution plan is a pension plan under which the Bank pays fixed contributions into a fund managed by a board of trustees and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

In addition all employees are obliged to be members of the National Social Security Fund, a state managed defined contribution pension scheme. The Bank contributes to the scheme in line with the requirements of the National Social Security Fund Act. and adjusted against p/l and equity over.

The regular contributions by the Bank and employees constitute net periodic costs for the year in which they are due and as such are included in employee benefit expenses.

The Bank's contributions to the defined contribution schemes are charged to the income statement in the year to which they relate.

(ii) Short term benefits

Short term benefits consist of salaries, accumulated leave payments, bonuses and any non-monetary benefits such as medical aid contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expenses as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus plans or accumulated leave if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Bank is committed without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be reliably estimated. A liability is recognised tothe best estimate of the amount to settle the obligation

(iv) Share based payment transactions

The grant date fair value of equity-settled share-based payment awards (i.e.stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. The estimate of the number of options/shares expected to vest is reassess the remaining vesting period. Also include the accounting treatment upon vesting and settlement of shares/options.

(v) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(p) Derivative financial instruments

Derivatives, which comprise forward foreign exchange contracts and swaps, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the statement of financial position date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the net trading income.

(q) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(r) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability is included under deposits from Banks and deposits from customers.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other Banks or customers, as appropriate.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financials.

(s) Contingent liabilities

Contingent liabilities include certain guarantees (other than financial guarantees) and letters of credit and are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are considered remote.

(t) Intangible assets

Goodwill

Goodwill arises on business combinations and represents the excess of the consideration transferred over the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non – controlling interest in the acquiree.

Goodwill on acquisitions is reported in the statement of financial position as an intangible asset.

At each statement of financial position date the Bank assesses whether there is any indication of impairment. If such indications exist, The goodwill is first allocated to a cash generating unit (CGU) once an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable.

A write down is made if the carrying amount exceeds the recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of other assets in the CGU on a pro rata basis.

Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use.
- management intends to complete the software product and use or sell it.
- there is an ability to use or sell the software product.
- it can be demonstrated how the software product will generate probable future economic benefits.
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed fifteen years.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised on the basis of the expected useful lives.

(u) Provisions

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

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees.

A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the statement of financial position date.

(v) Share capital

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Ordinary shares are classified as equity.

Dividends on ordinary shares

Dividends on ordinary shares are charged to equity in the period in which they are declared. Dividends declared after the statement of financial position date are disclosed in the dividend note. This is transfered from retained earnings to a separate item of equity.

Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(x) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to other Banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial investment, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date.

(w) Equity compensation plans

The parent company operates two equity settled share based compensation plans through which certain key management staffs of the Bank are compensated. The fair value of equity settled share options is determined on the grant date and accounted for as an employee service expense over the vesting period of the share options. At each Statement of financial position date the estimate of the number of options expected to vest is reassessed and adjusted against income over the remaining vesting period.

3. FINANCIAL RISK MANAGEMENT

3(a) Strategy in using financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. Risk management is carried out centrally under policies approved by the Board of Directors. The Global Markets team identifies, evaluates and hedges financial risks in close co- operation with the Bank's operating units.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-statement of financial position loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in bonds, currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(b) Capital management

The Bank's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position, are:

- To comply with the capital requirements of the regulator, Bank of Uganda, that are enshrined in the Financial Institutions Act and accompanying Financial Institutions (Capital Adequacy) Regulations, 2005.
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank monitors the adequacy of its capital using capital adequacy ratios established under the Financial Institutions Act, which ratios are broadly in line with those for the Bank for International Settlements (BIS). In addition under the same law, the Bank is required to maintain minimum paid up capital of Ushs 25 bn. The Bank is compliant with this requirement with a holding of Ushs 51 bn. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, off-balance- sheet commitments at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied. Certain asset categories have intermediate weightings. The Bank is required at all times to maintain a core capital (tier 1) of not less than 8% of total risk adjusted assets plus risk adjusted items off the statement of financial position and a total capital (tier 1 + tier 2) of not less than 12% of its total risk adjusted assets plus risk adjusted items off the statement of financial position.

Off-balance-sheet credit related commitments and forwards are taken into account by applying different categories of credit conversion factors, designed to convert these items into statement of financial position equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets.

Tier 1 capital consists of shareholders' equity comprising paid up share capital, share premium and retained earnings less intangible assets, deferred income tax asset and investments in financial companies, not consolidated. Tier 2 capital includes the Bank's eligible long-term loans, and general provisions. Tier 2 capital is limited to 50% of Tier 1 capital.

Capital management continued

The table below summarises a composition of the regulatory capital

	2017 Ushs' 000	2016 Ushs' 000
Core capital (Tier 1)		
Shareholders' equity	51 188 670	51 188 670
Retained earnings	692 131 502	577 788 232
Less: Deductions determined by Bank of Uganda	(85 428 382)	(84 668 113)
Total core capital	**657 891 790**	**544 308 789**
Supplementary capital (Tier 2)		
Unencumbered general provisions for losses	**35 178 066**	30 181 079
Subordinated term debt	**72 801 196**	72 137 386
Total supplementary capital	**107 979 262**	102 318 465
Total capital (core and supplementary)	**765 871 052**	646 627 254

Break down of deductions determined by the Financial Institutions Act

	2017 Ushs' 000	2016 Ushs' 000
Goodwill and other intangible assets	**71 909 841**	79 601 588
Unrealised Gains on securities	**11 866 550**	3 759 176
Deferred tax asset	**1 651 991**	1 307 349
	85 428 382	84 668 113

The Bank's capital adequacy level was as follows:

	Financial position nominal balance		Risk weighted balance	
	2017 Ushs' 000	2016 Ushs' 000	2017 Ushs' 000	2016 Ushs' 000
Statement of financial position				
Cash and balances with Bank of Uganda	**856 532 804**	709 350 387	**-**	-
Government securities - available for sale	**516 269 586**	640 941 821	**-**	-
Government securities - held for trading	**392 911 207**	250 484 271	**-**	-
Placements with local Banks	**740 741 395**	10 013 157	**10 006 164**	2 002 631
Repo	**100 075 538**	480 328 161	**-**	-
Placements with foreign Banks	**259 819 355**	268 315 344	**157 547 534**	135 971 334
Amounts due from group companies	**177 449 478**	36 147 113	**177 449 478**	36 147 113
Loans and advances to customers-regulatory	**2 140 753 264**	1 980 006 537	**2 140 753 264**	1 980 006 537
Other investment securities	**71 906**	62 930	**71 906**	62 930
Prepaid operating leases	**88 322**	98 660	**88 322**	98 660
Other assets	**83 358 912**	71 892 826	**83 358 912**	71 892 826
Deferred tax asset	**1 651 991**	1 307 349	**-**	-
Goodwill	**1 901 592**	1 901 592	**-**	-
Other intangible assets	**70 008 249**	77 699 996	**-**	-
Property and equipment	**69 292 586**	63 318 002	**69 292 586**	63 318 002
	5 410 926 185	**4 591 868 146**	**2 638 568 166**	2 289 500 033
Off-balance sheet items				
Contingencies secured by cash collateral	**40 270 614**	43 519 315	**-**	-
Guarantees and acceptances	**196 061 322**	36 873 142	**196 061 322**	36 873 142
Performance bonds	**1 074 892 142**	919 684 153	**537 446 071**	459 842 077
Trade related and self-liquidating credits	**60 278 032**	27 857 232	**12 055 606**	5 571 446
Other commitments	**520 237 216**	555 003 308	**260 118 608**	277 501 654
	1 891 739 326	**1 582 937 150**	**1 005 681 607**	779 788 319
Total risk weighted assets			**3 644 249 773**	3 069 288 352

Capital management continued

	Capital		Bank ratio		FIA minimum ratio	
	2017 Ushs' 000	2016 Ushs' 000	2017 %	2016 %	2017 %	2016 %
Tier 1 capital	657 891 790	544 308 789	18.1%	17.7%	8%	8%
Tier 1 + Tier 2 capital	765 871 052	646 627 254	21.0%	21.1%	12%	12%

Loans and advances to customers (net of provisions are required by financial Institutions Act)

Loans and advances to customers -Bank of Uganda

	2017 Ushs' 000	2016 Ushs' 000
Gross Loan and advances	2 196 332 195	2 034 928 134
Less		
Specific Provisions (Regulatory)	(46 338 820)	(50 892 949)
Interest in suspense(regulatory)	(3 688 892)	(2 399 084)
	2 146 304 483	**1 981 636 101**
Less		
Secured by Cash Cover	(5 551 219)	(1 629 564)
	2 140 753 264	1 980 006 537

The Bank's credit concetration

As at 31 December 2017 the Bank had two customers with an aggregate amount exceeding twenty five percent of the Bank's core capital extended to a single person or group of related persons totaling to Ushs 507Bn. These facilities relate to counter guarantees extended to the customers.

3(c) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Bank by failing to discharge an obligation in full when due. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Bank's portfolio, could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors.

The exposure to any one borrower including Banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

(a) Credit risk measurement

Debt securities

All debt securities the Bank purchases are issued by Government of Uganda and thus considered to be risk-free under normal operating conditions.

Loans and advances

In measuring credit risk of loan and advances to customers and to Banks at a counterparty level, the Bank reflects three components

(i) the 'probability of default' by the client or counterparty on its contractual obligations;

(ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and

(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').These credit risk measurements are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the statement of financial position date (the 'incurred loss model') rather than expected losses.

(i) The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

The Bank's internal ratings scale and mapping to external ratings and representing days in arrears is as below:

Bank's Description		Days rating
1	Standard monitoring	0-29
2	Special mention	30-89
3	Sub standard	90-179
4	Doubtful	180-364
5	Loss	365+

Observed defaults per rating category vary year on year, especially over an economic cycle.

(ii) Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation

(b) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties
- Charges over business assets such as premises, inventory and accounts receivable

Collateral continued

- Charges over financial instruments such as debt securities and equities

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(c) Derivatives

The Bank maintains strict control limits on net open derivative positions (ie, the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (ie, assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

(d) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(e) Impairment and provisioning policy

The internal rating systems described in Note 3 (c) (a) focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment (see Note 2(l)). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and Banking regulation purposes.

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of the Bank's on and off balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating

d) Impairment provision policy

	2017		2016	
	Loans & advances	**Impairment provision %**	Loans & advances	Impairment provision %
Standard & special monitoring	**93.2**	**0.9**	96.8	1.0
Sub-standard, doubtful and loss	**6.8**	**28.6**	3.2	56.6
	100.0	**2.8**	100	2.9

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales)
- Breach of loan covenants or

  conditions
- Initiation of Bankruptcy proceedings
- Deterioration of the borrower's

  competitive position
- Deterioration in the value of collateral

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for:

(i) Portfolios of homogenous assets that are individually below materiality thresholds; and

(ii) Losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

(iii) Maximum exposure to credit risk before collateral held or other credit impairments

Impairment provision policy continued

Credit risk exposures relating to assets included on the statement of financial position are as follows:

	2017 Ushs' 000	2016 Ushs' 000
Bank of Uganda	565 485 257	498 566 026
Loans and advances to Banks	1 274 486 929	786 681 098
Investment securities		
Treasury bonds - available for sale	248 272 487	243 120 818
Treasury bills - available for sale	267 997 099	397 821 003
Loans and advances to customers		
Loans to individuals		
Overdrafts	1 664 618	33 747 800
Term loans	511 443 959	422 496 340
Mortgages	251 731 343	304 392 323
Loans to corporate entities		
Large corporate entities	973 049 736	924 934 311
Small & medium size entities	458 442 539	349 357 360
Trading assets		
Treasury bonds	73 174 937	73 990 002
Treasury bills	319 736 270	176 494 269
Derivative assets	12 651 161	10 066 617
Other	50 558 362	49 330 012
	5 008 694 697	4 270 997 979

Credit risk exposures relating to assets not on the statement of financial position are as follows:

	2017 Ushs' 000	2016 Ushs' 000
Financial guarantees	1 303 395 151	983 225 153
Loan commitments and other credit related liabilities	588 344 175	599 711 996
	1 891 739 326	1 582 937 149
	6 900 434 023	5 853 935 128

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December, 2017 and 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

The table below shows the collateral for the secured loans as at 31 December 2017.

As at 31 December 2017

	Customer loans	Netting off agreements	Exposure after netting off	Collateral coverage		Total
				51-100%	Over 100%	
	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000
Secured loans	989 596 821	1 852 526	987 744 295	461 522 025	436 413 239	897 935 264
Unsecured loans	1 206 735 374	-	1 206 735 374	-	-	-
	2 196 332 195	1 852 526	2 194 479 669	461 522 025	436 413 239	897 935 264

As at 31 December 2016

	Customer loans	Netting off agreements	Exposure after netting off	Collateral coverage		Total
				51-100%	Over 100%	
	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000
Secured loans	1 022 781 860	1 629 564	1 021 152 296	341 191 017	554 396 446	895 587 463
Unsecured loans	1 012 146 274	-	1 012 146 274	-	-	-
	2 034 928 134	1 629 564	2 033 298 570	341 191 017	554 396 446	895 587 463

Management remains confident in its ability to continue to control the exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 93% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2016: 96%)
- Mortgage loans, are backed by collateral
- 88.9% of the loans and advances portfolio are considered to be neither past due nor impaired (2016: 81.7%) and
- All debt securities held by the Bank are issued by the Bank of Uganda on behalf of the Government of Uganda.

d) Loans and advances are summarised as follows:

	2017		2016	
	Loans & advances to customers	**Loans & advances to Banks**	Loans & advances to customers	Loans & advances to Banks
	Ushs'000	**Ushs'000**	Ushs'000	Ushs'000
Neither past due nor impaired	**1 951 687 960**	**1 100 636 288**	1 663 150 238	758 656 662
Past due but not impaired	**95 196 981**	**-**	306 201 788	-
Impaired loans and advances	**149 447 254**	**-**	65 576 108	-
Gross loans and advances	**2 196 332 195**	**1 100 636 288**	2 034 928 134	758 656 662
Allowances for impairment	**(62 345 772)**	**-**	(58 180 062)	-
	2 133 986 423	**1 100 636 288**	1 976 748 072	758 656 662

The allowances for impairment are summarised per segment as follows;

	2017		2016	
	Loans & advances to customers	**Loans & advances to Banks**	Loans & advances to customers	Loans & advances to Banks
	Ushs'000	**Ushs'000**	Ushs'000	Ushs'000
Personal and Business Banking				
- Mortgage lending	**(6 022 334)**	**-**	(7 096 232)	-
- Instalment sales and fin. Leases	**(2 823 297)**	**-**	(2 499 183)	-
- Other loans	**(29 202 118)**	**-**	(28 084 888)	-
Corporate and investment Banking				
- Corporate lending	**(24 298 023)**	**-**	(20 499 759)	-
	(62 345 772)	**-**	**(58 180 062)**	**-**

The total impairment provision for loans and advances is Ushs 62,346 million (2016: Ushs 58,180 million) of which Ushs 42,775 million (2016: Ushs 37,104 million) represents the individually impaired loans and the remaining amount of Ushs 19,571 million (2016: Ushs 21,076 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances to Banks and to customers is provided in Note 19.

e) Credit Quality

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of financial asset for credit risk related items, based on the Bank's credit rating system.

