



Annual Report
2008

CONTENTS



Crane Bank Limited

Annual Report and Financial Statements
for the year ended 31 December 2008

5	Corporate information
9	Chairman's Statement
11	Managing Directors Statement
13	Report of the directors
17	Statement of directors' responsibilities
19	Independent auditor's report
21	Profit & Loss Account
23	Balance sheet
24	Statement of changes in equity
25	Cash flow statement
26	Notes to the financial statements

Bank of the Year
 UGANDA
 2003-2005
 2006-2007-2008



The Banker Global Award salute outstanding performances by commercial banks in all the world's regions.

They are the cream of the global banking community and the best achievers in the industry.

The Banker's Bank of the Year country awards acknowledge banks for the best overall performance in their country.



Crane Bank Limited Corporate Information

Profile

Crane Bank has been in operation for 14 years having been established in 1995. The bank has 10 branches in Kampala, Nakivubo, Jinja, Iganga, Mbale, Lira, Kabale, Mbarara, Kyambogo & Gulu and ranks among the top five commercial banks in the country. Crane Bank for the 5th time in 6 years and four times in a row won the coveted Bank of Year 2008 presented by The Banker which is an associate publication of The Financial times. The bank's net profits last year rose by 61.42% and equity was up to 43.50% from 43% in 2007. The cost income ratio was cut to 56.45% from 58.20% and the NPA ratio reduced to 0.54% from 0.87% of the total loans and advance.

The Crane Bank's management team consists of 60 experienced bankers, financial analysts, qualified accountants and risk managers with considerable expertise in all facets of banking including traditional banking, specialized skill in handling advising and counseling on foreign exchange transactions, merchant banking, retail & wholesale banking, investment banking and international trade

Corporate Mission

Crane Bank is a profit focused bank dedicated to the common objective of providing the highest quality service to our customers and clients in Uganda and around the world.

WE WILL STRIVE:

- » To provide to our team members – loyalty, opportunities and rewards
- » To provide to our customers – Personalized service to meet their needs
- » To provide to our community – leadership, economic growth and philanthropy
- » To provide to our shareholders – financial gains and sustainability

By adopting the highest levels of ethical, legal and moral standards.



Directors

S. D. Muwanguzi - Chairman
 S. Ruparelia - Vice-Chairman
 R. Kantaria***
 J. Ruparelia*
 J. Nagrecha*
 F. Opio
 T. Mugenga
 J. Biribonwa
 A. R. Kalan** - Managing Director
 A. Kumar** - Deputy Managing Director

*British
 **Indian
 ***Kenyan

Company Secretary

Reghu S. Nair
 P. O. Box 22572
 Kampala

Registered Office and Head Office

Crane Chambers
 Plot 38, Kampala Road
 P. O. Box 22572
 Kampala

Tel: +256 41 4341414/4341420/4345345
 Fax: +256 41 4231578
 Email: cranebank@cranebanklimited.com
 Web: www.cranebanklimited.com

Branches

Jinja
 Plot 40, Lubas Road
 P. O. Box 321 Jinja
 Tel: +256 434 122060/122061
 Fax: +256 434 123086

Iganga
 Plot 80/82, Main Street
 P. O. Box 105 Iganga
 Tel: +256 434 242488/9/242490/1
 Fax: +256 434 242493

Mbarara
 Plot 51, High Street
 P. O. Box 403 Mbarara
 Tel: +256 485 420220/23/24/32
 Fax: +256 485 420236

Mbale
 Plot 47, Republic Street
 P. O. Box 897 Mbale
 Tel: +256 454 35764/34876/34894
 Fax: +256 454 35463

Gulu
 Plot 23, Gulu Avenue
 P. O. Box 56 Gulu
 Tel: +256 471 432331/2/432320/1
 Fax: +256 471 432314

Kyambogo
 Plot 48/50, Mukabya Road
 P. O. Box 22572 Kampala
 Tel: +256 414 288708/780

Kampala
 Plot 40A, Gaggawalo Shavliykao Bldg.
 P. O. Box 22571 Kampala
 Tel: +256 414 236386/252976
 Fax: +256 414 231642

Lira
 Plot 48, Lira Avenue
 P. O. Box 456 Lira
 Tel: +256 473 420971/4
 Fax: +256 471 432314

Kabale
 Plot 143/145, Kabale Road
 P. O. Box 452 Kabale
 Tel: +256 486 422110/112/113/116/117

Auditors

PricewaterhouseCoopers
 Certified Public Accountants
 Communications House
 1 Colville Street
 P. O. Box 882 Kampala (Uganda)



Mr Samson D. Muwanguzi, Chairman

Chairman's Statement

I am delighted to present Crane Bank's financial statements for the year ended 31st December 2008. Crane Bank delivered a solid financial performance and continues to make strong strategic progress, which is indeed a remarkable achievement.

