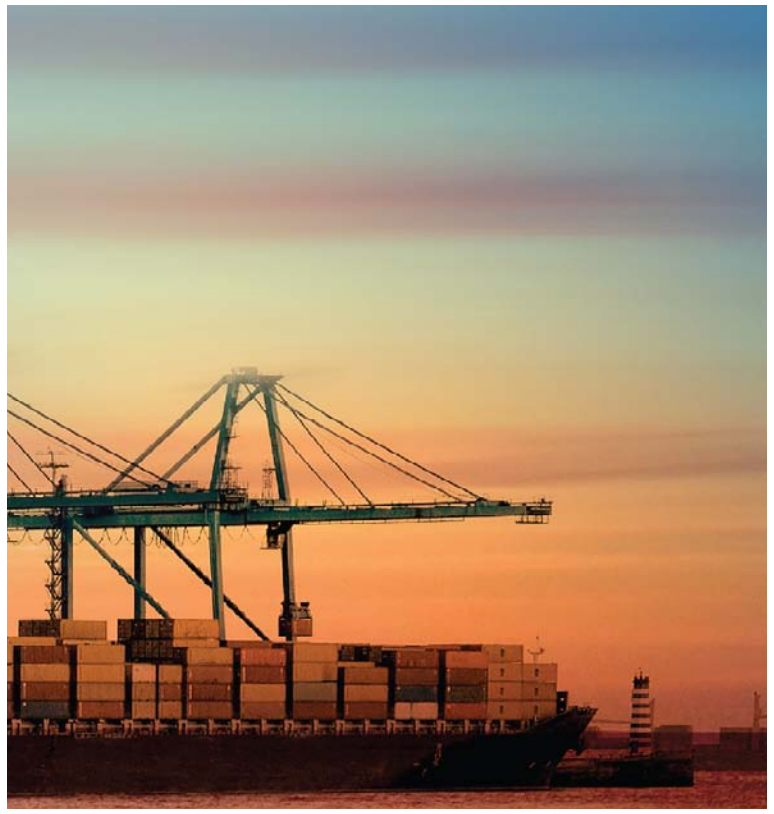
Stanbic Bank
A member of Standard Bank Group

Annual report and financial statements **2014**

Stanbic Bank Uganda Limited



Our report

This report is the Stanbic Bank Uganda Limited (SBUL) annual report and includes financial and non-financial information.

The financial results and commentary describe the results of Stanbic Bank Uganda Limited (SBUL). SBUL is a wholly owned subsidiary of Standard Bank Group and is incorporated in Uganda.

Contents

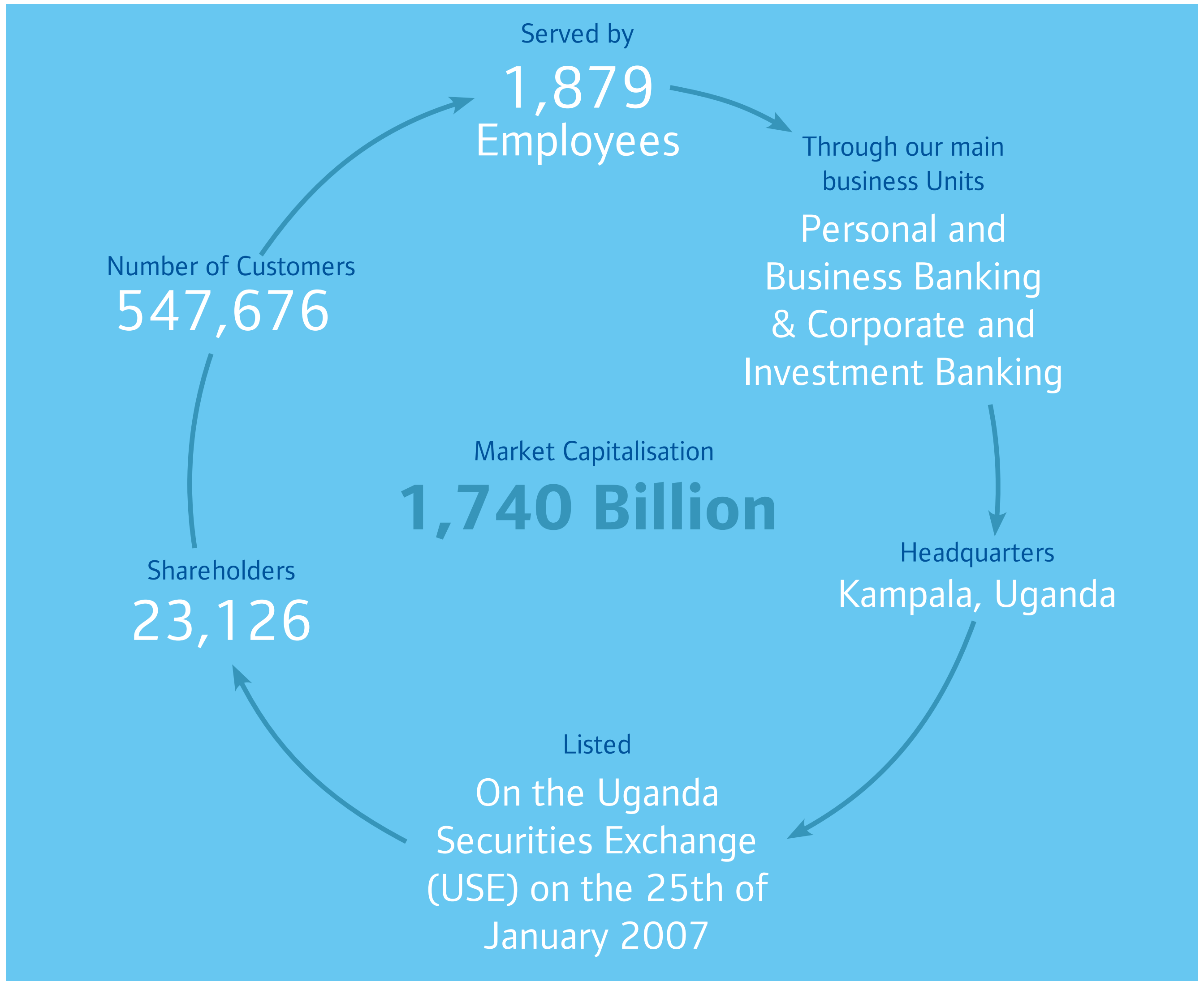
Who we are

A brief history of our bank
The bank was founded in Uganda as the National Bank of India in 1906. After several name changes, it became Grindlays Bank. In 1991, Standard Bank Group ("the Group") bought the Grindlays Bank network in Africa. The new owners renamed the Ugandan subsidiary Stanbic Bank (Uganda) Limited.

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

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

Our bank today



Why bank with us
We are in all corners of Uganda, providing the best financing solutions through our un-beatable range of innovative products and services delivered by a cadre of competent and vibrant staff using best in class platforms and processes.

For more information about our products and services/locations please see pages 8 and 9 respectively or visit our website at www.stanbic.co.ug
You can also follow Stanbic Bank Uganda Limited on Twitter@Stanbic or visit our facebook page at UG Facebook /StanbicUG

Our vision and values

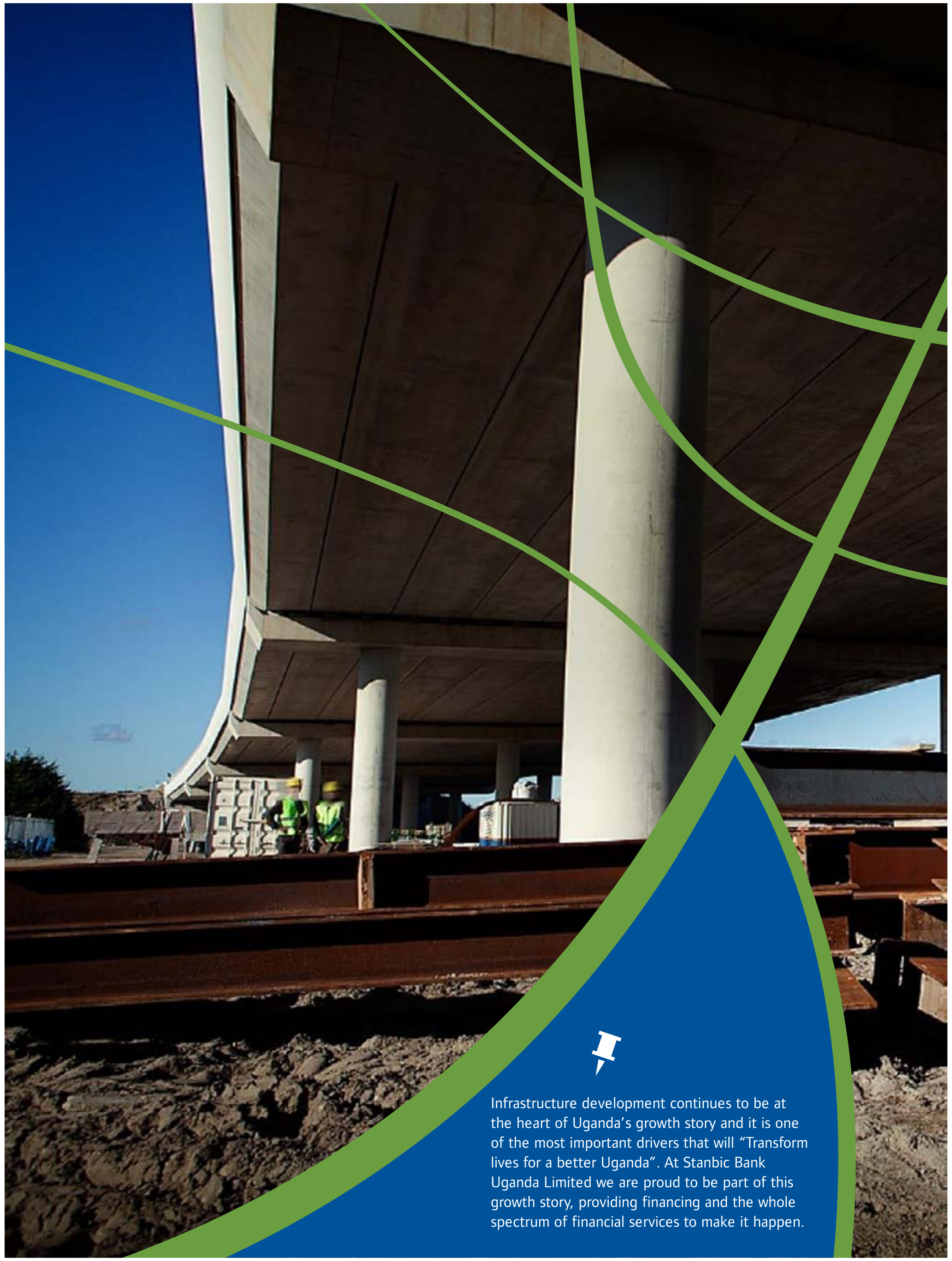
Our vision

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

Purpose statement

"Transforming Lives for a Better Uganda"

Our success and growth over the long term is built on **making a difference** in the communities in which we operate. We are committed to moving Uganda forward.



How we create value

We deploy and maintain the integrity of banking infrastructure

1. We allocate capital to Support Economic Growth (See product details on the next page)
2. We provide access to Financial Services (See details on the next page)

Personal & Business Banking

Our Customers

Our Customers
Individuals
Personal customers
Executive Banking customers
Private Banking customers
Businesses
Small and Medium-sized Enterprises (SMEs)
Larger commercial entities
Commodity traders, producers and processors

Corporate Investment Banking

Our Customers
Global Corporates
Large multinational corporations
Local and regional Corporates
Corporations that operate mainly in the Ugandan market
Financial Institutions and Development Organisations
Banks,NGOs, financial and other institutions
Public Sector
Government, related departments and Agencies

Our Enabling Functions

Finance
Measuring and managing financial Performance as well as managing the Bank's capital and liquidity, including ensuring we meet regulatory requirements and have sufficient capacity to absorb losses.

Human Resources
Acquiring, developing and retaining Talent.

Technology and Operations
Providing the infrastructure and Support for the Bank to effectively and efficiently carry out its activities.

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

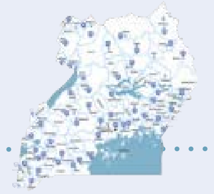
Compliance
Ensuring the bank's activities and conduct comply with legal and regulatory requirements.

Credit
Managing the risk profile of the bank's lending potfolio through out it's life cycle

Legal
Maintaining a comprehensive legal risk management system.

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

Our products & Services



Stanbic Bank Uganda
Products and Services

Personal and Business Banking (PBB):

Transactional
- Personal and Business TransactPlus (local and foreign currency)
- Personal and Business Current Accounts (local and foreign currency)
- Executive Banking
- Private Banking

Savings and Investments
- Personal and Business PureSave (local and foreign currency)
- ContractSave
- Bonus Investment
- Personal and Business
  – Fixed Deposit Account

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

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

Trade Finance
- Letters of Credit
- Bid Guarantees
- Performance Guarantees
- Advance Payment Guarantees
- Import/Export Loans
- Invoice Discounting

Corporate and Investment Banking (CIB):

Transactional Products and Services
- Trade Finance
  - Letters of Credit
  - Bid Guarantees
  - Performance Guarantees
  - Advance Payment Guarantees
  - Avalisation
  - Import/Export Loans
  - Invoice Discounting
  - Bills for Collection
- Cash Management
  - Cash in Transit
  - Collect Plus (Courier)
  - Electronic Banking
  - Bill Payments
  - Liquidity Management
  - Payments and Receivables Solutions
- Investor Services
  - Custody
  - Fiscal Agency
  - Facility Agency

Investment Banking (IB)
- Debt Capital Markets
- Advisory
- Asset Finance
- Syndications

International Development Group
- Priority Suite

Global Markets
- Spot Foreign Exchange
- Forward Contract in Foreign Exchange
- Foreign Currency Options
- Cross Currency Swaps
- Interest Rate Swaps
- Money Market Products
  - Fixed Deposits and Treasury Bill
- Fixed Income
  - Treasury Bonds

Project Finance

Services:
- Internet Banking
- new Business Online (nBOL)
- Point Of Sale (POS)
- AutoBank (ATM)
- Debit and Credit Cards (VISA enabled)
- PayPlus - payment services solution (water, electricity, pay tv, pension)
- Mobile Banking (WAP)

Our Locations

World class banking, now in all corners of Uganda.

Central Region: Corporate (Crested Towers), Garden City, Metro Branch, Nakivubo, Industrial Area, Katwe, William Street, Kikuubo,Nakasero, Kawempe, Entebbe Main, Makerere, Wandegeya, Lugogo Mall, Forest Mall, Nakawa, Kyambogo, Kireka, Mukono, Kagadi, Kayunga, Luwero, Wobulenzi, Mubende, Kiboga, Mityana, Mpigi, Masaka, Kyotera, Kalangala, Lyantonde, Nakasero, Ntinda and Nateete.
Eastern Region: Lugazi, Kakira, Jinja, Mayuge, Kamuli, Iganga, Pallisa, Busia, Mbale, Sironko, Tororo, Kumi, Kaabong, Soroti and Kapchworwa.
Northern Region: Pader, Gulu, Kitgum, Nebbi, Dokolo, Adjumani, Koboko, Yumbe, Arua, Katakwi, Moyo, Pakwach, Apac, Kotido, Moroto and Abim.
Western Region: Mbarara, Ibanda, Kabwohe, Bushenyi, Ishaka, Ntungamo, Rukungiri, Kabale, Kisoro, Kihihi, Bwera, Bundibugyo, Bwamiramira, Kasese, Fort Portal, Kyenjojo, Masindi, Hoima, Kinyara (Agency), Buliisa and Kigumba.

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2014 Highlights

Our income lines were resilient, with strong recovery in retail lending activity, supported by Advisory opportunities in our Investment banking business

Efficiency initiatives in our operations as well as improvements in the credit risk management process began to pay dividends as our operating costs and loan impairments remained well under control

Profit before tax

Ushs 181.3bn

Up 34.5% due to strong income growth that came in 7% ahead of cost growth as well as improvements in credit quality of our loan book that saw impairments for bad loans decline year on year.

Tier I capital

17.4%

Up from 16.7% in December 2013 principally due to internal equity growth driven by strong profitability and a stable dividend pay-out ratio.

Return on Equity

30.3%

Return on average shareholders' equity increased from 25.2% principally reflecting an increase in profitability without corresponding increase in equity holding.

Dividends per share

Ushs 1.66

Full year dividend up from Ushs 1.56 in 2013.

Gross new lending

Ushs 1,267bn

We provided Ushs 1,267bn of funding for eligible new lending to Ugandan households and businesses in 2014.

Citizenship

Ushs 0.8bn

In 2014, we invested Ushs 0.8bn in direct interventions to improve the social and economic well-being of the communities in which we operate.

Income statement (UShs' 000)	2014	2013
Profit before tax	**181,287,926**	134,810,761
Profit after tax	**135,079,382**	101,851,527
Financial position (UShs' 000)		
Total assets	**3,507,762,015**	3,241,598,040
Loans and advances to customers	**1,618,379,655**	1,415,040,925
Shareholders' equity	**486,969,533**	405,308,497
Customer deposits	**2,132,356,040**	1,787,577,713
Financial performance (%)		
Return on average equity	**30.3**	25.2
Return on average assets	**4.0**	3.1
Cost to income ratio	**53.2**	57.4
Loans to deposit ratio	**75.9**	79.2
Share statistics per share (UShs)		
Earnings per share - basic and diluted	**2.64**	1.99
Proposed dividend per share	**1.66**	1.56
Capital adequacy		
Risk weighted assets (UShs' 000)	**2,184,296,134**	1,960,768,303
Tier 1 capital to risk weighted assets (%)	**17.4**	16.7
Total capital to risk weighted assets (%)	**19.2**	20.0

Chairman's statement

JAPHETH KATTO

"While 2014 has been a good year, I believe we remain in strong shape to continue supporting our clients and customers, and the growth opportunities for the business remain compelling."

Dear shareholders,

It has been an exciting first six months for me as chairman of your bank, highlighted by key management changes and an incredible financial performance. I assumed office in June 2014, and we announced our new Chief Executive in January 2015. I would like to begin by introducing our new Chief Executive Mr. Patrick Mweheire who assumed office in January 2015. Patrick is a person of great talent and considerable banking experience gathered around the globe and spanning over 16 years. Having served as executive director with the Bank for 3 years before his appointment, we expect the transition to be seamless.

We expect to conclude further changes in the leadership of our business units and other key executive management roles in the first half of 2015.

On behalf of the Board of Stanbic Bank Uganda, I would like to pay special tribute to Mr. Philip Odera who has diligently served as Chief Executive of the Bank for over 7 years. His transformative leadership, passion, commitment and dedication have seen us lead on many fronts. As part of his own personal and professional growth, Philip will be taking on another assignment within the Standard Bank Group.

During the year we began a midterm review of our 2012 – 2016 strategy. The review concluded that the broad strategy was right for both our bank and for the prevailing environment. We made a few refinements to align our actions to the more resilient drivers of growth. I look forward to the challenge of working with the board and management team to further strengthen focus and execution and to sustain the growth momentum we have witnessed in 2014. The Chief executive's review will cover the details of the strategy refinement and progress on strategy delivery in more detail.

Performance in 2014

The business environment during 2014 was mixed. The economy continued on a recovery path while private sector growth was below expectation. Focus on identified business priorities, a stronger risk management environment and our cost management agenda delivered the 2014 result for us. Profit after tax rebounded from 2013 to record a 33% growth from Ushs 101.9bn to Ushs 135.1bn in 2014. The Chief executive's review will cover financial performance in more detail.

The Board of Directors has recommended the payment of a first and final dividend of Ushs 1.66 per share for your approval. The dividend payment constitutes a 62.9% pay out ratio which is above the industry average.

The retained earnings will enable the Bank to build a sufficient capital buffer as the industry moves to implement the revised capital requirements that are awaiting gazetting of the relevant statutory instrument. The proposed dividend will also allow the Bank to continue pursuing balance sheet growth by providing sufficient headroom to grow risk weighted assets

I will now share highlights of some of the factors that impacted our business in 2014.

Macro environment

On monetary policy, we were delighted to see Bank of Uganda making integrated efforts towards improvement in the management of the economy in 2014. Robust statements following bi·monthly Monetary Policy Committee meetings spelt clearly their focus and priorities and they allowed market players an opportunity to opine on the direction of any rate changes.

Chairman's report (Continued)

GDP growth projections for 2014/2015 are at **6% - 6.5%,** up from **4.7%** in 2013/2014 supported by foreign direct investment flows, infrastructure investment and improved private sector performance. Sectors exhibiting growth in 2014 included public infrastructure, manufacturing, electricity, water supply activities and trade.

The Central Bank Rate which opened the year at 11.5% was revised at half year to 11.0% until end year as government sought to signal prevailing stability and stimulate private sector credit growth.

GDP growth projections for 2014/2015 are at 6%-6.5%, up from 4.7% in 2013/2014 supported by foreign direct investment flows, infrastructure investment and improved private sector performance. Sectors exhibiting growth in 2014 included public infrastructure, manufacturing, electricity, water supply activities and trade. The Bank has aligned its strategic agenda to pursue opportunities in these and other growing sectors of the economy.

Foreign exchange rate stability through the year was sustained by increased foreign investor participation in the government securities. A reversal in this trend began in the last quarter is expected to impact the 2015 inflation outlook and consequent monetary policy if it continues.

Operating environment

On a general level, the Uganda Banking sector recorded a recovery from the single digit growth witnessed in 2013. Total industry funding was spurred by deposits while industry assets were driven by recovery in lending activity. This growth according to the industry regulator, Bank of Uganda, was accompanied by an improvement in overall credit quality of the loan book. This improvement in loan book quality was observed in both the local currency and the foreign currency denominated books. Non performing loan concerns however persisted in the personal and household loan sector.

Attesting to an overall industry improvement, even with lending rates falling marginally, industry profits grew by 17% to Ushs 485 billion in 2014, having recorded a 25% decline to Ushs 414 billion in 2013.

Regulatory environment

The policy instrument increasing capital requirements for all banks by 2.5% and an additional buffer of up to 2.5% for those designated as systemically important domestic banks was finalised during the year with the stakeholder consultation phase closing in January 2014. The instrument now awaits gazetting in order to take effect.

Increased capital requirements will mean we have to be more focused on getting the best out of our existing businesses.

A summary of new tax proposals adopted that will impact the banking industry is presented below;

1. Elimination of tax exemption on Interest Income on Agricultural Loans (this had been introduced in 2005)
2. Introduction of a 10% excise duty on bank charges and money transfer fees
3. Elimination of V.A.T (18%) exemption on computer software – Payments with respect to finacle (our core banking system) and other software will be impacted and these are substantial sums involved.

We estimate that the tax changes above that took effect in June 2014 will increase our effective tax rate by one percentage point. We continue to explore avenues to further optimise our tax rate to mitigate the impact of these changes

Corporate citizenship

With regard to our corporate citizenship agenda, the year under review continued to reflect well on our efforts aimed at "Transforming lives". We remained alive to the fact that good stewardship demands that we take into account the needs of all our stakeholders and make decisions, which, in the long term, are positive for our customers and clients, shareholders, colleagues and the communities in which we operate.

I commend my colleagues, members of the management team and all our staff who in their individual capacities continue to make tremendous contributions to their communities and I want to take this opportunity to pay tribute to them.

Stanbic Bank's community investment agenda continues to focus on the areas of education, entrepreneurial skills development, health and environment and our approach is usually to work with community organisations.

Importantly in all our community work, we increasingly look to involve our staff to reinforce our links with the communities we serve.

In 2014, our investment amounted to Ushs 0.8 billion, through 12 local initiatives which directly and indirectly transformed the lives of over 20,000 underprivileged people across the country.

You can read more about this in our Citizenship and Sustainability report on page 32.

Business review

Chairman's report (Continued)

2015 outlook

While 2014 has been a good year, I believe we remain in strong shape to continue supporting our clients and customers, and the growth opportunities for the business remain compelling

We are very optimistic that the business will continue to grow, despite the challenges that we may encounter in our business environment as a result of activity ahead of the 2016 general election. We are putting in place a sound strategic agenda for our Bank to drive future growth. We will continue to use our well capitalised, highly liquid and diverse balance sheet to drive value for our shareholders.

Your Board and the executive team led by Patrick are encouraged by what was accomplished in 2014. We have set clear targets for 2015 and are focused and determined to sustain the momentum.

Appreciation

I would like to thank my predecessor Mr. Hannington Karuhanga who served with distinction on the board for almost 14 years for the solid foundation he together with the rest of the board helped to put in place for sustained future growth. I would also take this opportunity to salute Mr Patrick Masambu for 5 years of outstanding service to the bank. Mr Masambu resigned from the board effective 1 January 2015. Please join me in wishing Hannington and Patrick the very best in their future endeavours

To our management team and staff, you have done an incredible job in 2014. I thank you for your superior performance and call upon you to continue with the same degree of dedication. That is the only way, the Bank can continue to produce such great results and consolidate our position in the banking industry in Uganda.

I would like to salute Stanbic Uganda shareholders, customers, employees and partners, for their unwavering support and dedication to the Bank, and for their confidence in the Board and Management over the years. I laud the Government and Bank of Uganda for their invaluable support and contribution to the development of a sound banking sector

My colleagues on the Board and I will continue to provide the necessary oversight, guidance and support to management to propel us to achieve our medium and long-term objectives.

