Stanbic Bank Uganda Limited

Annual report 2012

Let us show you Uganda

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 is focused on emerging markets. It is the largest African banking group ranked by assets and earnings.

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.

Stanbic Bank Uganda Limited is the largest bank in Uganda by assets and earnings. It offers a full range of banking services through two business units: Personal and Business Banking (PBB) and Corporate and Investment Banking (CIB).

The Bank has points of representation throughout Uganda. Through strategic relationships with the Standard Bank Group, the Bank has key connections to emerging markets globally.

One vision

"We aspire to be a leading emerging markets financial services organization"

Purpose statement

"Transforming lives for a better Uganda"

Eight values

Serving our customers

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

Growing our people

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

Delivering to our shareholders

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

Being proactive

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

Working in teams

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

Respecting each other

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

Upholding the highest levels of integrity

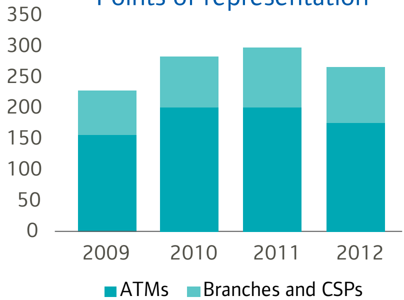
Our entire business model is based on trust and integrity as perceived by our stakeholders, especially our customers.

Guarding against arrogance

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

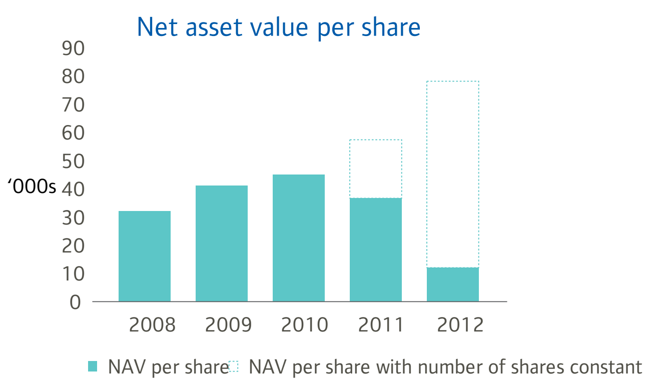
Stanbic Bank coverage map

Points of representation



Financial highlights

	2012	2011	% change
Income statement (UShs' 000)			
Profit before income tax	**177,701,331**	163,815,893	8.5
Profit for the year	**130,734,072**	121,701,729	7.4
Financial position (UShs' 000)			
Total assets	**3,098,593,400**	2,713,235,272	14.2
Loans and advances to customers	**1,460,277,630**	1,531,858,657	(4.7)
Property and equipment	**40,945,759**	35,344,097	15.8
Shareholders' equity	**401,039,286**	294,983,472	36.0
Customer deposits	**2,099,180,118**	1,902,948,506	10.3
Financial performance (%)			
Return on average equity	**37.6**	46.4	
Return on average assets	**4.5**	4.8	
Cost to income ratio	**39.8**	47.2	
Loans to deposit ratio	**69.6**	80.5	
Share statistics			
Earnings per share - basic and diluted (UShs)	**3.83**	3.57	
Proposed dividend per share (UShs)	**1.37**	4.88	
Closing number of shares in issue (millions)	**51,189**	10,238	
Capital adequacy			
Risk weighted assets (UShs' 000)	**1,914,950,927**	2,040,884,605	
Tier 1 capital to risk weighted assets (%)	**15.7**	11.8	
Total capital to risk weighted assets (%)	**20.3**	15.0	



Chairman's review

Stanbic Bank remains Uganda's leading financial institution with a recognised and trusted brand and a strong balance sheet. We are well capitalised and in a strong position to continue contributing to Uganda's socioeconomic development. At Stanbic we work hard to ensure that we maintain a robust business operation that is able to service the needs of our customers, pay dividends to our shareholders, salaries to our employees and taxes to the government. We also buy a wide range of goods and services from local businesses, providing them with employment.

Operating environment

We are cognisant of the fact that our viability both present and future depends upon the environment in which we operate. The board keeps abreast of the key social and economic developments affecting business activity. During 2012 the economy was affected by inflationary pressures that spilled over from 2011. However inflation began to decline in early 2012 and central bank also loosened its monetary policy stance by progressively reducing the Central Bank Rate (CBR). Despite these rate cuts, credit growth in the private sector remained subdued and aggregate demand also stagnated.

Uganda's economy was also negatively affected by the Eurozone crisis and the Sudanese conflict. Exports to the above regions declined, negatively affecting our export earnings. The ever increasing gap between imports and exports also continues to create a balance of payments challenge for the country. This further puts the shilling under considerable pressure. The decision by donors to suspend budgetary support also has implications for Uganda's economic growth.
In light of the above the central bank reviewed the economic growth outlook, while the rating agency – Standard and Poor's (S&P) downgraded Uganda's outlook from stable to negative, while reaffirming it's 'B+/B' credit rating.

Transforming lives for a better Uganda

Stanbic Uganda believes that a good business must also transform the lives of the people in the communities which it serves. Such needs vary from the most basic to higher level needs; however, the core needs include food, shelter, education, transport and work.

I believe the private sector has an additional responsibility to assist government in finding solutions to the development challenges facing our country, particularly ensuring that poverty is eradicated. Uganda embraced the MDG targets and is making significant progress towards closing the gaps. However there is still work to be done. UNDP reports indicate that 24.5% of the Ugandan population lives below $1 per person per day. While 20.4% of Ugandan children go to bed hungry. Only 74% of Ugandan households have access to safe water. The average Ugandan woman spends 9 hours a day on care labour activities such as fetching water, firewood and caring for the sick. For every 100,000 new mothers, 435 die while giving birth, while only 41% of births are attended by skilled personnel. The above development challenges call for greater cooperation between private sector and government, so that we can secure the sustainability of our industries, communities and country. During the year, Stanbic Bank undertook a number of initiatives in this regard, including:

- Partnering with our Corporate and Investment Banking (CIB) customers to provide health and maternity support to residents in Kumi, Mpigi, Kasese, Mityana and Kalangala districts.
- Donation of solar power equipment to children's wards, women's wards and maternity wards of hospitals in Lira and Kitgum, as well as to health centres and hospitals in Bundibudyo, Kamwenge and Kisoro districts.

Other social investments included:

- Sponsoring financial literacy seminars targeting secondary schools in Kampala.
- Partnering with the International School of Uganda Charity Run to support community schools.

In 2013, we will continue to invest creating a stronger framework and structure to drive and manage our investments in the social sector.

Stanbic Uganda continues to demonstrate its strong commitment to providing relevant financial services across the country. Through a country wide network of branches and ATMs we positively impact the lives of millions of Ugandans, we facilitate the distribution of critical goods across the whole country – large manufacturing concerns are assured that they can use Stanbic Bank to collect their sales revenues at our various locations across the country. We also ensure that people in remote locations with limited banking services continue to enjoy world class services at our points of representation.

Our Corporate & Investment Banking and Business Banking divisions have been actively involved in facilitating key economic activities such as funding development projects in Uganda's power infrastructure, adequate and consistent power is critical for the development of Uganda. We have also arranged funding for entities in key industries such as steel and telecoms. We also facilitate transactions across the whole agricultural value chain including production, processing and export.

By responsibly lending to key sectors such as power, manufacturing, agriculture and SME's we are able to effectively participate in the transformation of Uganda.

Sustainable long-term financial performance

I am pleased to report to all stakeholders that in 2012, Stanbic Uganda delivered a sound financial performance. In order to continue delivering sustainable profits and superior shareholder returns, we must balance prudent investment in growth and operational effectiveness with vigilant management of costs. We must continuously work at retaining our clients and establishing new sources of revenue amidst increasing competition.

As times change technology must change too. During 2012 we implemented a new core banking platform that will increase our agility, efficiency and ability to deliver solutions to our customers faster. The new system also has more robust risk management capabilities.

Positive employee engagement

Our people remain at the heart of our business strategy. Attracting, retaining and developing our people is critical for our success. We embrace and implement relevant local and international best practices in employee management.

We set very high targets for ourselves and we rely on each other to achieve our goals. In an increasingly complex financial services industry, it is critical that we have the right people doing the right things. We rigorously train and up skill our employees to ensure that they have the capacity to meet the demands of our business environments.

In 2012, we implemented a new employee performance management framework. In the new performance framework, we will achieve our objectives by providing our people with more clarity on the business strategy. Our staff have set themselves stretch goals aligned with the strategy, while our managers will ensure there are meaningful performance conversations with direct reports, and that there is a direct link between performance and remuneration, personal and career development.

Strategic outlook

The Board recognises that a company that has a well conceived, consistent and competitive strategy aimed at securing an ever stronger market position will outperform its competitors in the long term. A well executed strategy builds an excellent reputation and a recognizable industry position.

In 2011 the Board approved a strategic plan for the period 2012-16; we believe that the key focus areas are still relevant. Therefore we will continue to monitor the execution of our chosen strategy. In line with the strategy during the year we continued with initiatives to embed a strong service culture. We trained 93% of our staff on customer experience management. We also partnered with key players in the oil and gas industry to deliver training to Ugandan contractors. Although the opportunities in the oil sector are many, the challenge is whether Ugandans and Ugandan firms have the relevant skills, knowledge, expertise and experience to match the requirements of the sector.

Governance

Good governance practices are critical for sustainable shareholder value. Our governance practices and standards are guided by the relevant local laws and regulations. We also keep abreast with international best practice in line with the Standard Bank Group's corporate governance framework.

There were a couple of changes to the board in 2012. In October, Patrick Mweheire was appointed as an Executive Director. He brings with him a wealth of experience in corporate and investment banking and will be a valuable addition, both to the board and to the executive committee, where he serves as the new Head of Corporate and Investment Banking.

Sydney Mpipi left the board at the end of the year and will continue to serve the Standard Bank Group in South Africa. He has been a valuable member of the board and also served the bank in his capacity as Chief Operating Officer. We thank him for his diligent service to the bank and wish him well in his new challenge.

