Annual Report 2010

Stanbic Bank

Annual report and financial statements for the year ended 31st December 2010

Stanbic Bank Uganda Limited

Stanbic Bank

A member of Standard Bank Group

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Corporate profile

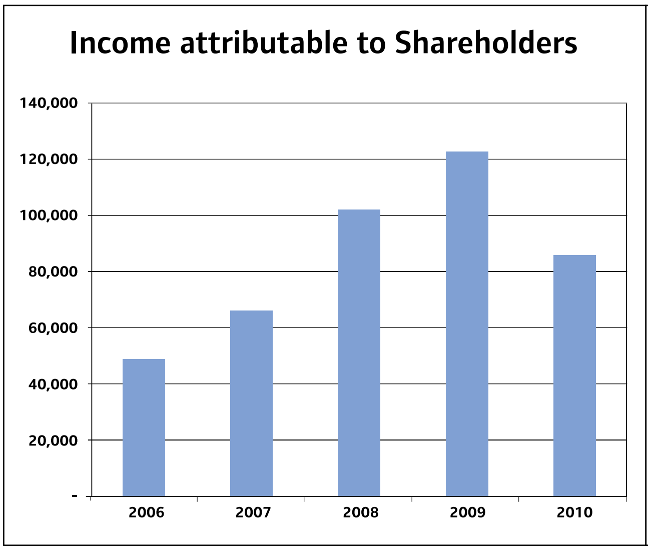
Stanbic Bank Uganda Limited ('the Bank' or 'the Company') is a subsidiary of Stanbic Africa Holdings Limited which is in turn, owned by Standard Bank Group Limited ('the Group'), Africa's leading banking and financial services group. The Standard Bank Group ranks top among South African banking groups by market capitalisation and profitability.

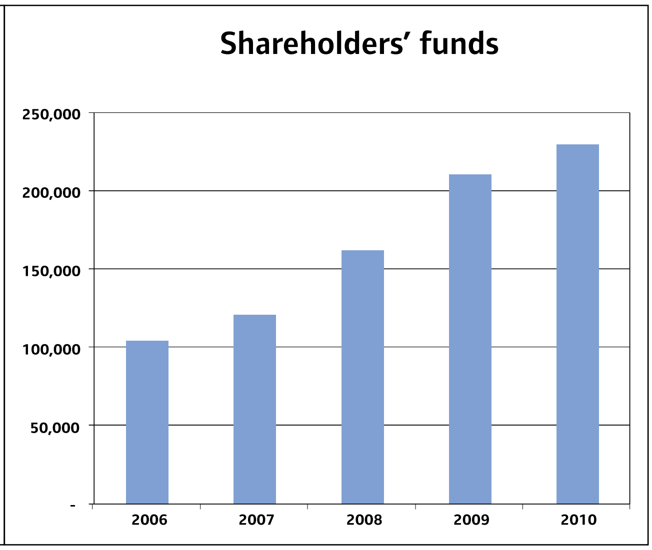
Stanbic Bank Uganda Limited is incorporated in Uganda and is a licensed commercial bank. The bank is a public limited liability company and was listed on the Main Investment Market Segment (MIMS) of the Uganda Securities Exchange on 25th January 2007.

Financial highlights

Stanbic Bank Uganda Limited

	2010	2009	% change
Income statement (UShs'm)			
Profit before income tax	88,772	123,650	(28.2)
Profit after tax	72,082	95,298	(24.4)
Financial position (UShs'm)			
Ordinary shareholders' funds	230,087	211,171	8.9
Total assets	2,400,148	1,880,513	27.6
Loans and advances to customers	1,204,690	927,373	29.9
Customer deposits	1,840,918	1,459,425	26.1
Property and equipment	43,741	27,339	59.9
Financial performance (%)			
Return on equity	31.3	45.1	
Return on total assets	3.0	5.1	
Cost to income ratio	67.2	48.2	
Loan to deposit ratio	65.4	63.5	
Share statistics per ordinary share (UShs)			
Earnings per share – basic and diluted	14.08	18.62	
Dividends (proposed) per share	7.03	13.08	
Capital adequacy			
Total risk-weighted assets (UShs'm)	1,552,233	1,168,867	
Tier I qualifying capital to risk-weighted assets (%)	12.5	13.1	
Total qualifying capital to risk-weighted assets (%)	14.2	16.3	





Chairman and Managing Director's review

Overview

2010 has been a year of mixed fortunes for the bank. Whilst we may not have achieved some of our financial targets, we were able to implement infrastructure developments to our distribution and IT networks which will further entrench Stanbic Bank Uganda (SBU) as the leading bank in Uganda.

Operating environment

Uganda's economy grew at 5.8% during the financial year 2009/10, which was amongst the highest in the East African Community. However this was 1.4% below the economic growth in the financial year 2008/09. The decline in growth was caused by several factors, not least the secondary effects of the global economic crisis. Uganda's economy was also affected by the volcanic cloud which covered Europe in the month of April 2010, which disrupted air-transport and caused an estimated 35% drop in flower exports and a 6% drop in fish exports. Furthermore, the high sovereign debt levels in the Eurozone has weakened the Euro and strengthened the dollar which has been mirrored in the depreciation of the Uganda Shilling. Fuel prices also increased on the back of the depreciating Shilling and high international oil prices.

During the year, in an effort to lower the cost of borrowing, the Central Bank moved to lower interest rates on fixed income paper. This resulted in the yields on government paper declining from the mid teens in the second half of 2009 to below 5% by the second quarter of 2010.

Performance

In a difficult year for the banking industry, Stanbic Bank Uganda remained focussed on its strategy. We placed particular focus on responsibly growing our balance sheet in order to remain a sustainable business. The growth in deposits of 26% is not only the fastest growth recorded in the last 4 years but also did not lead to a noticeable increase in the cost of funding. Coupled with this, our asset diversification strategy continued in earnest, leading to a further increase in the loan to deposit ratio.

For the year ended 31st December 2010, the bank achieved a net profit after tax of UShs 72.1bn, a 24.4% drop over the prior year.

As earlier indicated, there was a reduction in interest rates on treasury bills. This led to a significant reduction on the yields of not only our fixed income securities portfolio but also to other assets whose returns were pegged on the treasury bill rate. As a result net interest margin declined by 170 basis points.

Whilst the Board was conscious of the endownment impact of the declining interest rates, we were also conscious of the need to invest in our infrastructure. Rather than delay this much needed investment, the Board took the bold step to continue with the planned investments in 2010 even though it was clear that it would further depress the results of the bank in the short term. During the year we increased our branches and customer service points by 38%. During the year 21 customer service points were built, six new branches opened, while two branches were relocated to more spacious and accessible locations. We also increased our ATM footprint by 27% to 2010. These investments solidify our competitive advantage in the country.

In addition to the increased physical network, we invested significantly in our IT network, both actions leading to a growth in our IT spend of over 30%. Whilst these actions contributed to a deterioration of the cost to income ratio, we believe that they will pay off in the coming periods.

Other key highlights include:
- Increase in total assets by 27.6% to UShs 2,400bn
- Increase in operating income by 6.9% to UShs 289bn
- Increase in operating costs by 34.2% to UShs 185bn

Key developments & initiatives

Without in any way compromising our focus on risk management we continued to drive growth. We invested for the future in all our client segments and delivery channels which advanced our long-term strategy of positioning Stanbic Bank Uganda as the leading financial services player in Uganda.

Our information technology architecture is a key business enabler. During the year the bank invested UShs 24bn in IT development, systems support and maintenance. With the growth in our loan book, the bank invested significant amounts in new systems to improve credit risk management. These included the implementation of a new credit scoring system which will both speed up the credit appraisal process and lead to better decisions. Significant strides were also made in implementing the requirements of the new credit reference bureau. The bank also begun implementing a new and improved anti money laundering tool that will support compliance with regulatory standards.

On the operational front, the SWIFT environment was upgraded to a more user friendly and robust platform. The feedback from our customers indicates that service in this area has improved significantly.

Agriculture is a key driver of Uganda's economy, the agricultural sector is also the leading employer and a major source of export earnings. The bank is fully committed to the development of the agriculture sector. During the financial year 2009/10 Government, in partnership with Commercial Banks, established an Agricultural Credit Facility amounting to UShs 60bn, to be lent to borrowers at interest rates not exceeding 10% per annum for tenors of upto eight years.

Chairman and Managing Director's review (continued)

As at year end, Stanbic Bank Uganda had disbursed loans totalling 20% of the total facility, thus assisting our customers to acquire agricultural production equipment.

Still on agriculture, the bank continued to support the Agra and Kilimo Trust Agribusiness Loan Scheme which targets small holder farmers and small and medium sized agribusinesses. The scheme was launched in 2009 and through the scheme the bank has successfully reached out to farmers throughout the country.

Service

During 2010, the bank launched a service improvement campaign aimed at driving customer focus and renewing our commitment to being a customer oriented organisation. Six service standards were communicated at the various staff interactive forums and good progress was achieved across the branch network.

People

The bank continues to demonstrate a high level of commitment to its people, through various programmes and initiatives. Our people remain the key drivers of the bank's value proposition. They provide the leadership that drives our business forward, creating strong bonds with our customers and the communities that we serve.

In 2010, we refined the performance management process, creating a process that speaks to behaviour as the main driver of great results and sustainable business. In the new performance management process, we emphasise behavioural attributes such as team work, growing our people, building relationships, and integrity.

As part of our sustainability programme, our Executive management team undertook a four-day programme on team coaching. This programme has enhanced and revitalised our purpose as a bank. Great ideas were birthed during the workshop, the fruits of which will continue to be realised in 2011 and onwards.

During the year, we continued to strengthen our succession plan by identifying talent for critical roles in order to ensure continuity. In order to create a strong and well exposed talent pool, we sent some of our key staff on secondment to other Standard Bank Group businesses on the continent. This year the number of secondments increased to 6 persons working in key locations across Africa such as Nairobi, Dar es Salaam, Lusaka, Lilongwe, Lagos and Johannesburg.

Social investment and sustainability

The bank continues to demonstrate its commitment to transforming the lives of the communities that we serve. During 2010 we made a difference in the lives of various communities through a number of projects and programmes.

The bank continued with its programmes in Northern Uganda. Partnering with MTN, we refurbished and equipped the health centre at Lela Obaro, Paidongo Parish, Bobi Sub-county in Gulu district. The health centre serves about 4,000 families in an area 40 km from Gulu town.

The bank undertook programmes to improve the lives of various communities. These included; sports programmes for children, contributions to the welfare of the victims of the Bududa landslides in eastern Uganda and VCT programmes to commemorate World AIDS day.

A full sustainability report is published on pages 18 to 21 of this report.

Directorate

The bank continued to benefit from the guidance and direction given by the Board through the various Board Committees. We appreciate their willingness to attend the various meetings and events and we value the depth of their experience and knowledge.

Acknowledgements

We commend the management and staff for navigating through a rapidly changing economic landscape that was fraught with new challenges at every turn. Through team work and close collaboration they were able to increase the value of our business. We would like to thank them for their contribution to the business.

We welcome our new customers to the bank and reiterate our commitment to offer them reliable services and a delightful banking experience anywhere in Uganda. To our loyal customers who have been with us over the years, we remain committed to ensuring that your loyalty is fully rewarded through innovative products and first class services.

Finally, to our shareholders and other stakeholders, we express our sincere gratitude for your confidence and continued support.

Philip Odera

H Karuhanga
Chairman

P Odera
Managing Director

Corporate governance statement

Introduction

This corporate governance statement sets out the governance framework adopted by the Board of Stanbic Bank Uganda Limited (the 'Company') and highlights the key activities during the 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 our stakeholders. This is critical to sustaining the Company's success and preserving shareholder value.

In the year under review, the Company complied with all applicable laws, rules, regulations and guidelines on corporate governance.

The Company's governance framework enables the Board to fulfill 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

Complying with all applicable legislation, regulations, standards and codes is an essential characteristic of the Company's culture. As a licensed Commercial Bank and listed company, the Company operates in a highly regulated industry and is committed to complying with legislation, regulations, and codes of best practice and seeks to maintain the highest standards of governance, including transparency and accountability. The Board monitors compliance by means of management reports, which include information on any significant interaction with key stakeholders, including various regulators.

Whilst the Company continues to nurture a strong culture of governance and responsible risk management in line with Standard Bank Group's risk appetite and governance framework, it is constantly monitoring its practices to ensure that they are best fit for it and serve to enhance business and community objectives.

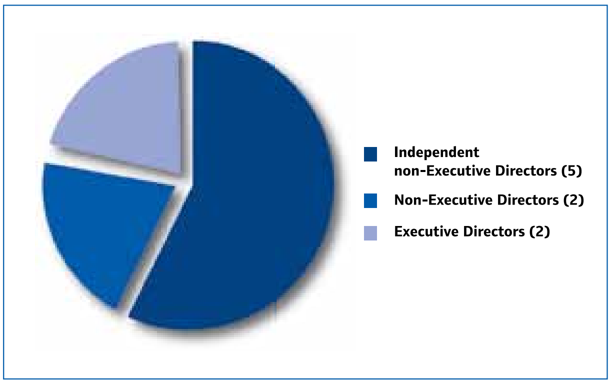
Board of Directors

Board structure and composition, including independence classification

The Board of Directors, elected by the shareholders, is the Company's highest decision-making body and is ultimately responsible for governance. The Company has a unitary Board structure and the roles of chairman and chief executive are separate and distinct. The chairman is an independent non-executive director.

The majority of Directors on the Board are independent non-executive directors. The number and calibre of independent non-executive directors on the Board ensures that Board decision-making is sufficiently informed by independent perspectives.

Board structure and composition



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.

As part of the Board's responsibility to ensure that effective management is in place to implement company strategy, management succession planning is an ongoing consideration. The Board is satisfied that the current pool of talent available within the company and the work being done to strengthen the talent pool provides adequate succession depth for both the short and long term.

Skills, knowledge, experience and attributes of Directors

Directors possess the skills, knowledge and experience necessary to fulfill their duties and bring a balanced mix of attributes to the Board, including:

- Domestic and international experience
- Operational experience
- Knowledge and understanding of both macroeconomic and micro economic factors affecting the Company
- Regulatory experience
- Financial, entrepreneurial and banking skills

Regular interaction between the Board and Executive management is encouraged. Company Executive committee members are invited to Board meetings where necessary.

Corporate governance statement (continued)

Access to information and resources

Directors are provided with unrestricted access to Company management and company information, as well as the resources required to carry out their roles and responsibilities. This includes external legal and other professional advice at the Company's expense where necessary. It also includes unlimited access to the advice and services of the Company Secretary, who assists in providing any information or documentation they may require to facilitate the discharge of their duties and responsibilities.

Appointments

The appointment of directors is governed by the Company's Articles of Association and is subject to regulatory approval in line with the applicable legislation and regulations. Directors are appointed by shareholders at the AGM and Interim board appointments are allowed between AGMs. These appointments are then confirmed at the 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 representation when making a new appointment. Furthermore, candidates are subject to a 'fit and proper' test, as required by the Financial Institutions Act.

No new directors were appointed to the Board during 2010.

Board responsibilities

The key terms of reference in the Board's mandate, which define its responsibilities, include the following:

- Agree the company's objectives, strategies and plans for achieving those objectives
- Review annually the corporate governance and risk management process and assess achievement against objectives
- Review its mandate at least annually and approve recommended changes
- Delegate to the Managing Director 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
- Delegate similarly such powers, authorities and discretions to any committee and subsidiary company Boards as may exist or may be created from time to time
- Determine the terms of reference and procedures of all Board committees and review their reports and minutes
- Consider and evaluate reports, submitted by members of the executive
- Ensure that an effective risk management process exists and is maintained throughout the Company
- Review and monitor the performance of the Managing Director and executive management
- Ensure consideration is given to succession planning for the executive management
- Establish and review annually and approve major changes to relevant policies
- Approve the remuneration of non-executive directors on the Board committees and make recommendations to shareholders for approval
- Ensure that an adequate budget and planning process exists, measure performance against budgets and plans and approve annual budgets for the Company
- Consider and approve the annual financial statements, interim results and dividend and distribution announcements and notices to shareholders
- Assume ultimate responsibility for financial, operational and internal systems of control and ensure adequate reporting of these by respective committees
- Take ultimate responsibility for regulatory compliance and ensure that reporting to the Board is comprehensive

Strategy

The Board has overall responsibility for strategy and accordingly meets with the executive committee on an annual basis to consider and approve the Company's strategy for the year ahead. The Company strategic plan is reviewed and any updates presented by management annually and discussed and agreed with the Board. The Board ensures that the strategy takes account of any associated risks and is aligned with the Company's vision and values.

Once the financial, governance and risk objectives for the following year have been agreed, the Board monitors performance against these objectives on an ongoing basis. Financial performance is 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 ultimate responsibility for the Company's operations rests with the Board. 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. The committees each have a mandate that is regularly reviewed and approved by the Board. Details of how these committees operate follow.

The Board delegates authority to the Managing Director and Executive Director to manage the business and affairs of the Company. The Executive committee assists the Managing

Corporate governance statement (continued)

Director in the execution of his mandate. The Managing Director is tasked with the implementation of Board decisions and there is a clear flow of information between management and the Board, which facilitates both the qualitative and quantitative evaluation of the Company's performance. The Company Secretary's office monitors Board-delegated authorities.

Board meetings

The Board meets once a quarter with additional meetings held when necessary. Directors are provided with comprehensive documentation at least four days prior to each of the scheduled meetings.

The attendance of Board meetings in 2010 is set out in the following table:

Name of Director	23rd Feb	25th May	24th Aug	23rd Nov
H Karuhanga	√	√	√	√
P Odera	√	√	√	√
S Mpipi	√	√	√	√
K Mbathi	√	√	√	√
S Sejjaaka	√	A	√	√
M Kiwanuka	√	√	√	√
B Mulwana	√	√	√	√
P Masambu	√	A	√	√
R Emunu	√	√	√	√

√ = Attendance *A = Apology*

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 needing improvement and providing Directors with the necessary training. The results of this assessment are then considered by the Board. The performance of the Chairman and Managing Director is assessed annually.

During the year an evaluation of the Board and its committees covering structure, process and effectiveness, was conducted. Individual questionnaires were completed, the results collated, and feedback discussed by the Board. The relevant action points were also noted for implementation. No major areas of concern were highlighted other than the Board's increasing information needs. In 2011, focus will be given to meeting this need through an extensive ongoing Board education programme.

Education and induction

Ongoing Board education remains a focus. 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 Company 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 where necessary.

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 Company and its operations. The Company Secretary is responsible for the induction and ongoing education of directors.

Board committees

As indicated, Board committees operate in terms of mandates reviewed and approved by the Board on an annual basis. A mandate sets out the role, responsibilities, scope of authority, composition and procedures for reporting to the Board, to be followed by a Board committee. All Board committee mandates are annually reviewed to take into account amendments to relevant legislation and other pertinent changes in the operating environment.

Board Audit Committee

The role of this committee is to review the Company's financial position and make recommendations to the Board on all financial matters. This includes assessing the integrity and effectiveness of accounting, financial compliance and other control systems.

The committee also ensures effective communication between the internal auditors, external auditors, the Board, management and regulators.

The committee comprises solely independent non-executive directors.

The committee has complied with its mandate for the year under review.

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 Company. The committee is assisted in fulfilling its mandate by the Risk Management Committee.