Japheth Katto
Chairman

Chief Executive's **statement**

PATRICK MWEHEIRE

From the Bank's perspective, we continued to deliver on the key initiatives that we had set for ourselves at the beginning of 2014. The key priorities were putting our customers first, improving efficiency and connecting with our communities and stakeholders.

To our shareholders

2014 was a great year, thanks to the dedication of our approximately 1,900 team members working together towards our shared vision. To transform lives by satisfying all our customers' financial needs.

In 2014 we generated record earnings – in fact we were the most profitable bank in Uganda. We generated a Profit After Tax ("PAT") of UGX 135 Billion, achieving a strong 33% year-on year growth in a relatively challenging market environment.

Our accomplishments in 2014 were a direct result of:

- Having the right people; an effective team that worked together to fulfill our diverse customer needs
- Doing business in the right segments; both from an institutional and retail segment
- Operating a diversified business model; businesses diversified by size, client mix, transactional vs lending that can perform well across a variety of economic and interest rate environments

From a macroeconomic perspective, we witnessed more robust GDP growth which improved from 4.7% in 2014 to the 6.5% area in 2014. This was achieved in a more benign inflation environment where inflation declined steadily from 6.9% at the beginning of the year to a record low of 1.8% in December 2014. This had a positive impact on the banking sector where private sector credit growth showed resilience, growing at over 15% in 2014. This was buttressed by a strong recovery in asset quality with the non-performing loan ratio across the industry dropping from 5.6% to 4.0% in 2014 despite the strong growth in assets. Banking industry profitability also improved, growing at 17% year-on year.

Progress on our Key priorities

From the Bank's perspective, we continued to deliver on the key initiatives that we had set for ourselves at the beginning of 2014. The key priorities were putting our customers first, improving efficiency and connecting with our communities and stakeholders.

Putting our customers first

Banking is a relationship business: We start with what our customers need and not what we want to provide to them. In 2014, we deliberately went out and listened to our customers and recognized that we were falling short of their requirements from a service point of view. Our customer experience had deteriorated and we needed to do something about it. A thorough review was undertaken of our customer service requirements and a number of urgently needed improvements were identified. A new head of service at EXCO level was recruited to champion overall improvement in service levels across the bank. We also rolled out internal service metrics at a departmental level to track and measure internal dependencies that were having an impact on our customer experience. This holistic approach to service has allowed us to identify gaps and hold all employees and departments accountable to improving the customer experience.

We are happy to note that a number of gains have already been made and service should soon become a key differentiator for us in the market in 2015.

Improving efficiency

In order for us to retain our leadership position in the banking industry we must constantly innovate and improve our productivity. In 2014 we embarked on a journey to simplify and streamline our operations so we could better serve and respond to our customers' requirements. It included an exhaustive review and reorganization of our enabling functions particularly the information technology and operations functions. We also continued to invest and upgrade our core banking platform to address interface gaps with other peripheral bank systems

Chief Executive's report (Continued)

Profit after Tax
Ugx 135 billion
2013: Ugx 101.8 billion

Total Assets
Ugx 3.5 trillion
2013: 3.2 trillion

and broaden functionality. We are convinced that all these interventions will ultimately improve our efficiency and ability to more cost effectively serve our customers. They have also improved the control environment and lowered the risk levels across the bank.

Connecting with our communities and stakeholders

Our reputation will continue to be one of our most important attributes to safeguard and this is heavily influenced by what we do and how we connect with our communities and stakeholders. Stanbic continues to actively support the revitalization and growth of the economy including the agriculture sector which employs the largest number of Ugandans. We continue to play a leadership role in improving financial inclusion across the country and are involved in a number of initiatives to provide financial services to the masses.

Our social investment strategy will continue to partner with our communities and stakeholders to make high impact interventions that will transform lives. In 2014, we spent approximately UGX 800 million in several education and health oriented programs aimed at improving the livelihoods of over 54,000 people across the country. We also continue to reduce the environmental impact of our operations, increase our energy efficiency and decrease waste. You can read more about our sustainability agenda and the detail of activities in our citizenship and sustainability report on page 32.

2014 Performance Review

Our 2014 results recorded a significant recovery from 2013, we registered an after tax profit of UGX 135.1 billion, an increase of UGX 33.2 billion or a 33% year-on-year growth from the results of the preceding year of UGX 101.8billion.

The key performance drivers in 2014, compared to 2013 were as follows;

- Total income grew by UGX 47.2 billion (10.5% year on year). The biggest contribution to this growth came from Net Interest Income which recorded a growth of 13%, equivalent to UGX 32.5 billion on account of recovery in loan growth especially in the construction, trade and household sectors. We also took advantage of the very liquid market during the year to reduce our interest expense by shedding off expensive funding.
- Operating costs remained under tight control with real expenditure remaining flat year on year (inflationary growth of 3%, equivalent to (UGX 8.1 billion). We continue to drive efficiency through investment in technology and improved productivity.
- Asset quality also improved with our credit loss ratio falling to 2.3% from 3.1% in the prior year. Credit provisions dropped to UGX 37 billion from UGX 45 billion in 2013.
- Our cost efficiency ratio improved from 57.4% to 53.2% as a result of a rebound in our revenue lines and a tightly managed cost base.
- Return on equity was 30.3%, up from 25.2% in 2013, reflecting the improvement in profitability of the business in 2014

The above results were achieved in a highly competitive market place within a sluggish macro-economic backdrop particularly in the first half of 2014. You can find further details on the 2014 operating environment and the financial performance in the operating and financial review section of this report on page 17.

Capital and Liquidity base

During 2014, our core capital ratio remained strong at 17.4% against a regulatory minimum ratio of 8% while the total capital ratio was 19.2% against a regulatory minimum of 12%. Our liquid asset holding ratio was also very strong at 56.1% against a regulatory minimum of 20%. This strong capital position provides the bank with a significant buffer to meet both regulatory requirements and customers' needs for the foreseeable future.

Risk Management and Controls

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

During the year, we instituted an independent compliance function which is supported by a robust compliance framework and a range of policies addressing various compliance risks such as Anti Money Laundering, Know Your Customer (KYC), Bribery and Corruption, as well as Consumer Protection. We also maintained a strong relationship with our regulators both local and international and remain committed to conducting our business in a fair, transparent and compliant manner. You can read more about our risk profile and approach to risk management in our risk review on page 26.

2015 Priorities

Our priorities in 2015 will focus on three relatively simple but critical objectives;

- Building employee capability across all levels;
- Getting Service right; and
- Reducing our Cost to Serve

We will continue to invest in our people's capability to lead and contribute to their fullest potential. Capability building is more than just training to complete day-to-day tasks; we will be focusing on a broader set of skills that increase each employee's value to the organization and better position us in the market place.

Chief Executive's report (Continued)

We are also going to aggressively focus on service delivery and have already made the necessary organizational changes required for delivering our service promise and making us more customer focused in 2015 and beyond. We are confident that service focus is the single most important action that will give us the platform to deliver sustained and profitable growth.

Lastly, we will drive efficiency by reducing our cost to serve. There are a number of initiatives that we have put in place to deliver significant productivity improvements in 2015. We will continue to digitize and rely on other cost effective channels to serve our customers.

2015 Outlook

2014 was an outstanding year for Stanbic Uganda and we are very pleased with our performance. 2015 is a pre-election year and will have its challenges but we are very clear on what we have to do. We have a solid balance sheet, a remarkable brand, loyal clients and fantastic people to deliver our objectives.

Appreciation

I would like to thank the outgoing Chief Executive of Stanbic Bank Uganda, Mr. Philip Odera for the contribution made towards the growth of the bank and paving the way for me. I also wish to thank all our stakeholders - board members, staff members, customers, communities and shareholders- for making 2014 an outstanding year. As we look forward, we are confident in our abilities to serve changing customer needs and contribute to the growth of our beloved country.

Patrick Mweheire
Chief Executive

Operating and financial review

2014 proved to be a successful year for the bank. Growth in the core business of the bank was strong underlined by an improvement in transactional activity, good growth in customer lending and customer deposits.

The macro-economic environment was generally stable through the year. With inflation trending lower, the Central Bank Rate (CBR) was held stable during the year. However, signs of stress in the economy began to occur in the last quarter as the Shilling began to depreciate. This situation showed signs of negatively impacting interest rates on government securities.

No significant regulatory changes were recorded during the year. Nevertheless, a number of Basel III changes are expected to be adopted in the near future. The bank remains cognizant of these changes and is adequately prepared for eventual introduction.

The Bank continued to witness stability in the operations of its core banking system as new versions were successfully introduced. This has improved the ratio of straight through processes in our operations. This has afforded the Bank the opportunity to start introducing additional digital payment products to customers. We expect an improvement in the contribution to income of these products in subsequent years.

Supported by the stable environment noted above, profits grew strongly during the year in comparison with the position reported in 2013. Revenue growth was facilitated by good margins while cost increases were kept within reasonable limits. This positively impacted earnings with Profits after tax experiencing a 33% growth over prior year from UGX 101bn in 2013 to UGX 135bn in 2014.

Operating and financial review (Continued)

Highlights underpinning our results for the year include

- Improvement in asset quality improving interest income and driving down credit impairments
- Operating costs kept within reasonable limits
- Improving transactional activity improves fee and commission income results

Financial Performance Review

The major assets and liabilities held by the bank on its statement of financial position and the drivers behind the variations year on year are reviewed as follows:

Cash and Balances with banks

These are made up mainly of the cash we hold in our network, statutory cash reserves with Bank of Uganda, balances with other commercial banks and repos held with the Bank of Uganda for short periods awaiting suitable investment possibilities. Growth in customer deposits as well as maturing financial investments are the main reason for the year on year movements. Rates on repos remained strong as the Central Bank Rate was kept stable during the year.

Investment securities

Government securities recorded a 16% decline from the previous year. Uncertainty in interest rate outlook and good growth in the loans and advances portfolio supported this cautious position.

Loans and advances to customers

Loans and advances to customers grew strong by over UGX 200bn during the year. This was mainly in the PBB portfolio with personal lending and property refinancing showing strong growth.

Credit growth in the CIB business remained tamed. With no improvement in the economic situation in South Sudan, export opportunity into the market was weak affecting corporate demand. Loans and advances growth was as a result weak.

Customer deposits

Customer deposits rebounded strongly with a year on year growth of 19.2% as against a decline of 14.8% experienced in 2013. Customer activity improved as the Bank delivered payment and other attractive products to grow deposits. Growth in customer deposits were mainly led by the retail sector and in current account balances.

Impacting the general industry environment were the following factors.

Margins

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

The CBR was generally stable with an average decrease of 50bp when compared to 2013. Despite the decline in rates, the bank successfully managed to improve margins by proactively managing yields on the investment assets portfolio and improving asset quality.

Credit loss

The credit loss ratio is the impairment charge expressed as a percentage of the average loans and advances book. It represents the loss the Bank incurs as a result of delinquencies from customers.

With a commitment to further reduce credit loss ratios, the Bank during the year focused on improving the whole credit underwriting process. A number of revisions were made in the credit evaluation standards on various products. As a result we continued to see a reduction in credit loss rates which end at 2.3% as against 3.1% recorded in prior year.

Inflation

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

During the year, inflation trended lower with average inflation falling from 6.9% in January and ended the year at 1.8%. This is much lower than the target rate of 5% set by the Bank of Uganda.

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

Net Interest Income

Net interest income for the year increased by 13% over 2013 to UGX 280bn.This was primarily due to an increase in loans and advances to customers and government securities. Earning asset mix recorded an improvement with loans and advances accounting for 77% compared to 73% in 2013. Margins on earning assets improved from 11.5% in 2103 to 13.3% in 2014.

Non Interest Revenue

Non interest income grew 7.3% over the year. Fees and commission income was up on prior year by 10% while trading revenue posted a 5.4% increase.

The Bank continued to review pricing of various services improving their competitiveness. While no price increases were made, a number of fee lines were scrapped for various customers such as account management fees and services. This notwithstanding, an improvement in customer activity helped maintain a good performance in the fee income lines. During the year, greater emphasis has been placed on growing transactional fees, trade and cash management fees which better relates to transactional activity.

Trading revenue

With the stability in the macro economic environment, margins on foreign exchange trades shrank significantly negatively impacting related income. While trading revenue grew by 5.4% over prior year, this was mainly due to the performance of the trading desk while both money market desk and fixed income desk continued to perform well.

Credit Impairment charges

Credit impairment charges reduced sharply during the year by 16.7%. Efforts to clean up the loans and advances book and to improve the underwriting process are proving successful with the consistent trend in impairment reduction charges over the last two years. During the year, the clean up of the Business Banking portfolio continued with a number of downgrades. Loss of key markets in South Sudan continued to impact its performance.

Operating Expenses

Operating costs of UGX 263bn was only 3% higher than 2013.

While staff costs increased by 14% on account of new senior leadership recruitments, other operating costs showed a strong reduction of 5% as we continued to implement our long term cost management agenda.

We continue to implement various cost management solutions to ensure that investments are substantially covered by savings generated in other operating activities.

Operating and financial review (Continued)

5year prefomamance review

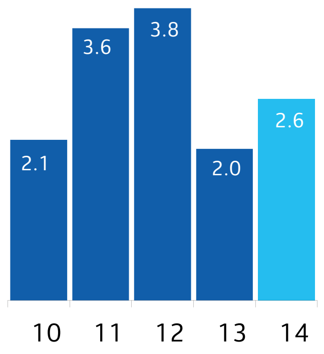
	2014	2013	2012	2011	2010
Income statement (UShs'm)					
Profit before income tax	**181,288**	134,811	177,701	163,816	88,772
Profit after tax	**135,079**	101,852	130,734	121,702	72,082
Financial position (UShs'm)					
Shareholders' equity	**486,970**	405,308	401,039	294,983	230,087
Total assets	**3,507,762**	3,241,598	3,098,593	2,713,235	2,400,148
Loans and advances to customers	**1,618,380**	1,415,041	1,460,278	1,531,859	1,204,690
Property and equipment	**47,705**	39,790	40,946	35,344	43,741
Customer deposits	**2,132,356**	1,787,578	2,099,180	1,902,949	1,840,918
Returns and ratios					
Return on average equity	**30.3%**	25.2%	37.6%	46.4%	32.7%
Return on average assets	**4.0%**	3.1%	4.5%	4.8%	3.4%
Loan to deposit ratio	**75.9%**	79.2%	69.6%	80.5%	65.4%
Cost to income	**53.2%**	57.4%	39.8%	47.2%	67.2%
Capital adequacy					
Tier 1 capital ratio	**17.4%**	16.7%	15.7%	11.8%	12.0%
Tier 1 + Tier 2 capital ratio	**19.2%**	20.0%	20.3%	15.0%	14.2%
Risk weighted assets (UShs'm)	**2,184,296**	1,960,768	1,914,951	2,040,885	1,552,233
Share statistics (UShs)					
Closing number of shares in issue (in millions)	**51,189**	51,189	51,189	10,234	5,119
Earnings per share - basic and diluted	**2.64**	1.99	3.83	3.57	2.11
Dividends per share - proposed and/or paid	**1.66**	1.56	1.37	4.88	7.03
Other information					
Number of employees	**1,879**	1,903	1,859	1,721	1,612

Delivering our KPIs

1.

Deliver consistently superior perfomamnce through disciplined growth.

Earnings per share (Ushs)



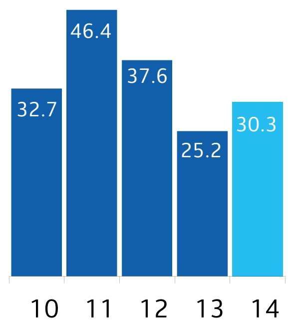
Objective

To deliver double digit earings per share (EPS) growth.

Result

2014 delivered a resilient performance in rather slow activity environment.

Return on Average Equity (%)



Objective

To deliver consistent returns (RoE) about 50% above our Cost of Equity (CoE), balanced against the long term objective of having strong yet efficient capital levels.

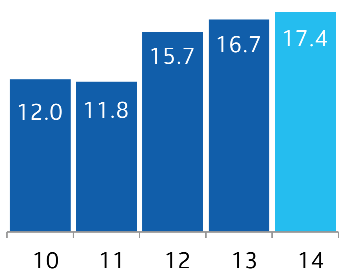
Result

A recovery in profitability in 2014 drove the RoE improvement. Profits grew 30% while equity grew 20% driven by retained earnings.

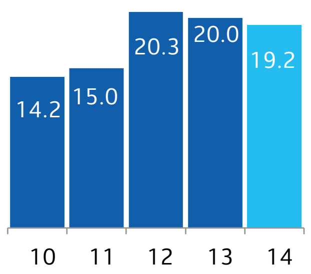
2.

Mantain balance sheet strength to stay a head of regulatory requirements and to support our aspirations.

Tier I Capital Adequacy ratio (%)



Total Capital Adequacy ratio (%)



Objective

To maintain a strong capital base to comply with regulatory requiremets and to support our business growth ambitions including sufficient capacity to absorb potential losses

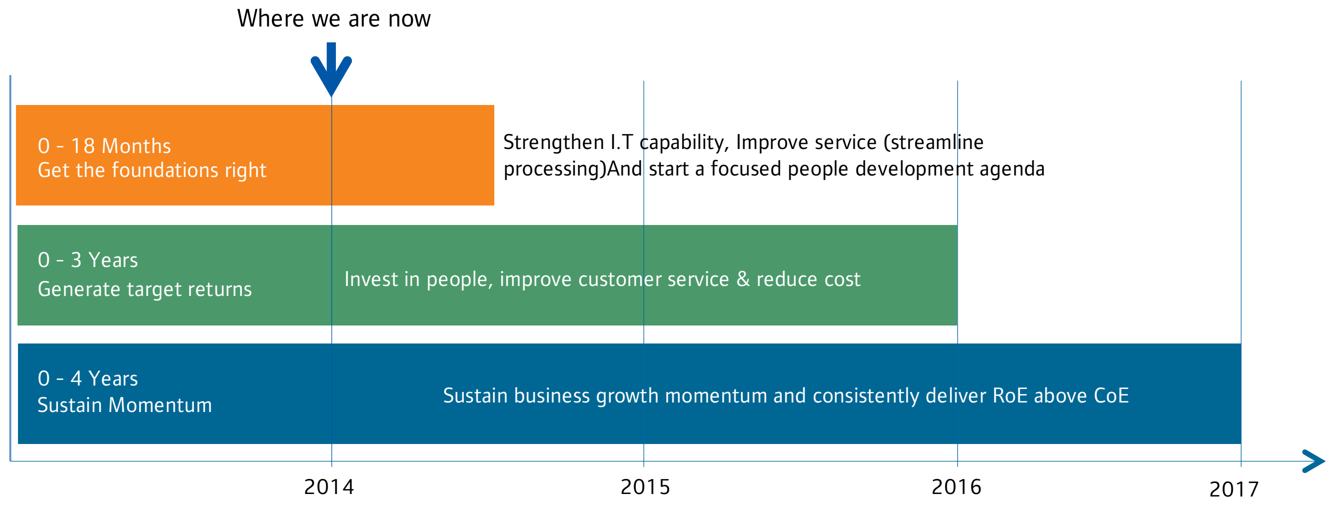
Result

Good levels of organic equity generation continue to support our Tier I capital growth, Keeing us above the minimum regulatory requirement of 8% and positioning us well for future regulatory changes as the environment continues to evolve.

Result

We redeemed Tier II bonds with less than a year to maturity worth Ushs 30 Billion during the year as their capital worth had fallen below 20%. We will look to issue more Tier II capital at an opportune time in the future to optimise our capital mix.

Our Strategy Roadmap



How we implement our Strategy

Our values come first	Driving profitability
We have consistent operating principles that are not only fundamental to but determine the way we do business. These also help us to detect, deter and protect against financial crime.	Our strategic priorities are designed to ensure we have a sustainable business for the long term. Profit underpins long-term business sustainability and growing our profit is an integral part of our strategy.
Our business and operating model	**Governance reinforces our values**
The conditions for creating value and generating profits are reflected in our business and operating model, which determines how our business units, our infrastructure and support functions interact.	Implementing Global Standards affects how we govern the bank, the nature of our core business and the performance, recognition and behaviours of all our people in managing high quality customer relationships. It starts with embedding our Standard Bank group values in everything we do.

Business unit review

CIB Review

The corporate and Investment banking market place continued to feel the impact of slow activity in the private sector. The chairman's report has details on macro-economic developments during 2014. Credit growth in the CIB segment remained muted; a factor driven by low consumer demand and legacy impairments. Amidst the developments, the CIB business managed to post record results hinged on its ability to reinvent and reposition itself in the changing market. The main challenge during the year was on the foreign currency part of our business. The demand for FCY credit continued to grow however the ability to raise FCY liquidity was subdued.

Strategy:

The CIB strategy is aligned to the Group CIB vision and is broadly inclined on the intent to be the leading corporate and investment banking business in Uganda. Significant progress has been made on the strategic objectives for delivering our vision demonstrated by the robust financial performance in the last 2-3 years and specifically in 2014 where growth in profitability was in excess of 25%. This depicts the renewed confidence that clients have in our business acumen. Stanbic CIB controls well over 25% of the market share and continues to grow from strength to strength. Our role in the trade sector has been intensified and has culminated in a 5% growth in market share in 2014. We have spearheaded the developments in the Capital Markets space with new to market transactions and were once again awarded the accolade of the Best Investment Bank in Uganda by EMEA Finance. We continue to deepen our relationship with Government and align our internal processes to improve service delivery and ultimately customer experience. We have committed heavy investments in the areas of service and system functionality and continue to work with other external service providers in bid to innovate and simplify ways of doing business.

Client engagement:

Our Client engagement model speaks to deepening client relationships through delivering a comprehensive and quality service. We continue to strive to improve our service culture through technological investments, partnerships and people developments. On a regular basis, we sanction tailored customer service surveys to acquire our clients' feedback which we then act upon to improve service delivery. This feedback is specific and we use it to gauge our staff capabilities and development needs.

The CIB business was able to post a positive Net promoter score in 2014 coming from a negative position in the previous year and further to that close to 50% of our clients perceive us as the top CIB bank in Uganda as per a Group research report on CIB conducted in May 2014. In this area as well, we leverage the Group's capabilities to embed a client model that is International and renown. Through the Group's connections and expertise, we have been able to open our doors to new segments and drive growth in various areas. In 2014 we were able to finance new deals in excess $70m as a result of the strong partnerships we have established.

Looking ahead:

We continue to make significant strides across various aspects of our business to ensure that we are the right business partner for our clients. We have transformed our client operating model to ensure that we are client centric and have committed heavy investments in our service structure to bring to life our client promises. We are also positioning ourselves to take a central role in the build up to the Oil and Gas activities expected to take off by 2018. The Oil and Gas sector is expected to contribute over 30% of the country's GDP by 2030 and we are committed to remaining relevant to our clients along the way. We have aligned our internal processes and gone ahead to spearhead key discussions in the market with the relevant stakeholders. We have also ensured that the support elements to this build up are an integral part of the Bank's strategic focus and are complemented by the overall Standard Bank Group strategic focus areas. We are therefore confident that we have the necessary Group support in regard to Capital, expertise and other credit related elements to progress our local agenda. We envisage ourselves being one of the dominant players in this market and continue to push forward on delivering on our client promises.

Business unit review (Continued)

PBB Review

At industry level, Personal and business banking experienced recovery from the flat balance sheet growth experienced in 2013 to decent growth in 2014. Recovery was mainly driven by individual lending to the salaried employees, the trade sector and commercial mortgages.

Loan book quality though showing an improvement year on year, continued to be a concern with NPL ratios remaining rather high.

Supported by overall industry recovery, we recorded good balance sheet and income statement performance in 2014. Customer advances grew by 30% mainly on account of loan demand from salaried individuals and the trade sector in local currency as well as commercial mortgages in foreign currency

Customer developments;

Overall, PBB Customer Numbers in 2014 grew by 6% (34,092) from 540,200 in 2013 to 574,292 in 2014 with Personal Markets (PM) numbers growing by 40,997 largely driven by the growth in the salaried segment which we code name Karibu.
As part of the continuous process of customer lifecycle management, we introduced in the second half of 2014 the student account for students in University, College and other Tertiary institutions

Channels and service update;

Branches

- We have the largest footprint and continue to increase our footprint by opening branches in strategic locations to ensure we are everywhere our customers need us to be. During the year ended, we opened 4 new branches that is at Village Mall in Bugolobi, Acacia Mall at Kisementi, Aponye Mall and in Kabalagala
- We also rationalized our branch network by merging or relocating branches to achieve two things; first that we are not just everywhere but in the right places. Second to optimize the cost of our net-work to levels our customers can afford.

ATMs

- We have the the largest share of the ATM network at 22% of the total ATMs in the county with our network spread in all parts of the country. We continue to expand our network to strategic locations and during the year, we commissioned the first ATM in the entire Kalangala district enabling 24 hour banking service to the islanders and visitors that hold VISA and master card enabled cards.
- We enhanced our ATM security and are now EMV compliant. We also installed CCTV cameras at all our ATMs. These initiatives are to curb the fraud risk that comes with such installations and ensure safety of our customer accounts
- We continue to deploy value added services and during the year we deployed the first ever intelligent depository that will now enable customers make real time deposits onto their accounts using the ATMs. These have been deployed at Acacia Mall and Metro branch and will continue to be deployed in strategic locations to improve our customers' service experience

Other Digital Channels

- In line with our strategy to deploy digital channel banking solutions i.e. USSD, WAP, Internet banking, SMS notifications, we undertook a campaign to increase number of customers using digital channels. We will continue with the drive to migrate our customers to the digital channels and roll out new functionality to improve the service experience.