Appreciation

On behalf of the board, I wish to express our gratitude to the executive committee, management and staff of Stanbic Bank for their efforts and commitment to further establish the bank as a leader in the financial services sector. Teamwork is at the core of the Bank's values and this has propelled the Bank through the challenges of 2012.

To all our customers, whom we continue to serve and grow, thank you for banking with us in 2012. We strive to serve you with the same level of commitment moving forward.

Finally, we are grateful to our shareholders for the confidence they have in the Bank to continue to grow from strength to strength and deliver a great and sustainable performance. Thank you.

Hannington Karuhanga
Chairman

Chief Executive's review

Overview

2012 was yet another year of growth and success for Stanbic Bank Uganda. The economic climate in Uganda, despite showing positive signs of recovery from the turbulence of 2011, was still generally slow in 2012 and this continued to have an adverse impact on businesses. The Bank was however well positioned to navigate these challenging conditions and produced a strong performance for the year ended December 2012. This continued success was largely due to our strong customer base, exceptional leadership across all levels and our committed employees.

As a member of Standard Bank Group, 2012 was a milestone year that saw the Group celebrate 150 years of existence. Stanbic Bank Uganda is proud to be associated with the Standard Bank Group, which continues to be the leading financial services provider on the continent.

This year the Bank was particularly focussed on implementing and rolling out its new core banking platform. The system successfully went live in October demonstrating our continued commitment to deliver a modern and enhanced customer experience to our clients.

After the strategic review by the board in 2011, the Bank began implementation in order to maintain its leading position in the financial services sector through leveraging our strengths to provide differentiated products and services. Among the key objectives and targets is to firmly establish ourselves as a key growth partner in the Oil and Gas sector. In 2012 the Bank, in close partnership with the Uganda Chamber of Mines and Petroleum and other key sector players, launched a number of initiatives in this regard. As the nation prepares for the 'oil economy', Stanbic Bank is well positioned to serve and benefit the nation. Capital markets development is also a key objective and in this regard, we played lead advisory role in the IPO for Umeme Limited. We are proud of the success of this offer and congratulate Umeme Limited on this achievement.

Operating environment

2012 was a challenging year for economic activity, with the effects of the 2011 inflation pressure spilling over into the year. The central bank's tight monetary policy coupled with fiscal austerity measures by the government led to a slow-down of economic growth. The country's economic growth during the fiscal year 2011/2012 was 3.4%, a slowdown from the 6.7% registered in the previous period and far below the 7% growth that was forecast at the beginning of the year. However, despite this slow-down, some sectors such as; manufacturing and regional trade showed resilience to register growth despite the adverse conditions in the economy.

The Shilling performed stronger in 2012, trading at an average of UGX 2,447 against the US Dollar compared to a UGX 2,674 average in 2011. However, the second half of the year saw the Shilling face pressures from falling yields in government bonds and the widening national current account deficit, hitting a low of UGX 2710/2720 in November, and closing the year at UGX 2683/2693. Donor aid cuts announced towards the end of the year continued to put pressure on the currency.

2012 also saw a sharp fall in inflation with the headline rate hitting a 4.5% low in October, far below the 18-year high of 30.5% in October 2011. The average annual headline inflation rate for 2012 was 14% down from 18.7% the previous year.

The high inflationary levels of 2011 began to recede in the first quarter of the year and as a result the central bank began to adopt an expansionary monetary policy stance by dropping its benchmark rate, the Central Bank Rate (CBR). However, constraints around credit extension remain and aggregate demand remains subdued. The CBR closed the year at 12%, representing a drop of 11 percentage points since the turn of the year.

GDP forecasts for the fiscal year 2012/13 are projected at about 5-6% growth rate.

Financial results

Stanbic Bank Uganda Limited registered a pre-tax profit of UShs 177.7 billion, an increase of UShs 15.2 billion from the results of the preceding year. Profit after tax was up by 7.4%, from UShs 121.7 billion in 2011 to UShs 130.7 billion. Despite this growth, there was a drop in return on equity from 46.4% in 2011 to 37.6% in 2012 due to significant increase in the impairment charge for loan losses, as well as the decision taken in 2011 to retain higher capital buffer levels during the tough times.

The impairment charge for loan losses increased from UShs 29 billion in 2011 to UShs 115 billion in 2012. As explained above, the economic environment has been extremely adverse and impacted many of our customers negatively, particularly in the SME sector. This has caused a number of customers to consistently have loan arrears. In addition, given the depressed property values, we have had to adjust our impairment models to reflect lower collateral values. We however expect that as the economy turns around, a significant portion of the losses will be recovered.

The above results were achieved under difficult economic circumstances. Despite the loosening of Government's monetary policy gradually across 2012, fiscal policy remained tight with generally low government expenditure. Due to the latter, 2012 was still characterized by tight liquidity in the market, which in turn also caused the cost of deposits and inter-bank borrowings that had risen in 2011 to remain relatively high across 2012.

The focus of the bank over a number of years has been to increase the share of non-funded income to total income and the 2012 results show significant strides in this regard.

Very early in the year, management took decisive action to contain costs. As a result costs have grown only 14% despite high inflationary pressures.

Capital

The bank issued an additional 40.9 billion shares through a bonus share issue of 4:1.

As at 31st December 2012, the bank's total capital was 20.3% (2011: 15%) of risk-weighted assets, with primary capital at 15.7% (2011: 11.8%). The capital adequacy remains above the stipulated regulatory minimums of 12% and 8% for total capital and primary capital respectively.

As mentioned above, the Board and management took the decision to hold higher capital buffer levels due to the adverse economic environment. The levels of these buffers will be reviewed as the economy continues to improve.

Looking ahead

2012 saw the Bank migrate to a new core banking system. In 2013 our focus therefore shifts to extracting maximum value from this modern platform and delivering to our customers world class services and products — all this in line with our commitment to putting our customers first, a firm pillar of our strategy.

Our operating strategy, previously refined in 2011, will continue to drive our focus in 2013.
Our people, our customers and our internal processes and systems are all pillars of this strategy. We will continue to leverage these pillars of our strength to drive our business in trade finance, the public sector, capital markets, the emerging oil and gas sector, in continually delivering service improvements to our customers, and in bringing banking services to the unbanked — all these being our key focus areas.

Appreciation

2012 like the turbulent year before, presented some tough operating challenges, despite which, the Bank emerged with a commendable performance. We owe this to the team work and dedication of our talented people, and I thank them all for the Bank's success. To our loyal customers, we remain committed to serving you and thank you for continuing to bank with us in 2013.

Philip Odera

Philip Odera
Chief Executive

Board of Directors

Hannington R. Karuhanga (54)
Chairman
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., Airtel Uganda Ltd., Credit Reference Bureau (U) Ltd., Pepperoni Pickles (Pty) Ltd.
Committee Member: None

Philip Odera (53)
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: Asset and Liability Management, Risk Management, Credit

Kitili Mbathi (53)
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.,Standard Bank Mauritius Ltd.
Committee Member: Compensation

Barbara Mulwana (48)
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, Audit

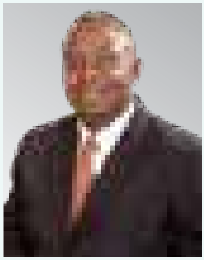
Patrick Masambu (61)
BSc (Engineering) (Nairobi),
MBA (ESAMI),
PGD (Telecom Systems) (Essex)
Appointed: 2009
Directorships: Stanbic Bank Uganda Ltd., LaFontaine Bookstore, International Telecommunications Satellite Organisation
Committee Member: None

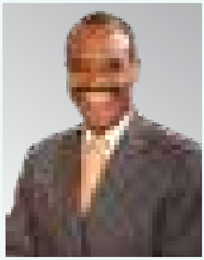
Samuel Sejjaaka (49)
BCom (Makerere),
MSc (Financial Studies) (Strathclyde),
PhD (Accounting and Finance) (Makerere)
Appointed: 2007
Directorships: Stanbic Bank Uganda Ltd., Rexba Ltd., A&G Ltd., Sejjaaka, Kawaase & Co., Makerere University Business School, Summit Consulting Limited, Hillhouse Academy Ltd.
Committee Member: Audit, Compensation

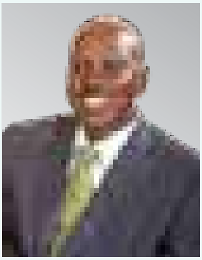
Ruth Emunu (64)
BA. (Minnesota),
PGD (Public Administration) (Makerere)
Appointed: 2009
Directorships: Stanbic Bank Uganda Ltd.,
Committee Member: Audit, Risk Management, Compensation

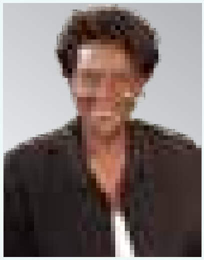
Josephine Ayugi Okot (46)
BCom (Makerere University Business School),
Marketing Diploma (Helsinki School of Economics and Business Administration),
MBA (Washington International University)
Appointed: 2011
Directorships: Stanbic Bank Uganda Ltd., Victoria Seeds Ltd.
Committee Member: Credit, Risk Management

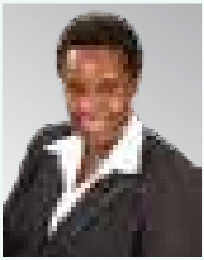
Patrick Mweheire (42)
BSc (Economics) (Daemen)
MBA (Harvard)
Appointed: 2012
Directorships: Stanbic Bank Uganda Ltd.
Committee Member: Risk Management

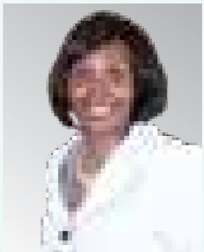


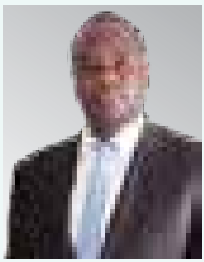












Executive Committee (EXCO)

Philip Odera (53)
Chief Executive
BA (Economics) (St. Lawrence, NY),
MBA (Finance) (Suffolk, Boston)
Joined the bank : 2007
Appointed to EXCO: 2007