	Performing loans			Total loans		Non performing loans			Security against impaired loans	Net impaired loans
	Neither past due nor impaired Ushs'000	Past due but not impaired Ushs'000	Total Ushs'000	Individually impaired Ushs'000	Doubtful Ushs'000	Loss Ushs'000	Total Ushs'000	Ushs'000	Ushs'000	Ushs'000
As at 31 December 2017										
Personal and Business banking										
- Mortgage lending	**194 891 840**	**45 190 877**	**240 082 717**	**10 097 004**	**445 936**	**1 105 686**	**11 648 626**	**251 731 343**	**7 809 286**	**3 839 340**
- Instalment sales and fin. Leases	**49 232 770**	**6 278 315**	**55 511 085**	**5 394 632**	**1 099 754**	**424 156**	**6 918 542**	**62 429 627**	**4 388 221**	**2 530 321**
- Other loans	**754 544 061**	**43 727 789**	**798 271 850**	**96 635 207**	**5 656 441**	**8 557 991**	**110 849 639**	**909 121 489**	**87 948 234**	**22 901 405**
	998 668 671	**95 196 981**	**1 093 865 652**	**112 126 843**	**7 202 131**	**10 087 833**	**129 416 807**	**1 223 282 459**	**100 145 741**	**29 271 066**
Corporate and investment banking										
- Corporate lending	**953 019 289**	**-**	**953 019 289**	**47**	**20 002 294**	**28 106**	**20 030 447**	**973 049 736**	**6 526 647**	**13 503 800**
	953 019 289	**-**	**953 019 289**	**47**	**20 002 294**	**28 106**	**20 030 447**	**973 049 736**	**6 526 647**	**13 503 800**
Total recognised financial instruments	**1 951 687 960**	**95 196 981**	**2 046 884 941**	**112 126 890**	**27 204 425**	**10 115 939**	**149 447 254**	**2 196 332 195**	**106 672 388**	**42 774 866**

	Neither past due nor impaired Ushs'000	Past due but not impaired Ushs'000	Total Ushs'000	Individually impaired Ushs'000	Doubtful Ushs'000	Loss Ushs'000	Total Ushs'000	Ushs'000	Ushs'000	Ushs'000
As at 31 December 2016										
Personal and Business banking										
- Mortgage lending	263 559 807	29 547 283	293 107 090	6 260 999	1 744 904	3 279 330	11 285 233	304 392 323	6 114 965	5 170 268
- Instalment sales and fin. Leases	45 129 901	15 524 152	60 654 053	5 447 025	396 974	1 618	5 845 617	66 499 670	4 075 079	1 770 538
- Other loans	587 321 358	124 157 042	711 478 400	5 058 699	16 000 659	6 564 071	27 623 429	739 101 829	6 761 522	20 861 907
	896 011 066	169 228 477	1 065 239 543	16 766 723	18 142 537	9 845 019	44 754 279	1 109 993 822	16 951 566	27 802 713
Corporate and investment banking										
- Corporate lending	767 139 172	136 973 311	904 112 483		20 574 955	246 874	20 821 829	924 934 312	11 520 306	9 301 523
	767 139 172	136 973 311	904 112 483	-	20 574 955	246 874	20 821 829	924 934 312	11 520 306	9 301 523
Total recognised financial instruments	1 663 150 238	306 201 788	1 969 352 026	16 766 723	38 717 492	10 091 893	65 576 108	2 034 928 134	28 471 872	37 104 236

f) Loans past due but not impaired

Gross amount of loans and advances by class of customers that were past due but not impaired were as follows:

	Past due upto 30 days Ushs'000	Past due 30 - 60 days Ushs'000	Past due 60 - 90 days Ushs'000	Total Ushs'000
As at 31 December 2017				
Personal and Business banking				
- Mortgage lending	34 905 690	8 007 745	2 277 442	45 190 877
- Instalment sales and fin. Leases	4 379 655	1 698 450	200 210	6 278 315
- Other loans	35 173 047	5 381 069	3 173 673	43 727 789
	74 458 392	15 087 264	5 651 325	95 196 981
Corporate and investment banking				
- Corporate lending	-	-	-	-
	-	-	-	-
	74 458 392	15 087 264	5 651 325	95 196 981
As at 31 December 2016				
Personal and Business banking				
- Mortgage lending	21 218 380	7 469 557	859 346	29 547 283
- Instalment sales and fin. Leases	10 436 560	4 938 292	149 299	15 524 151
- Other loans	113 239 406	6 368 442	4 549 195	124 157 043
	144 894 346	18 776 291	5 557 840	169 228 477
Corporate and investment banking				
- Corporate lending	125 992 476	10 980 780	55	136 973 311
	125 992 476	10 980 780	55	136 973 311
	270 886 822	29 757 071	5 557 895	306 201 788

(g) Loans and advances to Banks

The total gross amount of individually impaired loans and advances to Banks as at 31 December, 2017 was nil (2016: nil). No collateral is held by the Bank.

(h) Other Financial Assets

No other financial assets are individually or collectively impaired (2016: nil). No collateral is held by the Bank.

i) Repossessed collateral

	2017 Ushs' 000	2016 Ushs' 000
Nature of assets		
Residential properties	610 000	7 559 000
Commercial properties	-	5 716 000
Vehicles	344 000	767 000
	954 000	14 042 000

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed properties are not included in the statement of financial position on account of uncertainity relating to the period of time it will take the Bank to dispose of these properties and the amounts that will subsequently be recovered from this process.

j) Renegotiated loans

	2017 Ushs' 000	2016 Ushs' 000
Loans and advances to customers	65 789 906	179 724 804
Loans and advances to banks	-	-
	65 789 906	179 724 804

g) Concentrations of risk of financial assets with credit risk exposure

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

	Financial institutions	Manufacturing	Agriculture	Transport	Individuals	Others	Total
	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000
As at 31 December 2017							
Government securities - AFS	**516 269 586**	**-**	**-**	**-**	**-**	**-**	**516 269 586**
Loans and advances to banks	**1 278 085 766**	**-**	**-**	**-**	**-**	**-**	**1 278 085 766**
Loans and advances to customers	**282 677 034**	**276 336 594**	**340 836 859**	**256 123 459**	**514 257 609**	**526 100 640**	**2 196 332 195**
Held for trading Financial instruments	**392 911 207**	**-**	**-**	**-**	**-**	**-**	**392 911 207**
Other assets	**-**	**-**	**-**	**-**	**-**	**47 493 184**	**47 493 184**
	2 469 943 593	**276 336 594**	**340 836 859**	**256 123 459**	**514 257 609**	**573 593 824**	**4 431 091 938**
As at 31 December 2016							
Government securities - AFS	640 941 821	-	-	-	-	-	640 941 821
Loans and advances to banks	794 803 775	-	-	-	-	-	794 803 775
Loans and advances to customers	3 279 921	311 921 959	248 298 176	43 818 063	418 754 851	1 008 855 164	2 034 928 134
Held for trading Financial instruments	250 484 271	-	-	-	-	-	250 484 271
Other assets	-	-	-	-	-	49 330 012	49 330 012
	1 689 509 788	311 921 959	248 298 176	43 818 063	418 754 851	1 058 185 176	3 770 488 013

3(d) Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Market risk measurement techniques:

As part of the management of market risk, the Bank's major measurement techniques used to measure and control market risk is value at risk and Pv01 (present value at one).

The Bank applies 'value at risk' methodology (VaR) to its trading and banking portfolio, to estimate the market risk of foreign exchange positions held and the maximum losses expected. Management applies Pv01 methodology to it's trading and non trading portfolios to estimate the market interest rate risk of positions held and the maximum losses that could arise. The estimates are based upon a number of assumptions for various changes in market conditions. The assets and liabilities committee (ALCO) sets limits on both the value of risk and Pv01 that may be acceptable for the Bank. These are monitored on a weekly basis by the Risk Management department.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate. Pv01 is the present value impact of a one basis point move in an interest rate.

The use of these approaches does not prevent losses outside of these limits in the event of more significant market movements.

As VaR and Pv01 constitute an integral part of the Bank's market risk control regime, limits are established by the Board annually for all trading and non-trading portfolios. Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by the Bank's Treasury.

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated.

The VaR summaries for 2017 and 2016 are as follows:

31 December 2017

	12 months to 31 December 2017			
	Average	**Maximum**	**Minimum**	**31 December 2017**
	Ushs' 000	**Ushs' 000**	**Ushs' 000**	**Ushs' 000**
Interest rate book - Trading	**283 091**	**871 993**	**52 155**	**193 473**
Interest rate book - Available for sale	**112 926**	**305 357**	**26 804**	**42 079**
Foreign exchange trading book VAR	**316 237**	**2 497 736**	**17 820**	**176 482**

12 months to 31 December 2016

	Average	Maximum	Minimum	31 December 2016
	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000
Interest rate book - Trading	303 451	1 243 655	77 658	549 903
Interest rate book - Available for sale	551 937	937 163	159 291	254 721
Foreign exchange risk VAR	203 902	1 030 235	12 483	205 669

2017 was characterized by low volatility in the Uganda shilling . The average volatility on the currency for the year was at 2.48% down from 5.24% in 2016, while interest rates on T-Bills and T-Bonds edged lower in tandem with the accommodative monetary stance adopted by the central bank. The Central Bank Rate(CBR) was cut from 12% at the beginning of the year to 9.5% in December 2017. BOU adopted this stance in an effort to boost economic growth by making credit more affordable. Despite their efforts, private sector credit growth was slow to respond, which was one of the key drivers of the stability in the shilling.

The above macroeconomic environment provided some headwinds for the foreign exchange related component of the GM business while the interest rate component was lifted by the downward move in rates.

Average Value at Risk utilization for the year on the interest rate trading desks was Ushs 283m which was marginally lower than Ushs 303m in 2016. On the Foreign exchange trading book, average utilisation was Ushs 316m which was marginally higher than the Ushs 204m registered in 2016.

(i) Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Bank had the following significant foreign currency exposure positions (all amounts expressed in millions of Uganda Shillings)

	USD Ushs'm	Euro Ushs'm	Other Ushs'm	Total Ushs'm
As at 31 December 2017				
Assets				
Cash and balances with Bank of Uganda	147 275	56 552	13 020	216 847
Loans and advances to banks	205 927	42 294	6 127	254 348
Amounts due from group companies	157 077	-	17 405	174 482
Loans and advances to customers	906 927	14 253	1 167	922 347
Other investment securities	-	72	-	72
Derivative assets	11 616	-	-	11 616
Deferred income tax assets	-	-	-	-
Other assets	309 717	240	2 149	312 106
Total Assets	1 738 539	113 411	39 868	1 891 818
Liabilities:				
Customer deposits	1 106 138	90 616	20 749	1 217 503
Amounts due to banks	294 379	12 580	335	307 294
Amounts due to group companies	215 462	2 718	17 235	235 415
Derivative liabilities	11 616	-	-	11 616
Managed funds	-	-	1 161	1 161
Subordinated bonds/debt	72 801	-	-	72 801
Other liabilities	38 032	2 386	644	41 062
Total Liabilities	1 738 428	108 300	40 124	1 886 852
Net statement of financial position	111	5 111	(256)	4 966
Net currency forwards	(70 528)	-	-	(70 528)
Commitments to extend credit	(149 316)	-	-	(149 316)
Net mismatch	(219 733)	5 111	(256)	(214 878)
As at 31 December 2016				
Total Assets	1 519 784	131 707	49 777	1 701 268
Total Liabilities	1 519 745	131 726	50 034	1 701 505
Net statement of financial position	39	(19)	(257)	(237)
Net currency forwards	(42 300)	-	-	(42 300)
Commitments to extend credit	**(70 236)**			**(70 236)**
Net mismatch	**(112 497)**	**(19)**	**(257)**	**(112 773)**

(ii) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

The table that follows summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on items not on the statement of financial position.

	Up to 1 month Ushs'm	1 - 6 months Ushs'm	6 - 12 months Ushs'm	Over 1 year Ushs'm	Non-interest bearing Ushs'm	Total Ushs'm
At 31 December 2017						
Asset:						
Cash and balances with Bank of Uganda	-	-	-	-	856 533	856 533
Government securities - held to maturity	-	-	-	-	-	-
Government securities - available for sale	46 055	143 544	116 275	210 396	-	516 270
Government securities - for trading	135 482	4 184	182 215	71 030	-	392 911
Deposits and balances due from other banks	1 035 216	65 420	-	-	-	1 100 636
Amounts due from group companies	177 449	-	-	-	-	177 449
Loans and advances to customers	456 178	377 992	196 798	1 103 018	-	2 133 986
Pledged assets	-	-	-	-	-	-
Derivative assets	-	-	-	-	12 118	12 118
Other investment securities	-	-	-	-	72	72
Tax recoverable	-	-	-	-	23 748	23 748
Other asset	-	-	-	-	190 436	190 436
Total assets	1 850 380	591 140	495 288	1 384 444	1 082 907	5 404 159
Liabilities and shareholders' funds:						
Customer deposits	3 471 638	135 228	14 068	12	-	3 620 946
Deposits due to other banks	142 401	-	-	200 368	-	342 769
Borrowed funds	9 049	31	3 943	3 342	-	16 365
Amounts due to group companies	266 614	-	-	-	-	266 614
Derivative liabilities		-	-	-	4 212	4 212
Other liabilities	-	-	-	-	208 173	208 173
Subordinated bonds / debts	-	-	-	72 801	-	72 801
Total liabilities	3 889 702	135 259	18 011	276 523	212 385	4 531 880
Shareholders' equity					872 279	872 279
Total interest repricing gap	(2 039 322)	455 881	477 277	1 107 921	(1 757)	-
At 31 December 2016						
Total Assets	990 725	440 314	337 919	1 894 020	925 632	4 588 610
Total Liabilities and shareholder's equity	3 218 649	169 135	16 511	274 459	194 914	3 873 668
Shareholders' equity					714 942	714 942
Total Interest Re-pricing gap	(2 227 924)	271 179	321 408	1 619 561	15 776	-

Furthermore the ALCO monitors the sensitivity of net interest income to changes in interest rates. Limits are set and monitored monthly.