Corporate governance statement (continued)

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 for fraud.

The committee's composition includes executive and non-executive directors.

The committee complied with its mandate for the year under review.

A comprehensive risk management report is provided starting on page 22, which sets out the framework for risk and capital management in the company.

Board Credit Committee

The role of this committee is to ensure that effective frameworks for credit governance are in place in the Company. This involves ensuring that the Credit Risk Management 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 22.

The committee's composition includes executive and non-executive directors.

The Credit Committee complied with its mandate for the year under review.

Board compensation committee

The role of the compensation committee is to:

- Provide oversight on the compensation of executive and senior management and other key personnel and ensure that the compensation is consistent with the Company's culture, objectives, strategy and control environment
- Perform other duties related to the Company's compensation structure in accordance with applicable law, rules, policies and regulations

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 Company for the Company's progress and enhancement of the shareholder value.

The committee comprises solely non-executive directors. The Managing Director 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.

Company Secretary

The role of the Company Secretary is to ensure the Board remains cognisant of its duties and responsibilities. In addition to guiding the Board on discharging its responsibilities, the Company Secretary keeps the Board abreast of relevant changes in legislation and governance best practices. The Company Secretary oversees the induction of new directors as well as the ongoing education of directors.

Going concern

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

Relationship with shareholders

Ongoing, effective communication with shareholders is part of the Company's fundamental responsibility to create shareholder value. In addition to the ongoing engagement facilitated by the Investor Relations Officer, the Chairman encourages shareholders to attend the AGM 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 our attempts to reduce costs, shareholders who still hold shares in certificated form are encouraged to receive annual and interim reports and dividend announcements in electronic format.

The Articles of Association of the Company require every shareholder to register his or her address in Uganda with the Company. Shareholders are advised to notify the Company Secretary or the Company's share registrars in writing of any change in their postal or email addresses or bank account details.

Connecting with stakeholders

Our relevance to the markets and societies in which we operate depends on continued engagement with all our stakeholders. Stakeholder management in the Company involves the optimal employment of the organisation's resources to build and maintain good relationships with our stakeholders. This helps us to manage the expectations of society, minimise reputational risk and form strong partnerships, which all

Corporate governance statement (continued)

underpin business sustainability. For more information on our relationship with stakeholders, please refer to the Sustainability Report starting on page 18.

Dealing in securities

In line with its commitment to conducting business professionally and ethically, the Company 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 1st June to the publication of the interim results, and from 1st February 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 pages 18 to 21 aims to provide a balanced analysis of our sustainability performance in relation to issues that are relevant and material to the Company and to our stakeholders. The report provides:

- An overview of the Company's sustainability performance in 2010
- An overview of stakeholder interaction during the year
- Material issues pertaining to the business units and issues affecting the organisation as a whole

Ethics and organisational integrity

The Company's 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 business practice. The code interprets and defines Standard Bank Group ('Group') and the Company's values in greater detail and provides value-based decision-making principles to guide our conduct. It is aligned with other policies and procedures, and supports the relevant industry regulations and laws.

The Managing Director 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

The Group Remuneration Committee (Remco), which takes overall responsibility for remuneration policies and structures within the Group, invests substantial effort in evaluating and testing the Group's remuneration philosophies and structures, and their implementation, in response to regulatory and governance requirements. All Compensation Committee decisions are guided by the Company and Group philosophy and policy, as well as by the specific social, legal and economic context of the country.

Where considered appropriate, Remco and the Compensation Committee of the Company initiate modifications to remuneration designs to ensure that regulatory requirements are met and our remuneration policies are consistent with, and promote effective risk management.

Remuneration philosophy and policy

The Company is committed to building a leading emerging markets bank that attracts and retains world-class people. Consequently, we work to develop a depth and calibre 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 in our Company.

As an integral part of growing and fortifying our resource of human skills, the Compensation Committee continually reviews the Company's remuneration philosophies, structures and practices.

To determine the remuneration of employees of the Company the Compensation Committee reviews market and competitive data, and considers the Company's performance against financial objectives and individual performance.

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

Structure of remuneration for Executive Directors

The remuneration packages and long-term incentives for the two executive directors, Philip Odera and Sydney Mpipi are determined on the same basis and using the same qualifying criteria as for other employees.

Corporate governance statement (continued)

The components of their remuneration packages include the following:

- Annual base salary, which is determined according to comparable market values and the respective roles they perform
- Annual bonus, which is linked to their respective performances and the overall performance of the business
- Share-based incentives, which reward the sustainable creation of shareholder value and align behavior to this goal
- Pension contribution, which provides a competitive post-retirement benefit and is aligned with that offered to all Company employees

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 practice. Notice periods are stipulated by legislation and can go up to three months.

Fixed remuneration

Remuneration is moving towards a total cost-to-company structure. Cost-to-company comprises a fixed cash portion, benefits (medical aid and retirement fund membership) and optional benefits. Market data is used to benchmark cash and non-cash benefits. Salaries are normally reviewed annually.

As well as taking performance factors into account, the size of the award is assessed in terms of market-related remuneration practices and pay levels for each skills set, which may be influenced by the scarcity of skills in a specialist business area.

Annual performance-related payments

For all employees, performance-related payments have formed an increasing proportion of total remuneration over time to achieve business objectives and reward individual contribution. This has allowed for a stronger link to overall business results. Individual awards are based on a combination of business unit performance, job level and individual performance, taking into consideration overall Company performance. In keeping with the Group's remuneration philosophy, the bonus scheme seeks to attract and retain high-performing employees and ensure that excessive risk taking is discouraged. The payment of bonuses is however discretionary.

Long-term incentives

It is essential for the Group to retain key employees over the longer term. In that regard, the reward policy aims to align the interest of employees with those of shareholders, and one aspect of this is share-based incentive plans. The Group operates two schemes under which share options are granted to key management staff of the Company, including executive directors.

Retirement benefits

Retirement benefits are provided on the same basis for employees at all levels and are defined contribution benefits. The retirement benefits are managed through the Company Staff Pension Fund which is managed by trustees. Death benefit cover is provided through external underwriting.

Directors' remuneration

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. In terms of the Companies Act, directors are required to retire at 70. The shareholders can, by special resolution, extend the term of service.

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.

Corporate governance statement (continued)

Fees

Non-executive directors receive a retainer for their service on the Board and a meeting attendance fee for Board and 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 incentive schemes. The Compensation Committee reviews the fees paid to non-executive directors annually and makes recommendations to the Board for consideration.

In determining the remuneration of 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.

During the year, the directors adopted a policy governing the remuneration of non-executive directors.

No increase in fees is proposed for 2011.

Directors' fees (US$*)

Category	2009	2010
Board		
Chairman		
• Annual retainer	7,500	8,625
• Fee per sitting	1,000	1,150
Director		
• Annual retainer	5,500	6,325
• Fee per sitting	700	805
Board committee		
• Chairman (fee per sitting)	850	977.5
• Member (fee per sitting)	700	805

**Directors are usually paid the UShs equivalent less applicable taxes*

Fees paid to Directors' in 2010*

Non Executive Directors	Annual Retainer UShs '000	Fees for Board Meetings UShs '000	Fees for Committee Meetings UShs '000	Total Annual Remuneration UShs '000
H Karuhanga	17,777	15,330	Nil	33,107
Dr. S Sejjaaka	13,036	7,210	17,213	37,459
K Mbathi	13,504	9,068	21,547	44,119
M Kiwanuka	13,036	10,731	13,471	37,238
B Mulwana	13,036	10,731	7,393	31,160
P Masambu	13,036	7,210	5,037	25,283
R Emunu	13,036	10,731	17,199	40,966

**Excludes other miscellaneous Directors' expenses*

Board of Directors

Hannington R Karuhanga (52)
BA (Makerere),
MBA (University of Wales)

Appointed: 2000

Directorships: Stanbic Bank Uganda Ltd, Savannah Commodities Ltd, Capital Radio Ltd. (Chairman), Infocom(Chairman), Lion Assurance Co. Ltd., Zain Uganda Ltd., Credit Reference Bureau (U) Ltd., Pepperoni Pickles (Pty) Ltd.

Philip Odera (51)
BA (Economics)
(St. Lawrence, NY),
MBA (Finance)
(Suffolk, Boston)

Appointed : 2007

Directorships: Stanbic Bank Uganda Ltd., Stanbic Investment Management Services (EA) Ltd., Liberty Life Uganda Ltd.

Committee Member: Credit, Asset and Liability Management, Risk management

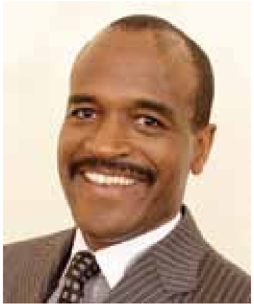
Sydney Mpipi (54)
BCom
(University of the North, SA)
MDP (UNISA)

Appointed: 2007

Directorships: Stanbic Bank Uganda Ltd.

Committee Member: Credit, Asset and Liability Management, Risk management

Board of Directors (continued)



Kitili Mbathi (51)
BA (Economics and Political Science) (Michigan), Master of Banking and Finance for Development (Instituto Finafrica-Milan)

Appointed: 2001

Directorships: CfC Stanbic Bank Ltd., CfC Stanbic Holdings Ltd., CfC Insurance Holdings Ltd., CfC Stanbic Financial Services Ltd., Stanbic Investment Management Services (EA) Ltd., CfC Life Assurance Ltd., The Heritage Insurance Co. Ltd., Stanbic Bank Uganda Ltd., Stanbic Bank Tanzania Ltd., Standard Bank Malawi Ltd., Stanbic Bank Zambia Ltd.

Committee Member: Compensation (Chairperson), Credit

Samuel Sejjaaka (47)
BCom (Makerere), MSc (Financial Studies (Strathclyde), PhD (Accounting and Finance) (Makerere)

Appointed: 2007

Directorships: Stanbic Bank Uganda Ltd., Rexba Ltd., A&G Ltd., Sejjaaka, Kawaase & Co., Makerere University Business School, Summit Consulting Limited, Hillhouse Academy Ltd.

Committee Member: Audit (Chairperson), Risk management, Compensation

Maria Kiwanuka (55)
BCom (Makerere), MBA (London)

Appointed: 2008

Directorships: Stanbic Bank Uganda

Ltd., Uganda Development Bank, Uganda Registration Service Bureau (Chairlady), Uganda Communications Commission

Committee Member: Credit (Chairperson), Audit

Board of Directors (continued)

Barbara Mulwana (46)
BSc (Electrical Engineering and Computer Science) (Northwestern)

Appointed: 2009

Directorships: Stanbic Bank Uganda Ltd., Nice House of Plastics Ltd., Uganda Batteries Ltd., Jesa Farm Dairy

Committee Member: Credit

Mr. Patrick Masambu (59)
BSc (Engineering) (Nairobi),
MBA (ESAMI),
PGD (Telecom Systems) (Essex)

Appointed: 2009

Directorships: Stanbic Bank Uganda Ltd., LaFontaine Bookstore, International Telecommunications Satellite Organisation

Committee Member: Credit, Compensation

Ruth Emunu (62)
BA. (Minnesota), PGD (Public Administration) (Makerere)

Appointed: 2009

Directorships: Stanbic Bank Uganda Ltd.

Committee Member: Audit, Risk management (Chairperson)

Executive Comittee (EXCO)

Philip Odera (51)
Managing Director

BA (Economics) (St. Lawrence, NY), MBA (Finance) (Suffolk, Boston)

Joined the bank: 2007
Appointed to EXCO: 2007

Sydney Mpipi (54)
Chief Operating Officer

BCom (University of the North, SA), MDP (UNISA)

Joined the bank: 2007
Appointed to EXCO: 2007

Alfred Oder (57)
Head of Operations

BCom (Makerere)

Joined the bank: 2002
Appointed to EXCO: 2008

Arthur Oginga (41)
Head of Finance

BA (UoN), CPA (K)

Joined the bank: 2008
Appointed to EXCO: 2008

Executive Comittee (EXCO) (continued)

Brian Cross (54)
Head of Credit

MDP (UNISA)

Joined the bank 2006
Appointed to EXCO 2006

Sylvia Namusoke (38)
Head of IT

BSc Mathematics (Makerere),
MSc Mathematics (Makerere)

Joined the bank: 2002
Appointed to EXCO: 2011

Gertrude Wamala Karugaba (33)
Head of Legal

LL.B (Makerere),
LL.M (Cambridge),
Dip. LP (LDC Kampala)

Joined the bank: 2004
Appointed to EXCO: 2006

Elias Kagumya (35)
Head of Risk

BBA (Accounting) (Makerere),
MSc Finance and Accounting (Makerere)

Joined the bank: 2006
Appointed to EXCO: 2007

Executive Comittee (EXCO) (continued)

John Okulo (42)
Head of Corporate and Investment Banking

MSC(Economics) (Gdansk, Poland)

Joined the bank: 2008
Appointed to EXCO: 2008

Flavia Ntambi (39)
Head of Human Resources

M.A Organisational Psychology (Makerere)

Joined the bank 2005
Appointed to EXCO: 2010

Sustainability report

Introduction

Stanbic Bank Uganda Limited (SBU) recognises that the long term sustainability and development of the bank requires a well considered balance between the financial and non financial performance of the company, taking into account all issues that are pertinent to the business.

This sustainability report therefore aims to offer a balanced, transparent and objective analysis of the sustainability issues relevant and material to the bank.

Accountability and responsibility

The Board has oversight responsibility over all sustainability issues impacting the bank by ensuring that there is an effective management team in place. This responsibility is delegated through various Board and management committees. The following departments/units in the bank are responsible for the following sustainability specific issues:

Department	Sustainability issue
Company Secretarial	• Corporate governance • Ethics
Marketing & Communications	• Social investment • Stakeholder engagement
Human Resources	• Employee wellness and HIV/AIDS • Leadership development Employee relations and ethics
Credit	• Ethical lending practises

Economic overview

The bank plays a vital intermediary role in the economy. Through this process, the bank creates wealth not only for customers but also shareholders, staff and the community at large through payment of taxes for national development. In 2010, the bank registered wealth creation for stakeholders to the tune of UShs 189.4bn (2009: UShs 183.7bn) as per table below:

Category	2010	2009
Employee remuneration	64,434	47,704
Tax paid	50,631	50,344
Dividends paid	40,000	57,000
Social investment spend	254	304
Retentions to support future growth	34,154	28,298
Wealth created	189,473	183,650

Figures in UShs' millions

Environmental focus

As a major financial services provider, Stanbic Bank Uganda has a responsibility to promote sustainable development in the areas where it has influence. For instance, the projects we finance can potentially expose Stanbic Bank to material environmental and social risks, albeit indirectly. This will be even more pronounced as Uganda continues to industrialise and develop its energy and mineral resources.

While customers are directly responsible for managing the impacts of these projects, Stanbic Bank Uganda must protect its assets and reputation by selecting customers and allocating capital responsibly.

Stanbic Bank Uganda also recognises that its operations have a direct impact on the environment. This arises through the consumption of energy and other resources used in daily business activities, or through the bank's supply chain. Additionally, as a large employer we have an opportunity to raise awareness among our employees on reducing individual environmental impacts.

In our approach to environmental issues we consider three aspects:

- How we can influence the impact others have on the environment through our project financing activities
- How we operate and use our resources, including in our buildings
- How we leverage our position as Uganda's largest bank with a countrywide network serviced by a wide pool of suppliers to raise awareness of environmental protection

Regulation

Stanbic Bank Uganda and its parent, Standard Bank Group operates in a highly regulated industry. The bank is required to comply with local legislation or Standard Bank Group minimum standards whichever is more stringent. The bank's approach to managing legislative risk is proactive and through internationally acceptable risk management principles.

Social Investment

Essentially, our existence is rooted in our ability to connect with the communities in which we operate. That is why we continue to support sports, health and education among other undertakings as healthy and economically active communities have a direct impact on our long-term business growth. All our stakeholders live and work in the communities in which we operate, so it follows that by supporting and investing in the wellbeing of these communities, Stanbic Bank Uganda is investing in its own sustainability.

Sustainability report (continued)

Sports

Through sports, we make a positive impact on children from disadvantaged backgrounds. To this end, we were glad to be part of the Kids League as they represented Uganda at the first World Cup tournament held in Africa. The Kids League is part of the Kampala Kids League which we have sponsored for 11 years and touched well over 20,000 boys and girls, imparting sporting and life skills. By injecting funds into this trip, we gave a once in a lifetime chance to a Kids League team to travel to South Africa to be part of the 'Football for Hope Festival' which was held alongside the World Cup in Alexandria, Johannesburg in July 2010.

Health and wellness

In Northern Uganda, expectant mothers living in and around Lela Obaro, Paidongo Parish, Bobi Sub-county in Gulu district no longer need to trudge 40 kilometres to Gulu town for maternity care or medical treatment. Stanbic Bank Uganda and MTN partnered to donate to the village a fully equipped OPD unit (out-patients-department), delivery unit and staff quarters with solar power. Located in an area that was ravaged by the 20 year military insurgency in northern Uganda, the newly commissioned health centre with a resident team of medical personnel serves a community of over 4000 families on a 24 hour basis.

Stanbic Bank Uganda's UShs 60m contribution included bedding, medical equipment, furniture and solar power.

Part of the Lela Obaro health clinic complex near Gulu in northern Uganda, built by MTN and furnished by Stanbic Bank Uganda. It serves a population of over 4000 including more than 1000 households.

World Malaria Day

As part of the various initiatives to mark World Malaria Day on 25th April, we carried out malaria prevention and treatment awareness drives in various parts of the country. We also donated nets to disadvantaged communities as well as to our own staff. At the Stanbic Bank Uganda village Nama, our staff carried out general cleaning, held an anti-malaria education session, and shared lunch and entertainment with the residents.

Stanbic Bank Uganda staff marked the 2010 Malaria day with a day-long visit to the Stanbic Bank Nama village along Kampala -Jinja Road, where they cleaned compounds, cleared bushes and sensitized the residents about malaria prevention and treatment. The residents were later tested and treated for malaria.

Saving Lives

Following the landslide disaster in Eastern Uganda which killed over 60 people and left many others homeless early in 2010, Stanbic Bank Uganda made an emergency donation of blankets, jerry-cans and basins. In addition, an internal staff appeal raised boxes upon boxes of clothing and household items on top of funds used to purchase sugar and sanitary items for the landslide victims. The bank supplemented the staff efforts by matching the funds collected, increasing the quantities donated.

Connecting with our communities

Our staff are encouraged to identify projects with an aim of transforming the lives of the targeted communities. In line with the bank's focus on Northern Uganda and education in general, the staff in our Risk Department constructed pit latrines for schools in Northern Uganda.

The Stanbic Bank Uganda Finance team selected Nyenga hospital in Jinja as part of their community project for the year. They handed over a 10KV generator to supply power to the entire facility and facilitating night operations that could not be done hitherto.

Sustainability report (continued)

This initiative was borne off the knowledge that a proper education remains the best chance of the youth of northern Uganda emerging from poverty. Our finance team this year also decided to give back to the community by providing assistance to Nyenga Hospital in Mukono district.

The hospital serves a large population residing over a wide geographical location including some Islands on Lake Victoria. The finance team donated a generator to the hospital which will ensure that emergency operations that were sometimes performed with torches as a source of light will no longer happen. Our staff across the country were also involved in various environmental initiatives in planting trees and cleaning up our towns and cities and also offering assistance to vulnerable children and women.