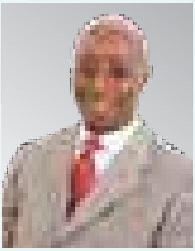
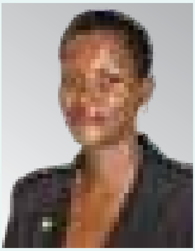
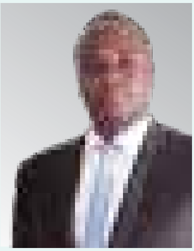
Gertrude Wamala Karugaba (35)
Head: Legal
LLB (Makerere)
LL.M (Cambridge)
Dip. LP (LDC Kampala)
Joined the bank : 2004
Appointed to EXCO : 2006

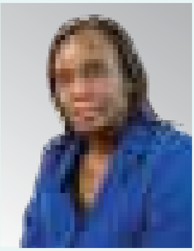
Patrick Mweheire (42)
Head: Corporate & Investment Banking
BSc (Economics) (Daemen)
MBA (Harvard)
Joined the bank : 2012
Appointed to EXCO: 2012

Arthur Oginga (43)
Chief Financial Officer
BA (UoN), CPA (K), CPA (U)
Joined the Bank: 2008
Appointed to EXCO: 2008

Elias Kagumya (38)
Head: Risk
BBA (Accounting) (Makerere),
MSc (Finance and Accounting) (Makerere), CRA
Joined the bank : 2006
Appointed to EXCO: 2007

Sylvia Namusoke (40)
Head: IT
BSC Mathematics (Makerere)
MSC Mathematics (Makerere)
Joined the bank: 2002
Appointed to EXCO: 2011

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 the Company's stakeholders. This is critical to sustaining the Company's performance and preserving shareholder value. The Company's broad corporate governance approach is detailed in a policy for that purpose.

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

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 fulfil its role of providing oversight and strategic counsel in balance with its responsibility to ensure conformance with regulatory requirements and risk tolerance. It also provides the parameters for delegating its authority.

Codes and regulations

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

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

The impact of new and proposed legislation and regulations is assessed by management and material regulatory issues and legislative developments are escalated to the Risk Management and Audit Committees. During the year, the Companies Act 2012 was passed. The Board will implement the changes required by the new law when it comes into force.

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.

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

Board of directors

Board structure and composition, including independence classification

The Board of Directors is the Company's highest decision-making body and is ultimately responsible for governance. Directors are elected by the shareholders. 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, as are the majority of directors on the Board. The balance of executive, non-executive and independent directors ensures a balance of power on the Board, so that no individual or group can dominate board processes or decision making and ensures the appropriate level of challenge. The number and calibre of independent non-executive directors on the Board ensures that board decision-making is sufficiently informed by independent perspectives.

Succession planning

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

As part of the Board's responsibility to ensure that effective management is in place to implement Company strategy, management succession planning is an ongoing consideration. There were a number of changes in the executive management team including the retirement of Alfred Oder (Head: Operations) after several years of service, the relocation of Sydney Mpipi (Chief Operating Officer) and Brian Cross (Head: Credit) to Standard Bank South Africa, and the resignation of Flavia Ntambi (Head: Human Resources). A new Head: Corporate and Investment Banking, Patrick Mweheire was appointed, and in addition to his responsibilities in that position, he was appointed executive director in October 2012. Successors have been identified for all of the vacant positions and appointments will be made once regulatory approvals are obtained. 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

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

- Domestic and international experience;
- Operational experience;
- Knowledge and understanding of both macroeconomic and microeconomic factors affecting the Company;
- Regulatory experience;
- Expertise in risk management and internal financial control; and
- Financial, entrepreneurial and banking skills.

The directors' qualifications and brief curricula vitae are provided on page 8.

Access to information and resources

Executive management and the Board interact regularly. This is encouraged and Executive Committee members are invited to attend board meetings where necessary. Where necessary, non-executive directors meet without the executive directors in closed sessions.

Directors have unrestricted access to 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. A policy to regulate this process was adopted by the Board in 2012. It also includes unlimited access to the advice and services of the Company Secretary, who assists in providing any information or documentation the directors 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 and gender representation. Furthermore, candidates are subject to a “fit and proper” test, as required by the Financial Institutions Act.

One director, Patrick Mweheire, was appointed to the Board in the capacity of executive director during 2012.

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 Chief Executive or any director holding any executive office or any senior executive any of the powers, authorities and discretion vested in the directors, including the power of sub-delegation;
- 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 Chief Executive 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; and
- Take ultimate responsibility for regulatory compliance and ensure that reporting to the Board is comprehensive.

Strategy

The Board is responsible for the Company’s strategic direction. 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, values, performance and sustainability objectives.

Once the financial, governance and risk objectives for the following year have been agreed, the Board monitors performance against these objectives on 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 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 annually reviewed and approved by the Board. Details of how these committees operate follow.

The Board delegates authority to the Chief Executive and Executive Committee to manage the business and affairs of the Company. The executive committee assists the Chief Executive in the execution of his mandate. The Chief Executive 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.

The executive committee is set out on page 10.

Board meetings

The Board meets once a quarter with an additional meeting annually to consider strategy. Ad hoc meetings are 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 2012 is set out in the following table:

Name of Director	21st Feb	22nd May	21st Aug	20th Nov
H Karuhanga	√	√	√	√
P Odera	√	√	√	√
S Mpipi	√	√	√	√
K Mbathi	√	√	√	√
S Sejjaaka	√	√	√	A
JA Okot	√	√	√	√
B Mulwana	√	A	√	√
P Masambu	√	√	√	√
R Emunu	√	√	√	√
P Mweheire	-	-	-	√

√ = Attendance; A = Apology; - = not yet appointed

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 Board assessed its performance and that of its committees in 2012. The evaluations assessed performance in terms of structure, process and effectiveness. Individual questionnaires were completed, the results collated, and feedback discussed by the Board.

The relevant action points from the assessments were noted for implementation. No major areas of concern were highlighted other than the Board's increasing information needs due to the changing regulatory and risk landscape. In 2013, further focus will be given to meeting this need through an extensive ongoing board education program.

The performance of the Chairman and Chief Executive is assessed annually. The performance of individual directors is also evaluated by the Chairman who discusses the results with the relevant directors.

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 program is supplemented by external courses and on-site visits where relevant.

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

Board committees operate in terms of mandates reviewed and approved by the Board on an annual basis. Each committee's mandate sets out the role, responsibilities, scope of authority, composition and procedures to be followed. 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 committee is constituted in terms of the Financial Institutions Act which requires the Board to appoint at least two non-executive directors to the committee.

In accordance with the Financial Institutions Act, the Board has appointed the members of the committee which is comprised solely of independent non-executive directors. Details of the committee members including their professional qualifications are set out on page 8.

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

The committee is responsible for, amongst other things, the internal control framework, which combines the Bank's three lines of defence model with the Bank's corporate governance framework. The three lines of defence model seeks to separate the relevant duties and ensure independent reporting lines to underpin effective internal control and risk management. More detail on the approach to risk management is provided in the risk and capital management section which starts on page 26.

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

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

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

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

Name of Director	7th Feb	8th May	1st Aug	5th Nov
S Sejjaaka	√	√	√	√
R Emunu	√	√	√	√
B Mulwana	√	√	√	√

√ = Attendance

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. A number of management committees help the committee to fulfil its mandate, the main one of these being the risk management committee.

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

The committee's composition includes executive and non-executive directors. The committee complied with its mandate for the year under review. Four scheduled meetings were held.

Name of Director	6th Feb	7th May	6th Aug	9th Nov
R Emunu	√	√	√	√
P Odera	√	√	√	√
S Mpipi	√	√	√	√
S Sejjaaka	√	-	-	-
K Mbathi	√	√	√	A

√ = Attendance; A = Apology; - = no longer committee member

A comprehensive risk management report is provided starting on page 26 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 management credit risk committee and the credit function operate according to clearly defined mandates and delegated authority, and providing for the adequate management, measurement, monitoring and control of credit risk, including country risk.

The committee reports to the Board on credit portfolios, adequacy of provisions and status of non-performing loans. It does not approve individual credit applications which remain within the ambit of the credit risk management committee, credit function and the Board, for significant facilities. Further detail on the management of credit risk is set out in the comprehensive risk management report provided starting on page 26.

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

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

Name of Director	6th Feb	7th May	6th Aug	5th Nov
B Mulwana	√	√	√	√
P Odera	√	-	-	-
S Mpipi	√	-	-	-
K Mbathi	√	√	√	A
R Emunu	√	√	√	√

√ = Attendance; A = Apology; - = no longer committee member

Board compensation committee

The role of the compensation committee is to:

- provide oversight on the compensation of directors, 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; and
- 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. In fulfilling its mandate, the committee is guided by group philosophy and policy as well as by the specific social, legal, economic context of Uganda.

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

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

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 also oversees the induction of new directors as well as the ongoing education of directors. To enable the Board to function effectively, all directors have full and timely access to information that may be relevant to the proper discharge of their duties. This includes information such as corporate announcements, investor communications and other developments which may affect the bank and its operations. All directors have access to the services of the Company Secretary.

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

Regular, pertinent communication with shareholders is part of the Company's fundamental responsibility to create shareholder value and improve stakeholder relationships. In addition to the ongoing engagement facilitated by the investor relations officer, the Chairman encourages shareholders to attend the annual general meeting where interaction is welcomed. The other directors are available at the meeting to respond to questions from shareholders.

Voting at general meetings is conducted by show of hands. The Board proposes separate resolutions on each issue put forward to shareholders.

In addition to the AGM held in May 2012, at which, amongst other things, the Company's share capital was increased from UShs 10 billion to UShs 51.1 billion, an extraordinary general meeting was held in October 2012 at which the shareholders approved an amendment to article 83 (Borrowing powers) of the Company's articles of association.

During the year, a bonus share issue in the ratio of 4:1 was done. Only shareholders who held Securities Central Depository (SCD) accounts have received their bonus share allocation.

In line with cost reduction initiatives, 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 who still hold shares in certificated form are advised to notify the Company's share registrars in writing of any change in their postal or email addresses or bank account details.

Connecting with stakeholders

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

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

Stakeholder relationships and related issues are discussed at board meetings.

Several stakeholder engagement initiatives took place during the year. More information on these initiatives can be found in the Sustainability Report starting on page 21.