NII sensitivity in for LCY (Ushs) is as follows;

	31st December 2017		31st December 2016	
	Change in net interest Income Ushs'000	% of net interest income	Change in net interest Income Ushs'm	% of net interest income
250bps Increase in interest rates	16 076 081	4.8%	9 578 658	3.0%
200bps decrease in interest rates	(15 785 614)	(4.6%)	(9 667 490)	-3.0%

NII sensititvity in for FCY (USD) is as follows;

	31st December 2017		31st December 2016	
	Change in net interest Income Ushs'000	% of net interest income	Change in net interest Income Ushs'm	% of net interest income
100bps Increase in interest rates	2 553 809	16.9%	2 668 374	12.2%
100bps decrease in interest rates	(1 328 479)	8.8%	(2 703 265)	-12.4%

Given the low interest rate regime, interest rate sensitivity shocks have been revised downwards correspondingly from 400bps to 100bps.

The 2016 numbers have been restated for comparative purposes.

3(e) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank is exposed to daily call on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Asset and Liability Committee sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter- Bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury and Capital Management (TCM) team, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and managing the concentration and profile of debt maturities.
- Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets

The assets and liability management team (ALM) within TCM also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

	2017 Ushs' 000	2016 Ushs' 000
Total liquid assets	**2 370 708 116**	2 080 485 057
Total deposits	**3 620 945 573**	3 058 504 763
Liquidity ratio	65.5%	68.0%
Regulatory requirement	20.0%	20.0%

The table that follows presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date and from financial assets by expected maturity dates. All figures are in millions of Uganda Shillings.

	Carrying Amount	Gross norminal In/ (out flow)	Up to 1 month	2-6 Months	7-12 Months	1-5 Years	Over 5 Years
	Ushs' m	Ushs' m	Ushs' m	Ushs' m	Ushs' m	Ushs' m	Ushs' m
At 31 December 2017							
Liabilities							
Deposits from customers	(3,620,946)	(3,624,523)	(3,474,733)	(128,535)	(20,614)	(641)	-
Deposits from other banks	(342,769)	(343,059)	(142,691)	-	(200,368)	-	-
Amounts due to group companies	(266,614)	(273,115)	(68,424)	(181,955)	(16,490)	(6,246)	-
Derivative liabilities	(4,212)	(4,212)	(9)	(94)	(2,719)	(1,390)	-
Borrowed funds	(16,365)	(16,365)	(9,048)	(31)	(3,943)	(3,342)	-
Subordinated debt	(72,801)	(88,231)	-	(935)	(935)	(7,479)	(78,882)
Total financial liabilities (contractual maturity dates)	(4,323,707)	(4,349,504)	(3,694,905)	(311,550)	(245,069)	(19,098)	(78,882)
Assets	-	-	-	-	-	-	-
Cash and bank balances with Bank of Uganda	856,533	856,533	856,533	-	-	-	-
Government securities- Available for sale	516,270	574,910	50,000	144,796	123,096	257,018	-
Government securities- Held for trading	392,911	515,203	135,723	4,161	192,175	146	182,998
Loans and advances to banks	1,100,636	1,104,322	1,038,340	65,982	-	-	-
Amounts due from group companies	177,449	177,503	177,037	-	-	466	-
Loans and advances to customers	2,133,986	2,552,841	168,413	527,685	89,499	1,325,777	441,467
Investment securities	72	72	-	-	-	-	72
Derivative Assets	12,118	12,118	142	53	234	73	11,616
Total financial assets (expected maturity dates)	5,189,975	5,793,502	2,426,188	742,677	405,004	1,583,480	636,153
Liquidity gap	866,268	1,443,998	(1,268,717)	431,127	159,935	1,564,382	557,271
Cumulative Liquidity Gap	866,268	1,443,998	(1,268,717)	(837,590)	(677,655)	886,727	1,443,998
Off-Balance Sheet	-		-	-	-	-	-
Guarantees	(1,303,395)	(1,303,395)	(169,013)	(500,471)	(256,010)	(377,901)	-
LCs	(68,107)	(68,108)	(11,107)	(49,411)	(7,590)	-	-
Commitments to extend credit	(520,237)	(520,237)	(520,237)	-	-	-	-
Operating lease commitments	(21,607)	(21,607)	(1,149)	-	-	(20,458)	-
Total Off-Balance Sheet	(1,913,346)	(1,913,347)	(701,506)	(549,882)	(263,600)	(398,359)	-
Liquidity gap	(1,047,078)	(469,349)	(1,970,223)	(118,755)	(103,665)	1,166,023	557,271
Cumulative Liquidity Gap		(469,349)	(1,970,223)	(2,088,978)	(2,192,643)	(1,026,620)	(469,349)
As at 31 December 2016							
Total financial liabilities (contractual maturity dates)	(3,679,346)	(3,669,964)	(3,005,590)	(159,281)	(50,843)	(454,250)	-
Total financial assets (expected maturity dates)	4,382,458	4,421,386	1,757,892	449,237	358,392	1,502,725	353,140
Liquidity gap	703,112	751,422	(1,247,698)	289,956	307,549	1,048,475	353,140
Cumulative Liquidity Gap			(1,247,698)	(957,742)	(650,193)	398,282	751,422
Total Off Balance sheet	(1,603,561)	(1,603,560)	(634,573)	(187,867)	(217,438)	(563,682)	-
Net Liquidity gap	(900,449)	(852,138)	(1,882,271)	102,089	90,111	484,793	353,140
Net Cumulative liquidity gap		(852,138)	(1,882,271)	(1,780,182)	(1,690,071)	(1,205,278)	(852,138)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central Bank balances, items in the course of collection; loans and advances to Banks; and loans and advances to customers. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

Impairment provision policy continued

3 (f) Off-balance sheet items

(i) Loan commitments
The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 36), are summarised in the table below.

(ii) Other financial facilities
Other financial facilities (Note 36) are also included below based on the earliest contractual maturity date.

(iii) Operating lease commitments
Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are summarised in the table below.

	Not later than 1 year Ushs'000	1 to 5 years Ushs'000	Above 5 years Ushs'000	Total Ushs'000
As at 31 December 2017				
Letters of credit	**68 106 959**	**-**	**-**	**68 106 959**
Guarantees	**925 493 792**	**377 901 360**	**-**	**1 303 395 152**
Commitments to extend credit	**520 237 216**	**-**	**-**	**520 237 216**
Operating lease commitments	**1 148 961**	**20 457 824**	**-**	**21 606 785**
	1 514 986 928	**398 359 184**	**-**	**1 913 346 112**
As at 31 December 2016				
Letters of credit	42 430 276	2 278 413	-	44 708 689
Guarantees	440 138 087	543 087 066	-	983 225 153
Commitments to extend credit	555 003 308	-	-	555 003 308
Operating lease commitments	2 306 759	18 316 955	-	20 623 714
	1 039 878 430	563 682 434	-	1 603 560 864

3(g) Fair value of financial assets and liabilities

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value.

	Carrying Value		Fair Value	
	2017 Ushs'000	2016 Ushs'000	2017 Ushs'000	2016 Ushs'000
Financial assets				
Cash and Balances with Bank of Uganda	**856 532 804**	709 350 387	**856 532 804**	709 350 387
Loans and advances to banks	**1 100 636 288**	758 656 662	**1 100 636 288**	758 656 662
Amounts due from group companies	**176 915 819**	36 147 113	**176 915 819**	36 147 113
Loans and advances to customers	**2 133 986 423**	1 976 748 072	**2 133 986 423**	1 976 748 072
Other assets	**47 493 184**	49 330 012	**47 493 184**	49 330 012
Financial liabilities				
Customer deposits	**3 620 945 573**	3 058 504 763	**3 620 945 573**	3 058 504 763
Amounts due to other banks	**342 769 174**	293 726 727	**342 769 174**	293 726 727
Borrowed funds	**16 364 653**	11 579 364	**16 364 653**	11 579 364
Amounts due to group companies	**250 749 314**	242 805 246	**250 749 314**	242 805 246
Subordinated debt	**72 801 196**	72 137 386	**72 801 196**	72 137 386
Other liabilities	**208 173 495**	194 322 067	**208 173 495**	194 322 067

Financial instruments

In terms of IFRS, the Bank is either required to or elect to measure a number of their financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value, it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

The Bank's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include:

Prices quoted in an active market:
The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the Bank establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, the group and company make use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Unobservable inputs are subject to management judgement and although the group believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments:
Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to: credit spreads on illiquid issuers, implied volatilities on thinly traded stocks, correlation between risk factors, prepayment rates, and other illiquid risk drivers. In making appropriate valuation adjustments, the group and company apply methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. Exposure to such illiquid risk drivers is typically managed by:

- Using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver;
- Raising day one profit provisions in accordance with IFRS;
- Quantifying and reporting the sensitivity to each risk driver; and
- Limiting exposure to such risk drivers and analysing this exposure on a regular basis.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the group's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the group and company's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the group. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis by the market risk and asset and liability committees.

Portfolio exception:
The Bank, on meeting certain qualifying criteria, elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis.

The total amount of the change in fair value estimated using valuation techniques not based on observable market data (level 3) that was recognised in profit or loss for the year ended 31 December 2017 was a net gain Ushs 9.0 million (2016: 2.2 million net gain) for the Bank

(i) Due from other Banks and group companies
Due from other Banks includes inter-Bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers
Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities
Investment securities include only interest-bearing assets classified as available for sale are measured at fair value. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics and equity securities at fair value through profit and loss.

(iv) Due to other Banks, customers and group companies
The estimated fair value of deposits with no stated maturity, which includes non- interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest- bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

3 (h) Fair value hierarchy

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includesinstruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The information below shows the classification of financial instruments held at fair value into the valuation hierachy as at 31 December 2017 and 2016

31 December 2017

	Level 1 Ushs' 000	Level 2 Ushs' 000	Level 3 Ushs' 000	Total Ushs' 000
Financial assets				
- Derivative assets	-	12 117 502	-	12 117 502
- Government securities - Held for trading	-	392 911 207	-	392 911 207
- Government securities - AFS	-	516 269 586	-	516 269 586
- Amounts due from group companies	-	533 659	-	533 659
- Other investments	-	-	71 906	71 906
Total assets	-	921 831 954	71 906	921 903 860
Financial liabilities				
- Derivative liabilities	-	4 211 626	-	4 211 626
- Amounts due from group companies	-	15 864 692		15 864 692
Total liabilities	-	20 076 318	-	20 076 318

31 December 2016	Level 1 Ushs' 000	Level 2 Ushs' 000	Level 3 Ushs' 000	Total Ushs' 000
Financial assets				
- Derivative assets	-	10 066 617	-	10 066 617
- Government securities - Held for trading	-	250 484 271	-	250 484 271
- Government securities - AFS	-	640 941 821	-	640 941 821
- Amounts due from group companies	-	3 644 485	-	3 644 485
- Other investment		-	62 930	62 930
Total assets	-	905 137 194	62 930	905 200 124
Financial liabilities				
- Derivative liabilities	-	592 135	-	592 135
- Amount due from group		10 444 775		10 444 775
Total liabilities	-	11 036 910	-	11 036 910

Sensitivity and interrelationships of inputs

The behaviour of the unobservable parameters used to fair value level 3 assets and liabilities is not necessarily independent, and may often hold a relationship with other observable and unobservable market parameters. Where material and possible, such relationships are captured in the valuation by way of correlation factors, though these factors are, themselves, frequently unobservable. In such instances, the range of possible and reasonable fair value estimates is taken into account when determining appropriate model adjustments.

Fair value instruments in level 3

The following table presents the changes in Level 3 instruments for the year ended 31 December, 2017 and 2016.

Other investments at fair value through profit or loss

	2017 Ushs' 000	2016 Ushs' 000
Opening balance	62 930	**60 690**
Transfers into Level 3	-	-
Disposal	-	-
Gains and losses recognised in profit or loss	8 976	2 240
Closing balance	**71 906**	**62 930**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period, under other gains/losses	8 976	2 240
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	-	-

The table below shows Items not measured at fair value for which fair value is disclosed

31 December 2017	Level 1 Ushs' 000	Level 2 Ushs' 000	Level 3 Ushs' 000	Total Ushs' 000
Financial assets				
Loans and advances to banks	-	-	1 100 636 288	1 100 636 288
Amounts due from group companies	-	-	176 915 819	176 915 819
Loans and advances to customers	-	-	2 133 986 423	2 133 986 423
Other assets	-	-	47 493 184	47 493 184
Total assets	-	-	3 459 031 714	3 459 031 714
Financial liabilities				
Customer deposits	3 05 7 800 356	-	563 145 217	3 620 945 573
Amounts due to other banks	-	-	342 769 174	342 769 174
Borrowed funds	-	-	16 364 653	16 364 653
Amounts due to group companies	-	-	250 749 314	250 749 314
Other liabilities	-	-	208 173 495	208 173 495
Total liabilities	3 05 7 800 356	-	1 381 201 853	4 439 002 209

31 December 2016	Level 1 Ushs' 000	Level 2 Ushs' 000	Level 3 Ushs' 000	Total Ushs' 000
Financial assets				
Loans and advances to banks	-	-	758 656 662	758 656 662
Amounts due from group companies	-	-	36 147 113	36 147 113
Loans and advances to customers	-	-	1 976 748 072	1 976 748 072
Other assets	-	-	49 330 012	49 330 012
Total assets	-	-	2 820 881 859	2 820 881 859
Financial liabilities				
Customer deposits	2 553 460 986	-	505 043 777	3 058 504 763
Amounts due to other banks	-	-	293 726 727	293 726 727
Borrowed funds	-	-	11 579 364	11 579 364
Amounts due to group companies	-	-	242 805 246	242 805 246
Other liabilities	-	-	194 322 067	194 322 067
Total liabilities	2 553 460 986	-	1 247 477 181	3 800 938 167

The unobservable valuation inputs used to assess financial assets and liabilities not fair valued but for which fair value is reported include risk-free rate, risk premiums, liquidity spreads, credit risk , timing of settlement, service costs and pre-payment.