Charity and Education

Like the famous proverb goes, 'charity sees the need and not the cause'. We annually partner with the International School of Uganda (ISU) to raise funds through the Stanbic Bank-ISU Family Fun Run. This year's run attracted over 400 participants and the proceeds went to four beneficiaries in equal share: Missionaries of the Poor, a home for destitute members of our community; African Children's Choir for orphaned children; St. Clare's Girls' High School in Budaka (Eastern Uganda) and the ISU Scholarship Program that support disadvantaged but talented Ugandan students.

Setting off for the 5 Km junior run in the Stanbic Bank Uganda sponsored annual charity at the International School of Uganda (ISU).

Customer satisfaction

We strive to consistently meet and exceed customer needs cognizant of the fact that customer satisfaction is a mainstay of our business. We continuously implement a variety of initiatives to address this objective.

We conducted a number of staff training sessions to ensure that our service delivery remains competitive while putting in place mechanisms to track and measure performance. Among the many initiatives we have implemented are: Team Leader Customer Service workshops to re-align job descriptions with balance scorecards.

The key items were compiled into the branch Service Scorecard that would be sent out every month to track performance against key result areas.

The Stanbic Service Standards were launched with the overall objective to drive and influence the culture of all our staff to reflect a customer centric approach. Workshops were held with most support units to position the Standards, gain understanding and buy in from the teams. The Standards are our internal benchmark that will guide our behaviour, approach and delivery towards our customers. The Standards now provide a basis for measuring service to our customers

The Service Team in collaboration with the Learning & Development Team has conducted the Customer Experience (Pursuit of Excellence) and Coaching for Excellence training aimed at empowering Managers & Team leaders (both business & enabler units) to coach and lead their teams to deliver excellent service driven by the Service Standards. The training was designed to drive and entrench the Service Standards through coaching and training leaders in the bank.

Health and Wellness

As part of activities to commemorate World Aids Day, the bank organised a 3 day voluntary counselling and testing outreach programme.

Stanbic Bank Uganda, in partnership with the Global Fund, provides pro-bono training to selected Global Fund-supported programs to help tackle AIDS, tuberculosis and malaria. Beneficiaries who gained expertise in financial and project management display their certificates at the end of the Stanbic Bank Uganda sponsored training.

Sustainability report (continued)

Agricultural Support

The bank is playing a leading role in addressing the constraints to Agricultural development through access to financial services. The bank is strategically located to meet the financial needs of the agricultural entrepreneurs and farmers.

Investments in Agriculture depend on access to appropriate financial services, and to this effect Stanbic Bank Uganda has put in place an Agricultural department to specifically address these needs.

Financial services to agriculture include, purchase of inputs, productivity enhancement, input and marketing costs, bridging the pre harvest income gap, preventing forced sales of produce immediately following harvest at low prices, processing and value addition, trade in agricultural produce and smoothening out seasonal income flows through deposit facilities.

Needless to say if agribusiness cannot access financial services, their capacity to finance and supply farmers and to buy and process farm produce is restricted.

To this effect Stanbic Bank has tailor made products suitable to address a number of financial services needs mentioned above.

These include among others;

- The Stanbic, Agra and Kilimo Trust Agribusiness Loan Scheme targets small holder's farmers and small and medium sized agribusinesses. The main objective of this scheme is to increase access of small holder farmers and SMEs to formal markets as result of growth in agribusiness enterprises; financing agricultural enterprises and development and expansion of rural businesses servicing farmers
- Through the scheme Stanbic Bank has successfully reached out to farmers organized and linked to off takers (established aggregators of agricultural produce) in the districts of Lira, Apac, Kapchorwa, Jinja, Iganga, Masindi, Mbale, Budaka, Pallisa Manafwa among others
- The BOU/Government of Uganda Agricultural financing scheme has been a great success story, with Stanbic Bank leading in both value and number of loans placed under this scheme. The scheme has enabled Stanbic Bank's agricultural clients acquire capital equipment in both agricultural production and processing at affordable rates
- On the other hand the Vehicle and Assets Finance has gone a long way in facilitating agricultural entrepreneurs and farmers acquire vehicles, tractors, equipment and plant and machinery. The combination of lower cost structure, no or minimal collateral forms an appropriate alternative source of financing that has greatly benefited agriculture

Needless to say, agriculture being a major contributor to Uganda's GDP, a number of businesses in Uganda are directly or indirectly trading in agricultural produce. Hence these financing to agricultural trade has historically been treated as commercial lending. Due to lack of proper coding of these accounts in our system, it's difficult to differentiate normal commercial trade to trade in agricultural produce in the Bank's Business Banking loan book.

Code of ethics

Core to our vision and values is the attainment of our business objectives in an ethical manner. The bank's code of ethics is designed to empower employees and enable them make faster decisions based on 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 ethical business practice.

All our employees are required to sign off on the code after attending training on how to apply the code in their daily work environment.

Risk management and control

Introduction

The effective management of risk is critical to the earnings and balance sheet of Stanbic Bank Uganda Limited where a culture that encourages sound economic decision-making, which adequately balances out risk and reward, is embedded in all our banking activities.

A description of Stanbic Bank Uganda Limited's approach to risk management covering a summary of the overall methodology and the management of individual types of risks is expounded as below.

Risk management approach

The bank's approach to risk management is based on a well established governance process and relies both on individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances stringent corporate oversight with independent risk management structures within the business units.

The bank has in place governance standards for all major risk types. All the standards are applied consistently across the bank and are approved by the Board. These standards form an integral part of the Bank's governance infrastructure, reflecting the expectations and requirements of the Board in respect of key areas of control across the Group. The standards ensure alignment and consistency in the manner that major risk types across the Bank are identified, measured, managed, controlled, and reported.

The bank's internal audit function independently audits the adequacy and effectiveness of the Bank's risk management, control and governance processes. The Head of Audit Reports and provides independent assurance on the same to the Audit Committee and has unrestricted access to the Managing Director and the Chairman of the Board.

Risk appetite and tolerance

Risk appetite is the quantum of risk the bank is willing to accept in the normal course of business in pursuit of its strategic and financial objectives. It is normal business practice that even risks taken within 'appetite' may give rise to expected losses; however these are adequately covered by expected earnings through provisioning.

Risk tolerance is an assessment of the maximum risk the bank is willing to sustain for short periods of time. It emphasises the 'downside' of the risk distribution, and the bank's capacity to survive unexpected losses. The capacity to take unexpected losses depends on having sufficient capital and liquidity available to avoid insolvency. Risk tolerance typically provides a useful upper boundary for the bank's risk appetite.

The bank's Board of Directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. It has delegated its risk-related responsibilities primarily to three committees, the Risk Management Committee, the Audit Committee and the Credit Committee, with each committee focusing on different aspects of risk management.

Basel II

The Basel II Capital Adequacy Framework (Basel II) as defined by the Bank for International Settlements (BIS) under three pillars, Pillar I; Minimum capital requirements, Pillar II; Supervisory review, Pillar III; Market disclosure, aims at encouraging banks, through minimum capital requirements, to improve their risk management process mainly across credit risk, market risk and operational risk disciplines.

Stanbic Bank Uganda Limited has over the years taken appropriate steps to align its strategic and operational goals and objectives as well as its internal systems and processes to align itself to Base II best practices as appropriate.

Risk management in banking activities

The management of all significant risks to Stanbic Bank Uganda Limited and the general banking industry in Uganda are discussed below.

Credit risk

The bank has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk, specifically in the banking activities described below.

- In lending transactions; credit risk arises through non-performance by a counterparty 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)
- In trading activities; credit risk arises due to non-performance by a counterparty for payments linked to trading related financial obligations.

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.

Risk management and control (continued)

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 product 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 & 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 rehabilitation & recovery unit within the credit function.

Liquidity risk

Liquidity risk arises if the bank has insufficient funds or marketable assets available to fulfil their current or future cash flow obligations at the least possible cost.

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 following elements are incorporated as part of a cohesive liquidity management process.

- Maintaining a structurally sound balance sheet
- Foreign currency liquidity management
- Ensuring the availability of sufficient contingency liquidity
- Preserving a diversified funding base
- Undertaking regular liquidity scenario/stress testing
- Maintaining adequate liquidity contingency plans; and
- Short term and long term cash flow management

The cumulative impact of the above elements is monitored on a monthly basis by the bank's Asset and Liability Committee (ALCO) and the process is underpinned by a system of extensive internal and external controls. The latter includes the application of purpose built technology, 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 projections 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.

Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an extensive early warning indicators methodology supported by a clear and decisive crisis response strategy. These plans are reviewed periodically for relevance and reliability.

Market risk

Market risk arises from a decrease in the market value of a portfolio of financial instruments caused by an adverse move in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates and credit spreads, as well as implied volatilities on all of the above.

Market risk exposures as a result of trading activities are contained within the Bank's Corporate & Investment Banking trading operations. The Board grants authority to take on market risk exposure to the ALCO. The bank manages market risk through a range of market risk limits and triggers. It uses a suite of risk measurement methodologies and tools to establish limits, including Value at Risk (VaR), Securities revaluation models (Mark to Market), PV01(Present value of the nominal at the adverse shock of interest rates by one basis point), stress testing, loss triggers and other basic risk management measures and internal controls.

A clear segregation of duties as well as independent reporting lines exists between the Bank's Global Markets, Global Markets Operations and Market risk functions.

Market risk exposure on banking operations

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity. This structural interest rate risk is caused by the differing re-pricing characteristics of banking assets and liabilities.

Risk management and control (continued)

The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls.

Operational risk

Operational risk is the potential for loss resulting from the inadequacy of, or a failure in internal processes, people, systems or external events. The bank recognises the significance of operational risk, and the fact that it is inherent in all business units. The bank's operational risk governance standard codifies the core governing principles for operational risk management and defines a common framework with the basic components for the identification, assessment, management, monitoring and reporting of operational risk.

This common framework defines the minimum requirements whilst ensuring an element of flexibility for each business unit's particular operating environments. This framework is further supported by a set of comprehensive operational risk management policies.

Approach to managing operational risk

The bank's approach to managing operational risk has been the adoption of practices that are fit for increasing the efficiency and effectiveness of the bank's resources, minimizing losses and effectively utilising opportunities. This approach is aligned to the bank's enterprise wide risk management framework and adopts sound risk management practices recommended by, the Basel II accord's sound practices for the management and supervision of operational risk and the Bank of Uganda risk management guidelines among others.

The bank's independent operational risk management function performs control and oversight roles, including the implementation of a set of appropriate policies, governance standards and tools. The tools include:

- A centralised operational loss database providing management reports used to identify improvements to processes and controls arising from loss trends
- Risk and control self assessments through which existing and potential future risks and their related controls are identified and assessed
- Key risk indicators which measure specific factors to provide an early warning to proactively address potential exposures
- An escalation matrix that supports the identification, assessment, quantification and timely escalation of risk incidents to management for appropriate decision making
- A robust business continuity management framework, with disaster recovery plans to ensure that the Bank appropriately manages the adverse impact from unforeseeable disasters to the business

The bank further maintains a comprehensive insurance programme to cover residual risk as a result losses from fraud, theft, professional liability claims, and damage to physical assets while additionally operating comprehensive internal audit and risk assurance programmes on the entire bank's operations.

Resources to support fraud awareness and prevention have been enhanced with the implementation and continual review of the adequacy of the monitoring and control processes a key focus area. The bank has in addition, set up a forensic services unit, mandated by the audit committee, and is responsible for supporting the implementation of the bank's fraud risk management framework.

The strategic approach focuses on fraud prevention, detection, investigation and whistle blowing activities. The bank maintains a zero tolerance approach towards fraud and dishonesty.

Business continuity management

Business Continuity Management (BCM) is defined as a holistic management process that identifies potential impacts that threaten an organisation, provides a framework for building resilience and the effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities.

Business continuity ensures timely availability of all key processes which are required to support essential activities and customer services in the event of a disruption of business.

The Bank periodically and as appropriate tests on its business continuity plans, IT Disaster recovery plan and conducts evacuation drills across all its points of representation with a view of testing the adequacy, reliability and resilience of the plans.

Compliance risk

Compliance is an independent core risk management function, which has unrestricted access to the Board Audit Committee, the Managing Director 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 legal and regulatory requirements and guidelines.

The bank operates a centralised compliance risk management structure run by a fully equipped specialized unit that grants oversight on all compliance related matters. The bompliance unit provides leadership and guidance on compliance with bnti-money laundering, terrorist financing, occupational health and safety and emerging legislative developments. The unit provides training and awareness on regulatory developments.

Risk management and control (continued)

Money laundering control

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 Bank of Uganda. The bank continues to strengthen its anti-money laundering and terrorist financing measures as the regulatory environment becomes more dynamic.

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.

Taxation risk

Taxation risk is the possibility of suffering loss, financial or otherwise, as a result of the misapplication of tax systems (whether in legislative systems, rulings or practices) applicable to the entire spectrum of taxes and other fiscal imposts to which the bank is subject.

The bank fulfills its responsibilities under tax law in relation to compliance, planning or client service matters. Tax law includes all responsibilities which the bank may have in relation to company taxes, personal taxes, capital gains taxes, indirect taxes and tax administration.

The identification and management of tax risk is the primary objective of the bank tax and regulatory function, and this objective is achieved through the application of a tax risk matrix approach, which measures the fulfillment of tax responsibilities against the specific requirements of each category of tax to which the bank is exposed, in the context of the various types of activity the bank conducts.

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. Stanbic Bank's strong reputation is dependent upon the way in which 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.

Management of all operating activities is required to establish a strong internal control structure 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 macroeconomic 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 small 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.

Assurance

The bank's internal audit function operates under a mandate from the Board Audit Committee. The Internal audit's primary objective is to provide assurance to the Audit Committee on the quality of controls in the bank's operational activities. It assists the executive management teams in meeting their business objectives by examining the bank's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks. A risk based audit approach has been adopted. Material or significant control weaknesses and planned management remedial actions are reported to management and Board Audit Committee. These issues are tracked to ensure that agreed remedial actions have been implemented. Overdue issues are also reported to the Board Audit Committee on a quarterly basis.

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 (BIS).

Risk management and control (continued)

Qualifying capital

Qualifying capital is divided into two tiers: primary and secondary.

Primary capital (Tier I) comprises funds raised through the issue of ordinary shares; non-redeemable, non-cumulative preference shares; retained earnings and reserves (other than regulatory reserves).

Secondary capital (Tier II) comprises cumulative preference shares, certain subordinated loan funding and general debt provisions net of any related deferred tax.

Risk weighted assets

Risk-weighted assets are determined by applying a set risk-weighting to on and off-balance sheet financial instruments, according to the relative credit risk of the counterparty. Included in the overall risk-weighted assets is a notional risk-weighting for the trading assets, calculated based on the market, counterparty and large exposure risks.

Operational and financial review

Income attributable to shareholders

Stanbic Bank Uganda Limited registered a pre tax income of UShs 87.6 billion; a decrease of UShs 34.9 billion from the results of the preceding year. Profit after tax decreased by 24.4% from UShs 95.3 billion in 2009 to UShs 72.1 billion. As a result, earnings per share for the year decreased from UShs 18.62 per share to UShs 14.08 per share.

The performance for the year compared to prior year has been adversely affected by the increase in interest expense by 15.9% to UShs 23.6 billion; 75.8% increase in credit impairment charges to UShs 16.9 billion, 35.1% increase in employee benefits and expenses to UShs 64.4 billion and 37.5% increase in operating costs to UShs 110.3 billion. However, interest income increased by 2.8% to UShs 196.3 billion, net fees and commission increased by 10.8% to UShs 73.1 billion and trading income grew by 30.1% to UShs 43.3 billion.

Return on equity and on total assets

The return on equity declined from 45.1% in 2009 to 31.3% in 2010. The return on assets also dropped to 3.0% from 5.1 % in 2009.

Net interest income

Net interest income, increased from UShs 170.5 billion in 2009 to UShs 172.7 billion, representing a 1.3% year on year growth. The growth in net interest income was driven by loans and advances to customers which increased by 29.9% to stand at UShs 1,205 billion as at 31st December 2010. However, the drop in interest rates coupled with increase in cost of funds adversely affected our net interest income.

Non-interest income

The bank's non-interest income grew by 16.6% from UShs 99.8 billion in 2009 to UShs 116.4 billion in 2010. This growth is largely due to significant growth in foreign exchange trading profits due to the volatility during the year. As a result trading revenue increased by UShs 10.0 billion to UShs 43.3 billion compared to UShs 33.3 billion in 2009.

Provisions for impairment losses

The provision for impairment losses charged to the profit and loss account for the year was UShs 16.9 billion compared to UShs 9.6 billion in 2009. The increase is due an increase in default rate largely affecting our personal and VAF customers and an upward adjustment in credit loss ratios applied to the Personal and Business Banking book based on the recent loss history. Performance of all lending products however still remains within acceptable loss parameters as determined prior to the roll out of the products.

Operating expenses

Total operating expenses for the year was UShs 184.6 billion; a 34.27% increase from 2009. The cost to income increased to 67.2%. The increase in costs was largely due to increase in head count aimed at strengthening business support and enable branch expansion. The bank has heavily invested in upgrading IT systems, refurbishing business premises and rolling out new channels. In addition the depreciation of the Shilling in 2010, caused a significant increase in operational expenses denominated in foreign currency.

Employee compensation and related costs increased by 35.1% due to increase in head count and adverse exchange rates. Other operating expenses grew by 33.7% mainly due to higher premises costs due to rent increases and the depreciation of the Shilling; higher IT and communication charges due to the expanded ATM network and improvements to the IT platform. Marketing spend also increased in line with the increased level of competition.

Balance sheet

During the year under review, the bank's total assets grew by 27.6% enabling the bank to maintain its dominant position in the market. Loans and advances now comprise 50.2% of total assets and grew by 29.9%. Customer deposits, the Bank's main source of funding, increased by 26.1% with the growth coming mostly from the Personal and Business Banking segment.

Shareholders' equity grew to UShs 230.1 billion from UShs 211.2 billion in 2009. The growth of shareholders' equity is a direct result of earnings. The earnings for the year will partly be distributed as dividends to the shareholders, while the rest will be ploughed back into the business to enable it to grow its asset base. SBUL's policy is to maintain sustainable dividend growth while managing its capital effectively.

Capital adequacy

Capital adequacy is monitored using ratios established by the Bank for International Settlement (BIS) as approved by the Bank of Uganda. These ratios measure capital adequacy by comparing the bank's eligible capital with its balance sheet assets, off-balance sheet commitment and market and other risk positions at weighted amount to reflect their relative risk. At 31 December 2010, the bank's total capital base was 14.2% (2009:16.3%) of risk-weighted assets, with primary capital at 12.5% (2009:13.1%). The capital adequacy percentages at 31st December 2010 remain above the stipulated regulatory minimum of 12% and 8% respectively.