Crane Bank's performance for the year 2008 is undoubtedly a clear testimony to the underlying strength of the business resulting from the strong foundation built over the years through our continued investment in infrastructure and products.

The banking and financial services industry globally has witnessed extraordinary times in 2008. The landscape for financial services, at least in the short-term, has changed dramatically in the developed markets. The current global financial turmoil which is rooted to the sub prime mortgage crisis has cascaded and caused a severe downturn to the world economy. It is therefore our expectation that the growth of the financial sector may also witness a downtrend in the year 2009.

The Uganda economy grew by 8.7% in real terms in Financial Year 2007/08. Impressive growth was registered in the financial services Industry and Service Sectors whilst the growth in the Agricultural sector was below expectation. Export of Goods and services Foreign Direct Investments and remittances registered impressive growth in the same period. However in 2009, We expect the economy to slowdown, the GDP growth estimates revised downwards from 7.5% to 6.0%, reduced Foreign Direct Investments (FDI) and Inward remittances from the Diaspora.

The initiatives by Bank of Uganda in setting up of a Credit Reference Bureau (CRB) and the associated Financial Card System (FCS) is another milestone in the development of Uganda's financial sector. This development opens up exciting opportunities to tap the retail segment with new products and services.

Crane Bank's initiatives in expanding and penetrating SME's, trade finance and expanding our Branch network has yielded positive results. The branch expansion program has so far been very successful. With the number of branches poised to grow from 7 to 15 we can now confidently say that Crane Bank has a nation wide presence. The Bank continued to outperform the industry in managing the credits risk as is evident from the extremely low Non-performing assets to total advances ratio.

During the year, we have taken our Corporate Social responsibility initiatives to the next level by supporting Persons with Disabilities who are provided with equal opportunity in employment thereby recognizing that disability does not mean inability.

Crane Bank will continue to leverage growth opportunities in Uganda and regionally to make a significant contribution to the integrated development of the country and build a platform for sustained growth that will create value for our stakeholders.

As always with the continued support and participation of all our Stakeholders- Promoters, the Directors, Customers, Management and Staff, we should ably consolidate our position in the Ugandan Banking industry.

Finally, I take this opportunity to express my gratitude to the Bank of Uganda for their vision and guidance and to the Government for pursuing good economic policies thereby creating a supportive business environment which motivates businesses and at the same time contribute to the development of Uganda.

May God bless us all

Serving to grow, growing to serve

Samson D. Muwanguzi
Chairman



Mr A. R. Kalan, Managing Director

Managing Director's Statement on 2008 performance:

Dear Stakeholders,

It is a pleasure for me to present the financial statements for the year 2008. Looking at the progress made by the Bank over the past year, I am indeed delighted, and proud, of Crane Bank's achievements in 2008. It was a year of excellent results despite being a challenging year.

First of all let me highlight the achievements of the year 2008:

- 】 Profit before taxes increased 57.28% to Ush34.78 billion in 2008 from Ush22.11 billion in 2007
- 】 Profit after tax increased 61.42% to Ush25.88 billion in 2008 from Ush16.03 billion in 2007.
- 】 Total Assets increased by 20.37 % to Ush430.96 billion in 2008 from Ush358.04 billion in 2007.
- 】 Increase in loans & advances by 44.44 % to Ush208.79 billion in 2008 from Ush144.55 billion in 2007
- 】 Non- Performing assets to total advance ratio of 0.54 % in 2008 from 0.58 % in 2007
- 】 Increase in customer deposits by 17.77 % to Ush341.56 billion in 2008 from Ush290.02 billion in 2007
- 】 Equity increased by 43.49 % to Ush75.01 billion in 2008 from Ush52.27 billion in 2007

Crane Bank was once again awarded the Banker of the year 2008- Uganda for the fourth time in 5 years, and in addition for the first time in its history was also awarded Best Bank –Uganda by Euromoney 2008 amongst other successes, recording yet another milestone in the Bank's history

The global economy and the banking sector in particular have faced the most serious financial crises since the 1930's. While the economies of our region have been more resilient than many of our Western counterparts, we have not been immune to the ramifications of the global financial crisis.