3(i) Classification of assets and Liabilities

The table below sets out the Banks classification of financial Assets and Liabilities

	Note	Held-for-trading[1] Ushs' m	Designated at fair value Ushs' m	Loans and receivables[2] Ushs' m	Available-for-sale Ushs' m	Other amortised cost[2] Ushs' m	Other assets/ liabilities Ushs' m	Total carrying amount Ushs' m
2017								
Assets								
Cash and balances with central banks		-	-	856 533	-	-	-	**856 533**
Derivative assets		12 118	-		-	-	-	**12 118**
Government securities	-	392 911	-		516 270	-	-	**909 181**
Loans and advances to banks	18	-	-	1 100 636	-	-	-	**1 100 636**
Loans and advances to customers		-	-	2 133 986	-	-	-	**2 133 986**
Amounts due from group companies	38	534	-	176 915	-	-	-	**177 449**
Other investments		-	72	-	-	-	-	**72**
Other non-financial assets		-	-	-	-	-	214 184	**214 184**
		405 563	**72**	**4 268 070**	**516 270**	**-**	**214 184**	**5 404 159**
Liabilities								
Derivative liabilities		4 213	-	-	-	-	-	**4 213**
Deposits from banks		-	-	-	-	342 769	-	**342 769**
Deposits from customers		-	-	-	-	3 620 946	-	**3 620 946**
Subordinated debt		-	-	-	-	72 801	-	**72 801**
Amounts due to group companies	38	15 865	-	-	-	250 749	-	**266 614**
Borrowed Funds		-	-	-	16 364	-	-	**16 364**
Other liabilities		-	-	-	-	-	208 173	**208 173**
		20 078	**-**	**-**	**16 364**	**4 287 265**	**208 173**	**4 531 880**
2016								
Assets								
Cash and balances with central banks		-	-	709 350	-	-	-	**709 350**
Derivative assets		10 067	-	-	-	-	-	**10 067**
Pledged assets		-	-	-	-	-	-	**-**
Financial investments		250 484	-	-	640 942	-	-	**891 426**
Loans and advances to banks	18	-	-	758 657	-	-	-	**758 657**
Loans and advances to customers		-	-	1 976 748	-	-	-	**1 976 748**
Amounts due from group companies	38	3 644	-	32 503	-	-	-	**36 147**
Other investments		-	63	-	-	-	-	**63**
Other non-financial assets		-	-	-	-	-	206 152	**206 152**
		264 195	**63**	**3 477 258**	**640 942**	**-**	**206 152**	**4 588 610**
Liabilities								
Derivative liabilities		592	-	-	-	-	-	**592**
Deposits from banks		-	-	-	-	293 727	-	**293 727**
Deposits from customers		-	-	-	-	3 058 505	-	**3 058 505**
Subordinated debt		-	-	-	-	72 138	-	**72 138**
Amounts due to group companies	38	10 445	-	-	-	232 360	-	**242 805**
Borrowed Funds		-	-	-	-	11 579	-	**11 579**
Other liabilities		-	-	-	-		194 322	**194 322**
		11 037	**-**	**-**	**-**	**3 668 309**	**194 322**	**3 873 668**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The Bank assesses its loan portfolios for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. Whereas historical loss ratios are derived using the Bank's prior experience, the loss emergence period is based on estimates and as such the resulting impairment provision raises with the estimate made.

Below are the emergence periods in use together with the sensitivity analysis of the impairment provision thereof.

	Loss emergence period			Sensitivity[1]
	2017	**2016**	**2017**	**2016**
	Months	**Months**	**Ushs'000**	**Ushs'000**
Personal & Business Banking	**3**	3	**2 925 561**	3 688 700
- Mortgage Lending	**3**	3	**727 665**	483 283
- Instalment sales & finance leases	**3**	3	**97 659**	141 194
- Other lending	**3**	3	**2 100 237**	3 064 223
Corporate lending	**12**	12	**899 519**	600 272
			3 825 080	4 288 972

1- Sensitivity is based on the effect of a change of 1 month in the emergency period on the value of the impairement

(b) Non-performing loans

Retail loans are individually impaired if the amounts are due and unpaid for three or more months. Corporate loans are analysed on a case-by- case basis taking into account breaches of key loan conditions. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

	Recoveries as a % of impaired loans			Sensitivity[1]
	2017	**2016**	**2017**	**2016**
	Months	**%**	**Months**	**Ushs'000**
Personal & Business Banking	**62%**	**56%**	**1 302 676 556**	**451 633**
- Mortgage Lending	**82%**	56%	**118 738 390**	123 065
- Instalment sales & finance leases	**71%**	41%	**69 185 406**	58 456
- Other lending	**34%**	71%	**1 114 752 760**	270 112
Corporate lending	**56%**	5%	**201 657 476**	208 218
			1 504 334 032	659 851

1- Sensitivity is based on the effect of a change of one percantage point in the estimated recovery on the value of the impairement.

(c) Fair value of Financial Instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(d) Impairment of available for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Had the declines of financial instruments with fair values below cost been considered significant or prolonged, the Bank would suffer no additional loss after tax. (2016: Nil) in its financial statements, being the transfer of the negative revaluations within available-for-sale reserve to the income statement.

(e) Income taxes

Significant judgment is required in determining the Bank's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. SEGMENT INFORMATION

The principal business units in the Bank are as follows:

Personal and Business Banking (PBB): Banking and other financial services to individual customers and small to medium sized enterprises throughout Uganda.

PBB incorporates

- Mortgage lending- provides residential accommodation loans to individual customers. Instalment sales and finance leases: comprises two main areas - instalment finance in the consumer market mainly vehicles and secondly, finance of vehicles and equipment in the business market.
- Transactional and lending products- Transactions in products associated with the various points of contact channels such as ATMs, internet, and branches. This includes deposit taking activities, electronic Banking, cheque accounts and other lending products.

Corporate and Investment Banking (CIB):
Commercial and Investment Banking services to larger corporates, financial institutions, and international counterparties in Uganda.

CIB incorporates

- Global markets - includes foreign exchange, fixed income, derivatives, and money market funding units.
- Investment Banking and trade finance - includes corporate lending and transactional Banking businesses, trade finance business and property related lending to corporates.

Treasury and Capital Management (TCM):
Oversees the management of liquidity, interest rate risk and surplus capital for the Bank.

The segment results for the years ended 31 December, 2017 and 31 December, 2016 are as follows:

Income statement	Personal and Business Banking Ushs' 000	Corporate and Investment Banking Ushs' 000	Treasury & Capital management Shs' 000	Total Ushs' 000
Year ended 31 December 2017				
Net Interest income	**225 731 632**	**155 774 717**	**20 203 645**	**401 709 994**
Net fees and commission	**119 395 414**	**11 850 872**	**-**	**131 246 286**
Net trading income	**-**	**96 001 302**	**2**	**96 001 304**
Other income	**6 365 072**	**673 698**	**8 453**	**7 047 223**
Total operating income	**351 492 118**	**264 300 589**	**20 212 100**	**636 004 807**
Income from associate	**-**	**-**	**-**	**-**
Impairment losses	**(24 349 479)**	**(4 572 535)**	**-**	**(28 922 014)**
Other operating expenses	**(227 115 116)**	**(118 817 547)**	**4 515 828**	**(341 416 835)**
Profit before tax	**100 027 523**	**140 910 507**	**24 727 928**	**265 665 958**
Income tax expense	**(24 020 686)**	**(35 176 007)**	**(6 001 476)**	**(65 198 169)**
Profit after tax	**76 006 837**	**105 734 500**	**18 726 452**	**200 467 789**
Year ended 31 December 2016				
Net Interest income	223 030 413	159 778 329	20 427 062	403 235 804
Net fees and commission	106 735 620	7 897 057	-	114 632 677
Net trading income	-	124 954 570	-	124 954 570
Other income	216 611	352 358	54 609	623 578
Total operating income	329 982 644	292 982 314	20 481 671	643 446 629
Income from associate	-	-		-
Impairment losses	(22 601 173)	(14 039 350)	-	(36 640 523)
Other operating expenses	(225 134 921)	(129 581 781)	1 859 218	(352 857 484)
Profit before tax	82 246 550	149 361 183	22 340 888	253 948 621
Income tax expense	(21 923 002)	(36 393 377)	(4 480 407)	(62 796 786)
Profit after tax	60 323 548	112 967 806	17 860 481	191 151 835

The segmental information in the table above includes transactions made between different segments with in the Bank that give rise to a cost in one segment and income to another segment. These transactions have no net impact to the Bank as a whole. In 2017 these transactions had a net interest income of Ushs 48.9bn (2016:26.9bn) and net trading cost of Ushs 48.9bn. (2016:26.9bn). The segmental information has been restated as a result of an increase in business activity around the channels utilization under our CIB business. This was primarily driven by the increase in biller related transactions under CIB which meant that we had to res-state the cost allocation to the business units.

Statement of Financial Position

Statement of financial position	Personal and Business Banking Ushs' 000	Corporate and Investment Banking Ushs' 000	Treasury & Capital management Shs' 000	Total Ushs' 000
As at 31 December 2017				
Total assets	**1 574 520 953**	**3 484 903 347**	**344 735 044**	**5 404 159 344**
Total Liabilities	**1 402 876 913**	**3 222 088 276**	**(93 085 467)**	**4 531 879 722**
Equity	**171 644 040**	**262 815 071**	**437 820 511**	**872 279 622**
Other segment items included in the income statement				
Depreciation	**(9 195 826)**	**(270 949)**	**(9 153 215)**	**(18 619 990)**
Amortisation of intangible assets	**-**	**-**	**(7 691 747)**	**(7 691 747)**
As at 31 December 2016				
Total assets	1 525 704 887	2 994 643 190	341 261 603	4 588 609 681
Total Liabilities	1 106 196 479	2 767 471 209	-	3 873 667 688
Equity	146 508 408	227 171 981	341 261 603	714 941 993
Other segment items included in the income statement				
Depreciation	15 793 332	305 818	-	16 416 345
Amortisation of intangible assets	5 795 551	81 965	-	501 585

All of the business is carried out in Uganda. There is therefore no secondary (geographical) segment reporting.

6 INTEREST INCOME

	2017 Ushs' 000	2016 Ushs' 000
Government securities	87 178 456	99 392 706
Loans and advances to customers	295 396 298	304 488 643
Loans and advances to banks	20 336 573	19 406 726
Placements with group companies	616 074	567 860
	403 527 401	423 855 935

Interest income above includes the unwinding effect of the net fee and commissions income included in determining the effective interest rate on financial assets measured at amortised cost of Ushs 6,307 million (2016: Ushs 3,372 million).

7 INTEREST EXPENSE

	2017 Ushs' 000	2016 Ushs' 000
Current accounts	8 036 326	7 013 885
Savings and deposit accounts	21 215 742	21 486 976
Subordinated debt: - Group entity	5 200 933	4 357 229
Deposits and borrowings from banks	10 156 233	9 441 696
Amounts due to group companies	6 130 209	5 183 551
Interest paid on other money market borrowings	40 830	17 138
	50 780 273	47 500 475

8 NET FEE & COMMISSION INCOME

	2017 Ushs' 000	2016 Ushs' 000
Fee and commission income		
Transactional fees & commission income	130 825 981	113 987 495
Credit related fees & commission income	5 004 051	2 460 087
	135 830 032	116 447 582
Fee and commission expense		
Transactional fees & commission expenses	(4 583 746)	(1 814 906)
Net fee and commission income	131 246 286	114 632 676

Net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets measured at amortised cost of Ushs 4,663 million (2016: Ushs 7,011 million).

9 NET TRADING INCOME

	2017 Ushs' 000	2016 Ushs' 000
Foreign exchange trading gains - Realized gains	19 419 461	42 747 260
Foreign exchange trading gains - Unrealized gains	9 813 239	2 674 192
Trading gains on Financial instruments	114 169 510	105 716 399
Unrealised gains/Loss on Financial instruments	2 053 311	1 084 984
Trading expenses - Other	(491 351)	(387 921)
	144 964 170	151 834 914

Trading gains on financial instruments include the effect of buying & selling and changes in the fair value of government securities. Included in foreign exchange are gains and losses from spot and forward contracts and other currency derivatives

10 OTHER OPERATING INCOME:

	2017 Ushs' 000	2016 Ushs' 000
Gain on disposal of property and equipment	-	3 717
Other income	7 047 223	619 861
	7 047 223	623 578

The other operating income under other income includes profit share joint venture fees of Ushs 5.0bn and Bancassurance fees of Ushs 0.8bn after the amendment of the Financial Institutions Act to allow bank sell insurance services and the passing of the insurance regulation in 2017 (2016: Nil)

11 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2017 Ushs' 000	2016 Ushs' 000
Net credit impairment raised and reversed for loans and advances (Note 19)	**37 953 723**	46 687 946
Recoveries on loans and advances previously written off	**(9 031 709)**	(10 047 424)
	28 922 014	36 640 522

12 EMPLOYMENT BENEFITS AND EXPENSES

	2017 Ushs' 000	2016 Ushs' 000
Salaries and wages	**106 490 453**	98 638 610
Contributions to statutory and other defined contribution plans	**23 454 963**	27 183 677
Other	**11 546 129**	10 947 559
	141 491 545	136 769 846

13 OTHER OPERATING EXPENSES

	2017 Ushs' 000	2016 Ushs' 000
Premises costs	**25 644 786**	25 537 340
Office expenses	**4 978 560**	5 237 816
Auditors remuneration	**869 976**	722 271
Professional fees	**5 140 788**	11 001 198
IT expenses	**36 362 406**	46 265 550
Travel and entertainment	**8 249 336**	8 616 886
Marketing and advertising	**8 456 680**	8 736 659
Insurance	**4 426 801**	2 537 502
Deposit Protection Scheme Contribution	**7 669 667**	5 333 256
Security expenses	**8 664 261**	10 111 619
Franchise fees	**19 057 552**	19 305 386
Directors fees & expenses	**554 785**	512 260
Training costs	**2 658 332**	2 713 551
Operational losses	**(3 502 731)**	6 640 891
Indirect taxes (VAT)	**20 004 704**	17 661 733
Bank charges	**1 830 172**	1 485 781
Leased equipment rental	**1 620 058**	1 341 351
Credit Bureau expenses	**731 265**	514 506
Other operating expenses	**20 196 155**	19 097 829
	173 613 553	193 373 385

Other operating expenses (note 13 above) is comprised of the following items;

	2017 Ushs' 000	2016 Ushs' 000
Communication Expenses	**4 426 685**	4 258 807
Commissions Paid	**1 315 613**	1 170 356
Administration and Membership Fees	**1 003 047**	976 822
Donations: Non Tax Allowable	**915 944**	1 813 757
Conference Expenses (Non-Training)	**1 529 365**	1 889 170
Refreshments: Tea & Coffee	**1 169 698**	1 101 351
Other Operating Costs	**9 835 803**	7 887 566
	20 196 155	19 097 829

Included within the other operating costs for 2017 is Ushs 6.9bn relating to digital financial inclusion contribution (2016:4.2bn). The operating losses line for 2017 includes a recovery made of Ushs 4.2bn in relation to a settlement of losses from previous years. The professional fees consist of additional regulatory Audit on the banks information technology systems, a review of the impact of IFRS 9 standard and legal costs. An extra provision was taken in 2016 after assesment of our legal related cases, leading to a one-off increase on this line.