Operational and financial review (continued)

Five year performance review

	2010	2009	2008	2007	2006	*CAGR %
Income statement (UShs'm)						
Profit before income tax	**88,772**	123,650	103,944	68,959	50,444	**15.2%**
Profit after tax	**72,082**	95,298	78,550	53,017	39,519	**16.2%**
Financial position (UShs'm)						
Shareholders' equity	**230,087**	211,171	162,778	122,582	101,460	**22.7%**
Total assets	**2,400,148**	1,880,513	1,596,318	1,321,511	1,265,717	**17.3%**
Loans and advances to customers	**1,204,690**	927,373	730,865	477,590	340,612	**37.1%**
Property and equipment	**43,741**	27,339	27,330	30,444	35,999	**5.0%**
Customer deposits	**1,840,918**	1,459,425	1,289,674	1,072,858	895,183	**19.8%**
Returns and ratios						
Return on equity	**31.3%**	45.1%	48.3%	43.3%	39.0%	
Return on total assets	**3.0%**	5.1%	4.9%	4.0%	3.1%	
Loan to deposit ratio	**65.4%**	63.5%	56.7%	44.5%	38.0%	
Cost to income	**67.2%**	48.2%	49.7%	58.7%	66.1%	
Capital adequacy						
Tier 1 capital ratio	**12.5%**	13.1%	14.5%	12.3%	14.8%	
Tier 1 + tier 2 capital ratio	**14.2%**	16.3%	14.2%	13.0%	15.5%	
Risk - weighted assets (UShs'm)	**1,552,233**	1,168,867	919,533	675,476	574,736	
Other information						
Number of employees	**1,612**	1,442	1,339	1,258	1,191	

*Refers to the compound annual growth rate based on the Uganda Shilling amounts for the period 2006 to 2010

Operational and financial review (continued)

Financial definitions

CAGR	Compound annual growth rate
Profit for the year (UShs)	Annual income statement profit attributable to ordinary share holders, minorities and preference shareholders
Earnings per share (cents)	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue
Return on equity (%)	Earnings as a percentage of ordinary shareholders’ funds
Return on assets (%)	Earnings as a percentage of total assets
Net interest margin (%)	Net interest income as a percentage of monthly average total assets
Credit loss ratio (%)	Provision for credit losses per the income statement as a percentage of average net loans and advances
Cost-to-income ratio (%)	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 in respect of the year
Dividend cover (times)	Earnings per share divided by ordinary dividends per share
Price earnings ratio (%)	Closing share price divided by headline earnings per share
Dividend yield (%)	Dividends per share as a percentage of the closing share price
Core capital	Permanent shareholders 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 materialise, 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 the total risk weighted assets and total risk weighted contingent claims

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31st December 2010, 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, 2004 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 31st December 2010 are shown in the income statement on page 33, and an operational and financial review of the results for the year is given on pages 27 to 29.

A general review of the business is given by the Chairman and Managing Director on pages 3 to 4.

Dividends

The directors recommend the payment of final dividend of UShs 36 billion (2009: UShs 40 billion) for the year ended 31st December 2010.

Share Capital

The total number of issued ordinary shares as at year-end was 5,118,866,970; and there were no issues of shares during the year.

Directors

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

H Karuhanga	-	Chairman
P Odera	-	Managing Director
S Mpipi	-	Executive Director
K Mbathi	-	Non-executive Director
S Sejjaaka	-	Non Executive Director
M Kiwanuka	-	Non Executive Director
B Mulwana	-	Non Executive Director
P Masambu	-	Non Executive Director
R Emunu	-	Non Executive Director

Directors' interest in shares

At the date of this report, the following Directors held directly an interest in the company's ordinary issued share capital as reflected in the table below

Director	Number of shares
K Mbathi	109,500
P Masambu	50,000
Total	159,500

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 balance sheet 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 in which a director has had an interest during the year.

By order of the Board

Gertrude Wamala Karugaba
Secretary, Board of Directors
Date: 20th April 2011

Directors' responsibility statement

The company's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31st December 2010, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda and the Financial Institutions Act (2004) and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Under the Companies Act, the directors are required to prepare financial statements for each year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records that disclose with reasonable accuracy the financial position of the company.

The directors accept responsibility for the financial statements set out on pages 33 to 97 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Financial Reporting Standards and the reporting requirements of the Financial Institutions Act 2004 and the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the profit for the year ended 31st December 2010. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approval of the financial statements

The financial statements, as indicated above were approved by the Board of Directors on 22nd March 2011 and were signed on it's behalf by:

……………………..................……………………	Philip Odera ……………………..................……………………
Chairman	Managing Director
……………………..................……………………	……………………..................……………………
Director	Secretary

Date: 20th April 2011

Report of the independent auditor to the members of Stanbic Bank Uganda Limited

Report on the Financial Statements

We have audited the financial statements of Stanbic Bank Uganda Limited which comprise the Statement of financial position at 31st December 2010, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set on pages 33 to 97.

Directors' responsibility for the Financial Statements

As stated on page 31, the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda and the Financial Institutions Act (2004) and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the bank's financial affairs at 31st December 2010 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act and the Financial Institutions Act 2004.

Report on other legal requirements

The Ugandan Companies Act requires that in carrying out our audit we consider and report to you on the following matters.
We confirm that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit
- In our opinion proper books of account have been kept by the bank, so far as appears from our examination of those books
- The bank's Statement of financial position and income statement are in agreement with the books of account

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

Date: 20th April 2011

Financial statements

Income statement

	Notes	2010 UShs'000	2009 UShs'000
Interest income	6	**196,269,784**	190,865,752
Interest expense	7	**(23,560,383)**	(20,321,973)
Net interest income		**172,709,401**	170,543,779
Fee and commission income	8	**74,159,072**	66,589,619
Fee and commission expenses	8	**(1,070,005)**	(598,352)
Net fees and commission income		**73,089,067**	65,991,267
Net trading income	9	**43,298,421**	33,276,638
Other operating income	10	**86,597**	529,492
Total operating income		**289,183,486**	270,341,176
Impairment charge for credit losses	11	**(16,883,333)**	(9,602,849)
		272,300,153	260,738,327
Employee benefits and expenses	12	**(64,434,269)**	(47,703,610)
Depreciation and amortisation		**(9,940,093)**	(9,676,026)
Other operating expenses	13	**(110,335,036)**	(80,219,310)
Operating profit		**87,590,755**	123,139,381
Share of profit from associate	22	**1,181,347**	510,537
Profit before tax		**88,772,102**	123,649,918
Taxation	14	**(16,690,122)**	(28,351,567)
Profit for the year after tax		**72,081,980**	95,298,351

Earnings per share attributable to the equity holders of the bank during the year (expressed in UShs per share)

	Notes	2010	2009
Basic and diluted	16	**14.08**	18.62
Dividend (proposed) per share	15	**7.03**	7.81
Interim dividend per share paid	15	**-**	5.27

The notes on pages 33-97 form an integral part of these financial statements

Financial statements (continued)

Statement of comprehensive income

	Notes	2010 UShs'000	2009 UShs'000
Profit for the year		**72,081,980**	95,298,351
Other comprehensive income for the year after tax:			
Net change in available for sale financial assets	30	**(13,400,786)**	9,912,256
Total comprehensive income for the year		**58,681,194**	105,210,607

The notes on pages 33-97 form an integral part of these financial statements

Financial statements (continued)

Statement of financial position

	Notes	31st December 2010 UShs'000	31st December 2009 UShs'000
Cash and balances with Bank of Uganda	17	**362,115,078**	357,786,376
Derivative assets	31	**182,729**	1,207,991
Government securities – available for sale	18	**454,703,399**	307,538,419
Government securities – held for trading	18	**39,487,569**	71,976,784
Pledged assets	19	**493,804**	803,998
Loans and advances to banks	20	**76,551,451**	30,952,480
Amounts due from group companies	39	**152,882,044**	118,677,383
Loans and advances to customers	21	**1,204,689,725**	927,373,277
Other investment securities	22	**1,051,920**	1,051,920
Interest in associate	23	**2,421,996**	1,240,649
Current taxation asset	14	**6,607,285**	1,684,292
Deferred tax asset	24	**6,022,195**	1,423,362
Prepaid operating leases	25	**160,527**	148,098
Other assets	26	**47,040,917**	29,287,925
Goodwill and other intangible assets	27	**1,996,563**	2,021,338
Property and equipment	28	**43,740,563**	27,338,930
Total assets		**2,400,147,765**	1,880,513,222
Shareholders' equity and liabilities			
Shareholders' equity			
Ordinary share capital	29	**5,118,867**	5,118,867
Share premium	29	**20,411,266**	20,411,266
Available for sale revaluation reserve	30	**(8,794,336)**	4,606,450
Statutory credit risk reserve		**5,025,829**	2,863,246
Retained earnings		**172,325,160**	138,171,064
Proposed dividends		**36,000,000**	40,000,000
	16	**230,086,786**	211,170,892
Liabilities			
Derivative liabilities	31	**20,246,540**	-
Deposits from customers	32	**1,840,918,411**	1,459,424,769
Deposits from banks	33	**133,787,490**	73,270,317
Borrowed funds	34	**28,060,611**	19,911,132
Amounts due to group companies	39	**20,436,889**	7,178,299
Other liabilities	35	**96,611,038**	77,949,706
Subordinated debt	36	**30,000,000**	31,608,107
		2,170,060,979	1,669,342,330
Total Equity and Liabilities		**2,400,147,765**	1,880,513,222

The financial statements on pages 33 to 97 were approved for issue by the Board of Directors on 22nd March 2011 and signed on its behalf by:

.... Chairman

.... Managing Director

.... Director

.... Secretary

The notes on pages 33-97 form an integral part of these financial statements

Financial statements (continued)

Statement of changes in equity

Year ended 31st December 2010	Notes	Share capital UShs'000	Share premium 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 1st January 2010		5,118,867	20,411,266	4,606,450	2,863,246	40,000,000	138,171,064	211,170,892
Profit for the year		-	-	-	-	-	72,081,980	72,081,980
Net change in available for sale investments		-	-	(13,400,786)	-	-	-	(13,400,786)
Total comprehensive income for the period		-	-	(13,400,786)	-	-	72,081,980	58,681,194
Transactions with owners recorded directly in equity								
Dividends paid		-	-	-	-	(40,000,000)	-	(40,000,000)
Statutory credit risk reserve		-	-	-	2,162,583	-	(2,162,583)	-
Equity-settled share-based payment transactions		-	-	-	-	-	234,700	234,700
Proposed dividend		-	-	-	-	36,000,000	(36,000,000)	-
Balance at 31st December 2010		5,118,867	20,411,266	(8,794,336)	5,025,829	36,000,000	172,325,160	230,086,786

The notes on pages 33-97 form an integral part of these financial statements

Financial statements (continued)

Statement of changes in equity

Year ended 31st December 2009

	Share capital UShs'000	Share premium 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 1st January 2009	5,118,867	20,411,266	(5,305,806)	2,634,608	30,000,000	109,919,028	162,777,963
Profit for the year	-	-	-	-	-	95,298,351	95,298,351
Net change in available for sale investments	-	-	9,912,256	-	-	-	9,912,256
Total comprehensive income for the period	-	-	9,912,256	-	-	95,298,351	105,210,607
Transactions with owners recorded directly in equity							
Dividends paid	-	-	-	-	(30,000,000)	(27,004,384)	(57,004,384)
Statutory credit risk reserve	-	-	-	228,638	-	(228,638)	-
Equity-settles share-based payment transactions	-	-	-	-	-	186,707	186,707
Proposed dividend	-	-	-	-	40,000,000	(40,000,000)	-
Balance at 31st December 2009	5,118,867	20,411,266	4,606,450	2,863,246	40,000,000	138,171,064	211,170,892

The statutory credit risk reserve represents amounts by which provisions for impairments of loans and advances, determined in accordance with the Financial Institutions Act 2004 exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated from retained earnings in accordance with accounting policy (g).

The notes on pages 33-97 form an integral part of these financial statements

Financial statements (continued)

Statement of cash flows

Year ended 31st December 2010

	Notes	2010 UShs'000	2009 UShs'000
Cash flows from operating activities			
Profit before income tax		**88,772,102**	123,649,918
Adjustments for non-cash items			
Depreciation	28	**9,915,318**	9,595,429
Amortisation of intangible assets	27	**24,775**	80,598
Amortisation of prepaid operating leases	25	**10,231**	7,642
Proceeds from disposal of fixed assets		**(63,350)**	(80,122)
Equity- settled share based payment transactions		**234,700**	186,707
Share of profit in associate	23	**(1,181,347)**	(510,537)
		97,712,429	132,929,635
Changes in operating assets and liabilities			
Income tax paid	14	**(20,468,753)**	(26,980,678)
Decrease derivative assets		**1,025,263**	(993,357)
(Increase)/decrease in government securities - available for sale		**(228,960,156)**	82,080,265
(Increase)/decrease in government securities - Trading		**32,489,216**	(42,863,623)
(Increase)/decrease in government securities - held at maturity		**-**	1,150,796
Decrease in pledged assets		**310,194**	1,856,505
Increase in cash reserve requirement		**(46,492,000)**	(10,747,000)
Increase in loans and advances to customers		**(277,316,448)**	(196,508,591)
Increase in other assets		**(17,491,580)**	(9,222,046)
Increase in customer deposits		**381,493,642**	169,750,319
Increase in amounts due to other banks		**60,517,173**	9,147,391
Increase in amounts due to group companies		**13,258,590**	1,902,357
Net increase/decrease in derivative liabilities		**20,246,540**	(188,871)
Increase in other liabilities		**18,661,330**	4,695,414
Net cash from operating activities		**34,985,440**	116,008,516
Cash flows from investing activities			
Purchase of property and equipment	28	**(26,605,048)**	(10,166,168)
Purchase of leased land	25	**(22,660)**	-
Proceeds from sale of property and equipment		**90,035**	173,268
Net cash from investing activities		**(26,537,673)**	(9,992,900)
Cash flow from financing activities			
Dividends paid		**(40,000,000)**	(57,004,384)
Increase in borrowed funds		**8,149,479**	18,887,554
Decrease/proceeds - subordinated debt		**(1,608,107)**	31,608,107
Net cash used in financing activities		**(33,458,628)**	(6,508,723)
Net increase/(decrease) in cash and cash equivalents		**(25,010,861)**	99,506,893
Cash and cash equivalents at beginning of year		**487,211,877**	387,704,984
Cash and cash equivalents at end of the year	38	**462,201,016**	487,211,877

The notes on pages 33-97 form an integral part of these financial statements

Notes to the 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
P.O. Box 7131, Kampala

The bank's shares are listed on the Uganda Securities Exchange (USE).

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 financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Uganda Shillings (UShs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Adoption of new and revised standards and interpretations

In 2010 new and revised standards and interpretations listed below became effective for the first time and have been adopted by the bank. The adoption of these new and revised standards and interpretations had no material effect on the bank's accounting policies.

- ***IAS 1: 'Presentation of financial statements' (effective 1st January 2010):*** The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period. The application of the amendment does not have a significant impact on the bank's financial statements.

- ***IAS 17: 'Leases' (effective 1st January 2010):*** The amendment clarifies that when a lease includes both land and buildings elements, an entity shall assess the classification of each element as a finance or an operating lease separately. The application of the amendment does not have a significant impact on the bank's financial statements.

- ***IAS 36: 'Impairment of Assets' effective 1st January 2010)'.*** The amendment clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating Segments' (that is, before the aggregation of segments with similar economic characteristics). The application of the amendment does not have a significant impact on the bank's financial statements.

- ***IFRS 8: 'Operating Segments'.*** The amendment removes the requirement to provide a measure of total assets for each reportable segment. Instead a measure of total assets and total liabilities should be provided if such amounts are regularly provided to the Chief Operating Decision Maker (CODM). The application of the amendment does not have a significant impact on the bank's financial statements.

- ***IAS 32, 'Financial instruments' - Classification of rights issues (effective 1st February 2010):.*** The amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This amendment does not have any impact on the results of the bank.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- ***IFRIC 19: 'Extinguishing financial liabilities with equity' (effective 1st July 2010).*** This interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This interpretation does not have any impact on the results of the bank.

- ***IFRS 1: 'First-time adoption of International Financial Reporting Standards'.*** Limited exemption from comparative IFRS 7 disclosures for first-time adopters' (effective 1st July 2010). This amendment provides relief to first-time adopters of IFRS on new fair value disclosures and also clarifies the transition provisions of the amendments to IFRS 7. This amendment does not have any impact on the results of the bank.

Standards and interpretations issued but not yet effective.

The bank has chosen not to early adopt the following standards and interpretations that were issued but not effective for accounting periods beginning on 1st January 2010.

- ***IFRS 9: 'Financial instruments' part 1: Classification and measurement.*** This new standard requires all financial assets to be measured at either amortised cost or full fair value and is applicable effective 1st January 2013. It is expected to have an impact on the results of the bank.

- ***IAS 24: 'Related party disclosures.*** The standard was amended by removing the requirement for government –related entities to disclose details of all transactions with the government and other government related entities and also clarifies and simplifies the definition of a related party. This amendment will require the bank to make additional disclosures and is effective 1st January 2011.

- ***IFRIC 14: 'Prepayments of a minimum funding requirement.'*** The amendment which is effective on 1st January 2011 removes an unintended consequence relating to voluntary pension pre-payments when there is a minimum funding requirement. This interpretation will not have any impact on the bank.

(b) Interest income and expense

Interest income and expense are recognised in the profit and loss account for all interest bearing instruments measured at amortised cost or fair value through equity using the effective interest method.

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.

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 rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(c) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised over the life of the loan.

(d) Net trading revenue

Net trading revenue comprises gains or losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(e) Net income from other financial instruments at fair value through profit and loss

Net income from other financial instruments at fair value through profit and loss relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedge relationship and financial assets and liabilities designated at fair value through profit and loss, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Dividends

Divided 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.

(g) 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 it's 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 & Business Banking and Corporate & Investment Banking.

(h) Foreign currency translation

The accounting records are maintained in the currency of the primary economic environment in which the bank operates, Uganda Shillings ('the functional currency'). Transactions in foreign currencies during the year are converted into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(i) Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity investments; and available-for-sale financial assets. 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 or designated at fair value through profit or loss at inception.

(ii) Loans, advances 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

(b) Those that the entity upon initial recognition designates as available for sale

(c) 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 – which is the cash consideration to originate or purchase the loan including any transaction costs – 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 or as investment securities. 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'. Loans, advances and receivables are initially recognised at fair value.

(iii) Held-to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

(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 that are those no 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, advances 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 profit and loss account 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 equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the bank's right to receive payment is established.

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 are transferable to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Pledged assets'.

(j) Impairment of financial assets

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
- 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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(j) Impairment of financial assets (continued)

(i) Assets carried at amortised cost

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 profit and loss account. 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. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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 above, the Bank is also required by the Financial Institutions Act 2004 to estimate 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 follows:

   a) Substandard assets with arrears period between 90 and 180 days – 20%

   b) Doubtful assets with arrears period between 180 days and 360 days – 50%

   c) Loss assets with arrears period over 360 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 regulatory reserve as an appropriation of retained earnings. Otherwise no further accounting entries are made.

(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 remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in the profit and loss account.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(j) Impairment of financial assets (continued)

(ii) Assets carried at fair value (continued)

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 profit and loss account and is recognised as part of the impairment loss. The amount of the loss recognised in the profit and loss account 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 an 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 profit and loss account.

(k) 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.

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.

(l) Impairment of non-financial assets

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amounts.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(m) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

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.

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 or 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.

Deferred tax related to fair value re-measurement of available –for-sale investments are credited or charged directly to equity.