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 1 June to the publication of the interim results, and from 1 February to the publication of annual 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 21 to 25 aims to provide a balanced analysis of the Company's sustainability performance in relation to issues that are relevant and material to the Company and to its stakeholders. The report provides:

- An overview of the Company's sustainability performance in 2012;
- An overview of stakeholder interaction during the year; and
- Material issues affecting the Company.

Ethics and organizational integrity

The code of ethics is designed to empower employees and enable effective decision-making at all levels of our business according to defined ethical principles. It also aims to ensure that, as a significant organisation in the financial services industry, we adhere to the highest standards of responsible business practice. The code interprets and defines Standard Bank 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 Company policies and procedures, and supports the relevant industry regulations and laws.

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

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

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

Remuneration report

Overview

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. In 2011, Remco and management sought benchmarking guidance from Hay Group and Global Remuneration Services (GRS).

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

Structure of remuneration for managerial and general employees

Terms of service

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

Structure of remuneration

Fixed pay

Fixed pay is intended to attract and retain employees by ensuring competitive positioning in the local market and in certain cases, globally.

Fixed pay is normally reviewed annually, typically in March and market data is used for benchmarking.

The longer term aim of Remco is to move from a fixed salary and benefits to a 'cost-to-company' philosophy whereby a cash sum is delivered from which all benefits are deducted.

Benefits

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

Variable pay

Annual incentive

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

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

Deferral schemes

Deferred bonus scheme (DBS)

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

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

Claw back provision

A claw back provision was introduced on the deferred remuneration plan. A key provision in the plans is that unvested awards may be reduced or forfeited, in full or in part, at Remco's discretion subject to certain conditions and support by the Compensation Committee in Uganda.

Long term incentives

Share incentive schemes

The Standard Bank Group runs a Standard Bank equity growth scheme (EGS) and group share incentive scheme (GSIS) to which employees of Stanbic Bank Uganda are eligible to participate in. Participation rights under the EGS and share options under the GSIS are granted to qualifying employees. Grants of rights or options are typically made annually as part of the annual reward review; however grants are also made to new employees on appointment or as ad hoc awards for retention purposes. EGS and GSIS long term incentives are awarded to key talent and are motivated by an individual's current performance and future potential. No awards are made to non-executive directors.

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

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

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

Terms of employment

Retention agreements

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

Severance payments

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

Restrictive covenants

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

Sign on payments

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

Directors' remuneration

Remuneration of executive directors

The remuneration packages and long-term incentives for the two executive directors, the Chief Executive and Chief Operating Officer are determined on the same basis and using the same qualifying criteria as for other employees.

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

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

Non-executive directors' remuneration and terms of engagement

Terms of service

All non-executive directors are provided with a letter of appointment setting out the terms of engagement.

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.

Fees

Non-executive directors receive a fee for their service on the Board and a meeting attendance fee for board committee meeting. 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.

A fee increase has been proposed for approval at the annual general meeting for the year 2013.

The table below shows the breakdown of directors' emoluments

2012 Category	Services as Directors	Board committee fees	Cash portion of package	Performance incentives *	Other benefits	Pension contributions	Total
	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000
Executive directors	-	-	1,800,895	1,172,081	1,634,707	135,572	4,743,256
Non-executive directors	297,538	84,910	-	-	-	-	382,448
Former non-executive directors	-	-	-	-	-	-	-
Total	**297,538**	**84,910**	**1,800,895**	**1,172,081**	**1,634,707**	**135,572**	**5,125,703**

2011 Category	Services as Directors	Board committee fees	Cash portion of package	Performance incentives *	Other benefits	Pension contributions	Total
	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000
Executive directors	-	-	1,386,642	1,032,756	1,116,960	96,040	3,632,399
Non-executive directors	180,949	61,205	-	-	-	-	242,154
Former non-executive directors	29,385	11,665	-	-	-	-	41,050
Total	**210,334**	**72,870**	**1,386,642**	**1,032,756**	**1,116,960**	**96,040**	**3,915,603**

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

Sustainability report

Introduction

Stanbic Bank Uganda Limited (SBUL) aspires to be the leading financial services provider in Uganda. Our focus is to serve our customers through a nationwide network of branches and ATMs through an engaged staff while also providing sustainable shareholder value.

As a financial services institution, our most important contribution to sustainable development is to support and facilitate growth and development. By providing access to credit, savings and investment products, we enable individuals to improve their quality of life and enhance their financial security. By providing finance to large and small businesses we facilitate economic growth and job creation, and by financing infrastructure and the development of key sectors, we assist to solve local challenges such as energy and food security, access to primary health care and conservation of the environment.

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

Working for sustainable development

Social and environmental challenges present risks both to our own sustainability and to the development and growth prospects of the Ugandan economy; however, sustainability is an integral part of our business strategy. The very nature of our business positions us to help our customers and stakeholders manage risk and invest for the future, which in turn contributes to the sustainable growth of the national economy. Responding effectively to these prevailing challenges, therefore, provides the bank with opportunities to protect its existing revenue streams and grow new revenue streams.

We understand that we can only generate sustainable profits and superior shareholder returns if we conduct our business in a responsible and inclusive way. Strengthening our reputation and building trust through ethical conduct and maintaining good relationships with customers, employees and other stakeholders enables us to create value over the long term.

The board retains ultimate accountability and responsibility for sustainable development. Through Stanbic Bank Uganda governance structures, the board delegates this responsibility to appropriate board and management committees. The executive committee which is responsible for implementing strategy, reviews and provides guidance on all pertinent sustainability issues.

We continually research strategic issues and provide high level guidance on stakeholder relations and management. Subsequently, business units are tasked with formulating practical ways in which the bank can respond to the challenges and opportunities identified, reinforcing our sustainability and that of the communities where we operate.

The sustainability function falls under the Marketing and Communications unit that reports directly into the Chief Executive who reports directly into the board.

Identifying material issues

An issue becomes material when it impacts our ability to remain commercially viable and socially relevant to the communities where we operate. In particular, material issues are those that have a strong bearing on our stakeholders' assessments and decisions about Stanbic Bank Uganda sustainability in the long term and its commitment to their needs. How effectively we manage these issues affects our ability to achieve our strategic deliverables.

The process of identifying our material issues involves engaging with internal and external stakeholder groups though a number of initiatives, as well as considering our risk management processes and feedback from sustainability indicators.

As part of our sustainability management programme, we develop systems to enable us to identify risks and opportunities. From these we establish our sustainability objectives which are aligned to our strategic business deliverables and help us address our material issues.

The material issues may include: sustainable long term financial performance; governance; regulation and stakeholder engagement; sustainable and responsible financial services; socioeconomic development; a positive and consistent employee experience and the environment.

Stakeholders

Stanbic Bank Uganda appreciates that we operate in a context where social, political, economic, environmental, legal and regulatory factors can directly or indirectly impact how we do business. It is therefore imperative that we develop systems and relationships to help us deal proactively with our broad business environment. We will continue to build and maintain relationships with a range of stakeholders to form strategic partnerships manage social expectations and minimise reputational risks.

Our stakeholder relations management strategy is to continuously improve the alignment between the bank and its key stakeholders. Misalignments between stakeholder expectations and Stanbic Bank actions in the social and political environment are identified, researched and highlighted to internal stakeholders to alert them to issues raised in order to develop a coherent and coordinated Bank position on such issues. We are streamlining our stakeholder identification and alignment as well as strengthening our reporting processes and procedures.

Stanbic Bank Uganda key stakeholders

- SBU shareholders
- Customers
- Employees
- Trade unions
- Financial analysts
- Regulators and supervisors
- Suppliers
- Communities and NGO's
- Government departments and agencies
- Donor agencies
- Media

Key issues raised by various stakeholders in 2012

Stakeholder	Issues raised	Our response
Shareholders	One occasion per year (AGM) not adequate for shareholders to keep abreast of company performance	Investor road shows will be organised in each region of the country
Employees	Debt management	Counselling and financial resilience training
Customers	Card fraud	Increased customer education and awareness; intensified preventive campaigns with dedicated resources in our Customer Care Center
Community	Survival in challenging times	Executed financial literacy programmes

Improved accessibility of banking products

We optimized our branches and channels including customer points of sale to make it easier for the non-banked to utilise our services. We also intensified the roll out of points of sale facilities in various business entities to encourage Ugandans to embrace non-cash transactions.

Socio-economic development

The bank recognizes that the private sector plays a central role in the development of countries. Businesses are able to contribute to the investments required to stimulate economic development and to mitigating risks posed by global challenges.

To this end, we work to provide financial services to communities through innovative solutions, including financing and supporting small businesses and smallholder farmers. The financial services we supply to businesses support their ability to operate and grow, ultimately facilitating employment. In addition, we invest in infrastructure development, finance and advise governments, facilitate trade between markets, partner with organizations that lead global efforts to fight poverty and HIV/Aids and aid in the distribution of donor funds. Our procurement spending and corporate social investment also encourage social development..

To sustain our business performance, we must remain responsive to the markets in which we operate by understanding our customers' different needs and providing relevant products and services. To this end, we must maintain robust governance and risk management frame works to facilitate banking activities such as transparent pricing structures, responsible lending, customer service and personal information security.

Other activities impacting social development include an emphasis on small and medium enterprises (SME's) as well as special procurement policies and relevant Corporate Social Investment programmes

Supporting SME's

SMEs are the driving force of a country's GDP, wealth and government tax revenues, which in turn fund public services and infrastructural reform critical for socio-economic growth.

Supporting the growth and competitiveness of SMEs is central to our SME business strategy. Our SME Banking offer seeks to provide meaningful and relevant financial solutions to match the SME business lifecycle and needs. This includes financial advisory services, financial literacy programs as well as access to a wide range of specialists locally, regionally and internationally.

Extensive work has been done to position the bank to provide credit as access to finance is critical to the success of SMEs**.**

Agriculture financing

Agriculture is vital for the development goals of promoting growth and reducing poverty in Uganda. Agriculture supports the livelihoods of over 75 percent of the population, provides employment for about 60 percent of the economically active population and yet more than 70 percent of the farming is still in the subsistence sector.

The bank is committed to supporting the transformation of agriculture in Uganda. Increased agricultural productivity means improved household food and income security, market surpluses, improved access to markets, the development of rural businesses serving farmers and improved rural employment.