Our plans to list on the Uganda Securities Exchange were deferred due to the Global Financial Crisis leading to the general slackness in Capital Market activity. We shall defer our endeavor until the market improves to enable the Ugandan public to participate in the equity of Crane Bank so as to encourage wider ownership of shares and to facilitate the development of Uganda's financial markets.

The outlook for our principal lines of business remains favorable owing to the robust macroeconomic environment, increasing corporate activity and active inter regional trade and commerce. The development of our branch network and service quality in all regions, where the acceleration of economic growth, coupled with low penetration of banking products, creates specially attractive opportunities.

We have clearly identified the regions where we want to enhance our presence by expanding our branch network. Such plans are already being executed: we are all set to increase our branch network from 7 to 15 in the year 2009 and expand our ATM and point of sale network significantly in the same period. We are all set to launch our Internet Banking Platform, Credit Card Product and Telephone Banking products in the year 2009.

We cherish our strong liquidity, capital position, credit quality and earnings. I believe this is exactly what our stakeholders expect and deserve from Crane Bank. Having established Crane Bank as one of the major players in the Ugandan Banking Industry, we have now embarked on a path of significant long-term growth. Over the coming year, we will build on the accomplishments of 2008 and continue striving to increase our market presence and our development as a countrywide financial institution.

I would like to place on record my gratitude for all the guidance and co-operation received from our Customers, Board of Directors, Bank of Uganda and other government and regulatory agencies. I would also like to take this opportunity to express my appreciation for the hard work and dedicated efforts put in by the Bank's employees and look forward to their continued contribution in enabling us to live to our motto of serving to grow, growing to serve thereby creating a World Class Ugandan Bank.

A.R.Kalan
Managing Director



Dr Sudhir Ruparelia, Vice Chairman

Report Of The Directors

The directors present their report together with the audited financial statements of the company for the year ended 31 December 2008.

Activities

The company is engaged in the business of banking and provision of related services and is licensed under the Financial Institutions Act, 2004.

Corporate Governance

Crane Bank Limited has established a tradition of best practices in corporate governance. The corporate governance framework in Crane Bank Limited is based on an effective independent board, the separation of the board's supervisory role from the executive management and the constitution of board committees generally comprising a majority of non-executive directors and chaired by a non-executive director to oversee critical areas.

Philosophy of corporate governance

The Bank's corporate governance philosophy encompasses not only regulatory and legal requirements, but also several best practices aimed at a high level of business ethics, effective supervision and enhancement of value for all stakeholder. The corporate governance framework at Crane Bank is based on an effective and independent Board, the separation of the Board's supervisory role from the executive management and the constitution of Board committees comprising a majority of independent Directors and chaired by an independent Director, to oversee all functional areas.

Board of Directors

Crane Bank Limited has a broad-based board of directors. The board functions either as a full board or through various committees constituted to oversee specific operational areas. The board has constituted five committees.

These are the:

1. Audit Committee;
2. Credit Committee;
3. Human Resources and Compensation Committee;
4. Asset Liability Management Committee;
5. Risk Management Committee;

All these Board Committees are constituted and chaired by non-executive directors. As at 31 December 2008, the board of directors consisted of 10 members.

RESULTS 2008

	Ush '000
Profit before taxation	34,782,352
Taxation - charge	(8,907,279)
Net profit for the year	25,875,073



CRANE BANK'S CORPORATE SOCIAL RESPONSIBILITY INITIATIVES DURING THE YEAR 2008 INCLUDED:

- **Supporting heart patients**
- **Supporting Cancer patients**
- **Free Eye Camps**
- **Church reconstructions and other philanthropic activities**
- **Sports sponsorship such as Golf tournament etc**
- **Employing persons with disabilities**

Corporate Social Responsibility

At Crane Bank corporate social responsibility is not inconstant with objectives of profitability and Shareholder Value. Crane Bank has always recognized the responsibility Corporates should have towards the wider communities they operate in. The Bank's objective in this area is enshrined in its mission statement " To provide to our community – leadership, economic growth and philanthropy." As a constructive partner in the communities in which we operate, Crane Bank has been taking concrete actions to realize its social responsibility objectives, thereby building sustainable long-term value creation. Crane bank's Corporate Social Responsibility initiatives also seeks to catalyse and accelerate social and economic inclusion by bridging economic and human developments gaps.