(n) Cash and cash equivalents

For the purposes of the cash flow statement, 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 short-term government securities.

(o) 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.mAll other leases 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 profit and loss account 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 as a receivable. 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.

(p) 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.

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 profit and loss account 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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

(ii) Short term benefits (continued)

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.

(q) 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 profit and loss account.

(r) 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.

(s) 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 repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

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 financial statements.

(t) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(u) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the bank's share of the net assets of the acquired company at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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, 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.

ii) Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of five years.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(v) 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.

(w) Share capital

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.

Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for it's 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.

(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 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.

(y) Accounting for government grants

Government grants are assistance offered by government, government agencies and similar bodies whether local, national or international in the form of transfers of resources in return for past or future compliance with certain conditions relating to the operating of the bank. Grants related to assets are government grants whose primary condition is that the bank should purchase long term assets.

Grants from government are recognised when there is reasonable assurance that the bank will comply with the conditions attaching to it and that the grant will be received.

Grants awarded towards the purchase of assets are netted off against the total purchase price in arriving at the carrying value of the asset. The grant is then recognised as income over the life of the asset by way of a reduced depreciation charge.

(z) Equity compensation plans

The parent company operates two equity settled share based compensation plans through which certain key management staff 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.

Notes to the financial statements (continued)

3 Financial risk management

(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 instrument. 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 balance sheets, are:

- To comply with the capital requirements set by the regulator, Bank of Uganda
- 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
- To maintain a strong capital base to support the development of its business

The bank monitors the adequacy of its capital using ratios established by Bank of Uganda (BOU), which ratios are broadly in line with those for the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the bank's eligible capital with its Statement of financial position assets, off-balance-sheet commitments and market and other risk positions 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 off statement of financial position items and a total capital (tier 1 + tier 2) of not less than 12% of its total risk adjusted assets plus risk adjusted off statement of financial position items.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(b) Capital management (continued)

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 and investments in financial companies, not consolidated. Tier 2 capital includes the bank's eligible long-term loans, mark to market adjustment on available for sale securities and general provisions. Tier 2 capital is limited to 100% of Tier 1 capital.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(b) Capital management (continued)

The table below summarizes the composition of the regulatory capital.

	2010 UShs'000	2009 UShs'000
Core capital (Tier 1)		
Shareholders' equity	**5,118,867**	5,118,867
Share premium	**20,411,266**	20,411,266
Prior years retained profits	**138,171,064**	109,919,028
Current year profits	**72,081,980**	95,298,351
Dividends paid and proposed	**(36,000,000)**	(67,004,384)
	199,783,177	163,743,128
Less: Deductions determined by Bank of Uganda		
- Goodwill and other intangible assets	**(2,020,929)**	(2,021,339)
- Investment in subsidiaries	**(207,720)**	(207,720)
- Mark to market adjustment for trading securities	**(22,770)**	(1,103,399)
- Statutory credit risk reserve	**(2,162,583)**	(228,638)
- Equity settled share based payments	**234,700**	186,707
- Unrealised foreign exchanging gains/losses	**(1,203,884)**	(7,407,703)
	(5,383,186)	(10,782,091)
Total core capital	**194,399,990**	152,961,037
Supplementary capital (Tier 2)		
Statutory credit risk reserve	**5,025,828**	2,863,246
Mark to market adjustment for available for sale securities	**(8,794,336)**	4,606,450
Subordinated Term Debt	**30,000,000**	30,000,000
Total suplementary capital	**26,231,492**	37,469,696
Total capital (core and supplementary)	**220,631,482**	190,430,733

Notes to the financial statements (continued)

3 Financial risk management (continued)

(b) Capital management (continued)

The bank's capital adequacy level was as follows:

	Financial position nominal balance		Risk weighted balance	
	2010 UShs'000	2009 UShs'000	2010 UShs'000	2009 UShs'000
Statement of financial position				
Cash and balances with Bank of Uganda	**362,115,078**	357,786,376	**-**	-
Government securities - available for sale	**455,197,203**	308,342,417	**-**	-
Government securities - held for trading	**39,487,569**	71,976,784	**-**	-
Placements with local banks	**12,200,000**	9,500,000	**2,440,000**	1,900,000
Repo - Bank of Uganda	**-**	3,100,000	**-**	-
Placements with foreign/group banks	**217,233,495**	137,029,863	**114,050,936**	68,593,195
Loans and advances to customers	**1,204,689,725**	927,373,277	**1,206,324,253**	919,305,125
Other investment securities	**1,051,920**	1,051,920	**1,051,920**	1,051,920
Interest in associate	**2,421,996**	1,240,649	**2,421,996**	1,240,649
Prepaid operating leases	**160,527**	148,098	**160,527**	148,098
Other assets	**59,853,126**	33,603,570	**59,853,126**	33,603,570
Goodwill	**1,901,592**	1,901,592	**1,901,592**	1,901,592
Other intangible assets	**94,971**	119,746	**94,971**	119,746
Property and equipment	**43,740,563**	27,338,930	**43,740,563**	27,338,930
	2,400,147,765	1,880,513,222	**1,432,039,884**	1,055,202,825
Off-balance sheet items				
Contigencies secured by cash collateral	**23,134,723**	5,973,661	**-**	-
Guarantees and acceptances	**16,044,481**	17,873,672	**16,044,481**	17,873,672
Performance bonds	**36,869,306**	32,679,758	**18,434,653**	16,339,879
Trade related and self liquidating credits	**57,543,200**	57,984,005	**11,508,640**	11,596,801
Other commitments	**148,410,710**	135,708,522	**74,205,355**	67,854,261
	282,002,420	250,219,618	**120,193,129**	113,664,613
Total risk weighted assets			**1,552,233,012**	1,168,867,438

	Capital		Bank ratio		FIA minimum ratio	
	2010 UShs'000	2009 UShs'000	2010 %	2009 %	2010 %	2009 %
Tier 1 capital	**194,399,990**	152,961,037	**12.5**	13.1	**8**	8
Tier 1 + Tier 2 capital	**220,631,482**	190,430,733	**14.2**	16.3	**12**	12

Notes to the financial statements (continued)

3 Financial risk management (continued)

(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 balance sheet 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 balance sheet 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

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:

- The 'probability of default' by the client or counterparty on its contractual obligations
- Current exposures to the counterparty and its likely future development, from which the bank derive the 'exposure at default
- The likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model') and are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee), 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 balance sheet date (the 'incurred loss model') rather than expected losses (Note 3 (I) (ii)).

(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 is as below:

Bank's rating	Description of the grade
1	Standard monitoring
2	Special monitoring
3	Sub-standard
4	Doubtful
5	Loss

Observed defaults per rating category vary year on year, especially over an economic cycle.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(c) Credit risk (continued)

(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.

(a) 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
- 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.

(b) 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.

(c) 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.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(c) Credit risk (continued)

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.

(b) Impairment and provisioning policy

The internal and external rating systems described in Note 3 (I) (i) 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 balance sheet date based on objective evidence of impairment (see Note 2(I)).

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 balance sheet 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 categories:

Bank's rating

	2010	
	Loans and advances %	Impairment provision %
Standard monitoring & special monitoring	**98.14**	**0.96**
Sub-standard, doubtful and loss	**1.86**	**60.80**
	100	**1.56**

	2009	
	Loans and advances %	Impairment provision %
Standard monitoring & special monitoring	98.31	2.77
Sub-standard, doubtful and loss	1.69	65.61
	100	1.62

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

Notes to the financial statements (continued)

3 Financial risk management (continued)

(c) Credit risk (continued)

(b) Impairment and provisioning policy

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 balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateralheld (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
(ii) Losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques

Notes to the financial statements (continued)

3 Financial risk management (continued)

(c) Credit risk (continued)

(iii) Maximum exposure to credit risk before collateral held or other credit enhancements

	2010 UShs'000	2009 UShs'000
Credit risk exposures relating to off-balance sheet assets are as follows:		
Bank of Uganda	**175,022,403**	181,505,984
Loans and advances to banks	**229,433,495**	149,629,863
Investment securities		
Treasury bonds – available for sale	**328,800,601**	147,868,621
Treasury bills – available for sale	**125,902,798**	159,669,798
Treasury bills – pledged assets	**493,804**	803,998
Loans and advances to customers		
Loans to individuals		
Overdrafts	**3,347,129**	4,006,204
Term loans	**294,738,849**	247,609,460
Mortgages	**92,034,543**	54,112,703
Loans to corporate entities		
Large corporate entities	**543,200,739**	427,267,898
Small and medium size entities	**296,882,637**	209,606,717
Trading assets		
Treasury bonds	**-**	4,627,203
Treasury bills	**39,487,569**	67,349,581
Derivative assets	**182,729**	1,207,991
Other	**47,040,917**	29,287,924
	2,176,568,213	1,684,553,945
Credit risk exposures relating to off-balance sheet assets are as follows:		
Financial guarantees	**61,505,476**	52,426,063
Loan commitments and other credit related liabilities	**221,243,924**	197,793,553
	282,749,400	250,219,616
As at 31st December	**2,459,317,613**	1,934,773,561

The above table represents a worst case scenario of credit risk exposure to the bank at 31st December 2010 and 2009, 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.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(c) Credit risk (continued)

(iii) Maximum exposure to credit risk beforecollateral held or other credit enhancements

As shown above, 68.3% of the total maximum exposure is derived from loans and advances to banks and customers (2009: 66.7%); 20.1% represents investments in debt securities (2009: 19.7%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 98.2% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2009: 98.3%)
- Mortgage loans, are backed by collateral
- 82.4% of the loans and advances portfolio are considered to be neither past due nor impaired (2009: 80.3%)
- All debt securities which the bank has invested in are issued by the Bank of Uganda

(iv) Loans and advances are summarised as follows:

	2010		2009	
	Loans and advances to customers UShs'000	Loans and advances to banks UShs'000	Loans and advances to customers UShs'000	Loans and advances to banks UShs'000
Neither past due nor impaired	1,013,610,407	76,551,451	757,144,303	30,952,480
Past due but not impaired	194,759,277	-	169,489,492	-
Impaired loans and advances	21,834,218	-	15,969,187	-
Gross loans and advances	1,230,203,902	76,551,451	942,602,982	30,952,480
Allowance for impairment	(25,514,177)	-	(15,229,705)	-
	1,204,689,725	76,551,451	927,373,277	30,952,480

The total impairment provision for loans and advances is UShs 25,514 million (2009: UShs 15,230 million) of which UShs 13,940 million (2009: UShs 7,613 million) represents the individually impaired loans and the remaining amount of UShs 11,574 million (2009: UShs 7,616 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 21.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(c) Credit risk (continued)

(a) Credit quality

The credit quality of financial assets is managed by the group using internal credit ratings. The table below shows the credit quality by class of financial asset for credit risk related items, based on the group's credit rating system.

	Performing loans			Non-performing loans				Total loans		
	Standard UShs'000	Special mention UShs'000	Total UShs'000	Sub-standard UShs'000	Doubtful UShs'000	Loss UShs'000	Total UShs'000	UShs'000	Security against impaired loans UShs'000	Net impaired loans UShs'000
As at 31st December 2010										
Personal and Business Banking										
- Mortgage lending	85,996,701	9,782,839	95,779,540	1,154,934	138,260	356,735	1,649,929	97,429,469	1,380,869	269,059
- Instalment sales and fin. leases	77,323,916	5,989,450	83,313,366	249,058	798,296	32,427	1,079,781	84,393,147	670,202	409,579
- Other loans	473,581,225	17,215,864	490,797,089	3,993,909	1,264,740	9,124,808	14,383,457	505,180,546	4,783,023	9,600,434
	636,901,842	32,988,153	669,889,995	5,397,901	2,201,296	9,513,970	17,113,167	687,003,162	6,834,094	10,279,072
Corporate and Investment Banking										
- Corporate lending	535,464,301	3,015,388	538,479,689	-	-	4,721,051	4,721,051	543,200,740	3,660,099	1,060,954
- Property finance	-	-	-	-	-	-	-	-	-	-
	535,464,301	3,015,388	538,479,689	-	-	4,721,051	4,721,051	543,200,740	3,660,099	1,060,954
Total recognised financial instruments	1,172,366,143	36,003,541	1,208,369,684	5,397,901	2,201,296	14,235,021	21,834,218	1,230,203,902	10,494,193	11,340,026
As at 31st December 2009										
Personal and Business Banking										
- Mortgage lending	44,699,328	16,685,071	61,384,399	802,440	-	-	802,440	62,186,839	756,734	45,706
- Instalment sales and fin. leases	44,660,413	20,167,126	64,827,539	682,787	608,148	52,795	1,343,730	66,171,269	670,844	672,886
- Other loans	276,865,632	100,754,479	377,620,111	4,480,499	854,458	4,021,909	9,356,866	386,976,977	4,127,439	4,787,648
	366,225,373	137,606,676	503,832,049	5,965,726	1,462,606	4,074,704	11,503,036	515,335,085	5,555,017	5,506,240
Corporate and Investment Banking										
- Corporate lending	342,686,733	31,882,816	374,569,549	4,466,151	-	-	4,466,151	379,035,700	4,466,151	-
- Property finance	48,232,197		48,232,197	-	-	-	-	48,232,197	-	-
	390,918,930	31,882,816	422,801,746	4,466,151	-	-	4,446,151	427,267,897	4,466,151	-
Total recognised financial instruments	757,144,303	169,489,492	926,633,795	10,431,877	1,462,606	4,074,704	15,969,187	942,602,982	10,021,168	5,506,240

Notes to the financial statements (continued)

3 Financial risk management (continued)

(c) Credit risk (continued)

b) 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:

	Personal and Business Banking				Corporate and Investment Banking			Total
	Mortgage lending UShs'000	Instalment sales and finance leases UShs'000	other loans and advances UShs'000	Total UShs'000	Corporate lending UShs'000	Property finance UShs'000	Total UShs'000	UShs'000
As at 31st December 2010								
Past due up to 30 days	19,235,986	16,940,397	125,594,740	161,771,123	4,089,134	-	4,089,134	165,860,258
Past due 30 – 60 days	7,897,261	3,706,468	10,390,433	21,994,161	2,781,439	-	2,781,439	24,775,600
Past due 60 -180 days	1,885,578	2,282,982	6,825,431	10,993,992	233,947	-	233,947	11,227,938
	29,018,825	22,929,847	142,810,604	194,759,276	7,104,520	-	7,104,520	201,863,796
As at 31st December 2009								
Past due up to 30 days	12,407,836	15,597,680	82,558,306	110,563,822	26,750,711	-	26,750,711	137,314,533
Past due 30 – 60 days	3,232,105	2,988,243	10,765,647	16,985,995	3,526,087	-	3,526,087	20,512,082
Past due 60 -180 days	1,045,130	1,581,203	7,430,526	10,056,859	1,606,018	-	1,606,018	11,662,877
	16,685,071	20,167,126	100,754,479	137,606,676	31,882,816	-	31,882,816	169,489,492

Notes to the financial statements (continued)

3 Financial risk management (continued)

(c) Credit risk (continued)

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is UShs 21,834 million (2009: UShs 15,969 million).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	Personal and Business Banking			Corporate and Investment Banking		Total
	Mortgage lending UShs'000	Instalment sales and finance leases UShs'000	Other loans and advances UShs'000	Corporate lending UShs'000	Property finance UShs'000	UShs'000
As at 31st December 2010						
Impaired loans and advances	**1,649,928**	**1,079,781**	**14,383,457**	**4,721,053**	**-**	**21,834,219**
Fair value of collateral	**1,172,260**	**421,296**	**2,364,818**	**3,660,099**	**-**	**7,618,473**
As at 31st December 2009						
Impaired loans and advances	802,440	1,343,730	9,356,866	4,466,151	-	15,969,187
Fair value of collateral	756,734	670,844	4,127,439	4,466,151	-	10,021,168

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to prices of recent similar transactions or indices of similar assets.

(d) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31st December 2010 was Nil (2009: nil). No collateral is held by the bank.

(e) Other Financial Assets

No other financial assets are individually or collectively impaired (2009: nil). No collateral is held by the bank.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(f) Renegotiated Loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled UShs 3,740m as at 31st December 2010 (2009: UShs 622m).

	2010 UShs'000	2009 UShs'000
Loans and advances to customers	**3,740,228**	622,316
Loans and advances to banks	**-**	-
	3,740,228	622,316

(v) Repossessed collateral

During 2010, the bank obtained assets by taking possession of collateral held as security, as follows:

	2010 UShs'000	2008 UShs'000
Nature of assets		
Residential properties	**2,956,022**	1,511,230
Commercial properties	**1,117,840**	2,497,350
Vehicles	**842,591**	1,377,765
Other	**-**	2,174,841
	4,916,453	7,561,186

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed properties are not included on the statement of financial position.

Collateral held

The bank holds collateral against loans and advances to customers in the form of mortgage interests over property such as land and buildings and plant and machinery, other registered securities over assets e.g. chattels for micro loans, and corporate guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31st December 2010 or 2009.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(d) 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.

As at 31st December 2010	Financial Institutions UShs'000	Manufacturing UShs'000	Agriculture UShs'000	Transport UShs'000	Individuals UShs'000	Others UShs'000	Total UShs'000
Investment securities	454,703,399	-	-	-	-	-	454,703,399
Loans and advances to banks	229,433,495	-	-	-	-	-	229,433,495
Loans and advances to customers	-	258,402,588	66,864,016	64,351,585	261,480,348	579,105,363	1,230,203,900
Financial assets designated at fair value:							
-Debt securities	39,487,569	-	-	-	-	-	39,487,569
- Pledged assets	493,804	-	-	-	-	-	493,804
- Other assets	-	-	-	-	-	47,040,917	47,040,917
	724,118,267	258,402,588	66,864,016	64,351,585	261,480,348	626,146,280	2,001,363,084
As at 31st December 2009							
Investment securities	307,538,419	-	-	-	-	-	307,538,419
Loans and advances to banks	149,629,863	-	-	-	-	-	149,629,863
Loans and advances to customers	10,150,762	160,072,394	48,033,970	93,092,991	250,699,281	380,553,584	942,602,982
Financial assets designated at fair value:							
-Debt securities	71,976,784	-	-	-	-	-	71,976,784
- Pledged assets	803,998	-	-	-	-	-	803,998
- Other assets	3,459,458	-	-	-	-	25,828,466	29,287,924
	543,559,284	160,072,394	48,033,970	93,092,991	250,699,281	406,382,050	1,501,839,970

Notes to the financial statements (continued)

3 Financial risk management (continued)

(e) 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 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 Pv01that 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.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(e) Market risk (continued)

Market risk measurement techniques: (continued)

The VaR summaries for 2010 and 2009 are as follows:

	12 months to 31st December 2010			
	Average UShs'000	Maximum UShs'000	Minimum UShs'000	31st December 2010 UShs'000
Interest rate book - Trading	**5,927**	**16,612**	**178**	**2,320**
Interest rate book - Aailable for sale	**52,901**	**75,973**	**20,334**	**66,577**
Foreign exchange risk VaR	**51,709**	**202,105**	**4,998**	**51,007**

	12 months to 31st December 2009			
	Average UShs'000	Maximum UShs'000	Minimum UShs'000	31st December 2009 UShs'000
Interest rate book - Trading	3,202	9,502	53	2,708
Interest rate book - Aailable for sale	24,575	29,581	19,895	19,895
Foreign exchange risk VaR	92,511	279,277	3,370	106,772

Notes to the financial statements (continued)

3 Financial risk management (continued)

(e) Market risk (continued)

(c) 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 31st December 2010				
Assets				
Cash and balances with Bank of Uganda	57,461	3,306	4,241	65,008
Loans and advances to banks	2	46,046	16,442	62,490
Amounts due from group companies	106,785	29,838	3,244	139,867
Loans and advances to customers	296,727	1,300	13	298,040
Other assets	32,034	2,777	4,145	38,956
Total assets	**493,009**	**83,267**	**28,085**	**604,361**
Liabilities				
Customer deposits	433,625	52,383	16,050	502,058
Amounts due to banks	38,141	21,636	1	59,778
Amounts due to group companies	-	4,740	7,799	12,539
Other liabilities	3,620	2,584	837	7,041
Total liabilities	**475,386**	**81,343**	**24,687**	**581,416**
Net on-balance sheet position	**17,623**	**1,924**	**3,398**	**22,945**
As at 31st December 2009				
Total assets	345,624	56,081	23,155	424,860
Total liabilities	341,438	57,103	15,974	414,515
Net on-balance sheet financial position	4,186	(1,022)	7,181	10,345

Notes to the financial statements (continued)

3 Financial risk management (continued)

(e) Market risk (continued)

d) 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 repricing that may be undertaken, which is monitored daily.