The bank's experience in financing agriculture in Uganda

A lack of access to finance and technical assistance has meant that many businesses have been unable to expand. This in turn has resulted in a failure by the private sector to adopt improved technologies, products and services to the agriculture sector, which acts as a key constraint on rural job creation, development and food security.

In response to the absence of an investment facility which focuses on the development of private initiative in the agriculture sector in Uganda, Stanbic Bank is stimulating agriculture, by extending financial services to the agriculture sector.

As a leading emerging markets player, Stanbic Bank is serious about playing a transformative role in the Uganda's agriculture sector in partnership with other organizations across all links of the agricultural value chain. Our partnership approach with organizations across the agricultural value chain enables us to engage meaningfully beyond the boundaries of traditional banking and produce results that are genuinely beneficial to all parties.

As such, the bank offers a comprehensive range of financing, investment and risk management solutions across a diverse range of agribusiness products and commodities.

We service all participants in the agricultural value chain, from producers to distributors. These solutions range from simple working capital needs, term loans and other specialized products summarized below.

Agricultural Production Loan –This product is suitable for grain farmers cultivating on either dry land or on an irrigation basis. Loans are provided to individual farmers, groups and legal entities in the agricultural sector, including commercial farmers and agri-businesses.

Asset Finance – The bank has a wide range of packages to suit business' cash flow to finance agricultural mechanization, vehicle and implementation needs.

Structured trade and commodity financing, including import and export financing – The bank's extensive network across Africa and emerging markets globally is uniquely positioned to provide financial solutions throughout the commodity-related trade value chain, facilitating trade flows between Africa and the rest of the world.

Term capital expenditure financing - as may be the case in light industries in the coffee, tea and food processing industry

Sustainability in the supply chain

The bank promotes responsible procurement and encourages its suppliers to act ethically and responsibly. The bank's procurement policy guides the cost efficient and transparent purchasing of goods and services.

The bank operates a strict procurement process that ensures that small Ugandan businesses and suppliers benefit from the bank's procurement spend.

Pricing

We aim to be open and transparent with our price adjustments while ensuring that our customers have full knowledge of the bank fees charged and the reason for these. We encourage our customers to transact more efficiently and conveniently through our alternative cost effective self service channels such as ATM's, internet banking and points of sale machines. Communication of pricing changes to customers is done via the ATM screens and via brochures found in the branches, including a line on monthly statements.

Touching the hearts of Ugandans

Our mission is to transform lives across Uganda. We strive to make a difference in the lives of the communities in which we operate. We are committed to contributing to the socio-economic development of Uganda by providing financial services and products responsibly, bearing in mind the needs of the society, our customers, our staff, our shareholders, the environment and the future generation in line with Standard Bank Group social impact.

The projects are:

Health

In 2012, Stanbic Bank set out to support the health sector with emphasis on infant and maternal health.

We embarked on a solar project to equip various health centres, maternity wards and operating theatres in selected hospitals and health centres. The beneficiary institutions include Kayunga Hospital, Jinja Hospital, Kitgum Hospital, Aduku Health Centre in Apac, Kikyo Health Centre in Bundibugyo, Nyabanni Health Centre in Kamwenge, Oyam-Anyeke Health Centre in Lira and Kisoro Hospital.

We donated a 12-seater engine powered boat and life saver jackets to Kalangala Health Centre IV. The boat, which doubles as a water ambulance, will be used to transport expectant mothers with complicated deliveries to either Entebbe or Masaka referral hospitals.

Stanbic Bank partnered with MSH Strides For Family Health, a USAID funded project in commemoration of Women's Day and Child Health Days Plus which covered the districts of Kumi, Luwero and Mityana.

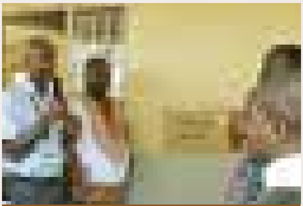
Financial literacy

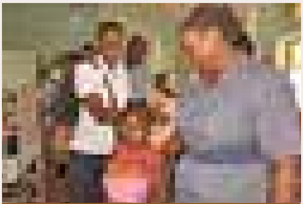
Stanbic Bank organised a stakeholder engagement session around corporate governance as a foundation for banking sector stability and sustainability.

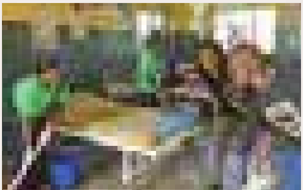
Our 2012 partnership with Junior Achievement benefitted approximately 13,000 young people on the company program. These youth were able to access financial literacy courses tailored to prepare them for work and to introduce them to basic entrepreneurship skills.

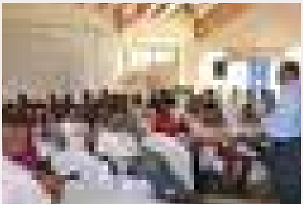
Stanbic Bank also facilitated business skills training for drug shop owners in Kamuli district.

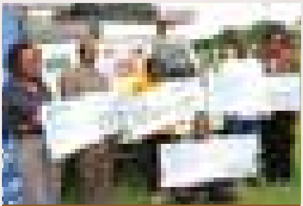
We partnered with the AVSI foundation to train 26 Trainers of Trainers (ToT) to deliver the financial education modules developed by CARE to enable the project beneficiaries to enhance their skills to effectively manage their personal finances and strengthen behaviours that would lead to increased savings and more prudent spending and borrowing.


Kikyo Health Centre - Bundibugyo


Mulago - Cancer Insititute


Strides and Stanbic Bank officials cleaning up Mityana Hospital ward


Financial literacy training


ISU proceeds handover

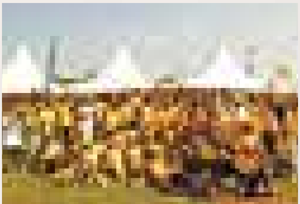
Sports and charity

As we marked 10 years of the Stanbic Bank Fun Run sponsorship, in partnership with International School of Uganda, we launched a 3 year campaign dubbed "Go Green" in support of our environment.

Stanbic Bank also partnered with MTN to bring good safe water and good sanitation to Amuria district, through participation in the MTN Marathon. The Bank made the biggest entry with over 700 runners and raised UGX 9,800,000 of the event's funds.

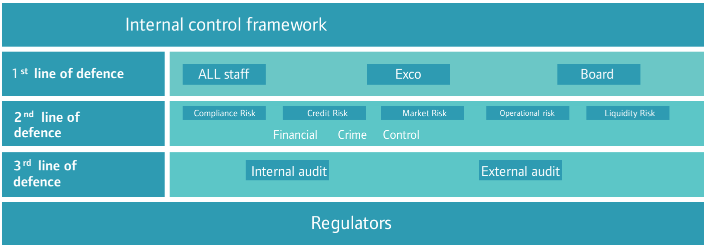
We proactively encourage our staff in the various branches all over the country to identify community projects and contribute personal funds to support them. The Bank matches the funds collected by the staff to benefit the selected projects.

The Bank continues to support various Corporate Social Investment causes that come to its attention from time to time.


Stanbic - MTN Marathon participants

Risk management and control

Overview of the bank's risk management framework.



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.

The bank's risk management framework is based on a well-established governance process, with different lines of defence and relies both on individual responsibility and collective oversight, supported by a comprehensive reporting and escalation process. 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 framework. The head of audit reports and provides independent assurance on the same to the audit committee and has unrestricted access to the Chief Executive 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 counter party for credit facilities utilized. 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 counter party 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.

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) and Private banking.
The nature of the products and strength of historical data is a fundamental dependence under credit risk management for the personal business and private 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 techniques, documented processes and procedures, independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system.

Active liquidity and funding management is an integrated effort across a number of functional areas. Short term cash flow 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 in place 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.

Approach to managing market risk

Market risk exposure principally involves the management of the potential adverse effect of interest/ FX rate movements the economic value of equity. This structural interest rate risk is caused by the differing re-pricing characteristics of banking assets and liabilities. The governance framework adopted for the management of structural interest rate risk and FX volatility 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 recognizes 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 utilizing 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 centralized 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; and 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.
- A fully fledged financial crime control unit charged with forensic investigations, fraud prevention and physical security. The Unit is mandated by the audit committee, and is responsible for supporting the implementation of the bank's fraud risk management framework.
- An independent operational risk function, tasked with the effective implementation of the Bank's operational risk management framework. Mandated by the board risk management committee, the strategic approach focuses on operational risk identification, assessment, quantification and control.

The bank further maintains a comprehensive insurance programme to cover residual risk as a result of losses from fraud, theft, professional liability claims, and damage to physical assets while additionally operating comprehensive internal audit and risk assurance reviews on all operational aspects of the Bank.

Financial crime control

An independent Financial Crime Control unit within the risk management function, but reporting independently into the board audit committee is charged with forensic investigations, fraud prevention as well as the overall management of the physical security of the bank. This function ensures the effective implementation of the bank's risk management framework through the appropriate management of fraud risk.

Business continuity management

Business Continuity Management (BCM) is defined as a holistic management process that identifies potential impacts that threaten an organization, 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 its business continuity plans, IT Disaster recovery plan, conducts evacuation drills and simulation exercises across all its points of representation with a view of validating the adequacy, relevance, reliability and resilience of its business continuity management framework.

Compliance risk

Compliance is an independent core risk management function, with unrestricted access to the Board Audit Committee, the Chief Executive and the Chairman of the board. The bank is subject to extensive supervisory and regulatory regimes. Executive management implements the bank's compliance risk framework, by ensuring that the bank conducts its business within the set legal and regulatory requirements and guidelines.

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

Money laundering control

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 obligations to which the bank is subject.

The bank fulfils 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 fulfilment 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. The 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.

Effective management of all operating activities is required to establish a strong internal control framework to minimize 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.

Independent 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.

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 profit of UShs 177.7 billion, an increase of UShs 15.2 billion from the results of the preceding year. Profit after tax was up by 7.4%, from UShs 121.7 billion in 2011 to UShs 130.7 billion.