Information Technology

Crane Bank continues to deploy technology for use in banking. Continued focus on leveraging technology has resulted in process efficiencies and enhanced customer convenience. Crane Bank has identified technology as a key driver of its growth strategy and continues to leverage information technology as a strategic tool for its business operations to gain competitive advantage by offering customer convenience and improved service as well as improving productivity and efficiency.

The Bank's technology strategy emphasises enhanced levels of customer service on a 24 hour basis, multi-channel banking, straight-through processing, cost efficiency through optimal use of technology-driven channels, wider and focused market reach and opportunities for cross-selling. The Bank has also embarked on augmenting the traditional channels with offering on Internet Banking, Telephone Banking and Mobile Banking with a view to enhance customer convenience and provide services on a continuous and location independent basis.

Dividend

The directors recommend payment of dividend of Ugx.6,500,000,000 with respect to the 12 months ended 31 December 2008.

Directors

The present membership of the board is shown on page 7.

Auditors

PricewaterhouseCoopers were appointed auditor during the year, and continue in office in accordance with the Financial Institutions Act 2004.

BY ORDER OF THE BOARD

Secretary
Kampala
18th March 2009

Board of Directors



Mr Samson Muwanguzi
Chairman



Dr Sudhir Ruparelia
Vice Chairman



Mr A. R. Kalan
Managing Director



Mr Joseph N. Biribonwa
Director



Mrs Jyotsna Ruparelia
Director



Dr Fred Opio
Director



Mr Ajay Kumar
Deputy Managing Director



Mr Tom Mugenga
Director



Mr Jagdish Nagrecha
Director



Mr Rasik Kantaria
Director

Statement Of Directors' Responsibilities

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 company

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its profit or loss 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, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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.

Signed on behalf of the board of directors by;

Mr Samson Muwanguzi
Chairman

Dr Sudhir Ruparelia
Vice Chairman

Mr A. R. Kalan
Managing Director

18th March 2009



Report of the independent auditor to the members of Crane Bank Limited

Report on the financial statements

We have audited the accompanying financial statements of Crane Bank Limited set out on pages 21 to 52. These financial statements comprise the balance sheet at 31 December 2008, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory note

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Ugandan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances

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 the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the bank's financial affairs at 31 December 2008 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 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 company, so far as appears from our examination of those books
- iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

Certified Public Accountants
Kampala
24th March 2009

PricewaterhouseCoopers
PRICEWATERHOUSECOOPERS
Certified Public Accountants
Kampala
24 March 2009

Financial Statements

For the year ended 31 december 2008
Profit and Loss Account



	Notes	2008 Ush '000	Restated 2007 Ush '000
INTEREST INCOME	4	58,546,724	39,903,665
INTEREST EXPENSE	5	(21,338,243)	(14,164,508)
NET INTEREST INCOME		37,208,481	25,739,157
Fees and commissions income		15,003,568	10,462,663
Net gains on foreign exchange dealings		5,870,215	4,624,832
Net gains on disposal of available for sale securities		454,330	-
Other operating income		-	619,268
NET OPERATING INCOME		58,536,594	41,445,920
Operating expenses	6	(23,118,156)	(17,752,169)
Provision for impaired loans and advances	13	(636,086)	(1,579,362)
PROFIT BEFORE INCOME TAX		34,782,352	22,114,390
INCOME TAX EXPENSE	8	(8,907,279)	(6,085,174)
PROFIT FOR THE YEAR		25,875,073	16,029,216