The table below 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 repricing or maturity dates. The bank does not bear an interest rate risk on off-balance sheet items.

	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
As at 31st December 2010						
Assets						
Cash and balances with Bank of Uganda	-	-	-	-	362,115	362,115
Govt securities - available for sale	20,513	74,756	63,401	296,033	-	454,703
Govt securities - for trading	377	9,931	29,180	-	-	39,488
Deposits and balances due from other banks	76,551	-	-	-	-	76,551
Amounts due from group companies	152,882	-	-	-	-	152,882
Loans and advances to customers	1,204,632	-	-	-	58	1,204,690
Pledged assets	-	494	-	-	-	494
Derivatives	-	-	-	-	183	183
Other investment securities	-	-	-	-	1,052	1,052
Investment in associate	-	-	-	-	2,422	2,422
Property and equipment	-	-	-	-	43,741	43,741
Prepaid operating lease	-	-	-	-	161	161
Goodwill and other intangible assets	-	-	-	-	1,997	1,997
Current taxation asset	-	-	-	-	6,607	6,607
Deffered tax asset	-	-	-	-	6,022	6,022
Other assets	-	-	-	-	47,041	47,041
Total assets	1,454,955	85,181	92,581	296,033	471,397	2,400,148
Liabilities and shareholders' equity						
Customer deposits	735,213	157,295	10,363	131	937,916	1,840,918
Deposits due to other banks	133,787	-	-	-	-	133,787
Borrowed funds	-	-	-	28.061	-	28,061
Amounts due to group companies	-	-	-	-	20,437	20,437
Derivative liabilities	-	-	-	-	20,247	20,247
Other liabilities	-	-	-	96,611	-	96,611
Subordinated bonds/debts	-	-	-	30,000	-	30,000
Total liabilities and shareholders' equity	869,000	157,295	10,363	154,803	978,600	2,170,061
Total interest re-pricing gap	585,955	(72,114)	82,218	141,230	(507,203)	230,087
Interest re-pricing gap	585,955	(72,114)	82,218	141,230		737,289

(e) Market risk (continued)

d) Interest rate risk (continued)

	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
As at 31st December 2009						
Total assets	1,103,053	180,194	121,311	52,763	391,018	1,848,339
Total liabilities and shareholders' equity	648,926	103,488	30,796	49,756	836,376	1,669,342
Total interest re-pricing gap	454,127	76,706	90,515	3,007	(445,358)	178,997
Interest re-pricing gap	454,127	76,706	90,515	3,007		624,355

Furthermore the ALCO monitors the sensitivity of net interest income to changes in interest rates. Limits are set and monitored monthly. The table below summarises the sensitivity of a flat interest rate increase or decrease of 200bps.

	31st December 2010		31st December 2009	
	Change in net interest income UShs'000	% of net interest income	Change in net interest income UShs'000	% of net interest income
200bps decrease in interest rates	**(10,290,599)**	**(7.3%)**	(10,000,548)	(6.19%)
200bps increase in interest rates	**33,290,599**	**4.5%**	15,972,120	9.89%

(f) 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 calls 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 a separate team in Treasury, 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
- Treasury 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

(f) Liquidity risk (continued)

The table below presents the cash flows payable by the bank under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Up to 1 month UShs'm	1 – 6 months UShs'm	6 – 12 months UShs'm	> 1 year UShs'm	Total UShs'm
At 31st December 2010					
Assets					
Cash and balances with Bank of Uganda	362,115	-	-	-	362,115
Government securities - available for sale	20,513	74,756	63,401	296,033	454,703
Government securities - for trading	377	9,931	29,180	-	39,488
Deposits and balances due from other banks	76,551	-	-	-	76,551
Amounts due from group companies	152,882	-	-	-	152,882
Loans and advances to customers	294,470	165,742	162,779	581,699	1,204,690
Pledged assets	-	-	-	494	494
Derivative assets	-	-	-	183	183
Other investment securities	-	-	-	1,052	1,052
Investment in associate	-	-	-	2,422	2,422
Property and equipment	-	-	-	43,741	43,741
Prepaid operating lease	-	-	-	161	161
Intangible asset	-	-	-	1,997	1,997
Tax recoverable	-	6,607	-	-	6,607
Deferred income tax assets	-	-	-	6,022	6,022
Other assets	47,040	-	-	-	47,040
Total assets (expected maturity dates)	**953,948**	**257,036**	**255,360**	**933,804**	**2,400,148**
Liabilities					
Customer deposits	1,673,129	157,295	10,363	131	1,840,918
Deposits due to other banks	133,787	-	-	-	133,787
Borrowed funds	28,061	-	-	-	28,061
Amounts due to group companies	20,437	-	-	-	20,437
Derivative liabilities	-	-	-	20,247	20,247
Other liabilities	96,611	-	-	-	96,611
Subordinated bonds/debt	-	-	-	30,000	30,000
Total liabilities (contractual maturity dates)	**1,952,025**	**157,295**	**10,363**	**50,378**	**2,170,061**
Liquidity gap	(998,077)	99,741	244,997	883,426	230,087
Cumulative liquidity gap	(998,077)	(898,336)	(653,339)	230,087	-
As at 31st December 2009					
Total assets (expected maturity dates)	778,981	225,639	190,288	685,605	1,880,513
Total liabilities (contractual maturity dates)	1,485,302	103,229	30,796	50,015	1,669,342
Liquidity gap	(706,321)	122,410	159,492	635,590	211,171
Cumulative liquidity gap	(706,321)	(583,911)	(424,419)	211,171	-

Notes to the financial statements (continued)

3 Financial risk management (continued)

(f) Liquidity risk (continued)

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.

(g) Off-balance sheet items

(a) 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 37), are summarised in the table below.

(b) Other financial facilities

Other financial facilities (Note 37) are also included below based on the earliest contractual maturity date.

(c) Operating lease commitments

Where the bank company is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 37, are summarised in the table below.

(d) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 37) are summarised in the table below.

	Not later than 1year UShs'000	1 – 5 years UShs'000	Total UShs'000
As at 31st December 2010			
Letters of credit	**69,363,714**	**3,469,500**	**72,833,214**
Guarantees	**60,006,032**	**1,499,444**	**61,505,476**
Commitments to extend credit	**148,410,710**	**-**	**148,410,710**
Operating lease commitments	**8,423,922**	**14,923,391**	**23,347,313**
Purchase of property and equipment	**1,065,811**	**-**	**1,065,811**
	287,270,189	**19,892,335**	**307,162,524**
As at 31st December 2009			
Letters of credit	48,733,692	13,351,340	62,085,032
Guarantees	51,622,863	803,200	52,426,063
Commitments to extend credit	135,708,522	-	135,708,522
Operating lease commitments	4,867,552	10,102,857	14,970,409
Purchase of property and equipment	1,441,201	-	1,441,201
	242,373,830	24,257,397	266,631,227

Notes to the financial statements (continued)

3 Financial risk management (continued)

(h) 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 balance sheet at their fair value.

	Carrying value		Fair value	
	2010 UShs'000	2009 UShs'000	2010 UShs'000	2009 UShs'000
Financial assets				
Loans and advances to banks	**76,551,451**	30,952,480	**76,551,451**	30,952,480
Amounts due from group companies	**152,882,044**	118,677,383	**152,882,044**	118,677,383
Loans and advances to customers	**1,204,689,725**	927,373,277	**1,204,689,725**	927,373,277
Other investment securities	**1,051,920**	1,051,920	**1,051,920**	1,051,920
Other assets	**47,040,917**	29,287,924	**47,040,917**	29,287,924
Financial liabilities				
Customer deposits	**1,840,918,411**	1,459,424,768	**1,840,918,411**	1,459,424,768
Amounts due to other banks	**133,787,490**	73,270,317	**133,787,490**	73,270,317
Borrowed funds	**28,060,611**	19,911,132	**28,060,611**	19,911,132
Amounts due to group companies	**20,436,889**	7,178,299	**20,436,889**	7,178,299
Other liabilities	**96,611,038**	77,949,706	**96,611,038**	77,949,706

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 held to maturity; assets classified as available for sale are measured at fair value. Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(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.

Notes to the financial statements (continued)

3 Financial risk management (continued)

(i) 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 as described in accounting policy 2 (e) (v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

i) Level 1:
Quoted market price (unadjusted) in an active market for an identical instrument.

ii) Level 2:
Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments 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.

iii) 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.

Notes to the financial statements (continued)

(i) Fair value hierarchy (continued)

The information below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below for the year ended 31st December 2010 and 2009:

	Level 1 UShs'000	Level 2 UShs'000	Level 3 UShs'000	Total UShs'000
As at 31st December 2010				
Financial assets				
Derivative assets	**182,729**	**-**	**-**	**182,729**
Government securities - held for trading	**-**	**39,487,569**	**-**	**39,487,569**
Government securities - AFS	**-**	**454,703,399**	**-**	**454,703,399**
Pledged assets	**-**	**493,804**	**-**	**493,804**
Other investment securities	**-**	**-**	**1,051,920**	**1,051,920**
Total assets	**182,729**	**494,684,772**	**1,051,920**	**495,919,421**
Financial liabilities				
Derivative liabilities	**20,246,540**	**-**	**-**	**20,246,540**
Total liabilities	**20,246,540**	**-**	**-**	**20,246,540**
As at 31st December 2009				
Financial assets				
Derivative assets	1,207,991	-	-	1,207,991
Government securities - held for trading	-	71,976,784	-	71,976,784
Government securities - AFS	-	307,538,419	-	307,538,419
Pledged assets	-	803,998	-	803,998
Other investment securities	-	-	1,051,920	1,051,920
Total assets	1,207,991	380,319,201	1,051,920	382,579,112
Financial liabilities				
Derivative liabilities	-	-	-	-
Total liabilities	-	-	-	-

Notes to the financial statements (continued)

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 balance sheet 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. At year end, the bank applied the following loss emergence periods:

	Loss emergence period		Sensitivity[1]	
	2010 Months	2009 Months	2010 UShs'000	2009 UShs'000
Personal and Business Banking	3-6	3-6	1,465,966	743,412
- Mortgage lending	6	6	54,433	48,875
- Instalment sales and finance leases	6	6	205,033	58,777
- Other lending	3-6	3	1,206,500	635,760
Corporate lending	12	12	441,241	324,916
			1,907,207	1,068,328

[1]*Sensitivity is based on the effect of a change of one month in the emergence period on the value of the impairment.*

(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]	
	2010 %	2009 %	2010 UShs'000	2009 UShs'000
Personal and Business Banking	65	47	78,904	115,027
- Mortgage lending	95	98	5,912	8,024
- Instalment sales and finance leases	50	50	18,316	13,437
- Other lending	50	50	54,676	93,566
Corporate lending	50	50	1,612	44,664
			80,516	159,691

[1]*Sensitivity is based on the effect of a change of one percentage point in the estimated recovery on the value of the impairment.*

Notes to the financial statements (continued)

4 Critical accounting estimates and judgements in applying accounting policies (continued)

(c) Fair value of derivatives

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 an additional loss of UShs 8,794 million (2009: nil) in its financial statements, being the transfer of the negative revaluations within available-for-sale reserve to the income statement.

(e) Held to maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgement. In making this judgement, the bank evaluates its intention and ability to hold such investments to maturity. If the bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity investments were tainted, the fair value would decrease by UShs nil (2009: Nil), with a corresponding entry in the available-for-sale reserve in shareholders' equity.

Notes to the financial statements (continued)

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 intern ational counterparties in Uganda.
CIB incorporates:

- Global markets - includes foreign exchange, fixed income, derivatives, and money market funding units
- Banking and trade finance - includes corporate lending and transactional banking businesses, trade finance business and property related lending

The segment results for the year ended 31st December 2010 and 31st December 2009 are as follows:

	Personal and Business Banking UShs'000	Corporate and Investment Banking UShs'000	Total UShs'000
Income statement for the year ended 31st December 2010			
Operating income	**175,383,567**	**113,799,919**	**289,183,486**
Income from associate	**1,181,347**	**-**	**1,181,347**
Impairment losses	**(14,391,489)**	**(2,491,844)**	**(16,883,333)**
Other operating expenses	**(119,118,965)**	**(65,590,433)**	**(184,709,398)**
Profit before tax	**43,054,460**	**45,717,642**	**88,772,102**
Income tax expense	**(10,234,510)**	**(6,455,612)**	**(16,690,122)**
Profit after tax	**32,819,950**	**39,262,030**	**72,081,980**
Income statement for the year ended 31st December 2009			
Operating income	162,944,017	107,397,159	270,341,176
Income from associate	239,952	270,585	510,537
Impairment losses	(9,237,110)	(365,739)	(9,602,849)
Other operating expenses	(92,503,486)	(45,095,460)	(137,598,946)
Profit before tax	61,443,373	62,206,545	123,649,918
Income tax expense	(13,266,373)	(15,085,194)	(28,351,567)
Profit after tax	48,177,000	47,121,351	95,298,351

Notes to the financial statements (continued)

5 Segment information (continued)

	Personal and Business Banking UShs'000	Corporate and Investment Banking UShs'000	Total UShs'000
Financial position as at 31st December 2010			
Total assets	**940,542,017**	**1,459,605,748**	**2,400,147,765**
Total liabilities	**822,352,445**	**1,347,708,534**	**2,170,060,979**
Capital expenditure	**22,880,340**	**3,724,706**	**26,605,046**
Other segment items included in the income statement			
Depreciation	**8,534,532**	**1,380,786**	**9,915,318**
Amortisation of intangible assets	**21,337**	**3,438**	**24,775**
Financial position as at 31st December 2009			
Total assets	771,069,623	1,109,443,599	1,880,513,222
Total liabilities	911,453,359	757,888,970	1,669,342,329
Capital expenditure	6,709,671	3,456,497	10,166,168
Other segment items included in the income statement			
Depreciation	8,252,069	1,343,360	9,595,428
Amortisation of intangible assets	69,314	11,284	80,598

All of the business is carried out in Uganda. There is therefore no secondary (geographical) segment reporting.

6 Interest income

	2010 UShs'000	2009 UShs'000
Government securities	**34,026,365**	46,934,706
Loans and advances to customers	**158,270,040**	140,835,201
Loans and advances to banks	**895,532**	536,762
Amounts received from group companies	**3,077,847**	2,559,083
	196,269,784	190,865,752

Notes to the financial statements (continued)

7 Interest expense

	2010 UShs'000	2009 UShs'000
Current accounts	1,949,587	2,537,752
Savings and deposit accounts	14,733,591	11,909,823
Subordinated debt	4,259,038	1,608,107
Deposits and borrowings from banks	2,071,460	4,092,606
Amounts paid to group companies	167,479	173,685
Interest paid on other money market borrowings	379,228	-
	23,560,383	20,321,973

8 Net fee and commission income

	2010 UShs'000	2009 UShs'000
Fee and commission income		
Transactional fees and commissions income	68,549,887	61,364,918
Credit related fees and commissions income	5,609,185	5,224,701
	74,159,072	66,589,619
Fee and commission expense		
Transactional fees and commissions expenses	(1,070,005)	(598,352)
Net fee and commission income	73,089,067	65,991,267

9 Net trading income

	2010 UShs'000	2009 UShs'000
Foreign exchange trading	29,642,430	25,225,612
Debt securities trading	13,655,991	8,051,026
	43,298,421	33,276,638

Debt securities include the effect of buying and selling and changes in the fair value of government securities.

Included in foreign exchange trading are gains and losses from spot and forward contracts and other currency derivatives.

10 Other operating income

	2010 UShs'000	2009 UShs'000
Profit on disposal of property and equipment	63,350	80,122
Rental income	15,536	46,039
Dividend Income	61	23,557
Write backs	-	370,926
Other	7,650	8,848
	86,597	529,492

Notes to the financial statements (continued)

11 Impairment charge for credit losses

	2010 UShs'000	2009 UShs'000
Net credit impairment raised and reversed for loans and advances	**18,782,068**	12,440,368
Recoveries on loans and advances previously written off	**(1,898,735)**	(2,837,519)
	16,883,333	9,602,849

12 Employee benefits and expenses

	2010 UShs'000	2009 UShs'000
Salaries and wages	**52,973,788**	40,708,310
Contributions to defined contribution plans	**9,293,985**	5,292,103
Other	**2,166,496**	1,703,197
	64,434,269	47,703,610

13 Other operating expenses

	2010 UShs'000	2009 UShs'000
Premises costs	**16,948,857**	12,366,884
Office expenses	**11,141,157**	9,172,367
Auditors' remuneration	**394,718**	211,587
IT expenses	**25,442,531**	12,523,613
Travel and entertainment	**3,920,035**	3,571,683
Marketing and advertising	**6,237,947**	5,167,699
Insurance	**4,707,914**	4,485,795
Security expenses	**8,449,399**	6,490,376
Management fees	**13,315,435**	9,454,691
Directors fees and expenses	**281,508**	148,538
Training costs	**2,107,059**	2,092,642
Irrecoverable losses	**540,718**	2,975,119
Indirect taxes (VAT)	**9,588,558**	7,366,895
Bank charges	**1,611,724**	1,900,834
Leaseed equipment rental	**509,292**	317,019
Credit Bureau expenses	**479,988**	165,302
Other operating expenses	**4,658,196**	1,808,266
	110,335,036	80,219,310

Notes to the financial statements (continued)

14 Income tax expense

	2010 UShs'000	2009 UShs'000
Current income tax	**15,545,761**	28,772,060
Deferred tax (see note 24)	**1,144,361**	(420,493)
	16,690,122	28,351,567

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

	2010 UShs'000	2009 UShs'000
Profit before tax	**88,772,102**	123,649,918
Tax calculated at statutory tax rate of 30%	**26,631,631**	37,094,975
Tax effects of:		
Income not subject to tax	**(1,458,230)**	(1,324,379)
Income subject to tax at 15%	**(6,217,292)**	(7,990,971)
Expenses not deductible for tax purposes	**674,050**	626,012
Prior year deferred/current tax over provision	**(2,940,037)**	(54,070)
	16,690,122	28,351,567

The movement in the tax recoverable is as follows:

	2010 UShs'000	2009 UShs'000
Tax recoverable at beginning of the year	**(1,684,292)**	(3,475,675)
Prior year over provision	**(2,940,037)**	(54,070)
Income tax charge	**18,485,797**	28,826,131
Tax paid	**(20,468,753)**	(26,980,678)
	(6,607,285)	(1,684,292)

Notes to the financial statements (continued)

15 Earnings per share – basic and diluted

	2010	2009
Basic		
Profit attributable to ordinary shareholders (UShs'000)	**72,081,980**	95,298,351
Weighted average number of ordinary shares in issue (thousands)	**5,118,867**	5,118,867
Basic earning per shares (expressed in UShs per share)	**14.08**	18.62

There were no potentially dilutive shares as at 31st December 2010 or on 31st December 2009. Therefore, diluted earnings per share are the same as basic earnings per share.