2015 and beyond strategy

To be a leading PBB business in Uganda, with a critical mass of profitable customers, with a cadre of vibrant, competent and engaged colleagues (backbone), delivering excellent and consistent customer service, enabled by IT excellence and best in class Credit and Operations capabilities. To this end we will focus on the following priority areas in 2015

- Service excellence – focus on processing times, quality of transactions processed, reduction in customer complaints and improvement in customer on boarding. We have clear targets in terms of the customer rating (NPS score) that we are looking for.
- Overall cost of our network - We will focus on processes as well as the related operations and Technology platforms
- The staff engagement – Through the performance management process, calibration of staff goals to business priorities and consistent conversations

Financial definitions

CAGR	Compound annual growth rate
Profit for the year (Shs)	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 (Shs)	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.

Risk review

Stanbic Bank Uganda Limited has a defined risk appetite, approved by the Board, which is an expression of the amount of risk we are prepared to take and plays a central role in the development of our strategic plans and policies. Our overall risk appetite has not changed. We regularly assess our aggregate risk profile, conduct stress tests and monitor concentrations to ensure that we are operating within our approved risk appetite using established risk tolerance bands.

Risk management framework

The management of risk lies at the heart of our business. One of the main risks we incur arises from extending credit to customers through our trading and lending operations. Beyond credit risk, we are also exposed to a range of other risk types such as market, liquidity, operational, pension, reputational and other risks that are inherent to our strategy, product range and geographical coverage

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank.

Risk governance

Ultimate responsibility for setting our risk appetite and for the effective management of risk rests with the Board. Acting within an authority delegated by the Board, the Board Risk Management Committee (BRMC), whose membership is balanced between executive and non-executive directors of the Bank, has responsibility for oversight and review of prudential risks including but not limited to credit, market, capital, liquidity and operational. It reviews the Bank's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Bank's risk management systems and controls, considering the implications of material regulatory change proposals, ensuring effective due diligence on material transactions. The BRMC receives regular reports on risk management, including our portfolio trends, policies and standards, stress testing, liquidity and capital

adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference.

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

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 as expounded below.

Roles and Responsibilities

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control:

- First line of defence: all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business, function and geographic heads are accountable for risk management in their respective businesses and functions, and for locations where they have governance responsibilities

- Second line of defence: this comprises the risk control owners, supported by their respective control functions. Risk control owners are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. The scope of a risk control owner's responsibilities is defined by a given risk type and the risk management processes that relate to that risk type. These responsibilities cut across the Bank and are not constrained by functional, business and regional boundaries. The major risk types are described individually in the following sections

- Third line of defence: the independent assurance provided by the Internal Audit function (IA). Its role is defined and overseen by the board Audit Committee.

The findings from the IA's audits are reported to all relevant management and governance bodies – accountable line managers, relevant oversight function and committee or committees of the Board.

IA provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the Risk Control Functions (the second line). As a result, the IA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

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.

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

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

We are in the business of taking selected risks to **generate shareholder value,** and we seek to contain and mitigate these risks to ensure they remain within our risk appetite and are adequately compensated.

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

The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, we have structured our funding base to be diverse and largely customer- driven. While customer deposits are of short tenor (mainly current accounts) the behavioural is that they tend to be very stable.

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

Liquidity contingency plans are supplemented by an extensive early warning indicators methodology supported by a clear and decisive crisis response strategy. These plans are reviewed periodically for relevance and reliability.

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

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

The cumulative impact of the above elements is monitored on a monthly basis by the bank's Asset and Liability Committee (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.

Market risk
We recognise market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Our exposure to market risk arises principally from customer-driven transactions. The objective of our market risk policies and processes is to obtain the best balance of risk and return while meeting customers' requirements.

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.

Non trading interest rate risk
Interest rate risk from non-trading book portfolios is managed by the Treasury desk under the supervision of the Asset and Liability Committees (ALCO). Treasury deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved risk limits.

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, over 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, is charged with forensic investigations, fraud prevention as well as the overall management of the physical security risk 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 that reports to 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 fulfills its responsibilities under tax law in relation to compliance, planning or client service matters. Tax law includes all responsibilities which the bank may have in relation to company taxes, personal taxes, capital gains taxes, indirect taxes and tax administration.

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

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

Effective management of all operating activities is emphasized 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.

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

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

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

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

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

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

2015 Risk Outlook
We are in the business of taking selected risks to generate shareholder value, and we seek to contain and mitigate these risks to ensure they remain within our risk appetite and are adequately compensated.

The key uncertainties we face in the coming year are set out below. This should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that we may experience.

- *Unpredictable macroeconomic environment*

  Macroeconomic conditions have an impact on personal expenditure and consumption, demand for business products and services, the debt service burden of consumers and businesses, the general availability of credit for retail and corporate borrowers and the availability of capital and liquidity funding for our business. All these factors have the capacity to impact our performance.

  The world economy is coming out of a difficult period and uncertainty remains. The unwinding of the US Federal Reserve's (Fed) quantitative easing programme could lead to higher interest rates, volatility in financial markets and capital flight which may threaten the country's growth trajectory.

  While inflation appears to be under control changes in monetary policy (exchange rate or food supply driven) could lead to significant increases in interest rates, with resulting impacts on the wider economy.

  We balance risk and return, taking account of changing conditions through the economic cycle, and monitor economic trends very closely. We conduct stress tests and scenario analysis to assess the effects of extreme but plausible trading conditions on our portfolio and also continuously review the suitability of our risk policies and controls. We manage credit exposures following the principle of diversification across products, client and customer segments. This provides for strong resilience against economic shocks in one or more of our portfolios.

- *Regulatory Changes*

  Our business will continue to be subject to an evolving and complex regulatory framework comprising legislation, regulation and codes of practice. In an attempt to address past and possible future industry challenges, there has been increased regulation. The nature, impact and timing of such future changes is not always predictable and could adversely impact our strategic interests. Some changes are anticipated to have a significant impact, such as changes to capital and liquidity regimes and changes to the calculation of risk-weighted assets (RWA)

- *Risk of Fraud and other criminal acts*

  The banking industry has long been a target for third parties seeking to defraud, to disrupt legitimate economic activity, or to facilitate other illegal activities. The risk posed by such criminal activity is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology and the internet. The incidence of cyber-crime is rising, becoming more globally co-ordinated, and is a global challenge. We seek to be vigilant to the risk of internal and external crime in our management of people, processes, and systems and in our dealings with customers and other stakeholders. We have a broad range of measures in place to monitor and mitigate this risk. Controls are embedded in our policies and procedures across a wide range of our activities, such as origination, recruitment, physical and information security. We have a set of techniques, tools and activities to detect and respond to crime, in its many forms. We will increase collaboration with our peers, regulators and other stakeholders to consolidate our efforts.

Citizenship & sustainability report

Our commitment to sustainability is not just about the economic activity we finance, but also about how we run our business. Our focus is on effective corporate governance, underpinned by strong processes and the right values and culture. By creating a great place to work for our people, selling our products and services responsibly, tackling financial crime and mitigating the environmental impact of our operations, we believe that we can make a greater positive contribution to the communities in which we operate.

Introduction

We aim to create a robust, resilient and sustainable business in which our clients can have confidence, our communities can trust and our other stakeholders can take pride.

Our continuing success in this endeavour depends, in part, on our ability to identify and address environmental, social and ethical factors which present risks to our business or offer opportunities to support our stakeholders in a more sustainable way. These can affect our reputation, drive employee engagement, and help manage the risks of lending, leverage savings and secure new revenue streams.

Confidence and trust in the financial system are critical drivers of sustainable financing which in turn drives economic success and consequently a harmonious and progressive society. The broader role we play as a bank in our communities and with our stakeholders reinforces this trust and confidence.

Material issues impacting our sustainability

We consider an issue to be material when it impacts or has the potential to impact our ability to remain commercially viable and socially relevant to the societies in which we operate. In particular, material issues are those that have a strong bearing on our stakeholders 'assessments and decisions about SBUL's long-term sustainability and its commitment to their needs. We also take into consideration those factors that affect the financial stability and growth of the Ugandan economy and in turn our own business.

Material issues identification process helps us to create areas of focus. Effectively managing our material issues is critical to achieving our strategic objectives.

The inputs into identifying our material issues are:

- Engagement with internal and external stakeholders.
- Discussions within executive management.
- Issues tabled at board meetings.
- Business strategy.
- Risk management.
- Regulation.
- Country's economic priorities.
- Global Challenges

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

Stanbic bank has identified the following material issues:

- Sustainable long term financial performance
- Governance, regulation and stakeholder management.
- Sustainable and responsible financial services.
- Socioeconomic development.
- A positive and consistent employee experience.

Sustainability report (Continued)

The role of governance

Strong governance is the foundation for establishing trust and promoting engagement between a company and its stakeholders. The right culture, values and behaviour must be adopted by the Board and actively promoted by the Chief Executive and managers at all levels. The Board continues to have oversight of sustainability, including environmental and social governance.

Sustainability scorecard

Shareholders		2014	2013	2012
Headline earnings	Ushs 'millions	135,079	101,851	130,734
Return on equity	%	30.3%	25%	38%
IT spend as a % of operating cost	%	14%	14%	7%
Customers				
Number of retail customers (PBB)		485,218	455,092	445,212
Number of branches		78	74	74
Number of ATMs		175	172	177
Number of Internet Banking customers		221,293	101,949	11,150
Number of Internet Banking transactions		587,636	464,280	3,957
Number of mobile banking customers		174,239	65,375	9
Number of mobile banking transactions		406,118	128,565	21
Employees				
Number of employees		1,879	1,903	1,859
Number of women employees		976	981	942
Training spend	Ushs 'millions	1,901	3,783	2,364
Number of leadership development participants		65	5	17
Number of Interns		52	41	0
Number of women Managers		158	128	108
Suppliers				
Number of suppliers		1,040	910	847
Total procurement spend	Ushs 'millions	144,280	141,996	167,217
% of procurement with local suppliers	%	97%	96%	84%
Communities				
Corporate social investment spend	Ushs	775,377	502,000	207,000
Environment				
Electricity purchased	kilowatt hours	3,919,627	4,949,874	N/A
Fuel consumed	litres	376,693	351,185	N/A
Water consumed	kilolitres	34,254	33,070	N/A
Paper consumed	tons	65	58	N/A

Sustainability report (Continued)

Stakeholder engagement

The ways in which we engage with our stakeholders, and the frequency with which we do so, vary according to each stakeholder group. The table below sets out our stakeholder engagement activities during the year.

Key stakeholder group	How we engage	Issues raised	Our response
Shareholders	• Analyst briefings, results presentations. • Annual general meeting. • Company website. • Annual report.	Increased cost growth	Over the past three years we have invested heavily in our core banking system in order to better serve our customers and improve business efficiency.
Customers and clients	• Satisfaction surveys. • Various customer channels including the distribution network. • Marketing initiatives. • Relationship and business managers.	Poor Service levels and long queues in banking halls.	Effectively understanding the needs of our customers is an ongoing process. To this end we are exploring ways to deploy a queue management solution within the bank.
Government and regulators	• Formal meetings, policy discussions, conferences. • Onsite visits and compliance inspections.	Bank of Uganda (BOU) issued a guidance note to all banks to have an independent Compliance department.	The bank recruited a Head of Compliance with oversight for the newly and independent compliance department.

Key sustainability-related performance indicators

681,292	**775 million**	**45,347**
retail and business customers (2012: 589,130)	Committed to corporate social investment.	number of small and medium businesses banked (2013: 46,773)
23%	**1,879**	**Ushs 1.9bn**
increase in women managers	*Employees. (2012: 1,903)*	*employee training spend (2013: Ushs 3.8bn)*

Financial performance

For a detailed discussion on Stanbic bank's financial performance, please refer to the financial review on page 17 of this annual report.

However as a company operating in the Ugandan economy and the region, we recognise that we play a pivotal role in the economic development of society. The most fundamental contribution SBUL makes to the societies in which we operate is by maintaining a robust business. This allows us to pay dividends to our shareholders, salaries to our employees and tax to the Ugandan government. As a buyer of goods and services we play an important role in supporting local businesses, which provides employment and drives socioeconomic development in local communities. In addition, our CSI makes a measurable difference to recipients and communities that SBUL depends on to remain sustainable.

Sustainability report (Continued)

The value added statement below shows our economic impact in 2014

Value added statement for year ended 31st December 2014	2014 Ushs'000	% of wealth created	2013 Ushs'000	% of wealth created
Value added				
Interest income	351,109,801		284,985,795	
Commission fee income	108,575,430		98,618,049	
Other revenues	83,814,453		100,785,323	
Interest paid to depositors	(33,371,594)		(37,228,207)	
Other operating expenses	(275,558,784)		(267,417,922)	
Wealth Created	**234,569,306**		**179,743, 038**	
Distribution of wealth				
Employees	119,523,617	51%	104,967,207	58%
Government	58,622,426	25%	50,322,495	28%
Ordinary shareholders - (dividends)	85,000,000	36%	80,000,000	45%
Non-controlling interests and preference shareholders	16,994,638	7%	20,000,000	11%
Corporate Social Investment (CSI) spend	775,376	0%	502 000	0%
Retentions to support future business growth	(46,346,751)		(76,048 ,665)	
Wealth Distributed	**234,569,306**		**179,743,038**	

Value added is calculated as the company's revenue performance minus payments such as cost of materials, depreciation and amortization. The resulting amount is distributed to the stakeholders who include employees, shareholders, community investments and government. The total wealth created by the bank in 2014 is UGX 235 billion shillings as shown in the value added statement above.

Of the total wealth created in 2014 the following is the total flow of capital among some key stakeholders:

Ushs 120 billion was distributed to employees as remuneration and benefits: (Ushs 105 billion in 2013)

Ushs 59billion was distributed to the Ugandan government in form of taxes: (Ushs 50billion in 2013).

Ushs 85billion was paid in dividends to shareholders both ordinary and non-controlling interests.

Being a Responsible Company

Our commitment to sustainability is not just about the economic activity we finance, but also about how we run our business. Our focus is on effective corporate governance, underpinned by strong processes and the right values and culture. By creating a great place to work for our people, selling our products and services responsibly, tackling financial crime and mitigating the environmental impact of our operations, we believe that we can make a greater positive contribution to the communities in which we operate.

We present below highlights of our social and environmental interactions with different stakeholder groups.

Customers

Our purpose is to connect customers to opportunities, enabling businesses to thrive and economies to prosper, helping people to fulfil their hopes and realise their ambitions. Our dealings with customers are conditioned by our understanding of their needs, the quality of the service we provide and the standards which govern how we operate. With over 500,000 personal and business customers in the country, we know that only by putting customers at the centre of what we do can we achieve our purpose.

Customer service and satisfaction

Our objective is to deliver a 'consistent and excellent service for our customers at every Stanbic Bank customer touch point. We measure customer experience through formally assessed and analysed customer feedback which is used as a basis for improvement.

In 2014 we adopted the globally accepted Net Promoter Score (NPS), which gauges the propensity of customers to recommend Stanbic bank to their family and friends, as the key measure of customer loyalty across our vast network. In response to valuable customer feedback and internal stakeholders we focused our efforts on improving and strengthening those aspects of our operations that create convenience and quality customer service to our existing and potential customers and at the close of 2014 we noted significant improvement in the key service areas like customer on-boarding, queue management, query and compliant handling, turnaround times and duty of care.

Managing complaints

We have gained valuable insights over the years from the complaints management process. This has helped us to tailor solutions and service offerings to meet our customers' individual needs.

Our aim is to develop a consistent approach to complaints management aligned to regulatory requirements and ensure that customer complaints are handled in an accessible, transparent and efficient manner in line with the Bank's commitment to treating our customers fairly.

Sustainability report (Continued)

The diversity of our client base by age, location, banking needs, nationality, business lines and gender means that every interaction with the bank is an opportunity for us to make a memorable contribution to their lives but also means we can jeopardize this valuable relationship by being unresponsive to complaints from our customers. We therefore strengthened our complaints framework in 2014 to include all operations across the Stanbic bank.

A query or complaint starts when it is initiated by the customer, and ends when the customer has received a full and satisfactory resolution. In order to adequately address all customer complaints or queries we do have a formal complaints handling framework in all our areas of representation that covers walk in customers in our branches, telephonic, email or postal correspondence, dedicated customer care centres, our website, individual staff members, media & social networks, senior management and the Office of the Chief Executive. These avenues ensure that customers are treated fairly and transparently in all that we do.

Customer Value Propositions

We understand that each of our customers is unique and so are their banking needs. We have in place Customer value propositions that clearly spell out the benefits our different customer groups stand to enjoy by choosing product sets that we have tailored for them. We invest significant time and effort in understanding the changing needs of these customers and continually use the insights we get to constantly update these value propositions.

In July 2014, we introduced the Stanbic Bank student account called EZ Dimez. This account is designed for youth between 18 to 25 years of age who are studying either in high school, university, college or any other tertiary institution. This new product has been developed as a broadly free savings product and is enabled on all our existing electronic channels that include a Visa ATM card that can be used anywhere in the world, free internet and mobile banking and most importantly account holders can access an EZ Dimez bi-annual career guidance and financial literacy seminar .

We believe this product will help establish a sound financial history against which we will develop secondary credit products to support the youth's future lifecycle requirements and in the long term address social challenges related to lack of access of funds necessary for youth entrepreneurial ventures that are so vital to a growing economy like Uganda. At Stanbic we view this as long term and fruitful partnership that demonstrates our commitment to the communities in which we operate.

Enhancing customer trust - Managing financial crime

Financial crime impedes economic progress. We strive to limit the risk of financial crime within our business by maintaining strong policies and procedures. These are underpinned by important programs to continually enhance our systems and controls and to raise awareness of the critical role of employees in combating financial crime.

Ensuring the safety of our people and assets, and the security of our systems and processes, enables us to enhance a positive customer experience and instil trust in the bank. We are intolerant to all forms of financial crime, including fraud, bribery and corruption, terrorist financing or money laundering.

The Board approved the revised Anti-Financial Crime Policy in 2014. The policy seeks to develop a culture across the bank, which raises awareness of the risks and consequences of financial crime. The policy underlines the framework for prevention, detection and responses to financial crimes. The policy is applicable to all staff, contractors, public and suppliers of services to the bank.

The bank maintains a reward scheme for employees who assist in detecting and stopping fraud. Over Ushs 100 million was paid out in 2014 to vigilant staff that identified and stopped fraud. This is also complemented by an additional fraud incentive scheme at group level where staff can be rewarded up to South African Rands 1,000,000 for identifying and stopping fraud. The bank also has a number of robust systems, processes, human capital detection and prevention capabilities that assist in identifying financial crime.

The Bank has a whistle blowing policy where employees and customers are encouraged to report any financial crime incident and/or misconduct through our toll free hotline0800160200. This platform is independently and externally managed to maintain anonymity of the whistle-blowers. No whistle-blower is disadvantaged when reporting legitimate concerns in any form. The bank undertakes to protect employees/customers who in good faith make a report in accordance with procedure set out in the whistle blowing policy, but will not protect employees who maliciously make false reports. In such instances appropriate disciplinary actions will be taken.

In order to secure the safety of its customers and branches, the bank has implemented robust physical security and logical access controls to guarantee the safety of its customers and branches. The bank's most prized control is its competent human capability that is carefully selected, trained and deployed. In 2014, the bank carried out training of over 80 merchants to further create awareness and protect customers against card fraud among others.

It is Bank policy not to condone any instance of financial crime and/ or corruption. Where an employee is found to have been involved in committing the fraud, the bank will take immediate action to discipline the staff and will further pursue the matter in the courts of law to seek for justice and pursue recovery of money lost including attachment of the assets acquired through criminal means. In 2014, over 20 staff were relieved of their duties on account of fraud.

A total of 2,500 employee trainings in financial crime risk and awareness were carried out in 2014. The training was meant to empower our staff to recognise, identify, report and mitigate fraud.

Employees

At 31 December 2014 we had a total workforce of 1,879 employees compared with 1,903 at the end of 2013. Our main centres of employment are our branches where over 1000 of our employees are stationed. In the context of the current competition in the banking environment, a high performance and values-led work force is critical. We encourage open and honest communication in decision making. Employment issues and financial, economic, regulatory and competitive factors affecting the Bank's performance are regularly shared with our employees.

Diversity and inclusion

Stanbic Bank is committed to building a values-driven high performance culture where all employees are valued, respected and where their opinions count. We remain committed to meritocracy, which requires a diverse and inclusive culture where employees believe that their views are heard, their concerns are attended to and they work in an environment where bias, discrimination and harassment on any matter, including gender, age, ethnicity, religion and disability are not tolerated and where advancement is based on objective criteria. Our inclusive culture helps us respond to our diverse customer base, while developing and retaining a secure supply of skilled, committed employees. Our culture will be strengthened by continuing to employ the best people and optimising their ideas, abilities and differences

Sustainability report (Continued)

Employee development

The development of our employees is essential to the future strength of our business. We have implemented a systematic approach to identifying, developing and deploying talented employees to ensure an appropriate supply of high calibre individuals with the values, skills and experience for current and future senior management positions. In 2014, we made significant progress on this front. We successfully identified a talent pool which is our next generation of leaders and developed career plans for each of them. We shall continue to identify more, support, coach and provide all the necessary support to help them achieve their aspirations and support the bank's talent requirements for future competitiveness.

We continued to maintain a robust training agenda for all employees throughout the year to provide functional, technical, product and sector knowledge; as well as soft skills, management and build leadership capability. In addition mandatory compliance training mostly through self- study was undertaken during the year.

The bank delivers continuous learning using a blended approach comprising of on the job interventions; coaching and mentoring; as well as classroom instructor led courses. Staff are encouraged to undertake self-study through the provision of online resources and e-learning. This is in line with 70:20:10 framework which is advocated globally for effective learning in organisations. This approach recognises that the most effective learning occurs when 70% of it is experiential, 20% social and 10% formal.

Employee Safety, Health and Wellness

Stanbic Bank is committed to providing a safe and healthy environment for our employees, customers and visitors and pro-actively managing the health and safety risks associated with our business. Our objectives include identifying, removing, reducing or controlling material health and safety risks, reducing the likelihood of fires, dangerous occurrences and accidents to employees, customers and visitors. The operations department within the bank has overall responsibility for health and safety and has set global health and safety policies and standards to support their efforts. Our security unit in the operations department conducts biannual security reviews of the critical buildings to ensure measures to protect our staff, assets and information are appropriate to the level of threat.

Through our partnership with ICAS (The International Counselling & Advisory Services), and our medical Insurance service provider Liberty Health, we educate and sensitize our staff with relevant health and wellness information. Liberty Health boasts of over 75 service providers spread out in different areas in the country, making accessibility to health solutions convenient for our staff. ICAS provides telephonic and face-to-face counselling services to our employees and their immediate household members. ICAS affiliates have also been instrumental in handling trauma for branches where we have lost staff or those that have been exposed to security threats . The introduction of Onsite counselling clinics for staff members was well received improved the utilization of the program.

The bank takes a special interest in the life threatening disease policy. Through the chronic management plan on our Liberty Health Medical cover, employees and their dependants are encouraged to register for long term ailments like HIV/AIDs and hypertension. Every year we conduct Health Weeks during which we offer a range of screenings and assessments to employee. These include blood cholesterol, blood pressure, individual stress assessment, and HIV counselling and testing. The aim of these assessments is to assist employees in the early identification and treatment of health risks. In addition we launched the E-Care program that has reinforced the employee wellness program through the provision of on line self-management tools to our employees.

In 2015, we look to coming up with initiatives' to improve the utilisation of the Employee Wellness program which we believe helps staff make the right health choices.

People and values

We are focused on building a culture that is based on responsibility and accountability and aligned with our values. Our diverse and collaborative workforce and deep commitment to doing the right thing is what makes our culture stand out. Our purpose statement, "Transforming lives for a better Uganda" helps our people to act with conviction, nurture relationships with our clients and customers and uphold the highest standards of conduct and integrity. For more than 5 (Five) years, our performance reviews have taken into account the extent to which our employees demonstrate our values as they help the bank to achieve the objectives we set .

Remuneration policy

The quality and commitment of our employees is fundamental to our success and accordingly the Board aims to attract, retain and motivate the very best people. As trust and relationships are vital in our business our goal is to recruit those who are committed to making a long-term career with the organisation. Stanbic's reward strategy supports this objective through balancing both short-term and sustainable performance. Our reward strategy aims to reward success, not failure, and be properly aligned with our risk framework and related outcomes.

In order to ensure alignment between remuneration and our business strategy, individual remuneration is determined through assessment of performance delivered against both annual and long-term objectives summarised in performance scorecards as well as adherence to our values. Altogether, performance is judged, not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the Bank.

The Employee Value Proposition

In April 2014 we launched our Employee Value Proposition. This helped us to articulate to our staff the "deal" that we offer to them in return for their input into delivering the bank's objectives both short and long term. We will continue to monitor and review this value proposition in line with the changing market to ensure it continues to drive not just our competitiveness in the Human Resource market but our long term sustainable growth as well.