Despite a threefold increase in credit impairment charges (300.7%), 17.7% increase in operating costs, 11.3% increase in employee benefit expenses and a 4.6% increase in interest expenses, the performance of the bank still improved against the prior years. Interest income was up 16.4% to UShs 348.9 billion, net fees and commissions' income continued to show solid increase by 24.3% to UShs 118.5 billion, and we also realised very strong gains under trading income with an increase of 165.6% to UShs 95.4 billion.

Return on average equity and on average assets

Return on average equity dropped from 46.4% in 2011 to 37.6% in 2012 largely due to the large growth under loan impairment charges, while the return on average assets marginally dropped to 4.5% in 2012 from 4.8% in 2011.

Net interest income

Net interest income increased from UShs 249.8 billion to UShs 296.7 billion, representing a 18.8% year on year growth driven by a 14% growth in earning assets combined with good margins across the year from the investment securities and the customer lending portfolios. It's important to note that net interest income was both affected by increase in interest rates in line with the central bank lending rate, and the increasing cost of wholesale funds.

Non-interest income

The bank's non-interest income grew by 62.8% from UShs 130.1 billion in 2011 to UShs 211.8 billion in 2012. The above growth was driven by large gains under forex trading and securities trading – UShs 59.5 billion and an increase of UShs 23.2 billion in transaction processing fees during 2012 driven by good trade and cash management volumes and high value transactions closed in the year, for example, the initial public offering (IPO) of Umeme Limited.

Provisions for impairment losses

The provision for impairment losses charged to the income statement for the year was UShs 115.9 billion compared to UShs 28.9 billion for 2011, an increment of UShs 87 billion. Higher provisions were raised under mortgage lending, personal loans, VAF and agriculture based products, on the back high inflationary environment that escalated production & construction costs that adversely impacted the business environment.

Operating expenses

Total operating expenses for the year were UShs 214.9 billion, a 14% increase compared to 2011. Despite the increase above, the cost to income ratio fell to 39.8% from 47.2% in 2011.

Employee compensation and related costs increased by 11.3%. The bulk of this growth was driven by staff salary increments to help counter impact of the inflationary pressures. Notably headcount levels only grew by 8% which were tactical and strategic hires required to enable the bank continue to strengthen its service offerings to key segments in the market.

The bank also implemented several efforts to contain cost growth during the year.

Statement of financial position

In 2012, the bank's total assets grew by 15% to UShs 3.1 trillion further consolidating its position in the market. Customer deposits, our biggest source of funding, increased by 10.3%.

Loans and advances to customers however decreased by 5% but represents 47% of total assets. Shareholders' equity grew to UShs 401 billion, up 36% from UShs 294 billion in 2011. 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 (if approved at the annual general meeting) while the rest will be ploughed back into the business to enable it to grow its asset base.

The bank 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.

As at December 2012, the bank's total capital base was 20.3% (2011: 15%) of risk-weighted assets, with primary capital at 15.7% (2011: 11.8%).

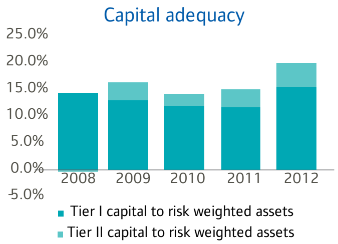
The capital adequacy remains above the stipulated regulatory minimums of 12% and 8% for total capital and primary capital respectively.

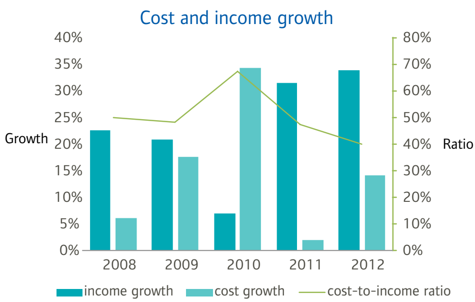
Five year performance review

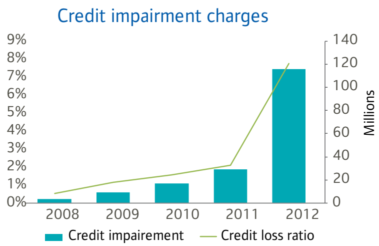
	2012	2011	2010	2009	2008	*CAGR %
Income statement (UShs'm)						
Profit before income tax	**177,701**	163,816	88,772	123,649	103,944	14.3%
Profit after tax	**130,734**	121,702	72,082	95,298	78,550	13.6%
Financial position (UShs'm)						
Shareholders' equity	**401,039**	294,983	230,087	211,171	162,778	25.3%
Total assets	**3,098,593**	2,713,235	2,400,148	1,880,513	1,596,318	18.0%
Loans and advances to customers	**1,460,278**	1,531,859	1,204,690	927,373	730,865	18.9%
Property and equipment	**40,946**	35,344	43,741	27,339	27,330	10.6%
Customer deposits	**2,099,180**	1,902,949	1,840,918	1,459,425	1,289,674	13.0%
Returns and ratios						
Return on average equity	**37.6%**	46.4%	32.7%	51.0%	55.1%	
Return on average assets	**4.5%**	4.8%	3.4%	5.5%	5.4%	
Loan to deposit ratio	**69.6%**	80.5%	65.4%	63.5%	56.7%	
Cost to income	**39.8%**	47.2%	67.2%	48.2%	49.7%	
Capital adequacy						
Tier 1 capital ratio	**15.7%**	11.8%	12.0%	13.1%	14.5%	
Tier 1 + Tier 2 capital ratio	**20.3%**	15.0%	14.2%	16.3%	14.2%	
Risk weighted assets (UShs'm)	**1,914,951**	2,040,885	1,552,233	1,168,867	919,533	
Share statistics (UShs)						
Closing number of shares in issue (in millions)	**51,189**	10,234	5,119	5,119	5,119	
Earnings per share - basic and diluted**	**3.83**	3.57	2.11	2.79	2.30	
Dividends per share - proposed and/or paid	**1.37**	4.88	7.03	13.08	5.86	
Other information						
Number of employees	**1,859**	1,721	1,612	1,442	1,339	

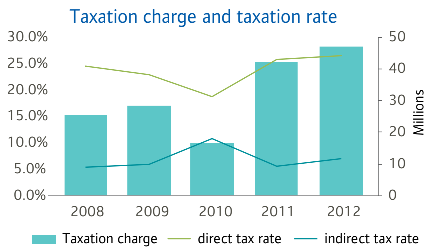
* CAGR refers to the compound annual growth rate based on the Uganda Shilling amounts for the period 2008 to 2012.
** Prior years' earnings per share have been normalized based on shares in issue as at 2012.

Five year performance review









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 average equity (%)	Earnings as a percentage of average ordinary shareholders' funds.
Return on average assets (%)	Earnings as a percentage of average 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 31 December 2012, 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 31 December 2012 are shown in the income statement on page 40, and an operational and financial review of the results for the year is given on pages 32 to 35.

A general review of the business is given by the Chairman and Chief Executive on pages 2 to 6.

Dividends

The Directors recommend the payment of a final dividend of UShs 70 billion (2011: UShs 50 billion) for the year ended 31 December 2012.

Share capital

The total number of issued ordinary shares as at year end was 51,188,669,700. During the year, the shareholders approved the increase in authorized share capital from UShs 10,000,000,000 divided into 10,000,000,000 ordinary shares of UShs 1 each to UShs 51,188,669,700 divided into 51,188,669,700 ordinary shares of UShs 1 each.

Directors

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

H Karuhanga	-	Chairman
P Odera	-	Chief Executive
S Mpipi	-	Executive Director (resigned: 12th December 2012)
K Mbathi	-	Non-executive Director
S Sejjaaka	-	Non-executive Director
B Mulwana	-	Non-executive Director
P Masambu	-	Non-executive Director
R Emunu	-	Non-executive Director
J Okot	-	Non-executive Director
P Mweheire	-	Executive Director (appointed: 1st October 2012)

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	876,000
P Masambu	400,000
Total	**1,276,000**

Insurance

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

Events subsequent to balance sheet date

There is no material event that has occurred between the reporting date and the date of this report that would require adjustment to the 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: 15 March 2013

Directors' responsibility statement

The Ugandan Companies Act requires the directors to prepare financial statements for each financial 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 its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Ugandan 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 of the Bank and of its profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements and of such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

…………………………………………...
Hannington Karuhanga
Chairman

Philip Odera
………………………………………..
Philip Odera
Chief Executive

…………………………………………...
Samuel Sejjaaka
Director

Date: 15 March 2013

Report of the independent auditors' to the members of Stanbic Bank Uganda Limited

We have audited the accompanying financial statements of Stanbic Bank Uganda Limited ("the Bank"), as set out on pages 41 to 104. These financial statements comprise the statement of financial position as at 31 December 2012 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the Financial Institutions Act 2004 and in the manner required by the Ugandan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an independent 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. An audit also involves 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 financial statements give a true and fair view of the financial position of the Bank at 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Financial Institutions Act 2004 and the Ugandan Companies Act.

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:

i) 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;

ii) in our opinion proper books of account have been kept by the Bank, so far as appears from our examination of those books; and

iii) the Bank's statement of financial position and income statement are in agreement with the books of account.