Balance Sheet

As at 31 December 2008

	Note	2008 Ush '000	Restated 2007 Ush '000
ASSETS			
Cash and balances with Bank of Uganda	9	38,656,741	36,579,712
Deposits and balances due from banking institutions	10	33,522,062	68,386,502
Government securities - Held to maturity	11	113,228,681	84,320,088
Loans and Advances to customers (Net)	12	207,638,893	144,152,220
Investment in equity shares - available for sale	21	8,997,135	558,063
Property and equipment	14	17,864,536	14,595,230
Operating lease prepayments	15	1,151,211	1,148,865
Intangible asset	16	3,918,318	2,416,426
Other assets	17	5,242,523	5,141,615
Goodwill	18	690,392	690,392
Investment in a subsidiary company	19	50,000	50,000
Investment in medium term notes - Held to maturity	20	-	5,000
TOTAL ASSETS		430,960,492	358,044,113
EQUITY AND LIABILITIES			
Customer deposits	23	341,558,887	290,020,055
Other liabilities	24	7,217,184	4,227,922
Current income tax payable		2,757,135	341,592
Deposits and balances due to banking institutions		1,275,000	8,250,000
Deferred income tax liability	22	3,146,132	2,930,101
TOTAL LIABILITIES		355,954,337	305,769,670
EQUITY			
Share capital	25	50,000,000	34,000,000
Retained earnings		21,361,670	16,359,567
Investments fair value reserve	33	1,314,364	457,724
Regulatory reserve	34	2,330,121	1,457,152
TOTAL EQUITY		75,006,155	52,274,443
TOTAL EQUITY AND LIABILITIES		430,960,492	358,044,113

The financial statements on pages 21 to 52 were approved by the board of directors on 18th March 2009 and were signed on its behalf by:

Mr Samson Muwanguzi
Chairman

Dr Sudhir Ruparelia
Vice Chairman

Mr A. R. Kalan
Managing Director



Statement Of Changes In Equity

For the year ended 31 december 2008

	Share capital Ush '000	Retained earnings Ush '000	Investments fair value reserve Ush '000	Regulatory reserve Ush '000	Total Ush '000
Year ended 31 December 2007					
At 1 January 2007	5,000,000	32,130,351	104,259	1,200,574	38,435,184
Fair value gains on AFS investments for the year	-	-	353,465	-	353,465
Transfer to regulatory reserve	-	(300,000)	-	300,000	-
Amount recognised directly in equity	-	(300,000)	353,465	300,000	353,465
Profit for the year as previously reported	-	18,754,195	-	-	18,754,195
Prior period adjustments:					
Accrued interest income on treasury bonds	-	(2,105,711)	-	-	(2,105,711)
Deferral of loan arrangement and utilisation fees	-	(619,268)	-	-	(619,268)
Profite of the year as restated	-	16,029,216	-	-	16,029,216
Total income recognised for 2007	-	15,729,216	353,465	300,000	16,382,681
Dividend paid during the year	-	(2,500,000)	-	-	(2,500,000)
Foreign exchange revaluation loss	-	-	-	(43,422)	(43,422)
Issue of bonus ordinary shares	29,000,000	(29,000,000)	-	-	-
At 31 December 2007	34,000,000	16,359,567	457,724	1,457,152	52,274,443
Year ended 31 December 2008					
At 1 January 2008 as previously stated	34,000,000	19,084,545	457,724	1,457,152	54,999,421
Prior period adjustments	-	(2,724,979)	-	-	(2,724,979)
At 1 January 2008 as restated	34,000,000	16,359,566	457,724	1,457,152	52,274,442
Transfer to regulatory reserve	-	(872,969)	-	872,969	-
Net change in available for sale fair value reserve	-	-	856,640	-	856,640
Amounts recognised directly in equity	-	(872,969)	856,640	872,969	856,640
Profit for the year	-	25,875,073	-	-	25,875,073
Total income recognised for 2008	-	25,002,104	856,640	872,969	26,731,713
Dividend paid during the year	-	(4,000,000)	-	-	(4,000,000)
Issue of bonus ordinary shares	16,000,000	(16,000,000)	-	-	-
At 31 December 2008	50,000,000	21,361,670	1,314,364	2,330,121	75,006,155