16 Dividends

At the Annual General Meeting to be held in May 2011, a dividend of UShs 7.03 per share amounting to UShs 36 billion in total is to be proposed. (2009: total dividend per share of UShs 7.81 amounting to UShs 40 billion).

The payment of dividends is subject to withholding tax at 10% or the rate specified under an applicable double tax agreement.

17 Cash and balances with Bank of Uganda

	2010 UShs'000	2009 UShs'000
Coins and bank notes	**187,092,675**	176,280,392
Balances with Bank of Uganda	**175,022,403**	181,505,984
	362,115,078	357,786,376

Banks are required to maintain a prescribed minimum cash balance with Bank of Uganda that is not available to finance the bank's day-to-today activities. The amount is determined as 9.5% of the two week average deposits. The reserve balance as at 31st December 2010 is UShs 181,970m (2009: UShs 135,478m).

Notes to the financial statements (continued)

3 Financial risk management (continued)

18 Government secutiries

	2010 UShs'000	2009 UShs'000
Government securities – available for sale		
Treasury bills	**125,902,798**	159,669,797
Treasury bonds	**328,800,601**	147,868,622
	454,703,399	307,538,419
Government securities – held for trading		
Treasury bills	**39,487,569**	67,349,581
Treasury bonds	**-**	4,627,203
	39,487,569	71,976,784
	494,190,968	379,515,203

Government treasury bills are debt securities issued by Bank of Uganda for a term of three months, six months or one year. Government 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 assets held to maturity which are carried at amortised cost, available for sale which are fair valued through reserves and held for trading, which are fair valued through the profit and loss.

The weighted average effective interest rate on treasury bills and bonds, including pledged assets (see note 19) was 7.7%. (2009:11.8%).

19 Pledged assets

	2010 UShs'000	2009 UShs'000
Treasury bills	**493,804**	803,998
	493,804	803,998

These are securities pledged as collateral to the Bank of Uganda under the electronic clearing house rules and are separately classified as pledged assets on the face of the balance sheet. These have a market value at 31st December 2010 of UShs 494m.

Notes to the financial statements (continued)

20 Loans and advances to banks

	2010 UShs'000	2009 UShs'000
Items in course of collection – local banks	389,726	756,358
Items in course of collection – foreign banks	1,369,231	1,362,434
Placements with local banks	12,200,000	12,600,000
Placements with foreign banks	62,592,494	16,233,688
	76,551,451	30,952,480

The weighted average effective interest rate on loans and advances to banks was 1.7% (2009: 2.2%)

21 Loans and advances to customers

	2010 UShs'000	2009 UShs'000
Mortgage lending	99,127,942	62,186,837
Instalment sales and finance leases	136,286,832	97,811,221
Other loans and advances	536,371,897	387,125,177
Corporate lending	458,417,231	347,247,550
Property finance	-	48,232,197
Gross loans and advances	1,230,203,902	942,602,982
Less: allowance for impairment losses	(25,514,177)	(15,229,705)
	1,204,689,725	927,373,277

Notes to the financial statements (continued)

21 Loans and advances to customers (continued)

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 and advances UShs'000	Corporate lending UShs'000	Total UShs'000
Non-performing loans					
At 1st January 2010	153,420	738,289	6,159,585	562,112	7,613,406
Impaired accounts written off	(49,318)	(2,156,104)	(6,581,541)	-	(8,786,963)
Impairments raised	1,789,839	3,099,056	9,064,732	1,159,820	15,113,447
At 31st December 2010	1,893,941	1,681,241	8,642,776	1,721,932	13,939,890
Performing loans					
At 1st January 2010	378,792	481,140	2,747,001	4,009,367	7,616,300
Net provisions raised	(38,584)	800,317	1,690,115	1,506,138	3,957,986
At 31st December 2010	340,208	1,281,457	4,437,116	5,515,505	11,574,286
Total	2,234,149	2,962,698	13,079,892	7,237,438	25,514,177
Non-performing loans					
At 1st January 2009	2,129,199	206,465	3,243,116	731,018	6,309,798
Impaired accounts written off	(127,212)	(373,861)	(4,057,462)	(165,179)	(4,723,714)
Impairments raised	330,878	1,060,216	10,649,374	1,630,508	13,670,976
Impairments released	(2,179,445)	(154,531)	(3,675,443)	(1,634,235)	(7,643,654)
At 31st December 2009	153,420	738,289	6,159,585	562,112	7,613,406
Performing loans					
At 1 January 2009	172,339	356,571	1,564,790	3,495,587	5,589,287
Net provisions raised	206,453	124,569	1,182,211	513,780	2,027,013
At 31 December 2009	378,792	481,140	2,747,001	4,009,367	7,616,300
Total	532,212	1,219,429	8,906,586	4,571,479	15,229,705

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31st December 2010 was UShs 7,894 million (2009: UShs 8,353 million).

The weighted average effective interest rate on loans and advances was 14.6% (2009: 17.2%)

Notes to the financial statements (continued)

21 Loans and advances to customers (continued)

The loans and advances to customers include finance lease receivables as follows:

	2010 UShs'000	2009 UShs'000
Gross investment in finance leases		
No later than 1 year	**9,805,854**	9,686,350
Later than 1 year but no later than 5 years	**156,127,482**	111,295,261
	165,933,336	120,981,611
Unearned future finance income on finance leases	**(29,646,504)**	(23,170,390)
Net investment in finance leases	**136,286,832**	97,811,221

The net investment in finance leases may be analysed as follows:

	2010 UShs'000	2009 UShs'000
No later than 1 year	**9,307,360**	4,472,008
Later than 1 year but no later than 5 years	**125,108,261**	93,339,213
Later than 5 years	**1,871,211**	-
	136,286,832	97,811,221

As at 31st December 2010, the Bank had no exposures to a single borrower or group of borrowers exceeding 25% of the core capital of the Bank.

22 Other investment securities

	2010 UShs'000	2009 UShs'000
S.W.I.F.T SCRL	**844,200**	844,200
African Export and Import Bank (0.04% owned)	**207,720**	207,720
	1,051,920	1,051,920

23 Investment in associate

The increase in the investment in the Bank's associate is represented by the following movement:

	2010 UShs'000	2009 UShs'000
As at 1st January	**1,240,649**	730,112
Share of profits	**1,181,347**	510,537
As at 31st December	**2,421,996**	1,240,649

Notes to the financial statements (continued)

23 Investment in associate (continued)

The bank's interest in its principal associate, which is unlisted is as follows:

	Country of incorporation	Net assets UShs'000	Revenue UShs'000	interest held %
31st December 2010				
Stanbic Investment Management Services	Kenya	**2,573,225**	**3,664,581**	**23%**
31st December 2009				
Stanbic Investment Management Services	Kenya	1,320,482	2,202,230	23%

24 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current 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. The movement on the deferred income tax account is as follows:

	2010 UShs'000	2009 UShs'000
As at 1st January	**1,423,362**	5,250,979
Income statement movement	**(1,144,361)**	420,493
Available for sale securities	**5,743,194**	(4,248,110)
As at 31st December	**6,022,195**	1,423,362

The deferred tax asset on the Statement of financial position comprises the following categories:

	2010 UShs'000	2009 UShs'000
Deferred income tax assets		
Provisions for loans and advances	**4,077,800**	2,518,757
Available for sale securities	**3,769,001**	(1,974,193)
Other deductible temporary differences	**1,737,478**	1,696,158
	9,584,279	2,240,722
Deferred income tax liabilities		
Property and equipment	**(3,562,084)**	(817,360)
Net deferred tax asset	**6,022,195**	1,423,362

Notes to the financial statements (continued)

24 Deferred income tax (continued)

The deferred tax charge in the income statement comprises the following categories:

	2010 UShs'000	2009 UShs'000
Property and equipment	**(2,744,724)**	(199,142)
Credit impairments	**1,553,567**	158,834
Other deductible temporary differences	**46,796**	460,801
As at 31st December	**(1,144,361)**	216,481

25 Prepaid operating lease

	2010 UShs'000	2009 UShs'000
Cost		
As at 1st January	**216,481**	216,481
Additions for the year	**22,660**	-
As at 31st December	**239,141**	216,481
Amortisation		
At 1st January	**(68,383)**	(60,741)
Charge for the year	**(10,231)**	(7,642)
As at 31 December	**(78,614)**	(68,383)
Carrying value		
As at 31st December	**160,527**	148,098

26 Other assets

	2010 UShs'000	2009 UShs'000
Clearances in transit	**8,009,754**	10,395,924
Prepayments	**9,748,308**	6,354,629
Recoverable losses	**1,704,009**	1,070,070
Documentary credits	**7,110,546**	-
Other accounts receivable	**20,468,300**	11,467,302
	47,040,917	29,287,925

As at 31st December 2010, the Bank recognised a contractual right to receive cash of UShs 7.1 billion (2009: Nil) from its customer once all terms and conditions underlying the letters of credit and documentary credits were met.

Notes to the financial statements (continued)

27 Goodwill and other intangible assets

	Computer software UShs'000	Goodwill UShs'000	Total UShs'000
Cost			
At 1st January 2010	4,666,205	1,901,592	6,567,797
Additions	-	-	-
Impairment	-	-	-
At 31st December 2010	4,666,205	1,901,592	6,567,797
Amortisation			
At 1st January 2010	4,546,459	-	4,546,459
Charge for the year	24,775	-	24,775
At 31st December 2010	4,571,234	-	4,571,234
Net book value			
At 31st December 2010	94,971	1,901,592	1,996,563
Cost			
At 1st January 2009	4,666,205	1,901,592	6,567,797
Additions	-	-	-
Impairment	-	-	-
At 31st December 2009	4,666,205	1,901,592	6,567,797
Amortisation			
At 1st January 2009	4,465,861	-	4,465,861
Charge for the year	80,598	-	80,598
At 31st December 2009	4,546,459	-	4,546,459
Net book value			
At 31st December 2009	119,746	1,901,592	2,021,338

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 2010 (2009: nil).

Notes to the financial statements (continued)

28 Property and 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 1st January 2010	3,462,496	45,323,773	33,171,724	3,977,823	1,062,896	86,998,712
Additions	-	15,670,254	7,814,284	472,021	2,648,488	26,605,047
Transfers	-	979,386	2,470,586	-	(3,449,972)	-
Disposals	(30,000)	-	(9,831)	(367,098)	(261,412)	(668,341)
At 31st December 2010	3,432,496	61,973,413	43,446,763	4,082,746	-	112,935,418
Depreciation						
At 1st January 2010	543,343	32,466,779	24,361,962	2,287,698	-	59,659,782
Charge for the year	69,974	4,857,179	4,346,999	641,166	-	9,915,318
On disposals	(5,259)	-	(7,888)	(367,098)	-	(380,245)
At 31st December 2010	608,058	37,323,958	28,701,073	2,561,766	-	69,194,855
Net book value at 31st December 2010	2,824,438	24,649,455	14,745,690	1,520,980	-	43,740,563
Cost						
At 1st January 2009	3,462,496	39,813,844	29,933,337	4,224,423	2,576,874	80,010,974
Additions	-	5,053,158	3,497,527	552,588	1,062,896	10,166,169
Transfers	-	1,802,579	247,507	57,829	(2,107,915)	-
Disposals	-	(1,345,808)	(506,646)	(857,018)	(468,959)	(3,178,431)
At 31st December 2009	3,462,496	45,323,773	33,171,725	3,977,822	1,062,896	86,998,712
Depreciation						
At 1st January 2009	473,319	28,434,860	21,228,078	2,544,422	-	52,680,679
Charge for the year	70,024	5,334,633	3,594,249	596,523	-	9,595,429
On disposals	-	(1,302,714)	(460,365)	(853,247)	-	(2,616,326)
At 31st December 2009	543,343	32,466,779	24,361,962	2,287,698	-	59,659,782
Net book value At 31st December 2009	2,919,153	12,856,994	8,809,763	1,690,124	1,062,896	27,338,930

Notes to the financial statements (continued)

29 Share capital

	Number of ordinary shares (thousands)	Ordinary share capital UShs'000	Share premium UShs'000	Total UShs'000
Issued and fully paid: At 1st January 2010 and 31st December 2010	**5,118,867**	**5,118,867**	**20,411,266**	**25,530,133**

The total authorised number of ordinary shares is 6,000 million shares with a par value of UShs 1 per share (2009: UShs 1 per share).

The issued number of shares at year end was 5,118,866,870 (2009: 5,118,866,870). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and other general meetings of the Bank.

30 Available for sale revaluation reserve

	2010 UShs'000	2009 UShs'000
As at 1st January	**4,606,450**	(5,305,806)
Net gains/(losses) from changes in fair value	**(19,143,980)**	14,160,366
Deferred tax on fair value change	**5,743,194**	(4,248,110)
Net movement for the year	**(13,400,786)**	9,912,256
As at 31st December	**(8,794,336)**	4,606,450

31 Derivatives

The bank uses currency forward derivative instruments 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 balance sheet 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.

Notes to the financial statements (continued)

31 Derivatives (continued)

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 31st December 2010				
Assets				
Derivatives held for trading	-	-	-	-
Currency forwards	182,729	-	-	182,729
Fair value of assets	182,729	-	-	182,729
Liabilities				
Derivatives held for trading	-	-	-	-
Margin guarantees	20,246,540	-	-	20,246,540
Currency forwards	-	-	-	-
Fair value of liabilities	20,246,540	-	-	20,246,540
Net fair value	(20,063,811)	-	-	(20,063,811)
As at 31st December 2009				
Assets				
Derivatives held for trading	-	-	-	-
Currency forwards	1,207,991	-	-	1,207,991
Fair value of assets	1,207,991	-	-	1,207,991
Liabilities				
Derivatives held for trading	-	-	-	-
Margin guarantees	-	-	-	-
Currency forwards	-	-	-	-
Fair value of liabilities	-	-	-	-
Net fair value	1,207,991	-	-	1,207,991

32 Customer deposits

	2010 UShs'000	2009 UShs'000
Current and demand deposits	1,324,701,747	1,029,847,402
Savings accounts	284,694,006	230,971,849
Fixed deposit accounts	231,522,658	198,605,518
	1,840,918,411	1,459,424,769

The weighted average effective interest rate on customer deposits was 1.0% (2009: 1.1%).

Notes to the financial statements (continued)

33 Deposits and balances due to banks

	2010 UShs'000	2009 UShs'000
Balances due to other banks-local currency	**95,645,762**	39,081,848
Balances due to other banks-foreign currency	**38,141,728**	34,188,469
	133,787,490	73,270,317

The weighted average effective interest rate on customer deposits was 2.0% (2009: 7.6%).

34 Borrowed funds

	2010 UShs'000	2009 UShs'000
Bank of Uganda: Apex scheme	**453,696**	738,132
Bank of Uganda: Agriculture Credit Facility	**5,969,915**	-
Agence Francaise de Developpement (AFD)	**21,637,000**	19,173,000
	28,060,611	19,911,132

Bank of Uganda (BOU) operates a loan scheme known as the Apex Loan Scheme. Qualifying customers of the bank apply for the facility through us. The outstanding balance as at 31st December 2010 was UShs 454 million (2009: UShs 738 million). The interest rates on the three apex loans granted to the bank are 8.9%, 4.93% and 4.03% and the maturity dates are 31st December 2012, 31st December 2013 and 31st December 2013 respectively.

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 31st December 2010 was UShs 5,970 million (2009: Nil). The bank does not pay any interest to the government of Uganda. Refunds to the government are made half yearly and as at 31st December 2010, the last payable instalment will be due on 31st December 2017.

The bank entered into a financing agreement with AFD. Under the terms of the agreement, AFD lent the Bank EUR 7 million over a period of seven years at a fixed rate of 0.6%. Interest is paid semi-annually with 12 equal principal re-payments beginning in January 2011. The outstanding balance as at 31 December 2010 was UShs 21,637 million (2009: UShs 19,173 million). The bank complied with all the terms and conditions of each of the agreements during the year.

Notes to the financial statements (continued)

35 Other liabilities

	2010 UShs'000	2009 UShs'000
Uganda Revenue Authority – tax revenue collections	**4,030,771**	30,816,594
Bills payable	**47,378,884**	19,653,154
Unclaimed balances	**15,797,219**	11,753,230
Sundry creditors	**5,514,965**	2,917,686
Unearned fees and commissions	**6,124,343**	4,550,460
Dividend payable	**2,116,861**	2,179,523
Provision for losses	**1,703,172**	835,720
Documentary credits	**7,110,546**	-
Other liabilities	**6,834,277**	5,243,339
	96,611,038	77,949,706

As at 31st December 2010, the bank recognised a contractual obligation to pay cash of UShs 7.1 billion (2009: Nil) to its customers' financiers once all terms and conditions underlying the letters of credit and documentary credits were met.

36 Subordinated debt

		2010		2009	
	Date of issue	Carrying value UShs'000	Notional value UShs'000	Carrying value UShs'000	Notional value UShs'000
Fixed rate notes	10th Aug 2009	**28,195,000**	**28,195,000**	29,740,641	28,195,000
Floating rate notes	10th Aug 2009	**1,805,000**	**1,805,000**	1,867,466	1,805,000
		30,000,000	30,000,000	31,608,107	30,000,000

The bank issued subordinated floating and fixed rate notes in August 2009 of an aggregate nominal amount of UShs 30 billion. The Subordinated Notes constitute direct, unconditional, unsecured and subordinated obligations of the issuer which (a) rank pari passu among themselves and (b) are subordinated to the claims of all senior creditors.

The interest rate on the floating rate notes is the 182 day Treasury bill rate + 150 basis points and re-prices every six months. The fixed rate notes attract a 14.5% interest rate.

The notes are redeemable on 10th August 2016.

The difference between the carrying and notional values represents accrued interest.

Notes to the financial statements (continued)

37 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 balance sheet.

	2010 UShs'000	2009 UShs'000
Contingent liabilities		
Acceptances and letters of credit	**72,833,214**	62,085,031
Guarantees and performance bonds	**61,505,476**	52,426,063
	134,338,690	114,511,094
Commitments		
Commitments to extend credit	**148,410,710**	135,708,522
Currency forwards	**41,435,654**	14,888,450
Commitments to purchase property, plant and equipment	**1,065,811**	1,441,201
Operating lease commitments	**23,347,314**	14,970,409
	214,259,489	167,008,582
	348,598,179	281,519,676

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.