Regulators & government

A sound and stable banking sector is critical for vibrant economy and a progressive society. At Stanbic Bank, we aim to respond positively to the evolving regulatory and statutory landscape as they seek to foster stability. We seek to constructively engage our regulators and government and to improve our regulatory and public disclosures in order to improve transparency and to remain consistent with society's expectations.

New regulations

New regulation has extensive bearing on business and impacts day-to-day operations, talent management, pricing decisions and product design, as well as ethics and culture. The ability to manage regulatory change in a strategic and cost-effective manner is an important source of competitive advantage for financial services organizations.

Sustainability report (Continued)

Bank of Uganda issued a guidance note that required all banks have independent compliance functions headed by a senior member of management. To comply with this requirement, a fully instituted compliance department is now in place with an Executive Head reporting to the Chief Executive. The purpose of the compliance function is to ensure management and staff conduct business activities in compliance with relevant statutory, supervisory and regulatory requirements without unreasonably impacting returns and profitability of the business.

Key regulatory requirements that impacted our operations this year include the consumer protection guidelines and the recently passed Anti- Money Laundering Act 2013 whose provisions established the Financial Intelligence Authority that has oversight over all anti money laundering related matters in the industry .In compliance with the Anti-Money Laundering (AML) Act, the bank has recruited a dedicated Money Laundering Control Officer and AML Analysts in order to fulfil the reporting obligations to the Financial Intelligence Authority. The obligations include; reporting suspicious transactions and large cash transaction transactions. Additionally, the bank implemented an automated system to monitor and flag any suspicious transactions on accounts and has also initiated steps to closely work with the recently established Financial Intelligence Authority.

The bank is cognisant of the fact that customers are the heart of the business therefore in line with the Consumer Protection Guidelines; the bank incorporated the requirements of the guidelines in its operating procedures.

To further reinforce the importance of compliance within our culture, mandatory compliance online courses and compliance Risk awareness trainings were rolled out. This demonstrates bank's commitment to help strengthen our compliance culture.

Communities

At Stanbic Bank, we strive to ensure that the way we do business reflects broader societal and environmental considerations. Promoting the social and economic well-being of communities is a critical component of our strategy to support sustainable development in our markets. Our community investment activities focus on health and education, with youth as an important demographic target in resonance with the composition of our society.

Strategic partnerships and transformation

We work with international organisations that facilitate the achievement of the Millennium Development Goals in Uganda.

SBU's social investment strategy aims at making an optimal impact by partnering with local and international organisations to offer appropriate interventions and empower people to transform their lives. Below are some of 2014's key partnerships through which we were able to make a significant improvement in beneficiaries' livelihoods.

a.) Stanbic Bank-AVSI partnership on Financial Literacy Training to eradicate extreme poverty and hunger.

The Challenge: Many people have lost their property/savings due to poor financial decisions resulting from lack of financial knowledge.

According to the Fin scope report-2010, almost half of the adult Ugandans are currently borrowing (45%), of which 20% have ever saved but stopped and 35% have never saved.

Far too many Ugandans – about 72% – don't use banks at all, despite the financial advantages they provide.

Our Involvement: In partnership with AVSI, Stanbic Bank organized 25 financial literacy trainings for 750 vulnerable households across the country to teach them important aspects about personal saving, debt management, budgeting, and financial services among others.

Impact/outcome

- 602 Households had been trained.
- 7,453 individuals have been reached of whom 3,412 (46%) are vulnerable children's households.

b.) Stanbic Bank Health Week in partnership with Shanti Uganda aimed at improving maternal health.

Stanbic Bank partnered with Shanti Uganda to sensitize the public about safe motherhood and also expand Shanti's birth house in Luweero – a rural area with no referral hospital.

The Challenge: It is estimated that 16 women die every day in Uganda due to pregnancy and childbirth complications according to a World Health Organisation report on maternal health in Uganda.

Our Involvement: Stanbic Bank invested over UGX 30M to undertake a public campaign at Shoprite Lugogo grounds and to expand the birth house in Luweero.

The campaign was free and open to the public and offered various health services such as HIV testing and counselling, holistic maternal health and family planning.

Impact/outcome

- 250 people learnt about holistic maternal health, HIV/AIDs, family planning.
- 99 people tested for HIV/AIDs
- 67 people counselled about family planning options
- Shanti Uganda also received an ambulance donation from Pulse international as a result of the campaign.

c.) Stanbic Bank partnered with Red Cross to set-up First Aid Posts for people in Kampala

Stanbic Bank in partnership with Uganda Red Cross Society planned to set up 3 First Aid Posts in different locations of Kampala to offer health services to emergency medical victims of accidents that occur within the city.

The Challenge: Uganda is estimated to have 2,954 deaths resulting from road accidents, one of the highest rates in Africa according to a World Health Organisation report on road safety. We believe that inadequate first aid services contribute to such high figures.

Our Involvement: Stanbic Bank invested over UGX 50M in medical equipment and drugs on this project to curb death due to road accidents by providing timely health care through Red Cross which will be responsible for managing the FA posts

Sustainability report (Continued)

Impact/outcome

- Medical equipment for 3 First Aid Posts handed over to Red Cross.
- Kampala's Old taxi park post was fully renovated and opened to the public.
- The Post attends to 20 – 30 emergency cases on Normal days and 60 - 100 cases on chaotic days.

d.) Stanbic ISU Family Fun Run to promote universal primary education.

Stanbic Bank together with ISU organizes an annual family run to raise funds for underprivileged children to access education and also support two local charities.

The Challenge: A number of children drop out of school due to lack of scholastic materials and other support resources such as food. Most of them take to the street which increases their vulnerability.

Our Involvement: We took part in meticulously organising this event and sponsored willing staff together with their family members to participate.

Impact/outcome

- 764 Participants were registered among which were 200 staff along with their families.
- UGX 39,795,000 was raised towards the cause that is expected to benefit 307 students in accessing education. The funds will be distributed as follows;
- UGX 13,265,000 went towards 1 underprivileged student who will access world class quality education at ISU.
- UGX 13,265,000 went towards 106 former street children mainly of Karamojong origin to access education for yet another year at Victory Kindergarten and primary school.
- The remaining UGX 13,265,000 went towards supporting 200 homeless children at Tomorrow's Heroes to access basic education, health and food.

e.) Stanbic Bank Youth Entrepreneurship Program in partnership with Junior Achievement

Stanbic Bank partnered with Junior Achievement (JA) to provide the youth with practical skills that will enable them become entrepreneurs and create jobs.

The Challenge: Youth unemployment rates are really high and not only in Uganda but the world over. Statistics in Uganda suggest that 83% of people under 24 years are unemployed yet more than two thirds of Uganda's population is below the age of 24. Therefore the youth unemployment challenge is real and is perhaps Uganda's most pressing challenge.

Our Involvement: The bank invested UGX 50M in the program to enable it create business clubs in at least 10 participating schools. Each club developed a company and products or services to trade in. These student companies are guided by JA experts and mentored by Stanbic Bank staff – who in this case are volunteering to offer real life experiences. Each volunteering Stanbic Staff is attached to a school which he/she visits to mentor regularly.

The objective was to prepare young people for the real world by showing them how to generate wealth and effectively manage it, how to create jobs that make their communities more robust, and how to apply entrepreneurial thinking to the workplace.

Impact/outcome

- 1093 students and 10 teachers trained in entrepreneurial skills.
- 45 student mini companies were formulated.

f.) Entrepreneurial skills training for Youths with Disabilities

Stanbic Bank in partnership with Uganda society for disabled children (USDC) undertook to train 15 Youths with disabilities in four different vocational disciplines i.e. tailoring, soap making, mats, and bead making skills.

The Challenge: It is estimated that 7- 10% of the 33 million Ugandans are disabled. 55% of people with disabilities (PWDs) lack functional literacy, 33% reached only Primary Seven and 22% have a mental handicap. (UBOS 2006). About 1,300,000 are children and young people who need a form of rehabilitation. 43% of children with disabilities (CWDs) are not considered normal by their families and therefore discriminated.

Impact/outcome

- 15 youths with disabilities trained in 4 vocational disciplines.
- Community mentors have been attached to them to help them find suitable locations for their businesses that they are to start with the skills learnt and to market their products.

g.) Entrepreneurial Training for Children affected by War

Stanbic Bank partnered with War Child to train 200 Young people in agronomy and horticulture.

This was done with the objective of providing young people in Lango Region with locally marketable and sustainable vocational skills to enable them start a business or get employment.

The Challenge: Northern Uganda, just emerging from conflict, arguably has the highest unemployment rates nationally. Many households lack means of production, having lost them to the war. It is also evident that many youth, having been born and raised in camps for the internally displaced, lack the skills for production and employment.

Impact/outcome

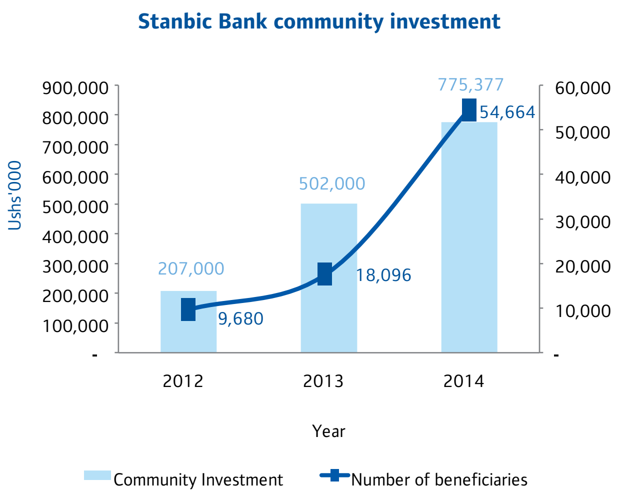
- 200 youths affected by war are being trained in agronomy and horticulture.
- We hope that 200 young people will start earning from agronomy and horticulture and sustain themselves financially.

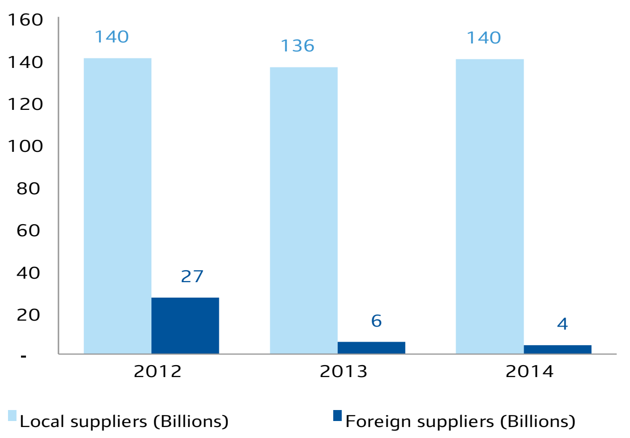
During 2014, the Bank committed over UGX 775 million in what we believes to be the most catalytic activities to growth and development that are aimed at improving the livelihoods of over 54,000 people across the country as shown below.

Sustainability report (Continued)

Number of beneficiaries	2014	2013	2012
Education	7,760	400	1,180
Entrepreneurial Skills Development	1,308	2,200	2,000
Health	646	4,296	1,500
Water/ Environment	44,750	11,200	5,000
Employee Community Involvement	200		
Total	**54,664**	**18,096**	**9,680**

Community Investment (Ushs '000)	2014	2013	2012
Education	254,607	85,000	119,000
Entrepreneurial Skills Development	72,000	150,000	50,000
Health	122,770	112,000	30,500
Water/ Environment	156,000	155,000	7,500
Employee Community Involvement	170,000		
Total	**775,377**	**502,000**	**207,000**





Suppliers

We support businesses across our footprint through our network of more than 20,000 suppliers. We use our procurement management policies and practices to support businesses in our communities, strengthen risk awareness and transparency around our supplier expenditure.

The bank operates a strict procurement process that ensures that small Ugandan businesses and suppliers benefit from the bank's procurement spend. We consider our suppliers an important component of our value chain and therefore strive to nurture an economically productive relationship in which SBUL supports local businesses.

Therefore as part of our economic impact on society in 2014, we spent Ushs 144 billion buying goods and services from suppliers. Of this, Ushs 140 billion (or 97% of our procurement spend) was paid to local suppliers and Ushs 4billion (or 3%) from foreign suppliers. This demonstrates our commitment to supporting local businesses in Uganda. The table below (in billions of shillings) represents our spend track record for the past three years. We have restated prior year numbers to include capital expenditure items as well.

Our Environmental Impact

We seek to minimise the environmental impact of our operations. This agenda has had a perfect fit with our long term objective to reduce the operating cost of our business and to increase operational efficiency. we have used this opportunity to embed environmentally sensitive activities so as to reduce our environmental footprint.

Our digital strategy which partly aims to reduce the paper intensity of our business will also contribute to securing the environment. In 2014, we rolled out an Imaging and workflow solution with the objective of improving the speed at which work is received within operational centres. This solution is expected to increase productivity and result in less usage of paper as digital images will now be used to process customer instructions and archive records.

We continually aim to preserve the environment as we undertake our business activities. Stanbic Bank Uganda recorded a saving in power consumption of 14.8 megawatts (which is equivalent to 8.7 tonnes of carbon dioxide).

Environmental sensitivity will continue to be a key consideration in our operational and investment agenda.

Board of Directors

Mr. Japheth Katto (63)

Chairman
B.Com honours
ACCA
Appointed: 2014

Patrick Mweheire (44)

Chief Executive
BSc (Economics) (Daemen)
MBA (Harvard)
Appointed: 2012

Philip Odera (55)

Out-going Chief Executive
BA (Economics)
(St. Lawrence, NY)
MBA (Finance) (Suffolk, Boston)
Appointed: 2007

Kitili Mbathi (55)

BA (Economics and Political Science)
(Michigan),
Master of Banking and Finance for
Development (Instituto Finafrica-Milan)
Appointed: 2001

Ruth Emunu (66)

BA. (Minnesota),
PGD (Public Administration) (Makerere)
Appointed: 2009

Barbara Mulwana (50)

BSc (Electrical Engineering and Computer
Science) ,
(Northwestern),
Appointed: 2009

Samuel Sejjaaka (51)

BCom (Makerere),
MSc (Financial Studies) (Strathclyde),
PhD (Accounting and Finance)
(Makerere)
Appointed: 2007

Josephine Ayugi Okot (48)

BCom (Makerere University Business School),
Marketing Diploma (Helsinki School of
Economics and Business Administration),
MBA (Washington International University)
Appointed: 2011

Patrick Masambu (63)

BSc (Engineering) (Nairobi),
MBA (ESAMI),
PGD (Telecom Systems) (Essex)
Appointed: 2009

Executive Committee (EXCO)

Patrick Mweheire (44)

Chief Executive

Philip Odera (55)

Out-going Chief Executive

Victor Yeboah-Manu (45)

Chief Financial Officer

Douglas Kamwendo (41)

Head: Personal & Business Banking

Elias Kagumya (40)

Head: Risk

Brendah Nabatanzi Mpanga (40)

Head: Legal / Company Secretary

Rita Balaka (54)

Head: Compliance

Miriam Naigembe (40)

Head: Operations

Moses Mbubi Witta (37)

Head: Human Resource

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 Audit Committee receives reports from the Compliance function 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 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. Following the passing of the Ugandan Companies Act, the Board implemented most of the changes in the course of 2013.

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. During the course of 2014, the management team identified a pool of high potential employees as the next generation of business leaders. A specific development plan was put in place for each member of this talent pool in addition to an on-going program of interaction and mentoring with the executive committee.The Board is therefore satisfied that the current pool of talent available within the bank and the work being done to strengthen the talent pool provides adequate succession depth for both the short and long term.

There were a number of changes in the executive management team including the appointment of Miriam Naigembe (Head: Operations) and Rita Balaka (Head: Compliance) who was appointed following the issuance of the Bank of Uganda Risk Management Guidelines for Supervised Financial Institutions 2010, where the Compliance function was re-profiled requiring the appointment of a head of compliance reporting to the Chief Executive.

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' details are provided on pages 42.

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. In addition, non‑executive directors meet without the executive directors in closed sessions, where necessary.

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 they may require to facilitate the discharge of their duties and responsibilities.

Appointments

The appointment of directors is governed by the Company's articles of association and is subject to regulatory approval in line with the applicable legislation and regulations. Directors are appointed by shareholders at the AGM and interim board appointments are allowed between AGMs. These appointments are then confirmed at the AGM.

There is a formal process for the appointment of directors. Information is provided to shareholders of the director's education, qualifications, experience and other directorships.

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

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 and 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 43.

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 2014 is set out in the following table:

Name of Director	5-Feb	6-May	20-Aug	7-Nov
H Karuhanga	√	√	-	-
JB Katto	-	-	√	√
P Odera	√	√	√	√
P Mweheire	√	√	√	√
K Mbathi	√	√	√	√
S Sejjaaka	√	√	√	√
J Okot	√	√	√	√
B Mulwana	√	√	√	√
P Masambu	A	A	√	√
R Emunu	√	√	√	√

√ = Attendance; A = Apology;

Board effectiveness and evaluation

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

The Board assessed its performance and that of its committees in 2014. 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 2014, focus was given to meeting this need through an ongoing board education program which we will continue into 2015.

The performance of the Chairman and Chief Executive is assessed annually. In 2014, the performance of individual directors was evaluated by the Chairman who discussed 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, roles, members and activities during the year are noted below:

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 review 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	3-Feb	2-May	18-Aug	3-Nov
S Sejjaaka	√	√	√	√
B Mulwana	√	√	√	√
R Emunu	√	√	√	√

√ = 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	4-Feb	5-May	19-Aug	4-Nov
R Emunu	√	√	√	√
P Mweheire	√	A	A	√
J A Okot	√	√	√	√
P Odera	√	√	√	√

√ = Attendance; A = Apology;

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	5-Feb	5-May	19-Aug	4-Nov
B Mulwana	√	√	√	√
J A Okot	√	√	√	√
P Odera	√	√	√	√

√ = 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 secretary.

Going concern

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

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

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

Corporate Governance Statement (Continued)

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 deployment 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 Citizenship & sustainability Report starting on page 32.

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 final results. During other periods, where employees are in possession of price sensitive information, closed periods are imposed on these employees. Compliance with the policies is monitored on an ongoing basis.

Sustainability

The Citizenship & sustainability report on pages 32 to 40. 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:

- Material issues affecting the Company.
- An overview of the Company's sustainability performance in 2013;
- An overview of stakeholder interaction during the year; and

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

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

Remuneration report (Continued)

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 executive directors 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 2015.

Remuneration report

Remuneration report (Continued)

The table below shows the breakdown of directors' emoluments:

Directors' emoluments 2014

Category	Services as Directors UShs '000	Board committee fees UShs '000	Cash portion of package UShs '000	Performance incentives * UShs '000	Other benefits UShs '000	Pension contributions UShs '000	Total UShs '000
Executive directors	-	-	1,634,422	1,147,993	1,444,807	317,254	4,544,475
Non-executive directors	425,058	129,856	-	-	-	-	554,914
Former non-executive directors	-	-	-	-	-	-	-
Total	**425,058**	**129,856**	**1,634,422**	**1,147,993**	**1,444,807**	**317,254**	**5,099,390**

Directors' emoluments 2013

Category	Services as Directors UShs '000	Board committee fees UShs '000	Cash portion of package UShs '000	Performance incentives * UShs '000	Other benefits UShs '000	Pension contributions UShs '000	Total UShs '000
Executive directors	-	-	1,563,362	1,794,295	1,136,941	338,555	4,833,152
Non-executive directors	331,056	169,028	-	-	-	-	500,084
Former non-executive directors	-	-	-	-	-	-	-
Total	**331,056**	**169,028**	**1,563,362**	**1,794,295**	**1,136,941**	**338,555**	**5,333,236**

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.

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2014, 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 2014 are shown in the income statement on page 56, and a detailed review of the results for the year is given in the operating and financial review on pages 17 to 19.

A general review of the business is given by the Chairman and Chief Executive on pages 11 to 16.

Dividends

The Directors recommend the payment of final dividend of UShs 85 billion (2013: UShs 80 billion) for the year ended 31 December 2014.

Share Capital

The total number of issued ordinary shares as at year end was 51,188,669,700

Directors

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

Japheth Katto	-	Chairman (Appointed 17 June 2014)
Hannington Karuhanga	-	Chairman (resigned 17 June 2014)
K Mbathi	-	Non-executive Director
S Sejjaaka	-	Non-executive Director
B Mulwana	-	Non-executive Director
R Emunu	-	Non-executive Director
J Okot	-	Non-executive Director
P Masambu	-	Non-executive Director (resigned 1 January 2015)
P Mweheire	-	Chief Executive
P Odera	-	Out-going Chief Executive

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	1,095,000
Total	**1,095,000**

Insurance

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

Events subsequent to balance sheet date

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

Management by third parties

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

By order of the board

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Brendah N. Mpanga

Secretary, Board of Directors

Date: 20th February 2015

Statement of directors' responsibility

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 Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

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 in a manner required by the Financial Institutions Act 2004 and the Ugandan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of 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 Bank will not remain a going concern for at least twelve months from the date of this statement.

……………………………………...	…………………………………….
Chairman	Chief Executive
Date: 20th February 2015	Date: 20th February 2015

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

Report on the financial statements

We have audited the accompanying financial statements of Stanbic Bank Uganda Limited ("the Bank"), as set out on pages 56 to 109. These financial statements comprise the statement of financial position as at 31 December 2014, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Financial Institutions Act 2004 and 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 state of affairs of the Bank as at 31 December 2014 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Ugandan Companies Act and the Financial Institutions Act 2004.

Report on other legal and regulatory 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.

PricewaterhouseCoopers

Certified Public Accountants
Kampala, Uganda

Date: 26 March 2015

Income statement

	Notes	2014 USh's' 000	2013 USh's' 000
Interest income	6	313,566,283	284,985,795
Interest expense	7	(33,371,594)	(37,228,207)
Net interest income		280,194,689	247,757,588
Fee and commission income	8	110,337,906	101,971,172
Fee and commission expenses	8	(1,762,480)	(3,353,123)
Net fees and commission income		108,575,426	98,618,049
Net trading income	9	104,497,272	99,183,211
Other operating income	10	963,740	1,602,112
Total Income before credit Impairment charge		494,231,127	447,160,960
Impairment charge for credit losses	11	(37,384,417)	(44,932,277)
Total Income after credit Impairment charge		456,846,710	402,228,683
Employee benefit expenses	12	(119,523,617)	(104,967,207)
Depreciation and amortisation	25 & 26	(15,483,051)	(14,827,291)
Other operating expenses	13	(140,552,116)	(147,623,424)
Profit before income tax		181,287,926	134,810,761
Income tax expense	14	(46,208,544)	(32,959,234)
Profit for the year		135,079,382	101,851,527

Earnings per share for profit attributable to the equity holders of the Bank during the year (expressed In UShs per share):

	Notes	2014	2013
Basic & diluted	15	2.64	1.99

Statement of comprehensive income

	Notes	2014 UShs' 000	2013 UShs' 000
Profit for the year			
Other comprehensive income for the year after tax:		135,079,382	101,851,527
Net (loss) or gain on available for sale financial assets	28	(3,757,585)	2,049,315
Total comprehensive income for the year		131,321,797	103,900,842

Statement of financial position

	Notes	2014 UShs' 000	2013 UShs' 000
Assets			
Cash and balances with Bank of Uganda	16	**683,031,136**	421,381,332
Derivative assets	30	**3,390,164**	129,020
Government securities - held for trading	17	**257,521,935**	340,221,294
Government securities - available for sale	17	**516,544,808**	618,069,090
Pledged assets	18	**1,223,458**	1,851,658
Loans and advances to banks	19	**267,399,603**	181,124,853
Amounts due from group companies	39	**31,931,847**	148,418,567
Loans and advances to customers	20	**1,618,379,655**	1,415,040,925
Other investments	21	**1,144,379**	1,146,198
Current income tax recoverable	14	**12,058,692**	10,708,472
Other assets	24	**54,838,776**	52,005,348
Prepaid operating leases	23	**119,336**	129,674
Deferred income tax asset	22	**9,033,065**	7,549,346
Goodwill and other intangible assets	25	**3,439,930**	4,031,905
Property and equipment	26	**47,705,231**	39,790,358
Total assets		**3,507,762,015**	3,241,598,040
Shareholders' equity and liabilities			
Shareholders' equity			
Ordinary share capital	27	**51,188,670**	51,188,670
Available for sale revaluation reserve	28	**(7,108,959)**	(3,351,374)
Statutory credit risk reserve	29	**3,589,996**	8,276,510
Retained earnings		**354,326,635**	299,194,691
Proposed dividends	36	**84,973,192**	50,000,000
		486,969,534	405,308,497
Liabilities			
Derivative liabilities	30	**66,740**	1,521,864
Deposits from customers	31	**2,132,356,040**	1,787,577,713
Deposits from banks	32	**162,603,909**	238,472,365
Amounts due to group companies	39	**575,847,246**	638,486,748
Borrowed funds	33	**14,067,737**	18,840,955
Other liabilities	34	**116,306,610**	103,578,230
Subordinated debt	35	**19,544,199**	47,811,668
		3,020,792,481	2,836,289,543
Total equity and liabilities		**3,507,762,015**	3,241,598,040

The financial statements were approved for issue by the Board of Directors on 20 February 2015 and signed on its behalf by:

Chairman

Chief Executive

Director

Company Secretary

Statement of changes in equity

	Notes	Share capital UShs' 000	Available for sale revaluation reserve UShs' 000	Statutory Credit Risk Reserve UShs' 000	Proposed dividends UShs' 000	Retained earnings UShs' 000	Total UShs' 000
At 1 January 2014		**51,188,670**	**(3,351,374)**	**8,276,510**	**50,000,000**	**299,194,691**	**405,308,497**
Profit for the year						135,079,382	135,079,382
Net change in available for sale investments	28	-	(3,757,585)	-	-	-	(3,757,585)
Total comprehensive income for the period		**-**	**(3,757,585)**	**-**	**-**	**135,079,382**	**131,321,797**
Transactions with owners recorded directly in equity							
Dividend paid		-	-	-	(50,000,000)	(11,330)	(50,011,330)
Statutory credit risk reserve	29	-	-	(4,686,514)	-	4,686,514	-
Equity-settled share-based payment transactions	40	-	-	-	-	350,570	350,570
Proposed dividend	36	-	-	-	84,973,192	(84,973,192)	-
Balance at 31 December 2014		**51,188,670**	**(7,108,959)**	**3,589,996**	**84,973,192**	**354,326,635**	**486,969,534**

Statement of changes in equity (continued)

	Notes	Share capital USh's 000	Available for sale revaluation reserve USh's 000	Statutory Credit Risk Reserve USh's 000	Proposed dividends USh's 000	Retained earnings USh's 000	Total USh's 000
At 1 January 2013		51,188,670	(5,400,689)	15,365,256	70,000,000	269,886,049	401,039,286
Profit for the year						101,851,527	101,851,527
Net change in available for sale investments	28	-	2,049,315	-	-	-	2,049,315
Total comprehensive income for the period		-	2,049,315	-	-	101,851,527	103,900,842
Transactions with owners recorded directly in equity							
Dividend paid		-	-	-	(70,000,000)	(30,000,000)	(100,000,000)
Statutory credit risk reserve	29	-	-	(7,088,746)	-	7,088,746	-
Equity-settled share-based payment transactions	40	-	-	-	-	368,369	368,369
Proposed dividend	36	-	-	-	50,000,000	(50,000,000)	-
Balance at 31 December 2013		51,188,670	(3,351,374)	8,276,510	50,000,000	299,194,691	405,308,497

Statement of cash flows

	Notes	2014 USh's' 000	2013 USh's' 000
Cash flows from operating activities			
Interest received		305,378,163	292,241,673
Interest paid		(33,313,459)	(39,568,062)
Net fees and commissions received		108,561,613	98,669,906
Net trading and other Income/recoveries		120,367,546	115,588,763
Cash payment to employees and suppliers		(253,266,706)	(248,709,669)
Cash flows from operating activities before changes in operating assets & Liabilities		247,727,157	218,222,611
Changes in operating assets & liabilities			
Income tax paid	14	(47,432,090)	(35,770,231)
(Increase)/decrease in derivative assets		(3,261,144)	903,412
Increase in government securities - available for sale		(18,439,750)	(290,845,879)
(Decrease)/increase in government securities - trading		82,699,359	(65,254,812)
Decrease in pledged assets		628,200	799,893
(Increase)/decrease in cash reserve requirement		(26,460,000)	30,210,000
Increase in loans and advances to customers		(247,184,666)	(21,910,913)
(Increase)/decrease in other assets		(2,817,796)	13,577,516
(Increase)/decrease in customer deposits		344,720,192	(309,262,550)
(Decrease)/increase in deposits and balances due to other banks		(75,868,456)	204,515,322
(Decrease)/increase in deposits from group companies		(62,639,502)	293,632,144
(Decrease) / increase in derivative liabilities		(1,455,124)	1,521,864
(Increase)/decrease in other liabilities		6,280,260	(45,680,718)
Net cash from / (used in) operating activities		196,496,640	(5,342,341)
Cash flows from investing activities			
Purchase of property and equipment	26	(23,403,913)	(13,283,444)
Purchase of computer software		-	(126,807)
Proceeds from sale of property and equipment		341,070	357,340
Net cash used in investing activities		(23,062,843)	(13,052,911)
Cash flows from financing activities			
Dividends paid to shareholders		(50,011,330)	(100,000,000)
Decrease in borrowed funds		(4,773,218)	(5,862,524)
Decrease in subordinated debt		(28,267,469)	(1,300,847)
Net cash used in financing activities		(83,052,017)	(107,163,371)
Net increase/(decrease) in cash and cash equivalents		90,381,780	(125,558,623)
Cash and cash equivalents at beginning of the year		760,967,971	886,526,594
Cash and cash equivalents at end of the year	38	851,349,751	760,967,971

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 income statement in these financial statements.

2. Summary of significant accounting policies

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

a) Basis of Preparation

The annual financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB as well as the Uganda listing requirements and Companies Act 2012. The financial statements are presented in the functional currency, Uganda Shillings (UShs), rounded to the nearest thousand, and prepared under the historical cost convention except for assets and liabilities held for trading, financial instruments designated at fair value through profit or loss; liabilities for cash-settled share-based payment arrangements and available-for-sale financial assets that are measured at fair value.

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

The following principle accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- Purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy (i));
- The portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy (i)).
- Intangible assets and property and equipment are accounted for using the cost model (accounting policy K and U)

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 financial statements are described in notes 4.

New and amended standards adopted by the Bank

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(Annual periods beginning on or after 1 January 2016) The bank has early adopted this standard

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments will be applied prospectively and have no impact on the banks financial statements.

IAS 32 'Offsetting Financial Assets and Financial Liabilities' *(applicable for annual periods beginning on or after 1 January 2014)*

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically the meaning of 'currently has legal enforceable rights of set off' to include not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of an entity and all counter parties and 'simultaneous realisation and settlement' to clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

The standard requires retrospective application and has no impact on the bank's financial statements.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

(Effective for annual periods beginning on or after 1 January 2014).

The amendments to IAS 36 clarify the disclosure requirements in respect of fair value less costs of disposal. The amendments remove the requirement to disclose the recoverable amount for each cash-generating unit (CGU) for which the carrying amount of goodwill or intangible assets with indefinite useful lives had been allocated when there has been an impairment or reversal of impairment of the related to the CGU or intangible asset. It further introduces additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less cost of disposal. These include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure requirement by IFRS 13 fair value measurement. The amendments require retrospective application. The standard has no impact on the bank's financial statement.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting *(Effective for annual periods beginning or after 1 January 2014)*

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances.

The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendment requires retrospective application and have no impact on the bank's financials.

2. Summary of significant accounting policies (Continued)

IFRIC 21 Levies *(effective for annual periods beginning 1 January 2014)*

IFRIC 21 addresses the issue of when to recognize a liability to pay a levy. The standard specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application.

The bank is currently not subjected to significant levies, so the impact of this standard to the bank is not material.

Standards and interpretations issued but not yet effective

IFRS 9, 'Financial instruments' *(applicable beginning on or after 1 January 2018)*

IFRS 9 issued in July 2014 as a complete standard and replaces IAS 39 Financial instruments; recognition and measurement of financial instruments and all previous versions of IFRS9. The standard introduces new requirements for the classification and measurement, impairment and hedged accounting. 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.

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.

The standard introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. This new model will apply to financial assets measured at either amortised cost or fair value through OCI, as well as loan commitments when there is present commitment to extend credit unless these are measured at fair value through profit or loss.

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition as well as for certain contract assets or trade receivables. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses.

The revised general hedge accounting requirements are better aligned with an entity's risk management activities and provides additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting.

While adoption of IFRS 9 is mandatory from 1 January 2018, 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 7, 'Financial instruments:Disclosures - Servicing Contracts ' (applicable beginning on or after 1 January 2016

The standard relate to when an entity transfers a financial asset, and may retain the right to a servicing contract for a fee. The entity assesses the servicing contract in accordance with the guidance provided to decide whether the entity has continuing involvement as a result of the servicing contract for the purposes of the disclosure requirements.

The amendment will be applied retrospectively and the impact on the banks financial statements is yet to be fully determined

IFRS 15, 'Revenue from Contracts with Customers'(applicable beginning on or after 1 January 2017

This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments.

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The standard incorporates a five step analysis to determine the amount and timing of revenue recognition which include.

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

The standard will be applied retrospectively. The impact on the banks financial statements has yet been fully determined

There are no other IFRSs or IFRIC interpretations that are not yet effective that would have a material impact on the financial statements of the Bank.

b) Interest income and expense

Interest income and expense are recognised in the income statement on an accrual basis for all interest bearing financial instruments, except for those classified at fair value through profit or loss 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

2. Summary of significant accounting policies (Continued)

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 off the original effective interest rate that is used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fair value gains and losses on realised debt financial instruments, including amounts reclassified from OCI in respect of available-for-sale debt financial assets, and excluding those classified as held-for-trading, are included in net interest income

c) Fees and commission

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. 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.

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

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 profit or loss

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, Corporate and Investment Banking and Treasury and Capital management. The Transactions between segments are priced at market related rates.

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

ii. Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are 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 & Liabilities

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.

2. Summary of significant accounting policies (Continued)

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'.

In the case of impairment, the impairment loss is reportedas a deduction from the carrying value of the loan and recognised in the income statement as 'Impairment charge for credit losses'.

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 orthose that are non-derivative financial assets that are not classified under any of the categories (i) to (iii) above.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Loans, 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 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.

2. Summary of significant accounting policies (Continued)

j) Impairment of financial assets

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 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 out above, the Bank is also required by the Financial Institutions Act (FIA) 2004 to establish minimum provisions for losses on loans and advances as follows

i) A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Bank of Uganda, as;
    a) substandard assets being facilities in arrears between 91 and 180 days – 20%;
    b) doubtful assets being facilities in arrears between 181 days and 360 days – 50%;
    c) loss assets being facilities in arrears between 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.

Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised is redetermined based on the loan's renegotiated terms.

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

2. Summary of significant accounting policies (Continued)

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 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.

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably.

The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

Leasehold buildings	over the shorter period of lease or 50 years
Furniture & 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 tax is determined for current period transactions and events and deferred tax is determined for future tax consequences

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

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 statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advancesto banks, amounts due from other banks and government securities.

2. Summary of significant accounting policies (Continued)

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. Leases where the lessee assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Similarly leases of assets under which the lessor retains a significant portion of the risks and rewards of ownership are classified as operating 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. Short-term employee benefit obligations are measured on an undiscounted basis and are expenses as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus plans or accumulated leave if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Bank is committed without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be reliably estimated.

(iv) Share based payment transactions

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

(v) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

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.

2. Summary of significant accounting policies (Continued)

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. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of other assets in the CGU on a pro rata basis.

Computer software development costs

Costs associated with maintaining computer software programmes are 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 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) 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.

z) 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.

2. Summary of significant accounting policies (Continued)

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.

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

aa) 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 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.

3. Financial risk management (Continued)

The table below summarizes the composition of the regulatory capital.

	2014 USh' 000	2013 UShs' 000
Core capital (Tier 1)		
Shareholders' equity	**51,188,670**	51,188,670
Prior year retained profits	**299,194,691**	269,886,049
Prior year proposed dividends	**50,000,000**	70,000,000
Current year profits	**135,079,382**	101,851,527
Available for sale fair valuation	**(7,108,959)**	(3,351,374)
Dividends paid and proposed	**(134,973,192)**	(150,000,000)
Less: Deductions determined by Bank of Uganda	**(13,561,784)**	(12,796,873)
Total core capital	**379,818,808**	326,777,999
Supplementary capital (Tier 2)		
Unencumbered general provisions for losses	**20,073,067**	16,936,038
Subordinated term debt	**19,544,199**	47,811,668
Total supplementary capital	**39,617,266**	64,747,706
Total capital (core and supplementary)	**419,436,074**	391,525,705

Breakdown of deductions determined by Bank of Uganda:

	2014 UShs' 000	2013 UShs' 000
Goodwill and other intangible assets	**3,439,930**	4,031,905
Unconsolidated Investments	**1,088,789**	1,088,789
Unrealised Profit on securities	**-**	126,833
Deferred income tax asset	**9,033,065**	7,549,346
	13,561,784	12,796,873

3(b) Financial risk management (Continued)

The Bank's capital adequacy level was as follows:

	Financial position nominal balance		Risk weighted balance	
	2014 UShs' 000	2013 UShs' 000	2014 UShs' 000	2013 UShs' 000
Statement of financial position				
Cash and balances with Bank of Uganda	**683,031,136**	421,381,332	**-**	-
Government securities - available for sale	**516,544,808**	618,069,090	**-**	-
Government securities - held for trading	**257,521,935**	340,221,294	**-**	-
Pledged assets	**1,223,458**	1,851,658	**-**	-
Placements with local banks	**3,000,498**	2,500,689	**3,000,498**	500,138
Repo - Bank of Uganda	**160,178,649**	27,049,301	**-**	-
Placements with foreign/group banks	**136,152,303**	299,993,430	**82,205,517**	155,488,320
Loans and advances to customers	**1,618,379,655**	1,415,040,925	**1,618,379,655**	1,415,040,925
Other investments				
- Unconsolidated Investments	**1,088,789**	1,088,789	**-**	-
- Others	**55,590**	57,409	**55,590**	57,409
Prepaid operating leases	**119,336**	129,674	**119,336**	129,674
Other assets	**70,287,632**	64,775,559	**70,287,632**	62,843,494
Deferred tax asset	**9,033,065**	7,549,346	**-**	-
Goodwill	**1,901,592**	1,901,592	**-**	-
Other intangible assets	**1,538,338**	1,667,356	**-**	-
Property and equipment	**47,705,231**	39,790,358	**47,705,231**	39,790,358
	3,507,762,015	**3,243,067,802**	**1,821,753,459**	**1,673,850,318**
Off-balance sheet items				
Contingencies secured by cash collateral	**28,967,640**	9,520,550	**-**	-
Guarantees and acceptances	**164,824,403**	108,859,815	**164,824,403**	108,859,815
Performance bonds	**71,823,050**	65,082,461	**35,911,525**	32,541,231
Trade related and self liquidating credits	**106,828,892**	74,392,579	**21,365,778**	14,878,516
Other commitments	**280,881,937**	261,276,846	**140,440,969**	130,638,423
	653,325,922	**519,132,251**	**362,542,675**	**286,917,985**
Total risk weighted assets			**2,184,296,134**	**1,960,768,303**

	Capital		Bank ratio		FIA minimum ratio	
	2014 UShs' 000	2013 UShs' 000	2014 %	2013 %	2014 %	2013 %
Tier 1 capital	**379,818,808**	326,777,999	**17.4%**	16.7%	**8%**	8%
Tier 1 + Tier 2 capital	**419,436,074**	397,540,941	**19.2%**	20.0%	**12%**	12%

c. Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Bank by failing to discharge an obligation in full when due. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Bank's portfolio, could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

a. Credit risk measurement

Debt securities

All debt securities the bank purchases are government paper with no credit risk associated.

3(c) Credit risk (Continued)

Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components

(i) the 'probability of default' by the client or counterparty on its contractual obligations;

(ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and

(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model') and are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee), are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the statement of financial position date (the 'incurred loss model') rather than expected losses (Note 3 (l) (ii)).

(i) The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Bank's rating	Description	Days
1	Standard monitoring	1-29
2	Special monitoring	30-59
3	Sub-standard	60-89
5	Loss	90+

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

Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (ie, the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (ie, assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

(c) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(d) Impairment and Provisioning Policy

The internal and external rating systems described in Note 3 (l) (i) focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment (see Note 2(l)). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial

3(c) Credit risk (Continued)

statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of the Bank's on and offbalance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories: Bank's rating categories.

	2014		2013	
	Loans & advances %	Impairment provision %	Loans & advances %	Impairment provision %
Standard & special monitoring	**96.1**	**1.2**	95.0	1.6
Sub-standard, doubtful and loss	**3.9**	**46.8**	5.0	53.3
	100.0	**3.0**	100.0	4.2

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for:

(i) Portfolios of homogenous assets that are individually below materiality thresholds; and

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

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

3(c) Credit risk (Continued)

Credit risk exposures relating to assets included on the statement of financial position are as follows:

	2014 USh s' 000	2013 USh s' 000
Bank of Uganda	**447,077,843**	229,327,587
Loans and advances to banks	**293,162,755**	326,787,104
Investment securities		
Treasury bonds - available for sale	**421,415,512**	389,494,443
Treasury bills - available for sale	**95,129,296**	228,574,647
Treasury bills - pledged assets	**1,223,458**	1,851,658
Loans and advances to customers		
Loans to individuals		
Overdrafts	**517,490**	1,529,689
Term loans	**472,958,691**	417,877,764
Mortgages	**119,059,106**	109,467,891
Loans to corporate entities		
Large corporate entities	**607,810,084**	631,905,826
Small & medium size entities	**467,324,262**	316,809,705
Trading assets		
Treasury bonds	**15,444,868**	59,078,600
Treasury bills	**242,077,067**	281,142,694
Derivative assets	**3,390,164**	129,020
Other	**54,838,776**	52,005,348
	3,241,429,372	3,045,981,976

Credit risk exposures relating to assets not included on the statement of financial position are as follows:

	2014 UShs' 000	2013 UShs' 000
Financial guarantees	**251,112,562**	177,277,890
Loan commitments and other credit related liabilities	**402,213,360**	341,854,361
	653,325,922	519,132,251
	3,894,755,294	3,565,114,227

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2014 and 2013, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

3(c) Credit risk (Continued)

The table below shows the collateral coverage for the secured loans as at 31 December 2014.

	Customer loans	Netting off agreements	Exposure after netting off	Collateral cover 51-100%	Collateral cover Over 100%	Total
	UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000
Secured loans	762,562,474	1,741,796	760,820,678	547,034,247	161,070,762	708,105,009
Unsecured loans	905,596,145	-	905,596,145	-	-	-
	1,668,158,619	1,741,796	1,666,416,823	547,034,247	161,070,762	708,105,009

As at 31 December 2013

	Customer loans	Netting off agreements	Exposure after netting off	Collateral cover 51-100%	Collateral cover Over 100%	Total
	UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000	UShs' 000
Secured loans	865,200,305	249,187	864 ,951,118	631,69,167	233,831,138	865,200,305
Unsecured loans	612,390,569	-	612,390,569	-	-	-
	1,477,590,874	249,187	1,477,341,687	631,369,167	233,831,138	865,200,305

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

- 96% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2013: 95%);
- Mortgage loans, are backed by collateral;
- 85% of the loans and advances portfolio are considered to be neither past due nor impaired (2013: 76%); and
- All debt securities held by the Bank are issued by the Bank of Uganda on behalf of the Government of Uganda.

(iv) Loans and advances are summarised as follows;

	2014		2013	
	Loans & advances to customers	Loans & advances to banks	Loans & advances to customers	Loans & advances to banks
	UShs'000	UShs'000	UShs'000	UShs'000
Neither past due nor impaired	1,415,501,834	267,399,603	1,122,895,989	181,124,853
Past due but not impaired	187,347,361	-	280,429,902	-
Impaired loans and advances	65,309,424	-	74,264,983	-
Gross loans and advances	1,668,158,619	267,399,603	1,477,590,874	181,124,853
Allowances for impairment	(49,778,965)	-	(62,549,947)	-
Net loans and advances	1,618,379,654	267,399,603	1,415,040,927	181,124,853

3(c) Credit risk (Continued)

The allowances for impairment are summarised per segment as follows;

	2014		2013	
	Loans & advances to customers	Loans & advances to banks	Loans & advances to customers	Loans & advances to banks
	UShs'000	UShs'000	UShs'000	UShs'000
Personal and Business banking				
- Mortgage lending	(4,014,177)	-	(5,453,679)	-
- Instalment sales and fin. Leases	(11,030,469)	-	(5,693,423)	-
- Other loans	(29,953,445)	-	(44,496,940)	-
Corporate and investment banking				
- Corporate lending	(4,780,872)	-	(6,905,907)	-
	(49,778,963)	-	(62,549,949)	-

The total impairment provision for loans and advances is UShs 49,779 million (2013: UShs 62,549 million) of which UShs 30,536 million (2013:UShs 36,459 million) represents the individually impaired loans and the remaining amount of UShs 19,243 million (2013: UShs 26,090 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 20.

3(c) Credit risk (Continued)

(a) Credit quality

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

	Performing loans			Non performing loans						
	Neither past due nor impaired UShs'000	Past due but not impaired UShs'000	Total UShs'000	Individually impaired UShs'000	Doubtful UShs'000	Loss UShs'000	Total UShs'000	Total loans UShs'000	Security against impaired loans UShs'000	Net impaired loans UShs'000
As at 31 December 2014										
Personal and Business banking										
- Mortgage lending	234,508,927	39,100,920	273,609,847	6,804,918	8,234,551	1,341,206	16,380,675	289,990,522	15,556,545	824,130
- Instalment sales and fin. Leases	55,400,577	16,309,101	71,709,678	12,723,809	7,698,768	1,332,693	21,755,270	93,464,949	11,918,959	9,836,312
- Other loans	531,105,672	119,218,862	650,324,534	4,388,719	9,988,122	12,191,689	26,568,530	676,893,064	8,210,789	18,357,741
	821,015,176	174,628,883	995,644,059	23,917,446	25,921,441	14,865,588	64,704,475	1,060,348,535	35,686,293	29,018,183
Corporate and investment banking										
- Corporate lending	594,486,659	12,718,478	607,205,137	604,948	-	-	604,948	607,810,084	-	604,948
	594,486,659	12,718,478	607,205,137	604,948	-	-	604,948	607,810,084	-	604,948
Total recognised financial instruments	1,415,501,835	187,347,361	1,602,849,195	24,522,394	25,921,441	14,865,588	65,309,423	1,668,158,619	35,686,293	29,623,131
As at 31 December 2013										
Personal and Business banking										
- Mortgage lending	116,397,653	59,825,610	176,223,263	3,949,672	1,185,342	553,518	5,688,532	181,911,796	4,023,396	1,665,136
- Instalment sales and fin. Leases	47,594,059	29,182,939	76,776,998	5,477,367	9,330,233	2,073,308	16,880,908	93,657,907	13,746,527	3,134,382
- Other loans	353,435,077	170,107,579	523,542,656	7,273,623	6,267,653	33,031,414	46,572,690	570,115,345	15,761,380	30,811,310
	517,426,789	259,116,128	776,542,917	16,700,662	16,783,228	35,658,240	69,142,130	845,685,048	33,531,303	35,610,828
Corporate and investment banking										
- Corporate lending	605,469,199	21,313,774	626,782,973	3,147,693	1,147,036	828,125	5,122,854	631,905,827	4,171,401	951,452
	605,469,199	21,313,774	626,782,973	3,147,693	1,147,036	828,125	5,122,854	631,905,827	4,171,401	951,452
Total recognised financial instruments	1,122,895,988	280,429,902	1,403,325,890	19,848,355	17,930,264	36,486,365	74,264,984	1,477,590,875	37,702,704	36,562,280

(b) Loans past due but not impaired

3(c) Credit risk (Continued)

Gross amount of loans and advances by class of customers that were past due but not impaired were as follows:

Loans past due but not impaired

Gross amounts of loans and advances by class of customer that were past due but not impaired were as follows

	Past due up to 30 days UShs'000	Past due 30 - 60 days UShs'000	Past due 60 - 90 days UShs'000	Total UShs'000
As at 31 December 2014				
Personal and Business banking				
- Mortgage lending	25,440,688	11,823,873	1,836,359	39,100,920
- Instalment sales and fin. Leases	10,916,060	4,995,743	397,394	16,309,197
- Other loans	101,988,414	12,204,205	5,026,195	119,218,814
	138,345,162	29,023,821	7,259,948	174,628,931
Corporate and investment banking				
- Corporate lending	12,718,430	-	-	12,718,430
	12,718,430	-	-	12,718,430
	151,063,592	29,023,821	7,259,948	187,347,361
As at 31 December 2013				
Personal and Business banking				
- Mortgage lending	47,778,689	7,751,172	4,295,749	59,825,610
- Instalment sales and fin. Leases	17,911,778	6,923,264	4,347,897	29,182,939
- Other loans	137,296,297	18,871,919	13,939,362	170,107,578
	202,986,764	33,546,355	22,583,008	259,116,127
Corporate and investment banking				
- Corporate lending	18,217,129	3,086,744	9,901	21,313,774
	18,217,129	3,086,744	9,901	21,313,774
	221,203,893	36,633,099	22,592,909	280,429,901

(c) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2014was Nil(2013: nil). No collateral is held by the

3(c) Credit risk (Continued)

Bank.

(d) Other Financial Assets

No other financial assets are individually or collectively impaired (2013: nil). No collateral is held by the Bank.