Certified Public Accountants
Kampala, Uganda

Date: 15 March 2013

Financial statements

Income statement

	Notes	2012 UShs' 000	2011 UShs' 000
Interest income	6	**348,918,145**	299,740,808
Interest expense	7	**(52,225,935)**	(49,923,337)
Net interest income		**296,692,210**	249,817,471
Fee and commission income	8	**118,466,099**	95,305,939
Fee and commission expenses	8	**(3,308,786)**	(1,060,125)
Net fees and commission income		**115,157,313**	94,245,814
Net trading income	9	**95,436,048**	35,928,176
Other operating Income/(expense)	10	**1,241,195**	(62,380)
Total operating income		**508,526,766**	379,929,081
Impairment charge for credit losses	11	**(115,932,886)**	(28,929,131)
		392,593,880	350,999,950
Employee benefit expenses	12	**(88,610,597)**	(79,607,378)
Depreciation and amortisation	26 & 27	**(12,028,012)**	(11,825,514)
Other operating expenses	13	**(114,253,940)**	(97,039,603)
Operating profit		**177,701,331**	162,527,455
Share of profit of associate	22	**-**	1,288,438
Profit before income tax		**177,701,331**	163,815,893
Income tax expense	14	**(46,967,259)**	(42,114,164)
Profit for the year		**130,734,072**	121,701,729
Earnings per share for profit attributable to the equity holders of the Bank during the year (expressed In UShs per share):			
Basic & diluted	**15**	**3.83**	**3.57**
Dividends (Proposed) per share	**37**	**1.37**	**4.88**

Statement of comprehensive income

	Notes	2012 UShs' 000	2011 UShs' 000
Profit for the year			
Other comprehensive income for the year after tax:		**130,734,072**	121,701,729
Net gains on available for sale financial assets	29	**24,731,090**	(21,337,443)
- Unrealised net gains arising during the year			
- Net reclassification adjustments for realized net (losses)/gains			
Total comprehensive income for the year		**155,465,162**	100,364,286

Statement of financial position

	Notes	2012 UShs' 000	2011 UShs' 000
Cash and balances with Bank of Uganda	16	**507,437,302**	409,323,334
Derivative financial assets	31	**1,032,432**	-
Government securities - held for trading	17	**274,966,482**	6,224,342
Government securities - available for sale	17	**449,407,315**	333,570,263
Pledged assets	18	**2,651,551**	764,878
Loans and advances to banks	19	**223,595,642**	46,516,392
Amounts due from group companies	40	**50,548,733**	251,060,604
Loans and advances to customers	20	**1,460,277,630**	1,531,858,657
Other investment securities	21	**1,051,920**	1,051,920
Interest in associate	22	**-**	2,625,516
Current income tax recoverable	14	**7,454,070**	7,460,343
Deferred tax asset	23	**8,871,029**	18,562,030
Prepaid operating leases	24	**140,012**	150,350
Other assets	25	**65,718,661**	66,750,758
Goodwill and other intangible assets	26	**4,494,862**	1,971,788
Property and equipment	27	**40,945,759**	35,344,097
Total assets		**3,098,593,400**	2,713,235,272
Shareholders' equity and liabilities			
Shareholders' equity			
Ordinary share capital	28	**51,188,670**	10,237,734
Share premium	28	**-**	20,411,266
Available for sale revaluation reserve	29	**(5,400,689)**	(30,131,779)
Statutory credit risk reserve	30	**15,365,256**	1,016,780
Retained earnings		**269,886,050**	243,449,471
Proposed dividend	37	**70,000,000**	50,000,000
		401,039,286	294,983,472
Liabilities			
Derivative financial liabilities	31	**-**	146,470
Deposits from customers	32	**2,099,180,118**	1,902,948,506
Deposits from banks	33	**33,957,043**	206,069,403
Amounts due to group companies	40	**344,854,604**	113,314,819
Borrowed funds	34	**24,703,479**	26,631,770
Other liabilities	35	**145,746,355**	121,635,899
Subordinated debt	36	**49,112,515**	47,504,933
		2,697,554,114	2,418,251,800
Total equity and liabilities		**3,098,593,400**	2,713,235,272

The financial statements on pages 40 to 45 were approved for issue by the board on 19 February, 2013 and signed on its behalf by:

………………………………………....
Hannington Karuhanga
Chairman

……………………………………….
Philip Odera
Chief Executive

………………………………………....
Samuel Sejjaaka
Director

……………………………………….
Gertrude Wamala
Company Secretary

Statement of changes in equity

	Notes	Share capital	Share premium	Available for sale revaluation reserve	Statutory Credit Risk Reserve	Proposed dividends	Retained earnings	Total
		UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000
At 1 January 2012		**10,237,734**	**20,411,266**	**(30,131,779)**	**1,016,780**	**50,000,000**	**243,449,469**	**294,983,470**
Profit for the year							130,734,072	130,734,072
Net change in available for sale investments	29	-	-	24,731,090	-	-	-	24,731,090
Total comprehensive income for the period		**-**	**-**	**24,731,090**	-	-	**130,734,072**	**155,465,162**
Transactions with owners recorded directly in equity								
Bonus share	28	40,950,936	(20,411,266)	-	-	-	(20,539,670)	-
Dividend paid		-	-	-	-	(50,000,000)	-	(50,000,000)
Statutory credit risk reserve		-	-	-	14,348,476	-	(14,348,476)	-
Equity-settled share-based payment transactions		-	-	-	-	-	590,654	590,654
Proposed dividend	37	-	-	-	-	70,000,000	(70,000,000)	-
Balance at 31 December 2012		**51,188,670**	**-**	**(5,400,689)**	**15,365,256**	**70,000,000**	**269,886,050**	**401,039,286**

Statement of changes in equity continued

	Notes	Share capital	Share premium	Available for sale revaluation reserve	Statutory Credit Risk Reserve	Proposed dividends	Retained earnings	Total
		UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000
At 1 January 2011		5,118,867	20,411,266	(8,794,336)	5,025,829	36,000,000	172,325,160	230,086,786
Profit for the year		-	-	-	-	-	121,701,729	121,701,729
Net change in available for sale investments	29	-	-	(21,337,443)	-	-		(21,337,443)
Total comprehensive income for the period		-	-	(21,337,443)	-	-	121,701,729	100,364,286
Transactions with owners recorded directly in equity								
Bonus shares issued	28	5,118,867	-	-	-	-	(5,118,867)	-
Dividend paid		-	-	-	-	(36,000,000)	-	(36,000,000)
Statutory credit risk reserve		-	-	-	(4,009,049)	-	4,009,049	-
Equity-settled share-based payment transactions		-	-	-	-	-	532,399	532,399
Proposed dividend	37	-	-	-	-	50,000,000	(50,000,000)	-
Balance at 31 December 2011		10,237,734	20,411,266	(30,131,779)	1,016,780	50,000,000	243,449,471	294,983,472

Statement of Cash flows

	Notes	2012 UShs' 000	2011 UShs' 000
Cash flows from operating activities			
Interest received		**333,252,917**	299,740,808
Interest paid		**(50,198,765)**	(49,923,337)
Net fees and commissions received		**114,859,291**	94,245,814
Net trading and other Income/recoveries		**105,810,870**	37,154,234
Cash payment to employees & suppliers		**(206,960,256)**	(206,161,839)
Cash flows from operating activities before changes in operating assets & Liabilities		**296,764,057**	175,055,680
Changes in operating assets & liabilities			
Income tax paid	14	**(47,869,023)**	(46,362,439)
(Increase)/decrease in derivative assets		**(1,032,432)**	182,729
Increase in government securities - AFS maturing in 90 days		**115,837,052**	40,071,492
(Increase)/decrease in government securities - trading		**(268,742,140)**	35,934,014
Increase in pledged assets		**(1,886,673)**	(271,074)
(Increase)/decrease in cash reserve requirement		**(25,660,000)**	27,750,000
Decrease/(increase) in loans and advances to customers		**42,988,493**	(327,168,932)
Decrease/(increase) in other assets		**11,631,135**	(19,709,841)
Increase in customer deposits		**196,231,612**	62,030,095
(Decrease)/increase in deposits and balances due to other banks		**(172,112,360)**	52,035,373
Increase in deposits from group companies		**231,539,785**	92,877,930
(Decrease) / increase in derivative liabilities		**(146,470)**	146,470
Increase in other liabilities		**18,775,023**	25,024,861
Net cash from / (used in) operating activities		**396,318,060**	117,596,358
Cash flows from investing activities			
Purchase of property & equipment	27	**(17,558,265)**	(3,774,056)
Purchase of computer software		**(2,729,838)**	-
Proceeds from sale of property & equipment		**97,207**	209,649
Sale of investment in associate		**3,213,219**	-
Net cash used in investing activities		**(16,977,677)**	(3,564,407)
Cash flows from financing activities			
Dividends paid to shareholders		**(50,000,000)**	(36,000,000)
Dividends received from Associate		**112,941**	1,084,918
Decrease in borrowed funds		**(1,928,291)**	(1,428,841)
Increase in subordinated debt		**1,607,582**	17,504,933
Net cash used financing activities		**(50,207,768)**	(18,838,990)
Net increase / (decrease) in cash and cash equivalents		**329,132,615**	95,192,962
Cash and cash equivalents at beginning of the year		**557,393,978**	462,201,016
Cash and cash equivalents at end of the year	39	**886,526,593**	557,393,978

Notes

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).

For Ugandan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of comprehensive income in these financial statements.

2 Summary of significant accounting policies

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

a) Basis of preparation

The 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 except for assets and liabilities held for trading, financial instruments designated at fair value through profit or loss; liabilities for cash-settled share-based payment arrangements and available-for-sale financial assets that are measured at fair value.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4.

New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on 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 1 January 2012.

IAS 1, 'Presentation of financial statements' *(applicable beginning on or after 1 July 2012)* **-** The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The bank will be required to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. If the bank chooses to present OCI items before tax, it will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income', though IAS 1 still permits entities to use other titles.

IAS 19, 'Employee benefits' *(applicable beginning on or after 1 January 2013)* - The amendment to IAS 19, 'Employee benefits' makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. Key features are as follows:

- Actuarial gains and losses are renamed 're-measurements' and can only be recognized in 'other comprehensive income' without any recycling through profit or loss in subsequent periods

Summary of significant accounting policies (continued)

- Past service costs will be recognized in the period of a plan amendment and curtailment occurs only when an entity reduces significantly the number of employees.
- The amendment clarifies the definition of termination benefits. Any benefit that has a future service obligation is not a termination benefit.

Annual benefit expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability.

This amendment is not expected to have any impact as the bank does not operate a defined benefit fund.

IFRS 9, 'Financial instruments' part 1: Classification and measurement and part 2: Financial liabilities and De-recognition of financial instruments – *(applicable beginning on or after 1 January 2015)*

IFRS 9, part 1 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through the income statement.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is considering the implications of the Standard, the impact on the Bank and the timing of its adoption.
- IFRS 9, part 2 was issued in October 2010 and includes guidance on financial liabilities and de-recognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and Measurement', without change except for financial liabilities that are designated at fair value through profit or loss.

Under the new standard, entities with financial liabilities at fair value through profit or loss recognise changes in the liability's credit risk directly in other comprehensive income. There is no subsequent recycling of the amounts in other comprehensive income to profit or loss, but accumulated gains or losses may be transferred within equity.