14 INCOME TAX EXPENSE

	2017 Ushs' 000	2016 Ushs' 000
Current income tax	**72 707 331**	57 473 364
Deferred income tax (see note 21)	**(7 509 162)**	5 323 422
	65 198 169	62 796 786

The income tax on the Bank profit before tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2017 Ushs' 000	2016 Ushs' 000
Profit before income tax	**265 665 958**	253 948 621
Tax calculated at statutory tax rate of 30% (2016: 30%)	**79 699 787**	76 184 586
Tax effects of:		
Income subject to tax at 20%	**(15 945 168)**	(15 694 885)
Expenses not deductible for tax purposes	**1 547 702**	2 259 794
Prior year current income tax under provision/over	**(104 152)**	47 291
	65 198 169	62 796 786

The movement in the tax recoverable is as follows:

	2017 Ushs' 000	2016 Ushs' 000
At start of year	**(12 496 197)**	(14 247 605)
Prior year under provisions/over	**(104 152)**	47 291
Income tax charge	**72 811 483**	57 426 074
Tax paid	**(83 959 360)**	(55 721 957)
At end of year	**(23 748 226)**	(12 496 197)

15 EARNINGS PER SHARE

	2017 Ushs' 000	2016 Ushs' 000
Profit attributable to ordinary shareholders (Ushs'000)	**200 467 789**	191 151 835
Weighted average number of ordinary shares in issue (thousands)	**51 188 670**	51 188 670
Basic earnings per share (expressed in Shs per share)	**3.92**	3.73

There were no potentially dilutive shares as at 31 December, 2017 or on 31 December, 2016. Therefore, diluted earnings per share are the same as basic earnings per share.

16 CASH & BALANCES WITH BANK OF UGANDA

	2017 Ushs' 000	2016 Ushs' 000
Coins & bank notes	**291 047 547**	210 784 361
Balances with Bank of Uganda	**565 485 257**	498 566 026
	856 532 804	709 350 387

Banks are required to maintain a prescribed minimum cash balance with Bank of Uganda. The amount is determined by Bank of Uganda on a pre- set formula on a rolling fortnightly basis; 8.33% in 2017 (2016: 8.33%). The reserve as at 31 December, 2017 was Ushs 292,280m (2016: Ushs 249,740m). The cash reserves available for use in the Bank's day to day activities and may fall by upto 50% on a given day. However, there are sanctions for non-compliance.

17 GOVERNMENT SECURITIES

	2017 Ushs' 000	2016 Ushs' 000
Government securities - available for sale		
Treasury bills		
At start of the year	397 821 023	222 990 801
Additions	272 636 931	309 262 286
Disposals	(402 780 815)	(137 034 799)
MTM adjustments	319 960	2 602 715
At end of the year	267 997 099	397 821 003
Treasury bonds		
At start of the year	243 120 818	284 033 633
Additions	25 401 429	8 059 127
Disposals	(43 811 533)	(73 525 888)
MTM adjustments	23 561 773	24 553 946
At end of the year	248 272 487	243 120 818
Total at end of year	516 269 586	640 941 821
Government securities - held for trading		
Treasury bills		
At start of the year	176 494 269	147 633 187
Additions	990 343 758	432 474 799
Disposals	(853 645 497)	(303 912 571)
MTM adjustments	6 543 740	(99 701 146)
At end of the year	319 736 270	176 494 269
Treasury bonds		
At start of the year	73 990 002	30 176 530
Additions	928 257 401	527 471 383
Disposals	(936 454 913)	(470 909 745)
MTM adjustments	7 382 447	(12 748 166)
At end of the year	73 174 937	73 990 002
Total at the end of the year	392 911 207	250 484 271

Government treasury bills are debt securities issued by Bank of Uganda for a term of three months, six months or one year. Government treasury bonds are debt instruments issued by Bank of Uganda for a term of either two, three, five or ten years.

Government securities are categorised as available for sale which are fair valued through reserves and held for trading, which are fair valued through the income statement.

The weighted average effective interest rate on treasury bills and bonds was 13.84% (2016:18.07%).

18 LOANS AND ADVANCES TO BANKS

	2017 Ushs' 000	2016 Ushs' 000
Items in course of collection - foreign banks	5 474 570	3 822 523
Placements with local banks	840 816 933	490 341 317
Placements with foreign banks	254 344 785	264 492 822
	1 100 636 288	758 656 662

The weighted average effective interest rate on loans and advances to Banks was 3.9% (2016: 0.2%)

19 LOANS & ADVANCES TO CUSTOMERS

	2017 Ushs' 000	2016 Ushs' 000
Personal and business banking		
Mortgage lending	**251 731 343**	304 392 323
Instalment sales and finance leases	**62 429 627**	66 499 670
Other loans and advances	**909 121 489**	739 101 829
Corporate and investment banking		
Corporate lending	**973 049 736**	924 934 312
Gross loans and advances	**2 196 332 195**	2 034 928 134
Less: provision for impairment	**(62 345 772)**	(58 180 062)
	2 133 986 423	1 976 748 072
Current	**1 030 968 423**	377 612 072
Non-current	**1 103 018 000**	1 599 136 000
	2 133 986 423	1 976 748 072

Included in other loans and advances is the fair value adjustment of loans advanced to staff at off market rates of Ushs 13,994m (2016: Ushs 17,219m).

Movements in provisions for impairment of loans and advances are as follows:

	Mortgage lending Ushs' 000	Instalment sales and finance leases Ushs' 000	Other loans & Advances Ushs' 000	Corporate lending Ushs' 000	Total Ushs' 000
Non-performing loans					
At 1 January 2017	**5 646 385**	**2 075 601**	**18 892 217**	**10 490 033**	**37 104 236**
Impaired accounts written off	**(4 364 883)**	**(2 216 870)**	**(21 270 595)**	**(247 077)**	**(28 099 425)**
Net provisions raised/ (released)	**2 712 720**	**2 669 817**	**30 208 905**	**3 808 170**	**39 399 612**
Effects of foreign exchange movements	**(154 880)**	**1 773**	**(4 929 123)**	**(547 327)**	**(5 629 557)**
At 31 December 2017	**3 839 342**	**2 530 321**	**22 901 404**	**13 503 799**	**42 774 866**
Performing loans					
At 1 January 2017	**1 449 849**	**423 582**	**9 192 668**	**10 009 726**	**21 075 826**
Net impairments raised	**733 143**	**(130 605)**	**(2 891 956)**	**784 498**	**(1 504 920)**
At 31 December 2017	**2 182 993**	**292 977**	**6 300 712**	**10 794 224**	**19 570 906**
Total	**6 022 334**	**2 823 297**	**29 202 116**	**24 298 023**	**62 345 772**
Non performing loans					
At 1 January 2016	3 837 607	2 742 191	18 787 696	1 416 914	26 784 408
Impaired accounts written off	(3 189 532)	(2 490 440)	(26 495 110)	(1 414 684)	(33 589 766)
Net provisions raised/ (released)	4 998 310	1 824 816	26 549 683	9 861 486	43 234 295
Effects of foreign exchange movements		(966)	49 948	626 317	675 299
At 31 December 2016	5 646 385	2 075 601	18 892 217	10 490 033	37 104 236
Performing loans					
At 1 January 2016	1 683 124	625 046	10 479 185	7 203 266	19 990 621
Net impairments raised	(233 275)	(201 464)	(1 286 516)	2 806 460	1 085 205
At 31 December 2016	1 449 849	423 582	9 192 669	10 009 726	21 075 826
Total	7 096 234	2 499 183	28 084 886	20 499 759	58 180 062

All impaired loans have been written down to their estimated recoverable amount. The net carrying amount of impaired loans at 31 December, 2017 was Ushs 42,775 million (2016: Ushs 37,104 million).

The weighted average effective interest rate on loans and advances was 15.02% (2016: 15.32%)

The loans and advances to customers include finance lease receivables as follows:

	2017 Ushs' 000	2016 Ushs' 000
Gross investment in finance leases		
No later than 1 year	11 913 690	14 702 443
Later than 1 year but no later than 5 years	111 833 781	119 147 079
Later than 5 years	-	387 772
	123 747 471	134 237 294
Unearned future finance income on finance leases	(18 856 883)	(24 969 445)
Net investment in finance leases	104 890 588	109 267 849
The net investment in finance leases may be analysed as follows:		
No later than 1 year	11 266 869	13 953 567
Later than 1 year but no later than 5 years	93 623 719	95 071 929
Later than 5 years	-	242 353
	104 890 588	109 267 849

As at 31 December 2017, the bank had no exposures to a single borrower or group of borrowers exceeding 25% of the core capital of the bank.

20 OTHER INVESTMENT

	2017 Ushs' 000	2016 Ushs' 000
S.W.I.F.T. SCRL	71 906	62 930
	71 906	62 930

These relates to investment in the Society for Worldwide Interbank Financial Telecommunication (SWIFT) shares, an entity that provides a network that enables financial institutions to send and receive information about financial transactions in a secure, standardised and reliable environment.

21 DEFERRED INCOME TAX

The movement on the deferred income tax account is as follows:

	2017 Ushs' 000	2016 Ushs' 000
As at 1 January	1 307 349	14 777 770
Income statement movement	7 509 162	(5 323 423)
Available for sale government securities	(7 164 520)	(8 146 998)
As at 31 December	1 651 991	1 307 349
Deferred income tax assets		
Provisions for loans and advances	17 713 222	10 684 553
Available for sale government securities	(8 480 716)	(1 316 196)
Other deductible temporary differences	5 870 929	2 837 851
	15 103 435	12 206 208
Deferred income tax liabilities		
Property and equipment	(13 451 444)	(10 898 859)
Net deferred income tax asset	1 651 991	1 307 349
Property and equipment	(2 552 585)	(7 915 622)
Provisions for loans and advances and other provisions	7 028 669	1 483 049
Other deductible temporary differences	3 033 078	1 109 150
	7 509 162	(5 323 423)

22 PREPAID OPERATING LEASE

	2017 Ushs' 000	2016 Ushs' 000
Cost		
As at 1 January	**239 141**	239 141
Additions for the year	**-**	-
As at 31 December	**239 141**	239 141
Amortisation		
As at 1 January	**(140 481)**	(130 143)
Charge for the year	**(10 338)**	(10 338)
As at 31 December	**(150 819)**	(140 481)
Carrying value		
As at 31 December	**88 322**	98 660
Current	**10 338**	10 338
Non-current	**77 984**	88 322
	88 322	98 660

The prepaid operating lease relates to lease rentals paid in advances for Land on which the Bank has property.

23 OTHER ASSETS

	2017 Ushs' 000	2016 Ushs' 000
Clearances in transit	**9 808 754**	10 958 197
Prepayments	**19 721 329**	27 435 266
Fees receivable	**6 936 684**	1 011 122
Other accounts receivable	**11 026 417**	9 925 427
	47 493 184	49 330 012
Current	**36 194 803**	35 569 770
Non-current	**11 298 381**	13 760 242
	47 493 184	49 330 012

The fees receivable include commissions earned but not yet received from Bancassurance Ushs 0.8bn, joint venture profit share Ushs 5.0bn, custody fees Ushs 0.3 bn and guarantee fees Ushs 0.7bn.

24 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment of goodwill identified in 2017 (2016: nil).

	Computer software Ushs' 000	Goodwill Ushs' 000	Total Ushs' 000
Cost			
At 1 January 2017	**86 343 449**	**4 753 980**	**91 097 429**
Additions	**-**	**-**	**-**
Written off	**-**	**-**	**-**
At 31 December 2017	**86 343 449**	**4 753 980**	**91 097 429**
Amortisation			
At 1 January 2017	**8 643 453**	**2 852 388**	**11 495 841**
Charge for the year	**7 691 747**	**-**	**7 691 747**
At 31 December 2017	**16 335 200**	**2 852 388**	**19 187 588**
Net book value			
At 31 December 2017	**70 008 249**	**1 901 592**	**71 909 841**
Cost			
At 1 January 2016	2 938 295	4 753 980	7 692 275
Additions	83 405 154	-	83 405 154
Written off		-	-
At 31 December 2016	86 343 449	4 753 980	91 097 429
Amortisation			
At 1 January 2016	2 028 349	2 852 388	4 880 737
Charge for the year	6 615 104	-	6 615 104
At 31 December 2016	8 643 453	2 852 388	11 495 841
Net book value			
At 31 December 2016	77 699 996	1 901 592	79 601 588

25 PROPERTY & EQUIPMENT

	Land and buildings Ushs' 000	Furniture, fittings and equipment Ushs' 000	Computer equipment Ushs' 000	Motor vehicles Ushs' 000	Work in progress Ushs' 000	Total Ushs' 000
Cost						
At 1 January 2017	**3 415 496**	**64 819 535**	**68 433 256**	**6 056 095**	**13 249 495**	**155 973 877**
Additions	**-**	**9 277 379**	**9 514 256**	**1 780 171**	**4 558 619**	**25 130 425**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**(2 049 418)**	**(2 343 793)**	**(725 277)**	**-**	**(5 118 488)**
At 31 December 2017	**3 415 496**	**72 047 496**	**75 603 719**	**7 110 989**	**17 808 114**	**175 985 814**
Depreciation						
At 1 January 2017	**1 019 485**	**45 398 412**	**43 227 851**	**3 010 127**	**-**	**92 655 875**
Charge for the year	**69 081**	**7 339 632**	**10 035 254**	**1 176 023**	**-**	**18 619 990**
On disposals	**-**	**(1 892 215)**	**(1 983 020)**	**(707 402)**	**-**	**(4 582 637)**
At 31 December 2017	**1 088 566**	**50 845 829**	**51 280 085**	**3 478 748**	**-**	**106 693 228**
Net book value						
At 31 December 2017	**2 326 930**	**21 201 667**	**24 323 634**	**3 632 241**	**17 808 114**	**69 292 586**
Cost						
At 1 January 2016	3 415 496	63 763 679	61 685 119	5 348 515	4 390 680	138 603 489
Additions	-	6 085 468	9 210 623	1 045 967	14 048 669	30 390 727
Transfers	-	-	5 189 854	-	(5 189 854)	-
Disposals	-	(5 029 612)	(7 652 340)	(338 387)	-	(13 020 339)
At 31 December 2016	3 415 496	64 819 535	68 433 256	6 056 095	13 249 495	155 973 877
Depreciation						
At 1 January 2016	950 404	44 001 229	41 989 327	2 453 244	-	89 394 204
Charge for the year	69 081	6 296 522	8 838 277	895 270	-	16 099 150
On disposals	-	(4 899 339)	(7 599 753)	(338 387)	-	(12 837 479)
At 31 December 2016	1 019 485	45 398 412	43 227 851	3 010 127	-	92 655 875
Net book value						
At 31 December 2016	2 396 011	19 421 123	25 205 405	3 045 968	13 249 495	63 318 002

26 SHARE CAPITAL

	Number of ordinary shares (thousands)	Ordinary share capital Ushs' 000	Total Ushs' 000
Issued and fully paid			
At 1 January 2017	**51 188 670**	**51 188 670**	**51 188 670**
At 31 December 2017	**51 188 670**	**51 188 670**	**51 188 670**
Issued and fully paid			
At 1 January 2016	51 188 670	51 188 670	51 188 670
At 31 December 2016	51 188 670	51 188 670	51 188 670

The par value of ordinary shares is Ushs 1 per share. The holders of the ordinary shares are entitled to one vote per share at the annual or special general meeting of the Bank.