(e) Re-possessed properties

	2014 UShs' 000	2013 UShs' 000
Nature of assets		
Residential properties	**6,746,000**	6,395,467
Commercial properties	**5,348,000**	41,879,819
Vehicles	**629,521**	750,109
	12,723,521	49,025,395

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

	2014 UShs' 000	2013 UShs' 000
Loans and advances to customers	**6,160,998**	1,361,315
	6,160,998	1,361,315

(d) Concentrations of risk of financial assets with credit risk exposure

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

3(c) Credit risk (Continued)

	Financial institu-tions UShs' 000	Manufucturing UShs' 000	Agriculture UShs' 000	Transport UShs' 000	Individuals UShs' 000	Others UShs' 000	Total UShs' 000
As at 31 December 2014							
Government securities - AFS	**516,544,808**	-	-	-	-	-	**516,544,808**
Loans and advances to banks	**299,331,450**	-	-	-	-	-	**299,331,450**
Loans and advances to customers	-	**268,159,370**	**205,425,980**	**58,095,940**	**461,730,798**	**674,746,530**	**1,668,158,618**
Financial assets designated at fair value:							
- Debt securities	**257,521,935**	-	-	-	-	-	**257,521,935**
- Pledged assets	**1,223,458**	-	-	-	-	-	**1,223,458**
- Other assets	-	-	-	-	-	**54,838,776**	**54,838,776**
	1,074,621,651	**268,159,370**	**205,425,980**	**58,095,940**	**461,730,798**	**729,585,306**	**2,797,619,045**
As at 31 December 2013							
Government securities - AFS	618,069,090	-	-	-	-	-	618,069,090
Loans and advances to banks	329,543,420	-	-	-	-	-	329,543,420
Loans and advances to customers	3,099	296,527,709	108,605,512	47,052,757	411,759,495	613,642,302	1,477,590,874
Financial assets designated at fair value:							
- Debt securities	340,221,294	-	-	-	-	-	340,221,294
- Pledged assets	1,851,658	-	-	-	-	-	1,851,658
- Other assets	-	-	-	-	-	52,005,348	52,005,348
	1,289,688,561	296,527,709	108,605,512	47,052,757	411,759,495	665,647,650	2,819,281,684

d. Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Market risk measurement techniques:

As part of the management of market risk, the Bank's major measurement techniques used to measure and control market risk is value at risk and Pv01 (present value at one).

The Bank applies 'value at risk' methodology (VaR) to its trading portfolio, to estimate the market risk of foreign exchange positions held and the maximum losses expected. Management applies Pv01 methodology to it's trading and non trading portfolios to estimate the market interest rate risk of positions held and the maximum losses that could arise. The estimates are based upon a number of assumptions for various changes in market conditions. The assets and liabilities committee (ALCO) sets limits on both the value of risk and Pv01that may be acceptable for the Bank. These are monitored on a weekly basis by the Risk Management department.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate. Pv01 is the present value impact of a one basis point move in an interest rate.

The use of these approaches does not prevent losses outside of these limits in the event of more significant market movements.

As VaR and Pv01 constitute an integral part of the Bank's market risk control regime, limits are established by the Board annually for all trading and non-trading portfolios. Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by the Bank's Treasury.

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated.

The VaR summaries for 2014 and 2013 are as follows:

	12 months to 31 December 2014			
	Average UShs' 000	Maximum UShs' 000	Minimum UShs' 000	31 December 2014 UShs' 000
Interest rate book - Trading	135,798	295,340	61,669	237,507
Interest rate book - Available for sale	420,322	903,364	141,715	605,154
Foreign exchange trading book VAR	58,394	430,746	6,285	134,094

	12 months to 31 December 2013			
	Average UShs' 000	Maximum UShs' 000	Minimum UShs' 000	31 December 2013 UShs' 000
Interest rate book - Trading	142,923	568,032	20,697	237,490
Interest rate book - Available for sale	533,479	993,542	167,955	663,805
Foreign exchange risk VAR	57,588	432,543	6,135	134,085

There are several drivers for VaR that include the changes in foreign exchange (FX) Net Open Positions (NOP) held by the desk as well as the changes in exchange rates on a daily basis. The average NOP for 2014 was USD (3,787,500) 2013: USD (3,929,958).

The FX desk saw an increase in activity over the course of the year as economic activity picked up. The currency depreciated steadily throughout the year on account of global strengthening of the USdollar and elevated corporate demand, the desk remained positioned on the right side of the market movements hence no spike in VaR even with the increase in average risk positions.

The PV01 was relatively flat throughout the year attributed to slow economic recovery and drop in inflation. The trading book, on average, held larger positions for most of the year in an effort to take advantage of the interest rate movements during the year.The banking book maturity profile stood at 2-3years, higher than the previous year. Pv01 was also slightly higher to take advantage of the interest rate movements. The outlook on interest rates was reflective of monetary policy stance.

(i) Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

3(d) Market Risk (Continued)

(i) Foreign exchange risk

The Bank had the following significant foreign currency exposure positions (all amounts expressed in millions of Uganda Shillings):

	USD UShs'm	Euro UShs'm	Other UShs'm	Total UShs'm
As at 31 December 2014				
Assets				
Cash and balances with Bank of Uganda	137,869	19,207	5,726	162,802
Loans and advances to banks	87,119	8,197	7,928	103,244
Amounts due from group companies	14,025	7,978	3,790	25,793
Loans and advances to customers	875,171	2,817	1	877,989
Other investment securities	-	56	-	56
Other assets	103,367	50,390	29,704	183,461
Total Assets	1,217,551	88,645	47,149	1,353,345
Liabilities				
Customer deposits	549,295	81,759	14,808	645,862
Amounts due to banks	90,207	540	145	90,892
Amounts due to group companies	533,307	-	31,067	564,374
Other liabilities	44,732	6,371	1,335	52,438
Total Liabilities	1,217,541	88,670	47,355	1,353,566
Net Statement of financial position	10	(25)	(206)	(221)
Net Currency Forwards	(79,992)	1	-	(79 991)
Net Mismatch	(79,982)	(24)	(206)	(80 212)
As at 31 December 2013				
Total Assets	1,141,373	78,873	18,873	1,239,119
Total Liabilities	1,138,645	78,899	18,338	1,235,882
Net Statement of financial position	2,728	(26)	535	3,237
Net Currency Forwards	(57 545)	(50)	-	(57 595)
Net Mismatch	(54 817)	(76)	535	(54 358)

(ii) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

3(d) Market Risk (Continued)

(ii) Interest rate risk \
The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on items not on the statement of financial position.

	Up to 1 month UShs'm	1 - 6 months UShs'm	6 - 12 months UShs'm	Over 1 year UShs'm	Non-interest bearing UShs'm	Total UShs'm
At 31 December 2014						
Asset						
Cash and balances with Bank of Uganda	-	-	-	-	683,031	683,031
Government securities - available for sale	3,927	98,329	117,080	297,208	-	516,544
Government securities - for trading	5,020	108,041	138,903	5,559	-	257,523
Deposits and balances due from other banks	267,400	-	-	-	-	267,400
Amounts due from group companies	25,962	-	1,990	3,980	-	31,932
Loans and advances to customers	413,756	133,199	31,487	1,039,938	-	1,618,380
Pledged assets	1,223	-	-	-	-	1,223
Derivative assets	-	-	-	-	3,390	3,390
Other investment securities	-	-	-	-	1,144	1,144
Tax recoverable	-	-	-	-	12,059	12,059
Other assets	-	-	-	-	115,136	115,136
Total assets	**717,288**	**339,569**	**289,460**	**1,346,685**	**814,760**	**3,507,762**
Liabilities and shareholders' funds						
Customer deposits	2,009,106	112,028	11,222	-	-	2,132,356
Deposits due to other banks	162,598	-	5	-	-	162,603
Borrowed funds	9	-	-	14,059	-	14,068
Amounts due to group companies	575,489	358	-	-	-	575,847
Derivative liabilities		-	-	-	67	67
Other liabilities	-	-	-	-	116,307	116,307
Subordinated bonds / debts	-	-	-	19,544	-	19,544
Total liabilities	**2,747,202**	**112,386**	**11,227**	**33,603**	**116,374**	**3,020,792**
Total interest repricing gap	**(2,029,914)**	**227,183**	**278,233**	**1,313,082**	**698,386**	**486,970**
At 31 December 2013						
Total Assets	508,828	402,393	384,869	1,408,637	536,870	3,241,597
Total Liabilities and shareholder's equity	2,075,892	578,609	10,106	66,583	105,100	2,836,290
Total Interest Re-pricing gap	(1,567,064)	(176,216)	374,763	1,342,054	431,770	405,307

Furthermore the ALCO monitors the sensitivity of net interest income to changes in interest rates. Limits are set and monitored monthly.
ALCO reduced its interest rates shock parameters to 300basis points as interest rate scene remained relative flat for most of the year. The same trend was reflective with the monetary policy trend.

The statement of financial position is shocked up and down by 300bps to get an indicative level of the potential drop or increase in forecasted annual NII. The interest rate risk limit is set at 10% (for a 4% shock, a drop in NII is not expected to exceed 10%. Where this is exceeded, then it is indicative of an adverse interest rate positioning of the statement of financial position.

The table below summarises the sensitivity of a flat interest rate increase or decrease of 400bps at 31st December 2014 and December 2013.

	31st December 2014		31st December 2013	
	Change in net interest Income Ushs'000	% of net interest income	Change in net interest Income Ushs'm	% of net interest income
400bps Increase in interest rates	**7,895,655**	**4.2**	(8,646,593)	(3.9)
300bps decrease in interest rates	**(5,079,808)**	**(2.7)**	12,106,033	5.5

(e) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Asset and Liability Committee sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury and Capital Management (TCM) team, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and managing the concentration and profile of debt maturities.
- Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets

The assets and liability management team (ALM) within TCM also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3(e) Liquidity risk (Continued)

	2014 UShs' 000	2013 UShs' 000
Liquid assets to deposit ratio		
Total deposits	**2,132,356,040**	1,898,647,790
Total liquid assets held	**1,195,245,187**	1,010,796,144
Liquidity ratio	**56.1%**	53.2%
Regulatory requirement	**20.0%**	20.0%

The table below presents the Cash flows payable by the bank under financial liabilities by remaining contractual maturities at the reporting date

	Up to 1 month Ushs'm	1 - 6 months Ushs'm	6 - 12 months Ushs'm	Over 1 year Ushs'm	Total Ushs'm
At 31 December 2014					
Asset:					
Cash and balances with Bank of Uganda	**683,031**	**-**	**-**	**-**	**683,031**
Government securities - available for sale	**3,927**	**98,329**	**117,080**	**297,208**	**516,544**
Government securities - for trading	**5,020**	**108,041**	**138,903**	**5,559**	**257,523**
Deposits and balances due from other banks	**267,400**	**-**	**-**	**-**	**267,400**
Amounts due from group companies	**25,962**	**-**	**1,990**	**3,980**	**31,932**
Loans and advances to customers	**413,756**	**133,199**	**31,487**	**1,039,938**	**1,618,380**
Pledged assets	**1,223**	**-**	**-**	**-**	**1,223**
Derivative assets	**3,066**	**324**	**-**	**-**	**3,390**
Other investment securities	**-**	**-**	**-**	**1,144**	**1,144**
Investment in associate	**-**	**-**	**-**	**-**	**-**
Prepaid operating lease	**-**	**-**	**-**	**119**	**119**
Total assets	**1,403,385**	**339,893**	**289,460**	**1,347,948**	**3,380,686**
Liabilities:					
Customer deposits	**2,009,106**	**112,028**	**11,222**	**-**	**2,132,356**
Deposits due to other banks	**162,598**	**0**	**5**	**-**	**162,603**
Borrowed funds	**9**	**-**	**-**	**14,059**	**14,068**
Amounts due to group companies	**575,489**	**358**	**-**	**-**	**575,847**
Derivative liabilities	**67**	**-**	**-**	**-**	**67**
Other liabilities	**116,307**	**-**	**-**	**-**	**116,307**
Subordinated bonds / debt	**-**	**-**	**-**	**19,544**	**19,544**
Total liabilities	**2,863,576**	**112,386**	**11,227**	**33,603**	**3,020,792**
Liquidity gap	**(1,460,191)**	**227,507**	**278,233**	**1,314,345**	**359,894**
Cummulative liquidity gap	**(1,460,190)**	**(1,232,683)**	**(954,450)**	**359,895**	**-**
Off-Balance Sheet					
Guarantees	**24,491**	**81,949**	**102,258**	**42,415**	**251,113**
LCs	**272**	**-**	**-**	**121,060**	**121,331**
Commitments to extend credit	**-**	**127,361**	**153,521**	**-**	**280,882**
Operating lease commitments	**-**	**6**	**748**	**25,275**	**26,029**
Total off balance sheet	**24,763**	**209 316**	**256,527**	**188,750**	**679,355**
Net liquidity gap	**(1,484,953)**	**(1,441,999)**	**(1,210,977)**	**171,145**	**(3,966,783)**
Net cumulative liquidity gap	**(1,484,953)**	**(2,926,951)**	**(4,137,928)**	**(3,966,783)**	**-**
As at 31 December 2013					
Total assets (Contractual maturity dates)	930,209	402,508	384,883	1,409,913	**3,127,513**
Total liabilities (Contractual maturity dates)	2,179,671	579,504	10,532	66,583	**2,836,290**
Liquidity gap	(1,249,462)	(176,996)	374,351	1,343,330	**291,223**
Cumulative liquidity gap	(1,249,462)	(1,426,458)	(1,052,107)	291,223	**-**
Total Off balance sheet	136,680	214,563	171,609	10,482	**533,334**
Net liquidity gap	(1,386,142)	(391,559)	202,742	1,332,848	**(242,111)**
Net cumulative liquidity gap	(1,386,142)	(1,777,701)	(1,574,959)	(242,111)	**-**

3(e) Liquidity risk (Continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection; loans and advances to banks; and loans and advances to customers. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

(f) Off-balance sheet items

i. Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 37), are summarised in the table below.

ii. Other financial facilities

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

iii. Operating lease commitments

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

	Not later than 1 year UShs'000	1 to 5 years UShs'000	Total UShs'000
As at 31 December 2014			
Letters of credit	**271,566**	**121,059,857**	**121,331,423**
Guarantees	**208,698,063**	**42,414,499**	**251,112,562**
Commitments to extend credit	**280,881,937**	**-**	**280,881,937**
Operating lease commitments	**26,028,725**	**-**	**26,028,725**
	515,880,291	**163,474,356**	**679,354,647**
As at 31 December 2013			
Letters of credit	80,577,515	-	80,577,515
Guarantees	177,220,016	57,874	177,277,890
Commitments to extend credit	261,276,846	-	261,276,846
Operating lease commitments	6,715,459	7,487,046	14,202,505
	525,789,836	7,544,920	533,334,756

(g) Fair value of financial assets and liabilities

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value.

	Carrying Value		Fair Value	
	2014 UShs'000	2013 UShs'000	2014 UShs'000	2013 UShs'000
Financial assets				
Loans and advances to banks	**267,399,603**	181,124,853	**267,399,603**	181,124,853
Amounts due from group companies	**31,931,847**	148,418,567	**31,931,847**	148,418,567
Loans and advances to customers	**1,618,379,655**	1,415,040,925	**1,618,379,655**	1,415,040,925
Other Investment securities	**1,144,379**	1,146,198	**1,144,379**	1,146,198
Other assets	**54,838,776**	52,005,348	**54,838,776**	52,005,348
Financial liabilities				
Customer deposits	**2,132,356,040**	1,787,577,713	**2,132,356,040**	1,787,577,713
Amounts due to other banks	**162,603,909**	238,472,365	**162,603,909**	238,472,365
Borrowed funds	**14,067,737**	18,840,955	**14,067,737**	18,840,955
Amounts due to group companies	**575,847,246**	638,486,748	**575,847,246**	638,486,748
Other liabilities	**116,306,610**	103,578,230	**116,306,610**	103,578,230

(i) Due from other banks and group companies

Due from other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

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

(iv)Due to other banks, customers and group companies

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(h) Fair value hierarchy

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 2 (e)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(h) Fair value hierarchy (Continued)

The information below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below for the year ended 31 December 2014 and 2013:

	Level 1 UShs' 000	Level 2 UShs' 000	Level 3 UShs' 000	Total UShs' 000
31 December 2014				
Financial assets				
- Derivative assets	-	**3,390,164**	-	**3,390,164**
- Government securities - Held for trading	-	**257,521,935**	-	**257,521,935**
- Government securities - AFS	-	**516,544,808**	-	**516,544,808**
- Pledged assets	-	**1,223,458**	-	**1,223,458**
- Other investment securities	-	-	**1,144,379**	**1,144,379**
Total assets	-	**778,680,365**	**1,144,379**	**779,824,744**
Financial liabilities				
- Derivative liabilities	-	**66,740**	-	**66,740**
Total liabilities	-	**66,740**	-	**66,740**

	Level 1 UShs' 000	Level 2 UShs' 000	Level 3 UShs' 000	Total UShs' 000
31 December 2013				
Financial assets				
- Derivative assets	-	129,020	-	129,020
- Government securities - Held for trading	-	340,221,294	-	340,221,294
- Government securities - AFS	-	618,069,090	-	618,069,090
- Pledged assets	-	1,851,658	-	1,851,658
- Other investment securities	-	-	1,146,198	1,146,198
Total assets	-	960,271,062	1,146,198	961,417,260
Financial liabilities				
- Derivative liabilities	-	1,521,864	-	1,521,864
Total liabilities	-	1,521,864	-	1,521,864

The information below shows the classiffication of assets and liabilities not presented on the banks statement of financial position at fair value but for which fair value is disclosed in the valuation hierrachy.

31 December 2014	Level 1 UShs' 000	Level 2 UShs' 000	Level 3 UShs' 000	Total UShs' 000
Financial assets				
Loans and advances to banks	-	-	**267,399,603**	**267,399,603**
Amounts due from group companies	-	-	**31,931,847**	**31,931,847**
Loans and advances to customers	-	-	**1,618,379,655**	**1,618,379,655**
Other assets	-	-	**54,838,776**	**54,838,776**
Total assets	-	-	**1,972,549,881**	**1,972,549,881**
Financial liabilities				
Customer deposits	-	-	**2,132,356,040**	**2,132,356,040**
Amounts due to other banks	-	-	**162,603,909**	**162,603,909**
Borrowed funds	-	-	**14,067,737**	**14,067,737**
Amounts due to group companies	-	-	**575,847,246**	**575,847,246**
Other liabilities	-	-	**116,306,610**	**116,306,610**
Total liabilities	-	-	**3,001,181,542**	**3,001,181,542**

3(i) Fair value hierarchy (Continued)

31 December 2013	Level 1 USh' 000	Level 2 USh' 000	Level 3 USh' 000	Total USh' 000
Financial assets				
Loans and advances to banks	-	-	181,124,853	**181 124 853**
Amounts due from group companies	-	-	148,418,567	**148 418 567**
Loans and advances to customers	-	-	1,415,040,925	**1 415 040 925**
Other assets	-	-	52,005,348	**52 005 348**
Total assets	**-**	**-**	**1,796,589,693**	**1,796,589,693**
Financial liabilities				
Customer deposits	-	-	1,787,577,713	**1,787,577,713**
Amounts due to other banks	-	-	238,472,365	**238,472,365**
Borrowed funds	-	-	18,840,955	**18,840,955**
Amounts due to group companies	-	-	638,486,748	**638,486,748**
Other liabilities	-	-	103,578,230	**103,578,230**
Total liabilities	**-**	**-**	**2,786,956,011**	**2,786,956,011**

Financial Instruments in level 3

The following table presents the changes in Level 3 instruments fair valued for the year ended 31 December 2014 and 2013.

Other investment securities fair valued through profit and loss

	2014 UShs'000	2013 UShs'000
Opening balance	1,146,198	**1,051,920**
Gains and losses recognised in profit or loss	(1,819)	94,278
Closing balance	**1,144,379**	**1,146,198**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period, under 'Other gains/losses'	(1,819)	94,278

There was no transfer of balances between the different fair value hierrachy levels out of or into level 3

4 Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The Bank assesses its loan portfolios for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. At year end, the Bank applied the following loss emergence periods:

	Loss emergence period		Sensitivity[1]	
	2014 Months	2013 Months	2014 Ushs'000	2013 Ushs'000
Personal & Business Banking	**3**	3	**5,022,369**	5,824,271
- Mortgage Lending	**3**	3	**954,849**	1,138,762
- Instalment sales & finance leases	**3**	3	**247,566**	601,245
- Other lending	**3**	3	**3,819,954**	4,084,264
Corporate lending	**12**	12	**1,758,893**	456,356
			6,781,262	6,280,627

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

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

(b) Non performing loans

Retail loans are individually impaired if the amounts are due and unpaid for three or more months. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

	Recoveries as a % of impaired loans		Sensitivity[1]	
	2014 %	2013 %	2014 Ushs'000	2013 Ushs'000
Personal & Business Banking	**63%**	60	**946,303**	766,454
- Mortgage Lending	**65%**	78	**61,112**	122,264
- Instalment sales & finance leases	**51%**	53	**140,702**	96,740
- Other lending	**50%**	58	**744,489**	547,450
Corporate lending	**77%**	47	**24,738**	47,232
			971,041	813,686

1-Sensitivity is based on the effect of a change of one percentage point in the estimated recovery on the value of the impairment

(c) Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(d) Impairment of available for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Had the declines of financial instruments with fair values below cost been considered significant or prolonged, the Bank would suffer an additional loss of UShs 3,351 million(2013: UShs 5,401 million) in its financial statements, being the transfer of the negative revaluations within available-for-sale reserve to the income statement.

(e) Held to maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity investments were tainted, the fair value would decrease by UShs nil (2013: Nil), with a corresponding entry in the available-for-sale reserve in shareholders' equity

5 Segment information

The principal business units in the Bank are as follows: Personal and Business banking (PBB): Banking and other financial services to individual customers and small to medium sized enterprises throughout Uganda.

PBB incorporates:

- Mortgage lending- provides residential accommodation loans to individual customers.
- Instalment sales and finance leases: comprises two main areas - instalment finance in the consumer market mainly vehicles and secondly, finance of vehicles and equipment in the business market.
- Transactional and lending products- Transactions in products associated with the various points of contact channels such as ATMs, internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

  Corporate and Investment Banking (CIB): Commercial and investment banking services to larger corporates, financial institutions, and international counterparties in Uganda.

CIB incorporates:

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

  Treasury and Capital Management (TCM): Oversees the management of liquidity, interest rate risk and surplus capital for the bank.

5. Segment information (Continued)

The segment results for the years ended 31 December 2014and 31 December 2013 are as follows:

	Personal and Business Banking UShs' 000	Corporate and Investment Banking UShs' 000	Treasury & Capital management Shs' 000	Total UShs' 000
Income statement				
Year ended 31 December 2014				
Operating income	**280,787,454**	**200,224,395**	**13,215,031**	**494,226,880**
Impairment losses	**(39,509,452)**	**2,125,035**	**-**	**(37,384,417)**
Other operating expenses	**(205,978,615)**	**(69,575,922)**	**-**	**(275,554,537)**
Profit before income tax	**35,299,387**	**132,773,508**	**13,215,031**	**181,287,926**
Income tax expense	**(11,515,265)**	**(32,991,492)**	**(1,701,787)**	**(46,208,544)**
Profit after tax	**23,784,122**	**99,782,016**	**11,513,244**	**135,079,382**
Year ended 31 December 2013				
Operating income	258,637,933	170,483,140	17,883,863	447,004,936
Impairment losses	(45,177,820)	245,543	-	(44,932,277)
Other operating expenses	(198,972,207)	(68,289,691)	-	(267,261,898)
Profit before income tax	14,487,906	102,438,992	17,883,841	134,810,761
Income tax expense	(4,023,267)	(24,164,199)	(4,771,768)	(32,959,234)
Profit after tax	10,464,639	78,274,793	13,112,073	101,851,527

	Personal and Business Banking UShs' 000	Corporate and Investment Banking UShs' 000	Treasury & Capital management Shs' 000	Total UShs' 000
Statement of financial position				
As at 31 December 2014				
Total assets	**1,310,277,914**	**2,014,278,946**	**183,205,155**	**3,507,762,015**
Total liabilities	**1,152,564,306**	**1,853,119,208**	**15,108,967**	**3,020,792,481**
Equity	**157,713,608**	**161,159,738**	**168,096,188**	**486,969,534**
Other segment items included in the income statement				
Depreciation	**13,099,188**	**1,791,887**	**-**	**14,891,075**
Amortisation of intangible assets	**440,040**	**151,935**	**-**	**591,975**
As at 31 December 2013				
Total assets	1,024,602,170	2,000,454,702	216,541,168	3,241,598,040
Total liabilities	917,028,945	1,889,141,380	30,119,218	2,836,289,543
Equity	107,573,225	111,313,322	186,421,950	405,308,497
Other segment items included in the income statement				
Depreciation	12,452,345	1,785,182	-	14,237,527
Amortisation of intangible assets	437,023	152,741	-	589,764

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

6 Interest income

	2014 UShs' 000	2013 UShs' 000
Government securities	**73,072,684**	54,263,742
Loans and advances to customers	**238,740,051**	226,803,739
Loans and advances to banks	**895,789**	2,454,412
Placements with group companies	**857,759**	1,463,902
	313,566,283	284,985,795

Interest income above includes the unwinding effect of the net fee and commissions income included in determining the effective interest rate on financial assets measured at amortised cost of UShs 8,415 million (2013: Ushs 5,777 million).

7 Interest expense

	2014 UShs' 000	2013 UShs' 000
Current accounts	**4,847,528**	5,092,386
Savings and deposit accounts	**9,041,809**	11,865,175
Subordinated debt: - Group entity	**546,093**	745,472
- Non-group entities	**3,472,471**	4,353,951
Deposits and borrowings from banks	**1,299,740**	3,418,519
Amounts due to group companies	**13,904,379**	11,733,249
Interest paid on other money market borrowings	**259,574**	19,455
	33,371,594	37,228,207

8 Net fee and commission income

	2014 UShs' 000	2013 UShs' 000
Fee and commission income		
Transactional fees & commission income	**109,169,171**	101,762,380
Credit related fees & commission income	**1,168,735**	208,792
	110,337,906	101,971,172
Fee and commission expense		
Transactional fees & commission expenses	**(1,762,480)**	(3,353,123)
Net fee and commission income	**108,575,426**	98,618,049

Net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets measured at amortised cost of UShs 6,497million (2013: Ushs 5,761 million).