IFRS 13, 'Fair value measurement' *(applicable beginning on or after 1 January 2013)* - IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity. The guidance includes enhanced disclosure requirements that could result in significantly more work for the Bank. The requirements are similar to IFRS 7, 'Financial instruments: Disclosures' but apply to all assets and liabilities measured at fair value, not just financial ones.

Summary of significant accounting policies (continued)

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

(b) Interest income and expense

Interest income and expense are recognised in the income statement 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.

Interest income and expense presented in the income statement include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

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 commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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 include all realised and unrealised fair value changes, interest and foreign exchange differences.

(e) Net income from other financial instruments at fair value through Income statement

Net income from other financial instruments at fair value through income statement 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 the income statement, and include all realised and unrealised fair value changes, interest and foreign exchange differences.

(f) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of other operating income based on the underlying classification of the equity investment.

(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 its performance and for which discrete financial information is available. The Bank's primary business segmentation is based on the Bank's internal reporting about components of the Bank as regularly reviewed by the board and executive management committees. Segments results include items directly attributable to a segment as well as those that are allocated on a reasonable basis. Business segments are the only segments presented since the Bank operates in a single geographical segment, Uganda.

In accordance with IFRS 8, the Bank has the following business segments: Personal and Business Banking and Corporate and Investment Banking.

(h) Foreign currency translation

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates, Uganda shillings ("the functional

Foreign currency translation (continued)

currency"). The financial statements are presented in Uganda shillings (Ushs) and figures are stated in thousands of UShs.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount, are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

(i) Financial assets and liabilities

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 and liabilities. Management determines the appropriate classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so classifying eliminates or significantly reduces a measurement inconsistency. Derivatives are also categorised as held for trading 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; or

(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'.

Financial assets and liabilities (continued)

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.

(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 income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in 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 income statement. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

Financial assets that are transferable to a third party but do not qualify for de-recognition are presented in the statement of financial position as 'pledged assets'.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) De-recognition

The bank derecognises a financial asset when the contractual rights to the cash flows from

Financial assets and liabilities (continued)

the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the bank is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the bank's trading activity.

(j) Impairment of financial assets

(i) Assets carried at amortised cost

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal repayments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - National or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference

Impairment of financial assets (continued)

between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. 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%; and

ii) A general provision of at least 1% of their total outstanding credit facilities net of specific provisions and interest in suspense.

Where provisions for impairment of loans and advances determined in accordance with the Financial Institutions Act 2004 exceed amounts determined in accordance with International Financial Reporting Standards, the excess is taken to the statutory credit risk reserve as an appropriation of retained earnings. Otherwise no further accounting entries are made.

(iii) Assets carried at fair value

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the statement of financial position date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. Where an available-for-sale asset, which has been re-measured to fair value directly through equity, is impaired, the impairment loss is recognised in the income statement. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to the income statement and is recognised as part of the impairment loss. The amount of the loss recognised in the income statement is the difference between the acquisition cost and the current fair value, less any previously recognized impairment loss.

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease

Financial assets and liabilities (continued)

can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognized at fair value and subsequently measured at amortized cost.

(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 & 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.

(m) Income tax

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

Current 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

Income tax (continued)

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. All other leases are classified as finance leases

(a) With the Bank as lessee

To date, all leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(b) 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 income statement in the year to which they relate.

(ii) Short-term benefits

Short term benefits consist of salaries, accumulated leave payments, bonuses and any non-monetary benefits such as medical aid contributions.

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

Employee benefits (continued)

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.

(iv) Share based payment transactions

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(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 income statement.

(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 re-pledge 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 financials.

(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

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.

Intangible assets (continued)

Computer software development costs

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives, which does not exceed three years.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortized on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

(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

The bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

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 its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(x) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to 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

Financial guarantee contracts (continued)

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.

(aa) Investment in associates and joint ventures

Associates are those entities in which the bank has significant influence, but not control, over the financial and operating policies. Significant influence generally accompanies, but is not limited to, a shareholding of between 20% and 50% of the voting rights. Investments in mutual funds over whose financial and operating policies the group is able to exercise significant influence (including those in which the bank has between a 20% and 50% economic interest) are also classified as associates.

A jointly controlled entity is one where a contractual arrangement establishes joint control over the economic activity of the entity.

Interests in associates and jointly controlled entities are accounted for using the equity method and are measured in the consolidated statement of financial position at an amount that reflects the group's share of the net assets of the associate or jointly controlled entity (including goodwill).

Equity accounting involves recognising the investment initially at fair value, including goodwill, and subsequently adjusting the carrying value for the group's share of the associates' and jointly controlled entities' income and expenses and OCI. Equity accounting of losses in associates and jointly controlled entities is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the associate or jointly controlled entity. Unrealised intra-group profits are eliminated in determining the group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Equity accounting is applied from the date on which the entity becomes an associate or jointly controlled entity up to the date on which it ceases to be an associate or jointly controlled entity. The accounting policies of associates and jointly controlled entities have been changed where necessary to ensure consistency with the policies of the group.
Where a mutual fund investment is acquired and held for the purposes of investment-linked insurance activities within investment management and life insurance activities, it is not accounted for under the equity method but is designated on initial recognition at fair value through profit or loss and is accounted for on the basis set out in accounting policy 4 – Financial instruments. Private equity and property equity investments, which are associates, are either designated on initial recognition at fair value through profit or loss, or equity accounted.

Investments in associates and jointly controlled entities are accounted for at cost less impairment losses in the company's annual financial statements

(ab) Comparatives

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

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 instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-Statement of financial position loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in bonds, currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(b) Capital management

The Bank's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position, are:

- To comply with the capital requirements 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; and
- 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.

Off-balance-sheet credit related commitments and forwards are taken into account by applying different categories of credit conversion factors, designed

(b) Capital management (continued)

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.

The table below summarizes the composition of the regulatory capital.

	2012 UShs' 000	2011 UShs' 000
Core capital (Tier 1)		
Shareholders' equity	**51,188,670**	10,237,734
Share premium	**-**	20,411,266
Prior years retained profits	**209,151,980**	172,325,161
Current year profits	**130,734,072**	121,701,729
Available for sale revaluation reserve	**(5,400,689)**	(30,131,778)
Dividends paid and proposed	**(70,000,000)**	(50,000,000)
Less: Deductions determined by Bank of Uganda	**(14,422,546)**	(3,179,276)
Total core capital	**301,251,487**	241,364,836
Supplementary capital (Tier 2)		
Unencumbered general provisions for losses	**22,273,850**	16,993,119
Statutory credit risk reserve	**15,365,255**	1,016,780
Subordinated term debt	**49,112,515**	47,499,700
Total supplementary capital	**86,751,620**	**65,509,599**
Total capital (core and supplementary)	**388,003,108**	**306,874,435**

Breakdown of deductions determined by Bank of Uganda

	2012 UShs' 000	2011 UShs' 000
Goodwill and other intangible assets	**4,494,862**	1,971,788
Investments in unconsolidated financial subsidiaries	**207,720**	207,720
Unrealized profit on securities - P&L	**848,934**	422,349
Bonus share	**-**	5,118,867
Statutory credit risk reserve	**-**	(4,009,049)
Equity-settled share-based payments	**-**	(532,399)
Deferred tax asset	**8,871,029**	-
Total deductions determined by Central Bank	**14,422,546**	3,179,276

The 2012 figures for bonus shares and equity settled share based payments are included in the prior year retained profits. Additionally effective 2012, the statutory credit risk reserve is part of tier 2 capital and the deferred tax asset is adjusted against tier 1 capital.

(b) Capital management (continued)

The Bank's capital adequacy level was as follows:

	Financial position nominal balance 2012 UShs' 000	Financial position nominal balance 2011 UShs' 000	Risk weighted balance 2012 UShs' 000	Risk weighted balance 2011 UShs' 000
Statement of financial position				
Cash and balances with Bank of Uganda	**507,437,302**	409,323,334	**-**	-
Government securities - available for sale	**449,407,315**	333,570,263	**-**	-
Government securities - held for trading	**274,966,482**	6,224,342	**-**	-
Pledged assets	**2,651,551**	764,878	**-**	-
Placements with local banks	**20,000,000**	7,700,000	**4,000,000**	1,540,000
Repo - Bank of Uganda	**-**	-	**-**	-
Placements with foreign/group banks	**254,144,375**	289,876,996	**94,172,769**	140,990,130
Loans and advances to customers	**1,460,277,630**	1,531,858,657	**1,468,743,153**	1,537,894,923
Other investment securities	**1,051,920**	1,051,920	**844,200**	1,051,920
Interest in associate	**-**	2,625,516	**-**	2,625,516
Prepaid operating leases	**140,012**	150,350	**140,012**	150,350
Other assets	**83,076,192**	92,773,131	**64,395,802**	92,773,131
Goodwill	**1,901,592**	1,901,592	**-**	1,901,592
Other intangible assets	**2,593,270**	70,196	**-**	70,196
Property and equipment	**40,945,759**	35,344,097	**40,945,759**	35,344,097
	3,098,593,400	**2,713,235,272**	**1,673,241,695**	**1,814,341,855**
Off-balance sheet items				
Contingencies secured by cash collateral	**15,453,133**	12,324,897	**-**	-
Guarantees and acceptances	**68,932,131**	65,478,468	**68,932,131**	65,478,468
Performance bonds	**87,198,412**	16,817,652	**43,599,206**	8,408,826
Trade related and self liquidating credits	**50,102,814**	77,167,808	**10,020,563**	15,433,562
Other commitments	**238,314,664**	274,443,789	**119,157,332**	137,221,894
	460,001,154	**446,232,614**	**241,709,232**	**226,542,750**
Total risk weighted assets			**1,914,950,927**	**2,040,884,605**

	Capital 2012 UShs' 000	Capital 2011 UShs' 000	Bank ratio 2012 %	Bank ratio 2011 %	FIA minimum ratio 2012 %	FIA minimum ratio 2011 %
Tier 1 capital	**301,251,487**	241,364,836	**15.7%**	11.8%	**8%**	8%
Tier 1 + Tier 2 capital	**388,003,108**	306,874,435	**20.3%**	15.0%	**12%**	12%