27 AVAILABLE FOR SALE REVALUATION RESERVE

	2017 Ushs' 000	2016 Ushs' 000
At 1 January	**3 071 123**	(15 938 540)
Net gains from changes in fair value	**23 881 733**	27 156 661
Deferred tax on fair value change	**(7 164 520)**	(8 146 998)
Net movement for the year	**16 717 213**	19 009 663
At 31 December	**19 788 336**	3 071 123

28 STATUTORY CREDIT RISK RESERVE

The statutory credit risk reserve represents amounts by which provisions for impairments of loans and advances, determined in accordance with the Financial Institutions Act exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated from retained earnings in accordance with accounting policy (j).

	2017 Ushs' 000	2016 Ushs' 000
Specific Provisions (Regulatory)	**46 338 820**	50 892 949
General Provisions (Regulatory)	**35 178 065**	30 181 080
	81 516 885	81 074 029
Less		
Identified impairment (in accordance with IFRS)	**42 774 866**	37 104 236
Unidentified impairment (in accordance with IFRS)	**19 570 906**	21 075 825
Statutory Credit risk reserves	**19 171 113**	22 893 968

29 DERIVATIVES

The Bank uses currency forward derivative instruments and interest rate derivatives for non-hedging purposes. Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market foreign exchange rates on hand relative to their terms. The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The maturity analysis of the fair values of derivative instruments held is set out below.

	Less than 1 year Ushs' 000	1-5 years Ushs' 000	Over 5 years Ushs' 000	Total Ushs' 000
As at 31 December 2017				
Assets				
Derivatives held for trading	-	-	-	-
Currency forwards	428 490	72 924	-	501 414
Interest rate swaps	-	-	11 616 088	11 616 088
Fair value of assets	428 490	72 924	11 616 088	12 117 502
Liabilities				
Derivatives held for trading	-	-	-	-
Currency forwards	2 821 152	1 390 474	-	4 211 626
Fair value of liabilities	2 821 152	1 390 474	-	4 211 626
Net fair value	(2 392 662)	(1 317 550)	11 616 088	7 905 876
As at 31 December 2016				
Assets				
Derivatives held for trading	-	-	-	-
Currency forwards	868 997	1 433 167	-	2 302 164
Interest rate swaps	-	-	7 764 453	7 764 453
Fair value of assets	868 997	1 433 167	7 764 453	10 066 617
Liabilities				
Derivatives held for trading	-	-	-	-
Currency forwards	592 135	-	-	592 135
Fair value of liabilities	592 135	-	-	592 135
Net fair value	276 862	1 433 167	7 764 453	9 474 482

30 CUSTOMER DEPOSITS

	2017 Ushs' 000	2016 Ushs' 000
Current and demand deposits	3 057 800 356	2 553 460 986
Savings accounts	294 817 773	224 488 265
Fixed and call deposit accounts	237 471 557	239 215 559
Trading Liabilities	30 855 887	41 339 953
	3 620 945 573	3 058 504 763
Current	3 620 933 551	3 058 474 122
Non-current	12 022	30 641
	3 620 945 573	3 058 504 763

The weighted average effective interest rate on customer deposits was 0.85% (2016: 0.98%)

31 DEPOSITS AND BALANCES DUE TO BANKS

	2017 Ushs' 000	2016 Ushs' 000
Balances due to other banks - local currency	125 837 741	54 186 047
Balances due to other banks - foreign currency	216 931 433	239 540 680
	342 769 174	293 726 727
Current	342 769 174	293 726 727
Non-current	-	-
	342 769 174	293 726 727

The weighted average effective interest rate on deposits and balances due to Banks was 3.57% (2016: 3.02%).

32 BORROWED FUNDS

	2017 Ushs' 000	2016 Ushs' 000
Bank of Uganda: Agricultural Credit Facility	**16 364 653**	11 579 364
	16 364 653	11 579 364
Current	**12 375 969**	7 590 680
Non-current	**3 988 684**	3 988 684
	16 364 653	11 579 364
Movement analysis		
As at 1 January	**11 579 364**	6 819 339
New disbursments	**7 548 942**	7 775 151
Payments to BOU	**(2 763 653)**	(3 015 127)
As at 31 December	**16 364 653**	11 579 364

The Government of Uganda, through Bank of Uganda, set up an Agricultural Credit Facility scheme for the purpose of supporting agricultural expansion and modernization in partnership with commercial Banks. All eligible Bank customers receive 50% financing from the Government of Uganda while the remaining 50% is provided by the Bank. The outstanding balance as at 31 December, 2017 was Ushs 16,364 million (2016: Ushs 11,579 million). The Bank does not pay any interest to the Government of Uganda. Refunds to the government are made half yearly and as at 31 December, 2017; the last payable instalment is due on 31 December, 2021.

The Bank complied with all the terms and conditions of the agreements during the year.

33 OTHER LIABILITIES

	2017 Ushs' 000	2016 Ushs' 000
Uganda Revenue Authority - Tax revenue collections	**4 167 482**	7 017 166
Bills payable	**73 475 162**	65 146 705
Unclaimed balances	**15 108 421**	20 011 925
Sundry creditors	**46 076 460**	47 105 234
Unearned fees & commission income	**1 199 826**	-
Dividend payable	**9 774 067**	7 978 692
Other liabilities	**58 372 077**	47 062 345
	208 173 495	194 322 067

Note : Included in other liabilities for 2017 is Ushs 30.1bn relating to accepted usance letters of credit payable to third parties at a determined future date. (2016: 20.0bn) and bills payable country driven change the Bank projects of Ushs 10.9bn (2016: Ushs 10.7bn), Ushs 11.1bn digital finacial inclusion contribution (2016: 4.2)

34 SUBORDINATED DEBT

	Date of issue	Carrying value Ushs' 000	Notional value Ushs' 000
As at 31 December 2017			
Subordinated loan facility - Standard Bank South Africa	31 March 2016	**72 801 196**	**72 801 196**
		72 801 196	**72 801 196**
As at 31 December 2016	**Date of issue**	**Ushs' 000**	**Ushs' 000**
Subordinated loan facility - Standard Bank South Africa	31 March 2016	72 137 386	72 137 386
		72 137 386	72 137 386

In 2016, the Bank signed an unsecured 10 year term subordinated loan facility agreement with Standard Bank of South Africa (SBSA) as the lender which commenced on 31-Mar-2016 amounting to USD 20 million at a rate of libor plus 5.9%. The subordinated loan was sourced to supplement SBU capital and diversify funding sources.

The Bank complied with all conditions of the agreement during the year.

35 DIVIDENDS

At the annual general meeting to be held in May 2018, a dividend of Ushs 1.76 per share amounting to Ushs 90bn in total is to be proposed. (2016: total dividend per share of Ushs 1.17 amounting to Ushs 60bn). The payment of dividends is subject to withholding tax at rates depending on the tax status or residence of the recipient.

36 OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with other Banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the statement of financial position.

	2017 Ushs' 000	2016 Ushs' 000
Contingent liabilities		
Acceptances and letters of credit	**68 106 958**	44 708 689
Guarantees and performance bonds	**1 303 395 151**	983 225 153
	1 371 502 109	1 027 933 842
Commitments		
Commitments to extend credit	**520 237 216**	555 003 308
Currency forwards	**(70 527 897)**	(21 502 243)
Operating lease commitments	**21 606 786**	20 623 715
	471 316 105	554 124 780
	1 842 818 214	1 582 058 622

Nature of contingent liabilities

An acceptance is an undertaking by a Bank to pay a bill of exchange drawn on a customer.The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

Pending litigation

The Bank is a litigant in several other cases which arise from normal day to day Banking. The directors and management believe the Bank has strong grounds for success in a majority of the cases and are confident that they should get a ruling in their favour and none of the cases individually or in aggregate would have a significant impact on the Bank's operations.

The directors have carried out an assessment of all the cases outstanding as at 31 December, 2017 and where considered necessary based on the merits of each case, a provision has been raised. In aggregate the total provisions raised amount to Ushs 8.4bn (2016: Ushs 8.2bn). Reported under other liabilities.

Other matters

Stanbic Bank during the year charged Stamp Duty on performance bonds/guarantees at a fixed rate of Ushs 10,000 per copy. However, Uganda Revenue Authority (URA) in August 2017, communicated to the Uganda Bankers Association (UBA) that the applicable stamp duty rate on performance/indemnity bond/ guarantees is 1% of bond/ guaranteed total value and not the fixed rate of Ushs 10,000 that was being applied. This pronouncement created a potential liability on the bank. The bank through the UBA legal committee is challenging URA's interpretation Stamp Duty treatment on Performance bonds/ Guarantees using the available legal means at their disposal.

37 ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CASH FLOW STATEMENT

	2017 Ushs' 000	2016 Ushs' 000
Cash and balances with Bank of Uganda	**856 532 804**	709 350 387
Cash reserve requirement	**(292 280 000)**	(249 740 000)
Government securities maturing within 90 days	**298 378 361**	365 164 815
Placements with other banks	**1 100 636 288**	758 656 662
Amounts due from group companies	**177 449 478**	36 147 113
	2 140 716 931	1 619 578 977

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central Banks, treasury bills and other eligible bills, and amounts due from other Banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Uganda. (See Note 1).

The table below shows a reconciliation of movements of liabilities to cash flows arising from financing activities.

	Note	Liabilities		Equity	
		Subordinated Debt	Borrowed Funds	Proposed Dividend	Total
Balance as at 1 January 2017		**72,137,386**	**11,579,364**	**60,000,000**	**143,716,750**
Changes from financing cash flows					
Proceeds from Bank of Uganda (ACF)		-	7,548,943	-	**7,548,943**
Payments to Bank of Uganda (ACF)		-	(2,763,654)	-	**(2,763,654)**
Interest Expense		5,200,933	-	-	**5,200,933**
Interest Paid		(4,537,123)	-	-	**(4,537,123)**
Dividend Paid		-		(60,000,000)	**(60,000,000)**
Total changes from financing cash flows		**663,810**	**4,785,289**	**(60,000,000)**	**(54,550,901)**
Other Changes (Equity-Related):					
Proposed Dividend 2017		-	-	90,000,000	**90,000,000**
Total changes from other changes (equity-related)		-	-	**90,000,000**	**90,000,000**
Balance as at 31 December 2017		**72,801,196**	**16,634,653**	**90,000,000**	**179,435,849**

38 RELATED PARTIES

The Bank is 80% owned by Stanbic Africa Holdings Limited, which is incorporated in the United Kingdom. The ultimate parent and controlling party of the Bank is Standard Bank Group Limited, incorporated in South Africa. There are other companies which are related to Stanbic Bank Uganda Limited through common shareholdings or common directorships. These include Standard Bank Isle of Man Limited, Standard Bank of South Africa, CfC Stanbic Bank Kenya Limited, Stanbic Bank Tanzania Limited, Stanbic Bank Botswana, Stanbic International Uganda Limited, StanLib, Stanbic International Insurance Limited and Liberty Life Assurance Uganda Limited.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent company and other group companies at interest rates in line with the market.

The relevant balances are shown below:

	2017 Ushs' 000	2016 Ushs' 000
Amounts due from group companies		
Placements and borrowings	**173 850 641**	28 024 436
Other assets	**3 065 178**	4 478 192
Derivatives	**533 659**	3 644 485
	177 449 478	36 147 113
Amounts due to group companies		
Deposits and current accounts	**187 224 351**	181 396 318
Derivatives	**15 864 692**	10 444 775
Other liabilities	**63 524 963**	50 964 153
	266 614 006	242 805 246
Subordinated debt due to group companies		
Subordinated loans (see note 34)	**72 801 196**	72 137 386
Interest income earned	**616 074**	567 860
Interest expense paid	**11 331 142**	9 540 780
Trading income	**11 664 701**	4 539 861
Operating expenses incurred	**39 822 864**	48 536 070

Related parties continued

Loans to key management and related parties

Name(s) of Insider borrower(s) including related interests of the borrower(s)	2017 Ushs' 000 Aggregate amount outstanding	Interest Rate Range	Status: Performing or Non Performing	Facility
Directors	495,997	7.5%-38%	Performing	Loans and Advances
Executive Officers	1,154,174	7.5%-38%	Performing	Loans and Advances
Credit extensions to related companies				
Mulwana Group	4,200	-	Performing	Guarantee
Uganda Breweries Ltd	22,720,389	6%-13%	Performing	Loans and Advances
UMEME LIMITED	107,111,021	7%-17%	Performing	Loans and Advances
Credit extensions to individual affiliates	17,313	11.25% - 16.5%	Performing	Loans and Advances
	131,503,094			

Name(s) of Insider borrower(s) including related interests of the borrower(s)	2016 Ushs' 000 Aggregate amount outstanding	Interest Rate Range	Status: Performing or Non Performing	Facility
Directors	381,864	7.5%-38%	Performing	Loans and Advances
Executive Officers	933,351	7.5%-38%	Performing	Loans and Advances
Credit extensions to Affiliates				
Mulwana Group	1,379,539	0.00%	Performing	LCs and Guarantee
Uganda Breweries Ltd	18,027,440	5.60%	Performing	Loans and Advances
	20,722,194			

Companies affiliated to directors and key management are Uganda Batteries Limited, Nice House of Plastics, Jesa Farm Dairy Limited, Uganda Breweries Ltd, Mulwana Group, UMEME Ltd. and Impala Heights Ltd.

Loans granted to non-executive directors and their affiliates are granted at commercial rates while those granted to executive directors and executives are: Mortgage – 50% of prime rate, staff miscellaneous and car loans – 75% of prime rate, study loans – 0%.

	2017 Ushs' 000	2016 Ushs' 000
Interest income from key management loans	**123 038**	775 229
	123 038	775 229

No impairment has been recognised in respect of loans advanced to related parties (2016: nil). Other related party transactions.