9 Net trading income

	2014 UShs' 000	2013 UShs' 000
Foreign exchange trading gains - Realized gains	**65,536,888**	72,168,759
Foreign exchange trading gains - Unrealized gains	**(11,063,915)**	(3,048,385)
Debt securities trading gains	**50,413,317**	20,606,514
Fair value through P&L	**(185,158)**	9,456,323
Trading expense - Other	**(203,860)**	-
	104,497,272	99,183,211

Debt securities include the effect of buying and selling and changes in the fair value of government securities. Included in foreign exchange trading are gains and losses from spot and forward contracts and other currency derivatives.

10 Other operating income

	2014 UShs' 000	2013 UShs' 000
Gain on disposal of property and equipment	-	156,024
Dividend income	21,210	-
Other	942,530	1,446,088
	963,740	1,602,112

11 Impairment charge for credit losses

	2014 UShs' 000	2013 UShs' 000
Net credit impairment raised and reversed for loans and advances (Note 20)	52,034,056	62,219,148
Recoveries on loans and advances previously written off	(14,649,639)	(17,286,871)
	37,384,417	44,932,277

12 Employee benefit expenses

	2014 UShs' 000	2013 UShs' 000
Salaries and wages	98,788,034	87,229,921
Contributions to statutory and other defined benefit plans	13,086,756	11,673,176
Other	7,648,827	6,064,110
	119,523,617	104,967,207

13 Other operating expenses

	2014 UShs' 000	2013 UShs' 000
Premises costs	22,039,726	22,545,694
Office expenses	8,526,636	12,864,858
Auditors remuneration	464,493	623,491
Professional fees	67,225	70,673
IT expenses	35,762,602	35,756,563
Travel and entertainment	6,783,517	8,388,038
Marketing and advertising	6,721,229	4,923,753
Insurance	1,749,826	1,587,570
Deposit Protection Scheme Contribution	3,650,016	4,034,433
Security expenses	8,397,443	9,403,726
Franchise fees	15,456,608	13,233,426
Directors fees & expenses	553,692	477,173
Training costs	1,901,164	3,783,818
Operational losses	1,406,508	6,352,213
Indirect taxes (VAT)	12,413,882	10,946,229
Bank charges	1,313,701	1,996,939
Leased equipment rental	374,471	170,902
Credit Bureau expenses	864,939	745,349
Other operating expenses	12,104,438	9,718,576
	140,552,116	147,623,424

14 Income tax expense

	2014 UShs' 000	2013 UShs' 000
Current income tax	46,081,870	32,515,829
Deferred income tax (see note 22)	126,674	443,405
	46,208,544	32,959,234

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

	2014 000	2013 UShs' 000
Profit before income tax	181,287,929	134,810,761
Tax calculated at statutory tax rate of 30% (2013: 30%)	54,386,379	40,443,228
Tax effects of:		
Income not subject to tax	(205,030)	(455,438)
Income subject to tax at 20%	(11,630,835)	(8,658,812)
Expenses not deductible for tax purposes	3,055,061	1,630,256
Prior year current income tax under provision	602,969	-
	46,208,544	32,959,234

The movement in the current income tax recoverable is as follows:

	2014 UShs' 000	2013 UShs' 000
At start of year	(10,708,472)	(7,454,070)
Prior year under provision for current income tax	602,969	-
Income tax charge	45,478,901	32,515,829
Tax paid	(47,432,090)	(35,770,231)
At end of year	(12,058,692)	(10,708,472)

15 Earnings per share – basic and diluted

	2014	2013
Basic		
Profit attributable to ordinary shareholders (UShs'000)	135,079,382	101,851,527
Weighted average number of ordinary shares in issue (thousands)	51,188,670	51,188,670
Basic earnings per share (expressed in Shs per share)	2.64	1.99

There were no potentially dilutive shares as at 31 December 2014 or on 31 December 2013. Therefore, diluted earnings per share are the same as basic earnings per share.

16 Cash and balances with Bank of Uganda

	2014 UShs' 000	2013 UShs' 000
Coins & bank notes	235,953,293	192,053,745
Balances with Bank of Uganda	447,077,843	229,327,587
	683,031,136	421,381,332

Banks are required to maintain a prescribed minimum cash balance with Bank of Uganda that is not available to finance the Bank's day-to-today activities. The amount is determined by Bank of Uganda on a pre-set formula on a rolling fortnightly basis; 8% in 2014 (2013: 8%). The reserve as at 31 December 2014 is UShs 176,130m (2013: UShs 149,670m). The reserve is available for use in the bank's day to day activities and may fall by upto 50% on a given day, however, there are sanctions for non compliance.

17 Government securities

	2014 USh s' 000	2013 USh s' 000
Government securities – available for sale		
Treasury bills		
At start of the year	**228,574,647**	243,848,756
Additions	**95,378,284**	288,184,863
Disposals	**(228,574,647)**	(304,860,368)
MTM adjustments	**(248,987)**	1,401,396
At end of the year	**95,129,296**	228,574,647
Treasury bonds		
At start of the year	**389,494,443**	205,558,559
Additions	**102,953,625**	369,243,391
Disposals	**(76,645,824)**	(188,422,943)
MTM adjustments	**5,613,268**	3,115,436
At end of the year	**421,415,512**	389,494,443
Total at end of year	**516,544,808**	618,069,090
Government securities – held for trading		
Treasury bills		
At start of the year	**281,142,694**	208,465,169
Additions	**244,764,055**	405,017,417
Disposals	**(284,353,362)**	(332,034,188)
MTM adjustments	**523,680**	(305,704)
At end of the year	**242,077,067**	281,142,694
Treasury bonds		
At start of the year	**59,078,600**	66,501,313
Additions	**15,232,192**	341,700,880
Disposals	**(59,207,824)**	(349,250,405)
MTM adjustments	**341,900**	126,812
At end of the year	**15,444,868**	59,078,600
Total for the year	**257,521,935**	340,221,294

Government treasury bills are debt securities issued by Bank of Uganda for a term of three months, six months or one year. Government bonds are debt instruments issued by Bank of Uganda for a term of either two, three, five or ten years.

Government securities are categorised as assets held to maturity which are carried at amortised cost, available for sale which are fair valued through reserves and held for trading, which are fair valued through the income statement.

The weighted average effective interest rate on treasury bills and bonds, including pledged assets (see note 18) was 12.18% (2013:11.3%).

18 Pledged assets

	2014 UShs' 000	2013 UShs' 000
Treasury bills		
At start of the year	**1,851,658**	2,651,551
Additions	**1,223,458**	1,851,658
Disposals	**(1,851,658)**	(2,651,551)
At end of the year	**1,223,458**	1,851,658

These are securities pledged as collateral to the Bank of Uganda under the electronic clearing house rules and are separately classified as pledged assets on the face of the statement of financial position. These have a market value at 31 December 2014 of UShs 1,223m (2013: UShs 1,851m).

19 Loans and advances to banks

	2014 UShs' 000	2013 UShs' 000
Items in course of collection - foreign banks	**699,053**	7,159,530
Placements with local banks	**163,179,147**	29,549,990
Placements with foreign banks	**103,521,403**	144,415,333
	267,399,603	181,124,853

The weighted average effective interest rate on loans and advances to banks was 7.9% (2013: 3%)

20 Loans and advances to customers

	2014 UShs' 000	2013 UShs' 000
Personal and business banking		
Mortgage lending	**112,166,707**	181,911,796
Instalment sales and finance leases	**140,629,645**	93,657,906
Other loans and advances	**651,990,115**	570,115,346
	904,786,467	845,685,048
Corporate and investment banking		
Corporate lending	**763,372,151**	631,905,826
Gross loans and advances	**1,668,158,618**	1,477,590,874
Less: provision for impairment	**(49,778,963)**	(62,549,949)
Net loans and advances to customers	**1,618,379,655**	1,415,040,925

Included in other loans and advances is the fair value adjustment of loans advanced to staff at off market rates of 17,639m (2013: UShs 7,060m).

20 Loans and advances to customers (continued)

Movements in provisions for impairment of loans and advances are as follows:

	Mortgage lending USh's' 000	Instalment sales and finance leases UShs' 000	Other loans & Advances UShs' 000	Corporate lending UShs' 000	Total UShs' 000
Non performing loans					
At 1 January 2014	**2,070,440**	**3,887,357**	**32,213,443**	**1,427,446**	**39,598,686**
Impaired accounts written off	**(1,970,121)**	**(10,261,139)**	**(49,378,227)**	**-**	**(61,609,487)**
Net provisions raised/(re-leased)	**1,042,972**	**16,661,562**	**38,860,262**	**(822,498)**	**55,742,298**
Effects of foreign exchange movements	**39,474**	**2**	**(3,235,041)**	**-**	**(3,195,565)**
At 31 December 2014	**1,182,765**	**10,287,782**	**18,460,437**	**604,948**	**30,535,932**
Performing loans					
At 1 January 2014	**3,416,285**	**1,803,733**	**12,252,795**	**5,478,451**	**22,951,264**
Net impairments raised	**(825,158)**	**(1,063,377)**	**(517,168)**	**(1,302,537)**	**(3,708,240)**
At 31 December 2014	**2,591,127**	**740,356**	**11,735,627**	**4,175,914**	**19,243,034**
Total	**3,773,892**	**11,028,138**	**30,196,064**	**4,780,862**	**49,778,966**
Non performing loans					
At 1 January 2013	5,003,484	8,806,757	31,800,451	125,448	45,736,140
Impaired accounts written off	(8,291,241)	(6,706,258)	(50,269,705)	(84,566)	(65,351,770)
Net impairments raised & released	4,482,758	1,794,947	53,240,945	1,036,046	60,554,696
Effects of foreign exchange movements	875,439	(8,089)	(2,558,248)	350,518	(1,340,380)
At 31 December 2013	2,070,440	3,887,357	32,213,443	1,427,446	39,598,686
Performing loans					
At 1 January 2013	2,666,449	1,607,779	11,239,571	6,760,040	22,273,839
Net impairments raised	749,836	195,954	1,013,223	(1,281,589)	677,424
At 31 December 2013	3,416,285	1,803,733	12,252,794	5,478,451	22,951,263
Total	5,486,725	5,691,090	44,466,237	6,905,897	62,549,949

All impaired loans have been written down to their estimated recoverable amount. The net carrying amount of impaired loans at 31 December 2014 was UShs 30,536 million (2013: UShs 39,598 million).

The weighted average effective interest rate on loans and advances was 14.46% (2013: 16.4%)

20 Loans and advances to customers (continued)

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

	2014 UShs' 000	2013 UShs' 000
Gross investment in finance leases		
No later than 1 year	**10,947,579**	14,844,864
Later than 1 year but no later than 5 years	**139,751,329**	197,762,965
Later than 5 years	**16,051,042**	-
	166,749,950	212,607,829
Unearned future finance income on finance leases	**(26,120,555)**	(38,461,280)
Net investment in finance leases	**140,629,395**	**174,146,549**
The net investment in finance leases may be analysed as follows:		
No later than 1 year	**10,260,153**	14,016,990
Later than 1 year but no later than 5 years	**116,677,864**	160,129,559
Later than 5 years	**13,691,378**	-
	140,629,395	174,146,549

As at 31 December 2014, the Bank had no exposures to a single borrower or group of borrowers exceeding 25% of the Total capital of the Bank.

21 Other investments

	2014 UShs' 000	2013 UShs' 000
S.W.I.F.T. SCRL	**55,590**	57,409
African Export and Import Bank (0.04% owned)	**1,088,789**	1,088,789
	1,144,379	1,146,198

22 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using tax rates currently enacted. The movement on the deferred income tax account is as follows:

	2014 UShs' 000	2013 UShs' 000
As at 1 January	**7,549,346**	8,871,029
Charge to income statement	**(126,674)**	(443,405)
Credit recognised in equity	**1,610,393**	(878,278)
As at 31 December	**9,033,065**	7,549,346

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

	2014 UShs' 000	2013 UShs' 000
Deferred income tax assets		
Provisions for loans and advances	**8,148,022**	8,764,470
Available for sale government securities	**3,046,697**	1,436,303
Other deductible temporary differences	**2,027,926**	1,319,711
	13,222,645	11,520,484
Deferred income tax liabilities		
Property and equipment	**(4,189,580)**	(3,971,138)
Net deferred income tax asset	**9,033,065**	7,549,346

22 Deferred income tax (continued)

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

	2014 UShs' 000	2013 UShs' 000
Property and equipment	**(218,440)**	291,520
Provisions for loans and advances	**(616,449)**	1,033,582
Other deductible temporary differences	**708,215**	(1,768,507)
	(126,674)	(443,405)

23 Prepaid operating leases

	2014 UShs' 000	2013 UShs' 000
Cost		
As at 1 January	**239,141**	239,141
Additions for the year	**-**	-
As at 31 December	**239,141**	239,141
Amortisation		
As at 1 January	**(109,467)**	(99,129)
Charge for the year	**(10,338)**	(10,338)
As at 31 December	**(119,805)**	(109,467)
Carrying value		
As at 31 December	**119,336**	129,674

24 Other assets

	2014 UShs' 000	2013 UShs' 000
Items in transit	**9,636,111**	8,971,675
Prepayments	**22,515,109**	21,895,035
Fees receivable	**602,070**	329,223
Other accounts receivable	**22,085,486**	20,809,415
	54,838,776	52,005,348

25 Goodwill and other intangible assets

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment of goodwill identified in 2014 (2013: nil).

	Computer software UShs' 000	Goodwill UShs' 000	Total UShs' 000
Cost			
At 1 January 2014	**3,065,102**	**4,753,980**	**7,819,082**
At 31 December 2014	**3,065,102**	**4,753,980**	**7,819,082**
Amortisation			
At 1 January 2014	**934,789**	**2,852,388**	**3,787,177**
Charge for the year	**591,975**	**-**	**591,975**
At 31 December 2014	**1,526,764**	**2,852,388**	**4,379,152**
Net book value			
At 31 December 2014	**1,538,338**	**1,901,592**	**3,439,930**
Cost			
At 1 January 2013	2,938,295	4,753,980	7,692,275
Additions	126,807	-	126,807
At 31 December 2013	3,065,102	4,753,980	7,819,082
Amortisation			
At 1 January 2013	345,025	2,852,388	3,197,413
Charge for the year	589,764	-	589,764
At 31 December 2013	934,789	2,852,388	3,787,177
Net book value			
At 31 December 2013	2,130,313	1,901,592	4,031,905

26 Property and equipment

	Land and buildings UShs' 000	Furniture, fittings and equipment UShs' 000	Computer equipment UShs' 000	Motor vehicles UShs' 000	Work in progress UShs' 000	Total UShs' 000
Cost						
At 1 January 2014	**3,415,496**	**51,483,712**	**54,898,216**	**4,186,739**	**508,840**	**114,493,003**
Additions	**-**	**9,340,193**	**10,537,930**	**586,242**	**2,939,549**	**23,403,914**
Transfers	**-**	**453,529**	**87,975**	**-**	**(541,504)**	**-**
Disposals	**-**	**(3,909,208)**	**(6,569,875)**	**(1,153,364)**	**-**	**(11,632,447)**
At 31 December 2014	**3,415,496**	**57,368,226**	**58,954,246**	**3,619,617**	**2,906,885**	**126,264,470**
Depreciation						
At 1 January 2014	**812,242**	**35,550,802**	**35,195,677**	**3,143,924**	**-**	**74,702,645**
Charge for the year	**69,081**	**6,703,141**	**7,764,284**	**354,570**	**-**	**14,891,076**
On disposals	**-**	**(3,521,064)**	**(6,367,736)**	**(1,145,682)**	**-**	**(11,034,482)**
At 31 December 2014	**881,323**	**38,732,879**	**36,592,225**	**2,352,812**	**-**	**78,559,239**
Net book value						
At 31 December 2014	**2,534,173**	**18,635,347**	**22,362,021**	**1,266,805**	**2,906,885**	**47,705,231**
Cost						
At 1 January 2013	3,432,496	47,463,438	50,140,502	3,771,062	-	104,807,498
Additions	-	4,710,842	6,994,879	1,068,883	508,840	13,283,444
Disposals	(17,000)	(690,568)	(2,237,165)	(653,206)	-	(3,597,939)
At 31 December 2013	3,415,496	51,483,712	54,898,216	4,186,739	508,840	114,493,003
Depreciation						
At 1 January 2013	746,900	29,498,562	30,270,671	3,345,606	-	63,861,739
Charge for the year	69,280	6,629,656	7,089,993	448,598	-	14,237,527
On disposals	(3,938)	(577,416)	(2,164,987)	(650,280)	-	(3,396,621)
At 31 December 2013	812,242	35,550,802	35,195,677	3,143,924	-	74,702,645
Net book value						
At 31 December 2013	2,603,254	15,932,910	19,702,539	1,042,815	508,840	39,790,358

27 Share capital

	Number of ordinary shares (thousands)	Ordinary share capital UShs' 000	Total UShs' 000
Issued and fully paid			
At 1 January 2014	**51,188,670**	**51,188,670**	**51,188,670**
At 31 December 2014	**51,188,670**	**51,188,670**	**51,188,670**

	Number of ordinary shares (thousands)	Ordinary share capital UShs' 000	Total UShs' 000
Issued and fully paid			
At 1 January 2013	51,188,670	51,188,670	51,188,670
At 31 December 2013	51,188,670	51,188,670	51,188,670

28 Available for sale revaluation reserve

	2014 UShs' 000	2013 UShs' 000
At 1 January	**(3,351,374)**	(5,400,689)
Net gains/(losses) from changes in fair value	**(5,367,978)**	2,927,593
Deferred tax on fair value change	**1,610,393**	(878,278)
Net movement for the year	**(3,757,585)**	2,049,315
At 31 December	**(7,108,959)**	(3,351,374)

29 Statutory credit risk reserve

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

	2014 UShs' 000	2013 UShs' 000
Specific Provisions (Regulatory)	**31,618,077**	53,890,420
General Provisions (Regulatory)	**20,073,067**	16,936,038
Interest in suspense(regulatory)	**1,677,816**	-
	53,368,960	70,826,458
Less		
Identified impairment (in accordance with IFRS)	**30,535,931**	39,598,685
Unidentified impairment (in accordance with IFRS)	**19,243,033**	22,951,263
Statutory credit risk reserve	**3,589,996**	8,276,510

30 Derivatives

The Bank uses currency forward derivative instruments for non-hedging purposes. Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market foreign exchange rates on hand relative to their terms. The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The maturity analysis of the fair values of derivative instruments held is set out below.

	Less than 1 year UShs' 000	1-5 years UShs' 000	Over 5 years UShs' 000	Total UShs' 000
As at 31 December 2014				
Assets				
Derivatives held for trading	**479,113**	-	-	**479,113**
Currency forwards	**2,587,135**	**323,916**	-	**2,911,051**
Fair value of assets	**3,066,248**	**323,916**	-	**3,390,164**
Liabilities				
Derivatives held for trading	**46,846**	-	-	**46,846**
Currency forwards	**19,894**	-	-	**19,894**
Fair value of liabilities	**66,740**	-	-	**66,740**
Net fair value	**2,999,508**	**323,916**	**-**	**3,323,424**
As at 31 December 2013				
Assets				
Derivatives held for trading	129,020	-	-	129,020
Currency forwards	-	-	-	-
Fair value of assets	129,020	-	-	129,020
Liabilities				
Derivatives held for trading	1,521,864	-	-	1,521,864
Currency forwards	-	-	-	-
Fair value of liabilities	1,521,864	-	-	1,521,864
Net fair value	(1,392,844)	-	-	(1,392,844)

31 Customer deposits

	2014 UShs' 000	2013 UShs' 000
Current and demand deposits	**1,793,240,965**	1,502,372,418
Savings accounts	**185,589,506**	179,028,617
Fixed and call deposit accounts	**153,525,569**	106,176,678
	2,132,356,040	1,787,577,713

The weighted average effective interest rate on customer deposits was 1.09% (2013: 0.9%).

32 Deposits and balances due to banks

	2014 UShs' 000	2013 UShs' 000
Balances due to other banks - local currency	**70,661,068**	127,716,604
Balances due to other banks - foreign currency	**91,942,841**	110,755,761
	162,603,909	238,472,365

The weighted average effective interest rate on deposits and balances due to banks was 2.27% (2013: 2.8%).

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33 Borrowed funds

	2014 UShs' 000	2013 UShs' 000
Bank of Uganda : Agricultural Credit Facility	**6,206,570**	6,663,348
Agence Francaise de Developpement (AFD)	**7,861,167**	12,177,607
	14,067,737	18,840,955

The Government of Uganda through Bank of Uganda set up an Agricultural Credit Facility scheme for the purpose of supporting agricultural expansion and modernization in partnership with commercial banks. All eligible bank customers receive 50% financing from the Government of Uganda while the remaining 50% is provided by the Bank. The outstanding balance as at 31 December 2014 was UShs 6,207 million (2013: UShs 6,663 million). The Bank does not pay any interest to the Government of Uganda. Refunds to the government are made half yearly and as at 31 December 2014; the last payable instalment will be due on 31 December 2018.

The Bank entered into a financing agreement with Agence Française de Développement (AFD). Under the terms of the agreement, AFD lent the Bank EUR 7 million over a period of seven years at a fixed rate of 0.6%. Interest is paid semi-annually with 12 equal principal re-payments beginning in January 2011. The outstanding balance as at 31 December 2014 was UShs 7,861 million (2013: UShs 12,177 million).

The Bank complied with all the terms and conditions of each of the agreements during the year.

34 Other liabilities

	2014 UShs' 000	2013 UShs' 000
Uganda Revenue Authority - Tax revenue collections	**4,181,045**	3,796,707
Bills payable	**31,529,875**	48,308,777
Unclaimed balances	**20,777,414**	17,164,189
Sundry creditors	**33,633,907**	10,372,365
Unearned fees & commission income	**6,497,082**	5,761,092
Dividend payable	**5,897,438**	5,823,466
Other liabilities	**13,789,849**	12,351,634
	116,306,610	103,578,230

35 Subordinated debt

	Date of issue	Carrying value UShs' 000	Notional value UShs' 000
As at 31 December 2014			
Bonds			
Subordinated loan facility - Standard Bank South Africa	31 October 2011	**19,544,199**	**19,544,199**
		19,544,199	**19,544,199**
As at 31 December 2013			
Floating rate notes	10 August 2009	28,195,000	28,195,000
Fixed rate notes	10 August 2009	1,805,000	1,805,000
		30,000,000	30,000,000
Subordinated loan facility - Standard Bank South Africa	31 October 2011	17,811,668	17,811,668
		47,811,668	47,811,668

The Bank issued subordinated floating and fixed rate notes in August 2009 of an aggregate nominal amount of UShs 30 billion. The Subordinated Notes constituted direct, unconditional, unsecured and subordinated obligations of the issuer which (a) rank pari passu among themselves and (b) are subordinated to the claims of all senior creditors and were redeemable on 10 August 2016.

The Notes were issued (in two tranches) with a provision to early redeem after a period of 5 years and 1 day from the issue date.

These tier II notes were initially sourced to supplement our capital and diversify our funding sources. With only two years to mature the capital contribution from the notes was significantly reduced. At the time of redemption the banks total adequacy ratio was about 21.5% and management did not therefore envisage any capital adequacy problems with the repayment of these borrowings. The total redemption was completed in September 2014.

On 31 October 2011, the bank entered into an agreement with Standard Bank of South Africa Limited (SBSA), under which SBSA undertook to lend the bank US$ 7 million (the loan). The loan is unsecured and subordinated to the claims of all senior creditors.

The loan is for a period of up to 10 years but with a first redemption date of 31 October 2016.

35 Subordinated debt (Continued)

The interest rate applicable on the loan is variable and is priced at 3 months LIBOR (London interbank offer rate for 3 months US$ deposits) plus a margin of 3.76% per annum. After the first redemption date, the margin increases to 5.025% per annum until termination.

The Bank complied with all the terms and conditions of each of the agreements during the year.

36 Dividends

At the annual general meeting to be held in May 2015, a dividend of UShs 1.66 per share amounting to UShs 85 billion in total is to be proposed. (2013: total dividend per share of UShs 0.977 amounting to UShs 50 billion). The payment of dividends is subject to withholding tax at rates depending on the tax status or residence of the recipient.

37 Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the statement of financial position.

	2014 UShs' 000	2013 UShs' 000
Contingent liabilities		
Acceptances and letters of credit	**121,331,423**	80,577,515
Guarantees and performance bonds	**251,112,562**	177,277,890
	372,443,985	257,855,405
Commitments		
Commitments to extend credit	**280,881,937**	261,276,846
Currency forwards	**(79,990,813)**	(57,595,294)
Operating lease commitments	**26,028,725**	14,202,505
	226,919,849	217,884,057
	599,363,834	475,739,462

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

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

Pending litigation

The Bank is a litigant in several other cases which arise from normal day to day banking. The directors and management believe the Bank has strong grounds for success in a majority of the cases and are confident that they should get a ruling in their favour and none of the cases individually or in aggregate would have a significant impact on the Bank's operations.

The directors have carried out an assessment of all the cases outstanding as at 31 December 2014 and where considered necessary based on the merits of each case, a provision has been raised. In aggregate the total provisions raised amount to UShs 6.4 billion (2013: UShs 5.9 billion).