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

Tax dispute

Uganda Revenue Authority (URA) has claimed from the bank VAT on management fees amounting to UShs 6.8 billion (principal UShs 3.2 billion and interest UShs 3.6 billion). The bank has objected to URA claims on the basis that it acted on the guidance and interpretation of the law provided by URA and as such did not underpay VAT. The Bank has instituted a civil suit in the Commercial Division of the High Court of Uganda.

Management is of the view that the bank has a strong case and chances of success are high. Management has also obtained a legal opinion confirming they have a strong case as well as a technical opinion from their tax consultants. The issue is currently being discussed with URA with a view of reaching an out of court settlement.

No provision has been made in the financial statements in respect of this claim and management are confident that the negotiations will be concluded in their favour.

Notes to the financial statements (continued)

37 Off-balance sheet financial instruments, contingent liabilities and commitments (continued)

Pending litigation

The bank is a litigant in several other cases which arise from normal day to day banking activities amounting to UShs 4.07 billion (2009: UShs 15 billion). 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. Management have carried out an assessment of all the cases outstanding as at 31st December 2010 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 2.1 billion (2009: UShs 1.3 billion).

38 Analysis of cash and cash equivalents as shown in the cash flow statement

	2010 UShs'000	2009 UShs'000
Cash and balances with Bank of Uganda	**362,115,078**	357,786,376
Cash reserve requirement	**(181,970,000)**	(135,478,000)
Government securities maturing within 90 days	**52,622,443**	115,273,638
Placements with other banks	**76,551,451**	30,952,480
Amounts due from group companies	**152,882,044**	118,677,383
	462,201,016	487,211,877

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 17).

39 Related party transactions

The bank is owned by Stanbic Africa Holdings Limited, which is incorporated in the United Kingdom. The ultimate parent 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 London, 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, Stanbic Investment Management Services Limited, 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.

Notes to the financial statements (continued)

39 Related party transactions (continued)

	2010 UShs'000	2009 UShs'000
Amounts due from group companies		
Placements and borrowings	152,872,168	118,675,405
Other assets	9,876	1,978
	152,882,044	118,677,383
Amounts due to group companies		
Deposits and current accounts	4,654,856	3,110,341
Other liabilities	15,782,033	4,067,958
	20,436,889	7,178,299
Interest income earned	3,077,847	2,559,083
Interest expense incurred	167,479	173,685
Operating expenses incurred	33,441,913	20,517,652

Advances to customers at 31st December 2010 include loans to Directors and loans to employees as follows:

	2010 UShs'000	2009 UShs'000
Loans to key management and related parties		
As at 1st January	14,317,545	8,033,761
New Directors appointed	-	9,109,267
Loans extended during the year	36,700	573,100
Loan repayments during the year	(5,491,380)	(3,398,583)
	8,862,865	14,317,545

Notes to the financial statements (continued)

39 Related party transactions (continued)

Companies affiliated to key management are Visa Plastics Limited, Visa Investments Limited, Oscar Industries, Pepperoni Pickles Uganda Limited, Uganda Batteries Limited, Nice House of Plastics, and Jesa Farm Dairy Limited.

At 31st December 2010 advances to employees amounted to UShs 30,938 million (2009: UShs 14,336 million).

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%.

	2010 UShs'000	2009 UShs'000
Interest income from key management loans	**272,383**	1,040,648
	272,383	1,040,648

No impairments have been recognised in respect of loans given to related parties (2009: nil).

Deposits by key management and related parties

	2010 UShs'000	2009 UShs'000
As at 1st January	**200,815**	317,182
Net (decrease)/ increase for the year	**139,813**	(116,367)
	340,628	200,815

Key management compensation

	2010 UShs'000	2009 UShs'000
Salaries and other short term employment benefits	**4,929,530**	4,546,780
Post employment benefits	**340,653**	323,111
	5,270,183	4,869,891

Directors remuneration

	2010 UShs'000	2009 UShs'000
Directors fees	**281,508**	148,538
Other emoluments included in management compensation	**2,519,266**	1,775,907
	2,800,774	1,924,445

Key management personnel are awarded share options in the parent company, Standard Bank Group. Standard Bank Group has two equity-settled schemes namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the Standard Bank Group (SBG) share at the date the option is granted. This scheme is being phased out. The Equity Growth Scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual values of the rights are effectively settled by the issue of shares equivalent in value to the value of the rights.

Notes to the financial statements (continued)

40 Subsequent events

On 5th November 2010, the government gazetted Statutory Instrument No. 43 of 2010 – 'The Financial Institutions (Revision of Minimum Capital Requirements) instrument, 2010.

The instrument requires all commercial banks in Uganda to have a minimum paid-up cash capital of not less than UShs 25 billion invested initially in such liquid assets in Uganda as the Central Bank may approve.

All banks are required to build up their minimum paid up capital unimpaired by losses to UShs 10 billion by March 1st, 2011 and up to UShs 25 billion by March 1st, 2013.

Shareholder analysis

Spread of ordinary shareholders as at 31st December 2010

Shareholding (number of shares)	Number of shareholders	Number of shares held	Percentage shareholding
less than 500 shares	150	42,637	0.00
500 - 5,000 shares	12,290	30,957,701	0.605
5,001 – 10,000 shares	5,064	46,120,851	0.901
10,001 – 100,000 shares	6,178	223,135,687	4.359
100,001 - 1,000,000 shares	1,034	198,240,944	3.873
above 1,000,000 shares	83	4,620,369,150	90.262
Totals	24,799	5,118,866,970	100.00

Top ten shareholders as at 31st December 2010

Name	Number of shares	percentage shareholding
Stanbic Africa Holdings Limited	4,095,093,576	80.000
National Social Security Fund	143,043,733	2.794
HCBC - Arisaig Africa Fund Ltd	117,674,704	2.299
Kabanda Kironde Ibulaimu	17,987,044	0.351
Central Bank of Kenya Staff Pension Fund	16,836,963	0.329
Crane Bank Ltd	14,430,474	0.282
Kenya Airways Ltd - Staff Provident Fund	9,754,000	0.191
Bank of Uganda Retirement Benefits Scheme	9,618,259	0.188
Duet Victoire Africa Index Fund	8,593,168	0.168
Mayur Shantilal Malde	8,469,663	0.165

Share statistics

	2010 UShs'000	2009 UShs 000
Share price		
High for the year	**275**	170
Low for the year	**160**	110
Closing	**268**	170
Shares traded		
Number of shares	**89,513,562**	83,942,900
Value of shares (UShs000's)	**21,805,598**	12,662,503
Turn over in shares traded (%)	**51.86**	64.10
Number of shares in issue (000's)	**5,118,866,970**	5,118,866,970

Shareholder analysis (continued)

Key share holder information

Stanbic Bank 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 listed on the JSE. It is the largest South African banking group by market capitalisation and by assets and earnings. Standard Bank Group had total assets of over R1,191 billion (approximately US$160 billion) at 31st December 2008 and employs more than 45,000 people worldwide.

Standard Bank Group, which was founded in 1896 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 17 African countries and 21 countries outside of Africa and has an emerging markets focus.

While its principal activities are banking and related financial services, Standard Bank Group has diversified 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.

On 3rd March 2008, the Industrial and Commercial Bank of China (ICBC) purchased 20% of Standard Bank Group for an aggregate consideration of ZAR15,9 billion. This new equity capital resulted in additional income that boosted earnings growth. Given China's focus on Africa and Standard Bank's presence across the African continent, the transaction represents a strong vote of confidence in the relationship between the two regions.

The partnership positions the group at the centre of growing trade flows between Africa and China and gives us access to one of the largest growing economies in the world. With ICBC's current liquidity position, it allows them to identify business opportunities to expand their footprint into Africa.

In February 2005, Stanbic Uganda entered into a technical services agreement with the Standard Bank of South Africa Ltd. under which Standard Bank of South Africa Ltd. provides certain financial, commercial and technical support to assist in the management, operations and business activities of the company.

Standard Bank Group will ensure that, except in the case of political risk, and unless specifically excluded by public notice in a country where a subsidiary is domiciled, its banking subsidiaries are able to meet their contractual liabilities.

Shareholder information

Chairman's letter to share holders

Dear share holder,

I extend an invitation to you to attend the Annual General Meeting (AGM) of Stanbic Bank Uganda Limited to be held at the Rwenzori Ballroom, Sheraton Kampala Hotel on the 31st May 2011 at 09:30 a.m.

This is your opportunity to meet and question members of the Stanbic Bank Uganda Limited Board regarding the Company's performance for the year ended 31st December 2010.

If you are not able to attend the meeting, I would urge you to complete the proxy form in accordance with the instructions and return it to the address indicated.

Explanatory note on resolutions to be tabled at the AGM

The AGM will deal with the following ordinary business:

- To receive the annual financial statements for the year ended 31st December 2010 as required in terms of the Companies Act (ordinary resolution number 1)
- To declare a dividend (ordinary resolution number 2)
- To elect Directors in place of those retiring in accordance with the provisions of the Company's Articles of Association.
  The Company's Articles of Association make provision for the annual retirement of a certain proportion of the Board of Directors. Those Directors retiring in terms of this provision as well as Directors appointed for the first time to the Board since the previous AGM, offer themselves for re-election. Their abridged curriculum vitae have been included in the notice (ordinary resolution number 3)
- To appoint external auditors (ordinary resolution number 4)
- In line with the Articles of Association you will be requested to approve the non-Executive Directors' fees in respect of 2011, which have been considered by the Board Compensation Committee and recommended by the Board (ordinary resolution number 5)

The following resolutions will be tabled for consideration at the AGM:

1. That the authorised share capital of the Company be and is hereby increased from UShs 6,000,000,000 divided into 6,000,000,000 ordinary shares of UShs 1 each to UShs 10,237,733,940 divided into 10,237,733,940 ordinary shares of UShs 1 each by the creation of 4,237,733,940 new ordinary shares ranking pari passu with the existing shares.
2. That the Memorandum of Association of the Company be and is hereby amended to reflect the increase in the authorised share capital of the Company.
3. That the above increase of the share capital be financed by:
   - Capitalising the sum of UShs 5,118,866,970 being a portion of the balance for the time being standing to the credit of the Company's retained earnings account
4. That the capitalised amounts be applied towards paying up of the new shares to be issued to members of the Company as fully-paid bonus shares in the ratio of 1 share for every 1 share held as at the books closure date to be determined by the Board of Directors.
5. That the Board of Directors of the Company be and are hereby generally and unconditionally authorised to issue and allot bonus shares credited as fully paid up to the members pursuant to the resolution 4 and to do all acts and things required to give effect thereto.
6. That the new shares be issued in immobilised and uncertificated form by crediting the respective members' accounts maintained with the Securities Central Depository.
7. That the Board of Directors of the Company be and is hereby authorised to apply for the listing of the new shares of Company on the USE and to do all necessary things and take all necessary steps to ensure fulfilment of the listing requirements.

I look forward to welcoming you at the AGM.

Hannington Karuhanga
Chairman

Shareholder information (continued)

Notice to Members

Notice is hereby given that the Annual General Meeting (AGM) of Stanbic Bank UgandaLimited will be held at the Rwenzori Ballroom, Sheraton Kampala Hotel, on 31st May 2011 at 09:30 a.m. for the following business:

Ordinary resolutions

1. To receive the annual financial statements for the year ended 31st December 2010, including the reports of the Directors and auditors
2. To declare a dividend
3. To elect Directors in place of those retiring in accordance with the provisions of the Company's Articles of Association.

Mrs. Maria Kiwanuka (Committe Member: Credit (Chairperson), Audit), Dr. Samuel Sejjaaka (Committe Member: Audit (Chairperson), Risk Management and Compensation) and Barbara Mulwana (Committe Member: Credit) retire by rotation and being eligible offer themselves for re-election.

Details of these Directors are as follows:

Maria Kiwanuka (55)
BCom (Makerere),
MBA (London)

Appointed: 2008

Directorships:
Stanbic Bank Uganda Ltd., Uganda Development Bank, Uganda Registration Service Bureau (Chairlady), Uganda Communications Commission

Committee Member:
Credit (Chairperson), Audit

Samuel Sejjaaka (47)
BCom (Makerere),
MSc (Financial Studies (Strathclyde),
PhD (Accounting and Finance) (Makerere)

Appointed: 2007

Directorships:
Stanbic Bank Uganda Ltd., Rexba Ltd., A&G Ltd., Sejjaaka, Kawaase & Co., Makerere University Business School, Summit Consulting Limited, Hillhouse Academy Ltd.

Committee Member:
Audit (Chairperson), Risk management, Compensation

Barbara Mulwana (46)
BSc (Electrical Engineering and Computer Science) (Northwestern)

Appointed: 2009

Directorships:
Stanbic Bank Uganda Ltd., Nice House of Plastics Ltd., Uganda Batteries Ltd., Jesa Farm Dairy

Committee Member: Credit

Shareholder information (continued)

Notice to Members (continued)

Ordinary resolutions (continued)

4. To appoint external auditors
5. To approve the proposed fees payable to the non-Executive Directors for 2011:
   - Chairman of Stanbic Bank Uganda Limited – annual retainer of the UShs equivalent of US$8625 and sitting allowance of UShs equivalent of US$1150 per meeting
   - Director of Stanbic Bank Uganda Limited – annual retainer of the UShs equivalent of US$6325 and sitting allowance of UShs equivalent of US$805 per meeting
   - Board Committee Chairman - sitting allowance of UShs equivalent of US$977.5 per meeting
   - Board committee member - sitting allowance of UShs equivalent of US$805 per meeting
6. To consider and if deemed fit to pass, with or without modification, the following resolutions as special resolutions:

   6.1 Resolved as a special resolution that the authorised share capital of the Company be and is hereby increased from UShs 6,000,000,000 divided into 6,000,000,000 ordinary shares of UShs 1 each to UShs 10,237,733,940 divided into 10,237,733,940 ordinary shares of UShs 1each by the creation of 4,237,733,940 new ordinary shares ranking pari passu with the existing shares and that Memorandum of Association of the Company be and is hereby amended to reflect the increase in the authorised share capital of the Company.

   6.2 Resolved as a special resolution that the above increase of the share capital be financed by:

   - Capitalising the sum of UShs 5,118,866,970 being a portion of the balance for the time being standing to the credit of the Company's retained earnings account

   6.3 Resolved as a special resolution that the capitalised amounts be applied towards paying up of the new shares to be issued to members of the Company as fully-paid bonus shares in the ratio of 1 share for every 1 share held as at the books closure date to be determined by the Board of Directors.

   6.4 Resolved as a special resolution that the Board of Directors of the Company be and are hereby generally and unconditionally authorised to issue and allot bonus shares credited as fully paid up to the members pursuant to the resolution 4 and to do all acts and things required to give effect thereto.

   6.5 Resolved as a special resolution that the new shares be issued in immobilised and uncertificated form by crediting the respective members' accounts maintained with the Securities Central Depository.

   6.6 Resolved as a special resolution that the Board of Directors of the Company be and is hereby authorised to apply for the listing of the new shares of Company on the USE and to do all necessary things and take all necessary steps to ensure fulfilment of the listing requirements.

   The reason for resolutions 6.1 to 6.4 is to enable the Company to comply with Statutory Instrument No. 43 of 2010 which requires commercial banks to have a minimum paid up cash capital of UShs 10 billion. The effect of these resolutions is to increase the company's authorised share capital and the number of issued shares of the Company.

   The reason for resolution 6.5 is to enable eligible shareholders to comply with section 44 of the Securities Central Depositories Act which requires shareholders eligible to participate in a bonus issue to open securities accounts. The reason for resolution 6.6 is to facilitate the listing of the bonus shares that will, subject to shareholder approval, be issued.
7. To conduct any other business that may be conducted at the AGM.

Shareholder information (continued)

Notes

Details of Directors

Directors' details as required by the Listing Rules of the Uganda Securities Exchange Limited ('the Listing Rules') are set out on pages 12-14 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 pages 12-14 of the Annual Report, collectively and individually accept full responsibility for the accuracy of 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 interest of the Directors in the share capital of the Company are set out on page 30 of the Annual Report.

Major Shareholders

Details of major shareholders of the Company are set out on page 98 of the Annual Report.

Share Capital of the Company

Details of the share capital of the Company are set out on page 30 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 27th April 2011.

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 Stanbic Bank Uganda Limited or the Registered Office of Stanbic Bank Uganda Limited at the addresses set out below, to be received by not later than 09:30 a.m. on 27th May 2011.

On behalf of the Board,

Gertrude Wamala Karugaba
Secretary, Board of Directors
Date: 9th May 2011

Registered Office

Crested Towers, Short Tower,
17 Hannington Road,
Kampala, Uganda,
P.O. Box 7131,
Kampala, Uganda
Fax: +256 414 259012/0414 231116

Share Registrars

Deloitte (Uganda) Limited,
Rwenzori House, 3rd Floor,
Plot 1 Lumumba Avenue,
P.O. Box 10314,
Kampala, Uganda,
Fax: +256 414 343887/259355

Bond Registrars

Stanbic Bank Uganda Limited,
Crested Towers, Short Tower,
17 Hannington Road,
Kampala, Uganda,
P.O. Box 7131,
Kampala, Uganda,
Fax: +256 414 230608/6364207

Shareholder information (continued)

Proxy Form

**Stanbic Bank Uganda Limited,
(Registration Number P.525),
('the Company').**

A Shareholder entitled to attend and vote at the Annual General Geeting 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) and the Holder(s) of .... ordinary shares of UShs 1 each and entitled to vote hereby appoint:

1. .... or, failing Him/Her

2. .... 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 the Sheraton Kampala Hotel, on the 31st May 2011 at 09:30 a.m. at any adjournment thereof as follows:

		Number of votes for*	Number of votes against*	Abstain*
Ordinary resolution to:				
1.	Receive the Annual Financial Statements			
2.	Declare a dividend			
	Elect Directors: 3.1 Mrs. Maria Kiwanuka			
	3.2			
	3.3			
4.	Appoint external auditors			
5.	Approve non-Executive Directors' remuneration			
6.	Special resolutions 6.1			
	6.2			
	6.3			
	6.4			
	6.5			
	6.6			
	6.7			

***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 .... 2008.

Assisted by .... (where applicable, state capacity and full name).

Please provide contact details:

Telephone:	Fax:
e-mail:	

Please read the notes on the next page.

Shareholder information (continued)

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.

To be effective, completed proxy forms must be lodged by 09:30 a.m. on 27th May 2011 with either the Share Registrars or the Registered Office:

Registered Address

Crested Towers, Short Tower,
17 Hannington Road,
Kampala, Uganda,
P.O. Box 7131,
Kampala, Uganda,
Fax: +256 414 230608/636 4207

Share Registrars

Deloitte (Uganda) Limited,
Rwenzori House, 3rd Floor,
Plot 1 Lumumba Avenue,
PO Box 10314,
Kampala, Uganda,
Fax: +256 414 343887/259355

2. 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 annual general meeting instead of the proxy.

3. The Chairman of the annual general meeting may accept or reject any proxy form which is completed and/or received other than in compliance with these notes.

4. The signatories must initial any alteration to this proxy form, other than the deletion of alternatives.

5. 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.

6. 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 person or by proxy) appear in the Company's register will be accepted as to the exclusion of the vote(s) of the other joint shareholders.

Contact details

Director Finance

Arthur Oginga
Tel: +256 312 224396
e-mail: ogingaa@stanbic.com

Company Secretary

Gertrude Wamala Karugaba
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