	2017 Ushs' 000	2016 Ushs' 000
Deposits by key management and related parties		
As at 1 January	**1 251 179**	1 135 020
Net increase for the year	**192 468**	116 159
	1 443 647	1 251 179
Key management compensation		
Salaries and other short term employment benefits	**15 218 299**	10 393 580
Post-employment benefits	**4 231 502**	2 037 090
	19 449 801	12 430 670
Directors remuneration		
Directors fees	**478 075**	452 238
Other emoluments included in management compensation	**6 988 334**	5 922 123
	7 466 409	6 374 361

39 EQUITY LINKED TRANSACTIONS

The Group Share Incentive Scheme and the Equity Growth Scheme are equity linked schemes. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

The amounts reflected in the income statememt for the two schemes are:

	2017 Ushs' 000	2016 Ushs' 000
Group Share Incentive Scheme	139 283	(135,731)
Equity Growth Scheme	13 343	158 480
	152 626	22 749

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years

Group Share Incentive Scheme

A reconciliation of the movement of share options and appreciation rights is detailed below:

Group Share Incentive Scheme	Option price range (ZAR) 31-Dec-17	Option price range (Ushs) 31-Dec-17	Number of options 31-Dec-17	Number of options 31-Dec-16
Options outstanding at beginning of the period			25,950	33,117
Transfers	92.00 - 99.97	27,232 - 29,591	8,500	10,200
Lapsed				
Exercised	92.00 - 111,94	27,232 - 33,134	(7,950)	(17,367)
Options outstanding at end of the period			26,500	25,950

The weighted average SBG share price for the period to 31 December 2017 year end was ZAR 157.29 (2016: ZAR151.63).

The following options granted to employees had not been exercised at 31 December 2017:

Number of ordinary shares (ZAR)	Option price range (ZAR)	Option price range (Ushs)	Option price range (ZAR)	Weighted average price	Option expiry period
19 625	111.94	33,134	29,362	111.94	Year to 31 December 2020
6 875	98.8-99.97	29,245 - 29,591	25,916	99.23	Year to 31 December 2021
26 500					

The following options granted to employees had not been exercised at 31 December 2016:

Number of ordinary shares (ZAR)	Option price range (ZAR)	Option price range (Ushs)	Option price range (ZAR)	Weighted average price	Option expiry period
21 575	111.94	33,134	29,362	111.94	Year to 31 December 2020
4 375	98.8	29,245	25,916	98.8	Year to 31 December 2021
25 950					

The following options granted to employees had not been exercised at 31 December 2015:

Number of ordinary shares (ZAR)	Option price range (Ushs)	Option price range (Ushs)	Option price range (ZAR)	Weighted average price	Option expiry period
400	98	29,005	25,706	98	Year to 31 December 2017
3 500	92	27,232	24,132	92	Year to 31 December 2018
900	62.39	18,467	16,365	62.39	Year to 31 December 2019
11 200	111.94	33,134	29,362	111.94	Year to 31 December 2020
17 117	98.8	29,245	25,915	98.8	Year to 31 December 2021
33 117					

Equity linked transaction continued

Equity Growth Scheme	Appreciation right price range (ZAR) 31-Dec-17	Number of rights 31-Dec-17	31-Dec-16
Rights outstanding at beginning of the period		13 000	90 203
Transfers	98.80-156.96	71 985	(14 253)
Granted			
Exercised	115.51	(5 886)	(62 950)
Rights outstanding at end of the period		79 099	13 000

At 31 Decemeber 2017 the group would need to issue 24311 (2016: 8063) SBG shares to settle the outstanding appreciated rights value.

Number of rights		Price range (ZAR)	Price range (Ushs)	Weighted average price (ZAR)	Expiry period
	12 500	111.94	29,362	111.94	Year to 31 December 2020
	500	98.8	25,915	98.8	Year to 31 December 2021
	13 000				

The following rights granted to employees had not been exercised at 31 December 2017:

Number of rights	Price range (ZAR)	Weighted average price (ZAR)	Expiry period
12 500	111.94	111.94	Year to 31 December 2020
14 528	126.87	126.87	Year to 31 December 2024
31 339	156.96	156.96	Year to 31 December 2025
20 732	122.24	122.24	Year to 31 December 2026
79 099			

40 IMPACT OF IFRS 9

Classification and measurement of financial instruments

The classification category and the carrying amounts of financial assets and liabilities are compared in accordance with IAS 39 and IFRS 9 at 1 January 2018

	IAS 39		IFRS 9	
Financial Assets	**Classification category**	**Carrying amount**	**Classification category**	**Carrying amount**
Cash & balances with Bank of Uganda	Loans and receivables	856,532,804	Amortised cost	583,327,549
			Fair value through profit and loss_default	273,205,257
Derivative assets	Hedged instruments	12,117,502	(Held for trading) FVPL	12,117,502
Government securities - held for trading	Held for trading	392,911,207	(Held for trading) FVPL	392,911,207
Government securities - available for sale	Available for sale	516,269,586	Fair value through OCI	516,269,586
Other investment	Share investments	71,906	Fair value through profit and loss_default	71,906
Current income tax recoverable	Loans and receivables	23,748,226	Amortised cost	23,748,226
Loans and advances to banks	Loans and receivables	1,100,636,288	Amortised cost	1,100,592,868
Amounts due from group companies	Loans and receivables	177,449,478	Amortised cost	177,449,478
Loans and advances to customers	Loans and receivables	2,133,986,423	Amortised cost	2,100,361,752
Other assets	Loans and receivables	47,493,184	Amortised cost	28,938,605
			Fair value through profit and loss_default	18,554,579

The impact of the transition to IFRS 9 on the retained earnings .

Retained Earnings	Amounts
Closing balance under IAS 39 (31 December 2017)	692,131,502
Recognition of IFRS 9 ECL	(35,840,685)
Deferred tax relating to IFRS 9 above	10,752,206
Opening balance under IFRS 9 (1 January 2018)	**667,043,023**
Total change in equity due to adoption of IFRS 9	**25,088,479**

The following table provides a reconciliation of the impairment allowances measured in accordance with IAS 39 incurred loss model and IFRS 9 expected loss model at 1st January 2018

Financial Assets	Loan Loss Allowances under IAS 39/ provisions under IAS 37	Additional provisions	Loan Loss Allowances under IFRS 9
	-	-	-
Financial investments	-	99,637	99,637
Loans and advances to banks	-	43,420	43,420
Loans and advances to customers	62,345,772	33,624,671	95,970,433
	62,345,772	**33,767,728**	**96,113,500**
Loan contracts and financial guarantee contracts			
Loans and advances to customers (Loan commitements)	-	518,116	518,116
Provisions (financial guarantees and letters of credit)	-	1,554,841	1,554,841
Total impairment	**62,345,772**	**35,840,685**	**98,186,457**

The table below shows the ECL charges on the financial instruments on the date of transition.

	Stage 1	Stage 2	Stage 3	Total
Financial investments	99,637	-	-	99,637
Loans and advances to banks	43,420	-	-	43,420
Loans and advances to customers	19,256,094	34,180,547	42,533,802	95,970,443
Loans and advances to customers (Loan commitements)	518,116	-	-	518,116
Provisions (financial guarantees)	1,554,841	-	-	1,554,841
Total impairment	**21,472,108**	**34,180,547**	**42,533,802**	**98,186,457**

The table below shows the impairment comparisions between local regulatory requirements and IFRS 9 as at 1 January 2018

	2018 Ushs' 000
Specific Provisions (Regulatory)	46,338,820
General Provisions (Regulatory)	35,178,065
Total regulatory provisions	**81,516,885**
Less impairment in accordance with IFRS 9	
Stage 1	21,472,108
Stage 2	34,180,547
Stage 3	42,533,802
Extra provisions held	**16,669,572**

The table below shows the Impact on core and Total capital if the bank had applied IFRS 9 adjustment to its capital as at 1 January 2018

	2018 Ushs' 000	Capital Ratios
Core capital	657,891,790	18.1%
Less IFRS 9 impact	(25,088,479)	
Restated core Capital	**632,803,311**	**17.4%**
Total capital	765,871,052	21.0%
Less IFRS 9 impact	(25,088,479)	
Restated Total Capital	**740,782,573**	**20.3%**

41 SUBSEQUENT EVENTS

There was no significant event to report (2016:Nil).

SUPPLEMENTARY INFORMATION

Shareholder Analysis

Top ten shareholders as at 31 December, 2017

Name	Number of-shares	Percentage shareholding
STANBIC AFRICA HOLDINGS LIMITED	40,950,935,760	80.00
NATIONAL SOCIAL SECURITY FUND	1,335,166,934	2.61
DUET AFRICA OPPORTUNITIES MASTER FUND IC	508,162,923	0.99
KUWAIT INVESTMENT AUTHORITY	382,814,000	0.75
SUDHIR RUPARELIA	330,723,247	0.65
SCB MAURITIUS RE AFRICA OPPORTUNITY FUND L P SCB MAURITIUS RE AFRICA OPPORTUNITY FUND L P	246,703,581	0.48
FRONTAURA GLOBAL FRONTIER FUND LLC FRONTAURA GLOBAL FRONTIER FUND LLC	232,090,821	0.45
CENTRAL BANK OF KENYA PENSION FUND	230,615,680	0.45
BANK OF UGANDA DEFINED BENEFITS SCHEME -STANLIB	212,746,750	0.42
IBULAIMU KIRONDE KABANDA	202,691,120	0.40

Key Shareholder information

Stanbic Uganda is majority-owned by Stanbic Africa Holdings Limited (SAHL), which is a private limited liability company incorporated in the United Kingdom. SAHL is, in turn, wholly-owned by Standard Bank Group and is the vehicle through which Standard Bank Group holds its interests in several Banks in African countries.

Standard Bank Group is a public limited liability Company incorporated in South Africa and is lisited on the Johannesburg Stock Exchange (JSE).It is the largest South African Banking Group by Market Capitalisation and by assets and earnings. Standard Bank Group as at 31 December 2017 had total assets of ZAR 2tn (US$165bn) the market capitalisation is ZAR 317bn (US$28bn) and employs more than 55,000 people worldwide.

Standard Bank Group, whose year of founding traces back to 1862 in South Africa, trades as Standard Bank in South Africa, Namibia, Mauritius, Mozambique and Swaziland and as Stanbic Bank throughout the remainder of the African continent. It has wide representation, which spans 20 African countries and owns a controlling stake in the South African listed insurance company Liberty Holdings Limited. While its principal activities are Banking and related financial services, Standard Bank Group has delivered its operations to meet the demands of the fast changing and demanding business world, with investments in insurance, wealth management and investment management. It provides a wide range of Banking and related financial services.

Shareholder Profile as at 31 December 2017.

Range ID	Description	No. of Investors	No Of Shares Held	Percent Holding
1	Between 1 and 1,000 Shares	229	125,057	0.0002%
2	Between 1,001 and 5,000 Shares	549	1,681,441	0.0033%
3	Between 5,001 and 10,000 Shares	4,084	40,038,216	0.0782%
4	Between 10,001 and 100,000 Shares	11,825	630,303,572	1.2313%
5	Between 100,001 and 500,000 Shares	4,187	1,073,484,797	2.0971%
6	Between 500,001 and 1,000,000 Shares	819	679,396,924	1.3272%
7	Between 1,000,001 and 5,000,000 Shares	671	1,048,873,297	2.0490%
8	Above 5,000,001 Shares	146	47,714,594,489	93.2135%
	Total	22,510	51,188,497,793	100.0000%

Shareholder Information

Chairman's letter to shareholders,

Dear shareholder

I extend an invitation to you to attend the Annual General Meeting (AGM) of Stanbic Bank Uganda Limited to be held at the Victoria Ballroom, Serena Hotel, Kampala on 31 May 2018 at 11:00 am.

This is your opportunity to meet and engage members of the Stanbic Bank Uganda Limited board regarding the company's performance for the year ended 31 December, 2017.

If you are not able to attend the AGM, I would urge you to complete and submit the proxy form in accordance with the instructions and return it to the address indicated on page 172.

The AGM will deal with the ordinary business as detailed in the notice on page 170 . I look forward to your attendance and participation at the AGM.

Japheth Katto
Chairman,
Board of Directors

Notice to members

Notice is hereby given that the Annual General Meeting (AGM) of Stanbic Bank Uganda Limited will be held at Victoria Ballroom, Serena Hotel, Kampala on 31 May, 2018 at 11:00 am for the following business:

Agenda

Ordinary Resolutions

1. To consider, and if deemed fit, pass an ordinary resolution to receive and adopt the annual audited financial statements for the year ended December 31st 2017, including the reports of the Directors and Auditors.
2. To consider, and if deemed fit, pass an ordinary resolution to receive and adopt the recommendation of the Directors on the declaration of a dividend for the year 2017.
3. To consider, and if deemed fit, pass an ordinary resolution to confirm the appointment and re-election of Directors in accordance with the provisions of the Company's Articles of Association.
4. To consider, and if deemed fit, pass an ordinary resolution to approve the re-appointment of KPMG as the external auditors of the Company for the year 2018.
5. To consider, and if deemed fit, pass an ordinary resolution to receive and approve an adjustment of fees payable to the Non-Executive Directors for the year 2018.

Special Resolution

6. To consider, and if deemed fit, pass a special resolution approving the reorganization of the Company and the transactions thereunder subject to regulatory approval and in line with legal requirements. A detailed circular on the proposed reorganization will be available on the company's website (www.stanbicbank.co.ug) with effect from 9th of May 2018 or at the nearest Branch.

Details of directors

Directors' details as required by the Listing Rules of the Uganda Securities Exchange Limited (the Listing Rules) are set out on page 96 of the annual report that accompanies this notice of annual general meeting (the Annual Report)

Directors' responsibility statement

The directors, whose names are given on page 108 of the Annual Report, collectively and individually accept full responsibility for the accuracyof the information given in the Annual Report and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement in the Annual Report false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by law and the Listing Rules.

Interests of directors

The interests of the directors in the share capital of the Company are set out on page 107 of the Annual Report.

Major shareholders

Details of major shareholders of the Company are set out on page 168 of the Annual Report.

Share capital of the Company

Details of the share capital of the Company are set out on page 107 of the Annual Report.

Material change

There has been no material change in the financial or trading position of the Company and its subsidiaries since the date of publication of the company's annual results on 28 March 2018.

Stanbic Bank Uganda Limited shareholders may attend, speak and vote at the annual general meeting or may appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and vote at the annual general meeting on behalf of such shareholder. A proxy form is attached to this notice of annual general meeting. Duly completed proxy forms must be returned to the share registrars of the Company or the registered office of the Company at the addresses set out below, to be received by not later than 5:00 pm on Tuesday 29th of May 2018.