Outstanding tax matters

Included in the operating expenses are various fees payable to Standard Bank South Africa, a related party, mostly comprising of license fees relating to the Finacle core banking system that the bank uses. The right to use the Finacle software was obtained under an affiliate software licensing agreement signed with Standard Bank South Africa. As part of the process to ensure that the bank is compliant with the transfer pricing regulations, a request was made to the Uganda Revenue Authority (URA) to confirm that Finacle license fees payable to Standard Bank South Africa are consistent with the arm's length principle. As at 31 December 2014 URA had not expressed an opinion to confirm this position.

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

	2014 UShs' 000	2013 UShs' 000
Cash and balances with Bank of Uganda	**683,031,136**	421,381,332
Cash reserve requirement	**(176,130,000)**	(149,670,000)
Government securities maturing within 90 days	**45,117,165**	159,713,219
Placements with other banks	**267,399,603**	181,124,853
Deposits from group companies	**31,931,847**	148,418,567
	851,349,751	760,967,971

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Uganda. (See Note 17).

39 Related parties

The Bank is 80% owned by Stanbic Africa Holdings Limited, which is incorporated in the United Kingdom. The ultimate parent and controlling party of the Bank is Standard Bank Group Limited, incorporated in South Africa. There are other companies which are related to Stanbic Bank Uganda Limited through common shareholdings or common directorships. These include Standard Bank London, Standard Bank Isle of Man Limited, Standard Bank of South Africa, CfC Stanbic Bank Kenya Limited, Stanbic Bank Tanzania Limited, Stanbic Bank Botswana, Stanbic International Uganda Limited, StanLib, Stanbic International Insurance Limited and Liberty Life Assurance Uganda Limited.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent company and other group companies at interest rates in line with the market.

The relevant balances are shown below:

	2014 UShs' 000	2013 UShs' 000
Amounts due from group companies		
Placements and borrowings	**25,763,152**	145,662,251
Other assets	**2,003,192**	2,233,981
Derivatives	**4,165,503**	522,335
	31,931,847	148,418,567
Amounts due to group companies		
Deposits and current accounts	**536,382,550**	605,334,136
Derivatives	**914,070**	-
Other liabilities	**38,550,626**	33,152,612
	575,847,246	638,486,748
Subordinated debt due to group companies		
Subordinated loans (see note 35)	**19,544,199**	17,811,668
Interest income earned	**857,759**	1,463,902
Interest expense paid	**14,450,472**	12,478,721
Trading income	**6,181,420**	728,186
Operating expenses incurred	**36,883,919**	37,918,450

Advances to customers at 31 December 2014 include loans to directors and loans to employees as follows:

	2014 UShs' 000	2013 UShs' 000
As at 1 January	**4,110,246**	3,626,010
Loans extended during the year	**253,131**	630,844
Loan repayments during the year	**(299,619)**	(146,608)
	4,063,758	4,110,246

39 Related parties (Continued)

Companies affiliated to directors and key management are Batteries Limited, Nice House of Plastics, Jesa Farm Dairy Limited, Victoria Seeds Limited and Impala Heights Ltd.

At 31 December 2014 advances to key management amounted to UShs 552million (2013: UShs 928 million).

Loans granted to non-executive directors and their affiliates are granted at commercial rates while those granted to executive directors and executives are: Mortgage – 50% of prime rate, staff miscellaneous and car loans – 75% of prime rate, study loans – 0%.

	2014 UShs' 000	2013 UShs' 000
Interest income from key management loans	109,626	79,219
	109,626	79,219

No impairment has been recognised in respect of loans advanced to related parties (2013: nil).

Other related party transactions

	2014 UShs' 000	2013 UShs' 000
Deposits by key management and related parties		
As at 1 January	812,995	436,287
Net increase for the year	177,257	376,708
	990,252	812,995
Key management compensation		
Salaries and other short term employment benefits	11,268,807	11,058,315
Post employment benefits	2,213,579	1,372,067
	13,482,386	12,430,382
Directors remuneration		
Directors fees	554,914	500,084
Other emoluments included in management compensation	4,544,475	4,827,970
	5,099,389	5,328,054

40 Equity linked transactions

Standard Bank Group (SBG) has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

The amounts reflected in the income statement for the two schemes are:

Share options

	2014 UShs' 000	2013 UShs' 000
Group Share Incentive Scheme	330 585	348 311
Equity Growth Scheme	18 729	18 028
	349 314	366 339

Share-based payment

Equity compensation plans

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years

40 Equity linked transactions (Continued)

A reconciliation of the movement of share options and appreciation rights is detailed below:

	Option price range (ZAR)	Number of options	
Group Share Incentive Scheme	**31-Dec-14**	**31-Dec-14**	31-Dec-13
Options outstanding at beginning of the period		183 700	248 850
Transfers	62,39 - 111,94	(18 000)	(12 500)
Lapsed	111,94	(5 500)	(29 850)
Exercised	62,39 - 111,94	(34 987)	(22 800)
Options outstanding at end of the period		125 213	183 700

The weighted average SBG share price for the period to 31 December 2014 year end was ZAR135,92 (2013: ZAR115,39).
The following options granted to employees had not been exercised at 31 December 2014:

Number of ordinary shares (ZAR)	Option price range	Weighted average price (ZAR)	Option expiry period
400	98	98	Year to 31 December 2017
7 575	92	92	Year to 31 December 2018
17 600	62.4	62.4	Year to 31 December 2019
66 638	112	112	Year to 31 December 2020
33 000	98.8	98.8	Year to 31 December 2021
125 213			

The following options granted to employees had not been exercised at 31 December 2013:

Number of ordinary shares (rands)	Option price range	Weighted average price (rands)	Option expiry period
500	65,60	65,60	Year to 31 December 2015
3 500	98,00	98,00	Year to 31 December 2017
19 800	92,00	92,00	Year to 31 December 2018
28 700	62,39	62,39	Year to 31 December 2019
69 950	111,94	111,94	Year to 31 December 2020
61 250	98,80	98,80	Year to 31 December 2021
183 700			

41 Subsequent events

There was no significant event to report.

Shareholder Analysis

Top ten shareholders as at 31 December 2014

Name	Number of shares	Percentage shareholding
STANBIC AFRICA HOLDINGS LIMITED	40,950,935,760	80,00%
NATIONAL SOCIAL SECURITY FUND	1,048,135,396	2,05%
BBH-GENESIS EMERGING MARKETS OPPORTUNITIES FUND	516,182,373	1,01%
MR. SUDHIR RUPARELIA	330,723,247	0,65%
BBH-GENESIS EMERGING MARKETS OPPORTUNITY FUND LTD	236,684,550	0,46%
CENTRAL BANK OF KENYA PENSION FUND	230,615,680	0,45%
MR IBULAIMU KIRONDE KABANDA 256	202,691,120	0,40%
POHJOLA BANK PLC	189,825,000	0,37%
SCB MAURITIUS RE AFRICA OPPORTUNITY FUND L P	177,035,885	0,35%
CRANE BANK LIMITED	152,503,325	0,30%

Key Shareholder information

Stanbic Uganda is majority-owned by Stanbic Africa Holdings Limited (SAHL), which is a private limited liability company incorporated in the United Kingdom. SAHL is, in turn, wholly-owned by Standard Bank Group and is the vehicle through which Standard Bank Group holds its interests in several banks in African countries.

Standard Bank Group is a public limited liability company incorporated in South Africa and is listed on the JSE. It is the largest South African banking group by market capitalisation and by assets and earnings. Standard Bank Group had total assets of over ZAR 1,694 billion (approximately USD 162 billion) at 31 December 2014. The headline earnings are ZAR 17,294 million (USD 1.8 billion), the market capitalisation is ZAR 209.4 billion (USD 20 billion) and employs more than 49,000 people worldwide. The tier 1 capital adequacy ratio is 12.9%.

Standard Bank Group, which was founded in 1896 in South Africa, trades as Standard Bank in South Africa, Namibia, Mauritius, Mozambique and Swaziland and as Stanbic Bank throughout the remainder of the African continent. It has wide representation, which spans 20 African countries and owns a controlling stake in the South African listed insurance company and Liberty Holdings Limited. While its principal activities are banking and related financial services, Standard Bank Group has diversified its operations to meet the demands of the fast changing and demanding business world, with investments in insurance, wealth management and investment management. It provides a wide range of banking and related financial services.

Shareholder Information

Chairman's letter to shareholders

Dear shareholder

I extend an invitation to you to attend the annual general meeting (AGM) of Stanbic Bank Uganda Limited to be held at .... on 5 May 2015 at 11h00.

This is your opportunity to meet and question members of the Stanbic Bank Uganda Limited board regarding the company's performance for the year ended 31 December 2014.

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

I also urge shareholders who have not yet opened securities accounts with the Securities Central Depository (SCD) for the deposit and safe keeping of their shares to do so. Only shareholders who have immobilised their shares in the SCD can trade them.

Explanatory note on resolutions to be tabled at the AGM

Explanatory note on resolutions to be tabled at the AGM

The AGM will deal with the following ordinary business:

- to receive the annual financial statements for the year ended 31 December 2014 as required in terms of the Companies Act;

  to declare a dividend;
- to confirm the appointment of external auditors of the Company for 2015;

  to confirm the appointment of a new director and elect directors in place of those retiring in accordance with the provisions of the Company's articles of association. Mr. Japheth Buleetwa Katto is required to be confirmed following his appointment as Chairman of the Board. Ms. Barbara Mulwana and Dr. Samuel Sejjaaka retire by rotation. All being eligible offer themselves for re-election. Their abridged curriculum vitae have been included in the notice.
- in line with the Company's articles of association, you will be requested to approve the non-executive directors' fees in respect of 2015, which have been considered by the Board Compensation Committee and recommended by the Board.

I look forward to meeting you at the AGM.

Japheth Katto

Chairman, Board of Directors

Notice to members

Notice is hereby given that the annual general meeting (AGM) of Stanbic Bank Uganda Limited will be held at …………………………………………………………….. on 5th May 2015 at 11h00 for the following business:

Agenda

1. To receive the annual financial statement for the year ended 31 December 2015 including the reports of the directors and auditors.
2. To declare a dividend for the year 2014.
3. To confirm the appointment of external auditors for the Company for 2015.
4. To confirm the appointment of a new director and elect directors in place of those retiring in accordance with the provisions of the Company's articles of association.

   Mr. Japheth Buleetwa Katto is required to be confirmed following his appointment as Chairman of the Board. Ms Barbara Mulwana and Dr. Samuel Sejjaaka retire by rotation. All being eligible offer themselves for re-election.
5. To approve the proposed fees payable to the non-executive directors for 2015.
   - Chairman of Stanbic Bank Uganda Limited – UGX 115,216,200 per annum
   - Director of Stanbic Bank Uganda Limited – UGX 40,492,650 per annum
   - Board audit committee
     - chairman – sitting allowance of – UGX 28,386,600 per annum
     - member – sitting allowance of – UGX 14,610,600 per annum
   - Board compensation committee
     - chairman – sitting allowance of – UGX 6 528 918 per annum
     - member – sitting allowance of – UGX 5 376 750 per annum
   - Board risk management committee
     - chairman – sitting allowance of – UGX 17 794 260 per annum
     - member – sitting allowance of – UGX 11,688,600 per annum
   - Board credit committee
     - chairman – sitting allowance of – UGX 13,057,836 per annum
     - member – sitting allowance of – UGX 10,753,512 per annum
   - Fee for engagement on Bank business outside board – UGX 611,160 per event subject to approval of the board chairman.
     The reason for this resolution is to grant the company the authority to pay fees to its directors for their services as directors.
     The proposed fees will be effective from 1 January 2015 and paid quarterly in arrears. In determining the proposed remuneration, the board considered,
     - the level, extend and nature of the non-executive directors' legal and regulatory oversight responsibilities;
     - the time demanded of non-executive directors in attending to Company matters;
     - the level of risk assumed by the non-executive directors in performing their duties;
     - changes in the cost of living as a result of inflation; and
     - reviews of comparative remuneration offered by other major Ugandan and international banks.

Notes

1 **Details of directors**

Directors' details as required by the Listing Rules of the Uganda Securities Exchange Limited ("the Listing Rules') are set out on page 42 of the annual report that accompanies this notice of annual general meeting ("the Annual Report").

2 **Directors' responsibility statement**

The directors, whose names are given on pages 42 of the Annual Report, collectively and individually accept full responsibility for the accuracy of the information given in the Annual Report and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement in the Annual Report false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by law and the Listing Rules.

3 **Interests of directors**

The interests of the directors in the share capital of the Company are set out on page 52 of the Annual Report.

4 **Major shareholders**

Details of major shareholders of the Company are set out on page 110 of the Annual Report.

5 **Share capital of the Company**

Details of the share capital of the Company are set out on pages 52 of the Annual Report.

6 **Material change**

There has been no material change in the financial or trading position of the Company and its subsidiaries since the date of publication of the Company's annual results on 27 March, 2015.

Stanbic Bank Uganda Limited shareholders may attend, speak and vote at the annual general meeting or may appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and vote at the annual general meeting on behalf of such shareholder. A proxy form is attached to this notice of annual general meeting. Duly completed proxy forms must be returned to the share registrars of the Company or the registered office of the Company at the addresses set out below, to be received by not later than 17h00 on Thursday 30th of April 2015.

____
On behalf of the board
Brendah Nabatanzi Mpanga
Company Secretary
17 April 2015

Registered office
Crested Towers, Short Tower
17 Hannington Road
Kampala, Uganda
PO Box 7131
Kampala, Uganda
Fax: +256 41 4230608 636 4207

Share registrars
Deloitte (Uganda) Ltd
3rd Floor, Rwenzori House,
1 Lumumba Avenue, Kampala
P O Box 10314
Kampala, Uganda
Telephone: +256 414 343850
Fax: +256 414 343887

Bond registrars
Stanbic Bank Uganda Limited
Crested Towers, Short Tower
17 Hannington Road
Kampala, Uganda
PO Box 7131
Kampala, Uganda
Fax: +256 41 4230608 /636 4207

Proxy form

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

I/We ____ (*Name in block letters*)

of ____(*Address in block letters*)

being a shareholder(s) and the holder(s) of _________ ordinary shares of UShs. 1 each and entitled to vote hereby appoint

1 ____or, failing him/her

2 ____or, failing him/her

the Chairman of the annual general meeting,

as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of shareholders to be held at ....
.... in the morning, and at any adjournment thereof as follows:

	Number of votes for*	Number of votes against*	Abstain*
Ordinary resolution to:			
1. Receive the annual financial statements			
2. Declare a dividend			
3. Elect directors 3.1 Confirm appointment of Japheth B Katto 3.2 Samuel Sejjaaka 3.3 Barbara Mulwana			
4. Approve the appointment of PricewaterhouseCoopers as auditors of the Company.			
5. Approve non-executive directors' remuneration			

* *Insert a cross or tick or number of votes. If no options are marked, the proxy can vote as he/she deems fit.*

Signed at ____________________________on ____2015

Assisted by (where applicable) (State capacity and full name) ___________________________________

Please provide contact details:

Tel: ( ) ____

Fax: ( ) ____

e-mail: ____

Please read the notes on the next page

Notes

1 A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2 To be effective, completed proxy forms must be lodged by not later than Friday 2 May with either the share registrars or the registered office:

Registered address
Crested Towers, Short Tower
17 Hannington Road
Kampala, Uganda
PO Box 7131
Kampala, Uganda
Fax: +256 41 4230608/ 636 4207

Share registrars
Deloitte (Uganda) Ltd
3rd Floor, Rwenzori House,
1 Lumumba Avenue, Kampala
P O Box 10314
Kampala, Uganda
Telephone: +256 414 343850
Fax: +256 414 343887

3 The completion and lodging of this form of proxy will not prevent the relevant shareholder from attending the annual general meeting and speaking and voting in person at the annual general meeting instead of the proxy.

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

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

6 Documentary evidence establishing the authority of a person signing the proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company. In the case of a corporation, a resolution of the board or equivalent body shall be required.

7 Where there are joint holders of ordinary shares:

(a) any one holder may sign the proxy form; and

(b) the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders who tender a vote (whether in person or by proxy) appear in the Company's register) will be accepted as to the exclusion of the vote(s) of the other joint shareholders.

Contact details

Chief Financial Officer
Victor Yeboah Manu
Tel: +25641 7154396

Company Secretary
Brendah Nabatanzi Mpanga
Tel: +25641 7154606

Investor Relations enquiries
Tel: +25641 7154337

Stanbic Bank Uganda Branches Countrywide

	REGION	E-MAIL	TELEPHONE	FAX
	CENTRAL REGION			
1	City	city_branch@stanbic.com	0414 255 527	0414 349 226
2	Corporate	CorporateB@stanbic.com	0312 224 410	0414 231 918
3	Entebbe Main	EbbMain@stanbic.com	0417 155 045	
4	Forest Mall	Forestmall_Branch@stanbic.com	0312 335 800	
5	Garden City	Garden_CityBranchG@stanbic.com	0312 262 979/80	0312 262 975
6	Garden City, Executive Branch		0414 259 681	0414 230 447
7	Industrial Area	Industrialarea_branch@stanbic.com	0312 335 538	
8	IPS	IPS_Branch@stanbic.com	0417 155 045	
9	Kalangala	Kalangala_Branch@stanbic.com	0392 733 102	0392 251 102
10	Katwe	KatweB@stanbic.com	0414 256 199	0414 253 922
11	Kiboga	Kiboga_Branch@stanbic.com	0392 733 310/11	0392 251 230
12	Kikuubo	Kikuubo_Branch@stanbic.com	0414 251 805	
13	Kireka	Kireka_branch@stanbic.com	0414 286 829	0414 222 946
14	Kyambogo	Kyambogo_Branch@stanbic.com	0312 335 130/1/2	0414 289 077
15	Kyotera	Kyotera_Branch@stanbic.com	0392 222 203	0392 280 039
16	Lugazi	Lugazi_BranchL@stanbic.com	0414 448 263	0414 448 263
17	Lugogo	LugogoBr@stanbic.com	0414 223 672	0414 223 674
18	Luwero	Luwero_Branch@stanbic.com	0772 222 209	0414 610 066
19	Lyantonde	Lyantonde_Branch@stanbic.com	0392 700 514	0481 420 744
20	Makerere University	MUKBranch@stanbic.com	0414 532 960	0414 535 137
21	Masaka	Masaka@stanbic.com	0312 335 440	0481 4 21 481
22	Mityana	Mityana_BranchM@stanbic.com	0417 515 222	
23	Mpigi	Mpigi_Branch@stanbic.com	0392 748 147	0414 710 239
24	Mubende	Mubende_Branch@stanbic.com	0464 444 054	0464 444 056
25	Mukono	MukonoB@stanbic.com	0414 290 758	0414 290 757
26	Mulago	Mulago_Branch@stanbic.com	0414 543 232	
27	Nakasero	Nakasero_Branch@stanbic.com	0417 335 761	
28	Nakawa	Nakawa_BranchN@stanbic.com	0414 505 556	0414 505 802
29	Nakivubo	Nakivubo_BranchN@stanbic.com	0414 230 914	0414 253 920
30	Nateete	Nateete_Branch@stanbic.com	0312 225 780	
31	Ntinda	Ntinda_Branch@stanbic.com	0313 335 770	
32	Wandegeya	WdgyBranch@stanbic.com	0414 541 404 0414 532 973	
33	William Street	WilliamSt_Branch@stanbic.com	0392 733 310/11	0392 251 230
	EASTERN REGION			
34	Busia	Busia_BranchB@stanbic.com	0454 443 251	0454 434 947
35	Iganga	Iganga_BranchI@stanbic.com	0434 242 030	0392 250 921
36	Jinja	Jinja_Branch@stanbic.com	0434 120 421	0434 121 046
37	Kakira	Kakira_Branch@stanbic.com	0434 123 922/3	0434 123 923
38	Kamuli	Kamuli_Branch@stanbic.com	0772 222 205	0434 353 085

	REGION	E-MAIL	TELEPHONE	FAX
	EASTERN REGION			
39	Kapchorwa	Kapchorwa_BranchK@stanbic.com	0392 222 207	0454 451 018
40	Kumi	Kumi_Branch@stanbic.com	0454 471 020	0454 471 020
41	Mbale	MbaleB@stanbic.com	0454 434 943	0454 433 196
42	Pallisa	Pallisa_Branch@stanbic.com	0772 222 213	0454 475 005
43	Soroti	Soroti_Branch@stanbic.com	0454 461 033	0454 461 441
44	Tororo	TororoB@stanbic.com	0454 445 002	0454 445 062
	WESTERN REGION			
45	Buliisa	Buliisa_Branch@stanbic.com	0392 700 618 0782 282 430 0702 282 430	
46	Bundibugyo	Bundibugyo@stanbic.com	0392 701 526	
47	Bushenyi	Bushenyi_BranchB@stanbic.com	0312 335 410	
48	Fort Portal	FortalPortal@stanbic.com	0312 335 530	0483 422 295
49	Hoima	Hoima_branch@stanbic.com	0312 335 570/2	0465 440 425
50	Ibanda	IbandaB@stanbic.com	0485 426 014	
51	Ishaka	Ishaka_Branch@stanbic.com	0312 335 400	0392 250 617
52	Kabale	Kabale_Branch@stanbic.com	0312 335 480	0486 422 017
53	Kabwohe	Kabwohe_BranchB@stanbic.com	0392 700 926	0392 250 925
54	Kasese	Kasese_Branch@stanbic.com	0312 335 540	0483 444 943
55	Kigumba	KigumbaB@stanbic.com	0392 701 540	
56	Kihihi	KihihiB@stanbic.com	0392 733 101	0392 251 331
57	Kinyara	KinyaraB@stanbic.com	0392 701 539	0392 252 539
58	Kisoro	Kisoro_Branch@stanbic.com	0392 222 206	0486 430 008
59	Masindi	Masindi_Branch@stanbic.com	0312 335 560/4	0465 420 043
60	Mbarara	Mbarara@stanbic.com	0312 335 380	0485 421 353
61	Ntungamo	Ntungamo_Branch@stanbic.com	0485 424 010	0485 424 083
62	Rukungiri	Rukungiri_Branch@stanbic.com	0486 442 008	0486 442 600
	NORTHERN REGION			
63	Adjumani	Adjumani_Branch@stanbic.com	0392 700 965	0392 250 965
64	Apac	Apac_Branch@stanbic.com	0772 222 204	
65	Arua	Arua@stanbic.com	0312 335 620	0476 420 294
66	Gulu	Gulu_BranchB@stanbic.com	0471 432 001	
67	Kitgum	Kitgum_Branch@stanbic.com	0312 335 670	
68	Koboko	Koboko@stanbic.com	0392 701 544/47	
69	Kotido	Kotido_Branch@stanbic.com	0392 733 104	
70	Lira	Lira_Branch@stanbic.com	0312 335 610 0473 420 800	0473 420 014
71	Moroto	Moroto_Branch@stanbic.com	0454 470 200	
72	Moyo	Moyo_BranchM@stanbic.com	0476 449 128	0392 250 341
73	Nebbi		0392 222 210	
74	Pader	Pader_Branch@stanbic.com	0392 225 901	
75	Pakwach	Pakwach_Branch@stanbic.com	0392 701 922	0772 280 068

Stanbic Bank Uganda Customer Service Points (CSPs)

	REGION	E-MAIL	TELEPHONE
	WITHOUT AUTOBANK (ATM)		
1	Magoba (opposite exit of Old Taxi Park)	Magoba_Branch@stanbic.com	0417 155 002
2	Nagatule Plaza (opposite Shell, Ben Kiwanuka Street)	Nagatule_CSP@stanbic.com	0414 251 789
3	Shopper's Stop Plaza (behind Shoprite, Ben Kiwanuka Street)	Shoppers_CSP@stanbic.com	0312 266 918
	WITH AUTOBANK (ATM)		
4	Abim	Abim_CSP@stanbic.com	0392 733 104
5	Bwera	Bwera_CSP@stanbic.com	0483 444 872
6	Dokolo	Dokolo_CSP@stanbic.com	0473 420 800
7	Kaabong	Kaabong_CSP@stanbic.com	0392 912 046
8	Kagadi	Kagadi_CSP@stanbic.com	0392 700 852
9	Katakwi	Katakwi_CSP@stanbic.com	0456 144 258 0454 461 033
10	Kawempe	Kawempe_CSP@stanbic.com	0414 230 914
11	Kayunga	Kayunga_CSP@stanbic.com	0414 290 758
12	Kyenjojo	Kyenjojo_CSP@stanbic.com	0883 423 039
13	Mayuge	Mayuge_CSP@stanbic.com	0434 242 030 0434 242 550
14	Sironko	Sironko_CSP@stanbic.com	0352 280 132 0454 434 927 0454 434 946 0454 431 071
15	Wobulenzi	Wobulenzi_CSP@stanbic.com	0772 222 209
16	Yumbe	Yumbe_CSP@stanbic.com	0392 701 544

www.stanbicbank.co.ug

Walking the transformation journey with Uganda

Not surprisingly, Uganda qualifies as one of the durable African success stories. We have walked this journey with Uganda, transforming lives by providing capital to support economic growth and driving our citizenship and sustainability agenda.

Uganda's continued prosperity hinges on shifting the economy to a higher productivity level and integrating all its regions and activities into the development process. By continuing to provide sustainable financing which is crucial for this journey, we are committed to remaining central partners in transforming lives for a better Uganda.