On behalf of the board

Company Secretary

Registered office

Crested Towers, Short Tower 17
Hannington Road Kampala, Uganda
P.O.Box 7131 Kampala, Uganda
Fax: +256 41 4230608 636 4207

Share Registrars

Custody and Registrar Services (Uganda) Limited
4th Floor, Diamond Trust Center,
17/19 Kampala Road, Kampala, Uganda
Telephone: +256 414 237504

Proxy Form

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

I/We ____ (Name in block letters) of ___________________________________ (Address in block letters) being a shareholder(s) of _____________ ordinary shares of Ushs. 1 each and entitled to vote hereby appoint:

1.____ or, failing him/her

1. ____ or, failing him/her the Chairman of the annual general meeting, as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of shareholders to be held at Victoria Hall, Kampala Serena Hotel, ... in the morning, and at any adjournment thereof as follows:

Ordinary resolution to:

1. Receive the annual financial statements.
2. Declare a dividend.
3. Elect directors
   - **3.1 Mr. Sam Zimbe**
   - **3.2 Prof. Patrick Mangheni**
   - **3.3 Mr. Japheth Katto**
4. Approve the appointment of Klynveld Peat Marwick Gourdeler (KPMG) as 2018 auditors of the Company.
5. Approve non-executive directors' remuneration.

Special Resolution to

6. Approve the reorganization of the Company and the transactions thereunder subject to regulatory approval and in line with legal requirements.

* Insert a cross. or tick or number of votes. If no options are marked, the proxy can vote as he/she deems fit.

Signed at _________________________________on___________________________________2018

Assisted by (where applicable)

____ (state capacity and full name)

Please provide contact details:

Tel: ____

Fax: ____

e-mail: ____

Please read the notes on the next page.

Notes

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. To be effective, completed proxy forms must be lodged by not later than Tuesday 29th May, 2018, with either the share registrar or the registered office:

   Registered address
   Crested Towers, Short Tower 17 Hannington Road Kampala, Uganda
   P.O. Box 7131 Kampala, Uganda Fax: +256 41 4230608

   Share Registrars
   Custody and Registrar Services (Uganda) Limited
   4th Floor, Diamond Trust Center,
   17/19 Kampala Road, Kampala, Uganda
   Telephone: +256 414 237504

3. The completion and lodging of this form of proxy will not prevent the relevant shareholder from attending the annual general meeting and speaking and voting in person at the meeting instead of the proxy.

4. The Chairman of the Annual General Meeting may accept or reject any proxy form which is completed or received other than in compliance with these notes.

5. The signatories must initial any alteration to this proxy form, other than the deletion of alternatives.

6. Documentary evidence establishing the authority of a person signing the proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company. In case of a corporation, a resolution of the board or equivalent body shall be required.

7. Where there are joint holders of ordinary shares:

   a. Any one holder may sign the proxy form; and

   b. The vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders who tender a vote (whether in personor by proxy) appear in the Company's register) will be accepted as to the exclusion of the votes(s) of the other joint shareholders.

Contact Details

Chief Financial Officer
Samuel Fredrick Mwogeza
Tel: +256 41 7 154 396

Company Secretary
Candy Okoboi
Tel: +256 41 7 154 606

Investor relations enquiries
Sophie Achak
Tel: +256 41 7 154 310

Share Registrars
Custody and Registrar Services (Uganda) Limited
4th Floor, Diamond Trust Center,
17/19 Kampala Road, Kampala, Uganda
Telephone: +256 414 237504

Our branches country-wide

BRANCH	PLOT DETAILS	
EASTERN		
Busia Branch	Plot 1 Tororo Road, Busia Town	Tororo Road
Iganga Branch	Plot 1 & 3 Magumba Road, Iganga Town	Magumba Road
Jinja Branch	Plot 2,Martin Rd.Jinja Town	Martin Road
Kamuli Branch	Plot 2 Gabula Rd.	Gabula Road
Kapchorwa Branch	Plot 20 Kitale Road, Kapchorwa	Kitale Road
Kotido Branch	Plot 3A Moroto Road Kotido	Moroto Road
Lugazi Branch	Plot 29 Ntenge Rd. Lugazi	"Ntenge Road
Mbale Branch	Plot 50/52 Republic Av. Mbale Town	Republic Avenue
Moroto Branch	Plot 27 Lia Road Moroto"	Lia Road
Soroti Branch	Plot 42,Gweri Rd. Soroti Town	Gweri Road
Tororo Branch	Plot 1, Block 5 Uhuru Drive, Tororo Town	Nagogera Road
Aponye Mall Branch	Plot 8 Burton street	Burton street
Kawempe Branch	Plot 161 Volume 77 Folio 19	Bombo Road
Kiboga Branch	lot 100,Block 634Kilulumba Mubende Kiboga Town	Hoima Road
GREATER KAMPALA		
Kireka	Plot 319 Block 232 Kyadondo	Jinja Road
Kyambogo Branch	Kyambogo University Campus	Kyambogo University Campus
Luwero Branch	Plot 440,Block 652 Luwero Town	Kampala/Gulu High Way
Mityana Branch	Plot 54 Block 425, Mityana Road, Mityana	
Township"	Mityana Road	
Mpigi Branch	Mpigi Town	
Mukono Branch	Plot 37/39 Kampala Road, Mukono Town	Kampala/Jinja Road
Mulago Branch	Mulago Hospital Floor No.2	Mulago Hospital
Nakivubo Branch	Plot 58 William street	William Street
Nateete Branch	Plot 643 Block 18 Mengo Kibuga, Natete	Masaka Road
Wandegeya Branch	Plot 220 Kagugube Rd. Wandegeya	Kagugube Road
William Street Branch	Plot 6 William Street, Kampala	William Street
METRO		
Bugoloobi Branch	Plot 47A Spring Road, 9 Luthuli Av.and 9 Bandari Rise	47A Spring Road, 9 Luthuli Av.and 9 Bandari Rise
Entebbe Main Branch	Plot 15,Kla.Rd. Entebbe Town	Entebbe/Kampala Road
Forest Mall Branch	Plot 3A2 & 3A3 Sports Lane, Lugogo By -Pass, Kampala	Sports Lane, Lugogo By -Pass Road
FREEDOM CITY	Freedom City Mall, Plot 4010 Entebbe Road, Namasuba.	Entebbe Road
Garden City Branch	Plot 64-86 Kitante Road, Kampala	Kitante Road
Kabalagala Branch	Embassy Plaza, plot 1188,1189,1190	Kibuga, Nsambya
Kampala Branch (Corporate)	Plot 18 Hannington Road	Hannington Road
Lugogo branch	Plot 2-8 Lugogo By-Pass Rd.Lugogo Kampala. Shop No.5"	Lugogo By-Pass Road
Makerere Branch	Senate Building Makerere University Campus	Senate Building
Metro Branch	Plot 4 Jinja Rd. Social Security House	Jinja Road
Nakasero Branch	Umoja Building, Plot 20 Nakasero Road, Opposite World Vision	Nakasero Road
Nakawa Branch	Plot M193/194 Nakawa, Industrial Area	Nakawa Industrial Area Road
Ntinda Branch	Plot 3798 Block 216 Kyadondo, Ntinda Trading Centre	

NORTHERN		
Adjumani Branch	Plot 9, Mangi Road, Adjumani	Mangi Road
Apac Branch	Plot 18 Akokoro Rd.Apac Town	Akokoro Road
Arua Branch	Plot 25,Avenue Rd.Arua Town	Avenue Road
Gulu Branch	Plot 2 & 4,Acholi Rd.Gulu Town	Acholi Road
Kigumba Branch	Plot 18 Kampala Gulu High Way	Kampala Gulu High Way
Kitgum branch	Plot 4/6 Philip Adonga Rd,	Philip Adonga Road Kitgum
Lira Branch	Plot 2,Soroti Rd. Lira	Soroti Road
Moyo Branch	Plot 1,Kerere Crescent Rd. Moyo	Kerere Crescent Road
Nebbi Branch	Nebbi Trading Centre Volume 1274 Folio 22"	Arua Road

WESTERN		
Buliisa Branch	Buliisa -Paara Road, Buliisa Town	Paara Road
Bundibugyo Branch	Plot 4 Block A, Bundibugyo T/ship	Bundibugyo Road
Bwamiramira Branch	Plot 18,Karuguza T/Centre,Kibale Dist.	Karuguza Road
FortPortal Branch	Plot 21,Lugard Rd.F/Portal Town	Lugard Road
Hoima Branch	Plot 8A Old Toro Road Hoima	Old Toro Road
Ibanda Branch	Plot 10 - 12 Kamwege Road Ibanda	Kamwege Road
Ishaka Branch	Plot 44 Rukungiri Road, Ishaka Town	Rukungiri Road
Kabale Branch	Plots 150/152,Kabale Rd. Kabale Town	Kabale Road
Kabwohe Branch	Plot 19B, Kabwohe	Kabwohe Road
Kalangala Branch	Kalangala Main Rd.Kalangala Town	Kalangala Main Road
Kasese Branch	Plot 27/31 Stanley Street,Kasese	Stanley Street
Kihihi Branch	Plot 63 Block 74 Kinkizi	
Kisoro Branch	Plot M5, Block 29 Kisoro/Kabale Rd. Kisolo Town	Kisoro/Kabale Road
Kyotera Branch	Plot 32, Masaka Rd.Kyotera Town	Masaka Road
Lyantonde Branch	Plot 200,Block 76 Lyantonde Town	Kampala/Mbarara Raod
Masaka Branch	Plot 4 ,Birch Av. Masaka Town	Birch Avenue
Masindi Branch	Plot29/33,Tongue Street Masindi	Tongue Street
Mbarara Branch	Plot 1/3 Ntare Rd.Mbarara Town	Ntare Road
Mubende Branch	Plot 2, Block 13 Main street Mubende	Main street
Ntungamo Branch	Plot 33, Ntungamo Township	Mbarara Kabale Road
Rukungiri Branch	Plot 123,Block 5 Kagunga	Rukungiri Town

Our Customer Service Points (CSPs)

CSP	PLOT DETAIL	STREET/ROAD
Bwera CSP	Saad Village, Mpondwe- Lubiriha, Bwera Town	Mpondwe-Lubiriha Road
Kaboong CSP	Plot 20 Kaabong Central West, Kaabong Trading Centre	Kaabong Central West Road
Kayunga CSP	Plot 472 Block 123, Kayunga Trading Centre	Kayunga Road
Kagadi CSP	Kagadi Street, Kagadi on Mugenyi street	Kagadi/Mugenyi Street
Kumi CSP	Plot 2 Ngora Road , Kumi	Ngora Road
Pakwach CSP	Plot 94 Pakwach , Arua road	Arua Road
Kakira CSP	Kakira South Estate FRV 10 Folio 23, Kakira	Kakira South estate road
Kinyara CSP	Kinyara Estate	Kinyara Estate
Mayuge CSP	Bukoba Road, Mayuge Town	Bukoba Road
Wobulenzi CSP	Plot 59 Block 159 Bulemezi, Wobulenzi Trading Centre	Kampala Gulu High Way

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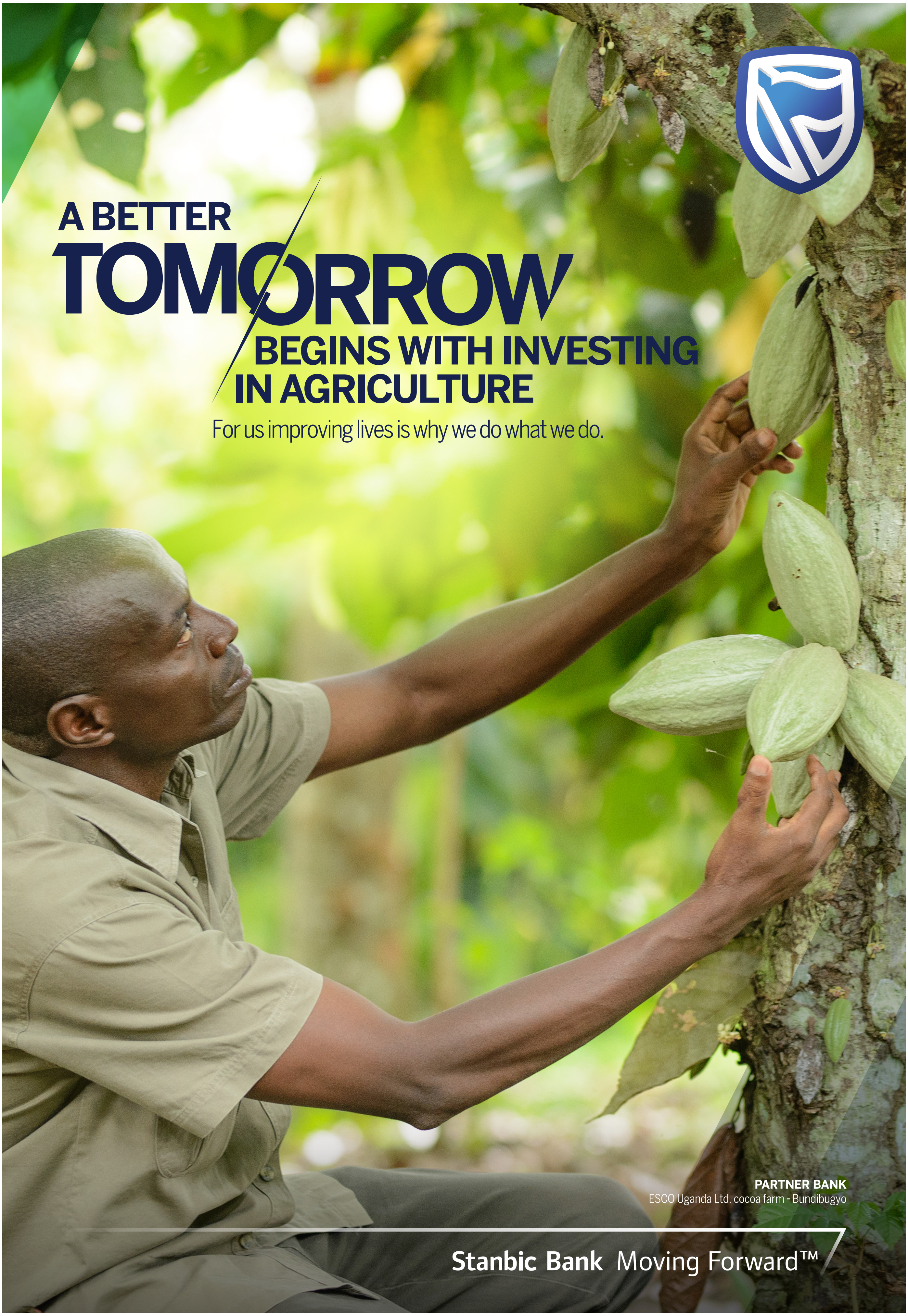
A BETTER
TOMORROW
BEGINS WITH INVESTING
IN AGRICULTURE
For us improving lives is why we do what we do.
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