Cash Flow Statements

For the year ended 31 December 2008

	2008 Ush '000	2007 Ush '000
CASH GENERATED FROM OPERATING ACTIVITIES		
Interest Received	59,075,385	35,285,089
Interest Paid	(16,272,106)	(13,313,408)
Fees and commissions received	15,003,568	10,462,663
Net gains on foreign exchange dealings	5,870,215	4,581,411
Other operating income	454,330	619,268
Operating expenses	(20,609,653)	(17,438,267)
Income tax paid	(6,839,004)	(5,367,890)
Recoveries of loans previously written off	523,448	375,638
Cashflows from operating activities before changes in operating assets	37,206,183	15,204,504
Changes in operating assets and liabilities		
Government securities	(29,437,254)	(51,143,887)
Loans and advances	(64,646,207)	(27,663,993)
Available for sale investment securities	(7,019,133)	(7,665)
Medium term notes	5,000	5,000
Other assets	265,401	3,991,293
Operating lease rentals	(2,346)	(1,073,732)
Customer deposits	46,472,695	116,677,554
Deposits from other financial institutions	(6,975,000)	8,000,000
Other liabilities	2,989,262	2,202,843
Net Cash generated from operations	(21,141,399)	66,191,917
Cash flow from investing activities		
Purchase of property, plant and equipment	(5,471,751)	(5,261,279)
Purchase of intangible assets	(2,208,261)	(315,430)
Disposal of property, plant and equipment	34,000	9,400
Net cash used in investing activities	(7,646,012)	(5,567,309)
Financing activities		
Dividends paid	(4,000,000)	(2,500,000)
Net cash used in financing activities	4,000,000	2,500,000
Net (decrease)/ increase in cash and cash equivalents	(32,787,411)	58,124,608
Movement in cash and cash equivalents		
At beginning of period	104,966,214	46,841,606
Net (decrease)/ increase	(32,787,411)	58,124,608
At end of period	72,178,803	104,966,214
Balance sheet	72,178,803	104,966,214

Notes

1 GENERAL INFORMATION

Crane Bank Limited is incorporated in Uganda under the Companies Act, and is licensed to carry out financial institution business under the Financial Institutions Act 2004. The address of the registered office is:

Plot 38
Crane Chambers
Kampala Road
P.O. Box 22572
Kampala
Uganda

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Uganda Shillings (Ush), rounded to the nearest thousands.

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

New interpretations and amendments to existing standards effective in 2008

In 2008, several new interpretations and an amendment to IAS 39: Financial Instruments - Recognition and Measurement became effective to the bank's financial statements for the first time. The interpretations and amendment have not had an impact on the bank's financial statements.

Standards and amendments to published standards that are not yet effective

One new standard (IFRS 8: Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the bank's accounting periods beginning on or after 1 January 2009, but the bank has not early-adopted any of them.

The Directors have assessed the relevance of the new standard and

interpretations and amendments to existing standards with respect to the bank's operations and concluded that they will not have any impact on the bank's financial statements, other than for the amendment to IAS 1 - Presentation of Financial Statements which requires non-owner changes in equity to be presented in a Comprehensive Statement of Income.

Consolidation

The results of the Bank's 100% owned subsidiary company, Crane Financial Services Limited, have not been consolidated in these financial statements because, in the opinion of the directors, this would provide no real benefit to the shareholders in view of the insignificant amounts involved as detailed in note 19.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' in the profit and loss account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

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

Translation of foreign currencies

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

NOTES (continued)

Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets 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 as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading. Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or
- they form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

At the end of the year, there were no financial assets classified as at fair value through profit or loss.

(ii) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as held for trading and those that the Company on initial recognition designates as at fair value through profit and loss; (b) those that the Company 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.

(iii) Held-to maturity

Held-to-maturity assets 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 Company 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 assets are non-derivatives that are either designated in this category or not classified in any other categories.

Regular way 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 Company 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 Company has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the profit and loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Company's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

Impairment of financial assets

The bank assesses at each balance sheet 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:

- (a) significant financial difficulty of the borrower;
- (b) a breach of contract, such as default or delinquency in interest or principal repayments;
- (c) 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;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) 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:



NOTES (continued)

- (i) adverse changes in the payment status of borrowers in the group; or
- (ii) 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 all financial assets. 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 assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the bank's business and product segments). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Bank is also required by the Financial Institutions Act 2004 to estimate losses on loans and advances as follows:

- i) A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Bank of Uganda, as follows:

- a) substandard assets with arrears period between 90 and 180 days – 20%;
- b) doubtful assets with arrears period between 180 days and 360 days – 50%;
- c) loss assets with arrears period over 360 days – 100%.
- d) loss assets are to be written off against accumulated provisions within 90 days of being identified as a loss.

In addition to the arrears period, banks must follow subjective criteria in arriving at the classification attributable to the assets.

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

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

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 profit and loss account.

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 statement.

(i) Assets carried at amortised cost

The Company 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 Company determines that 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 financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss

NOTES (continued)

is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

(ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(iii) Renegotiated loans

For purposes of classifying loans in accordance with the requirements of the Financial Institutions Act 2004, loans whose terms have been renegotiated remain classified within non-performing loans for the next 12 months.

Financial Liabilities

After initial recognition, the bank measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Borrowings

Borrowings are measured at amortised cost.

Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Freehold land is not depreciated. Depreciation on other assets is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

Leasehold Buildings	Over lower of lease term and 2%
Fixtures, fittings and equipment	10%
Motor vehicles	25%
Computers	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Company assesses at each reporting date whether there is any indication that any item of property, plant and equipment is impaired. If any such indication exists, the Company estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

Leasehold land

Payments to acquire interests in leasehold land are treated as operating lease prepayments and amortised over the term of the related lease.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. The cost of the intangible assets is the value of consideration given to acquire the assets and the value of other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended service. Intangible assets are amortised over their useful economic life, being 5 or 10 years.

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the bank acts in a fiduciary capacity such as nominee, trustee or agent.

Investment in a subsidiary company

The Investment in a subsidiary company is stated at cost less provision for impairment loss where applicable.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.



NOTES (continued)

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant lease.

The Bank as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Goodwill

Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Tax is recognised in the profit and loss account unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity. 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 recognised, 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, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet 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.

Retirement benefits

The Bank contributes to the statutory National Social Security Fund (NSSF) on behalf of its employees. This is a defined contribution scheme registered under the NSSF Act. The bank's obligations under the scheme are specific contributions legislated from time to time and are currently limited to 10% of the respective employees' salaries. The bank's contributions are charged to the income statement in the year in which they relate.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and balances with Bank of Uganda,

treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with Bank of Uganda.

Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the 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. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

Critical accounting estimates and judgement in applying the entity's accounting policies

In the process of applying the entity's accounting policies, management has made 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. These are dealt with below:

Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit and loss account, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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.

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 maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the bank evaluates its intention and ability to hold

NOTES (continued)

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 reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Income tax expense

The bank is liable to income tax in Uganda based on various laws and regulations. Management applies judgment in interpreting legislation and regulations applicable to income tax payable by the bank. In making this judgment, management relies on relevant professional advice.

3 FINANCIAL RISK MANAGEMENT

a) Risk management framework

Risk is an integral part of the banking business and Crane Bank Limited aims at the delivery of superior shareholder value by achieving an appropriate trade-off between risk and returns. The Bank is exposed to various risks, including credit risk, market risk and operational risk. Our risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked with the industry best practices. The risk management function at Crane Bank Limited is supported by a Board Risk Management Committee using a comprehensive range of quantitative tools.

The Board Risk Management Committee is responsible for the assessment, management and mitigation of risk in the Bank. This Committee is accountable to the Board of Directors. The Internal Audit department independently reviews the risk assumed on a periodic basis and reports to Board of Directors.

b) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the Board Credit Committee which reports regularly to the Board of Directors.

The Bank structures the levels of credit risk it undertakes by placing limits over and above the regulatory 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 frequent review.

Exposure to credit risk is managed through regular analysis of the ability of

borrowers and potential borrowers to meet interest and capital repayment obligations. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, which is a significant portion of the loan portfolio.

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 the 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.

NOTES (continued)

	2008 Ush'000	2007 Ush'000
Maximum exposure to credit risk before collateral held		
Cash and balance with Bank of Uganda	38,656,741	36,579,712
Deposits and balances due from banking institutions	33,522,062	68,386,502
Government securities - Held to maturity	113,228,681	84,320,088
Loans and advances to customers	207,638,893	144,152,220
Investment in equity shares - available for sale	8,997,135	558,063
Investment in medium term notes - Held to maturity	-	5,000
Credit risk exposures relating to off-balance sheet items:		
Acceptances and letters of credit	6,987,186	4,840,670
Guarantee and performance bonds	13,830,705	10,892,736
Commitments to lend	34,119,676	16,648,614
Total	456,981,079	366,383,605

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2008 and 2007, 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 carrying amounts as reported in the balance sheet.

As shown above, 45.43% of the total maximum exposure is derived from loans and advances to banks and customers (2007: 39.35%). 24.77% represents investments in debt securities (2007: 23.01%).

Loans and advances to customers are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees.

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

1. The Bank exercises stringent controls over the granting of new loans
2. 75.48% of the loans and advances portfolio are neither past due nor impaired
3. 99.73% of the loans and advances portfolio are backed by collateral
4. 100% of the investments in debt securities are government securities.

	2008 Ush'000	2007 Ush'000
Loans and advances are summarised as follows:		
Neither past due nor impaired	157,602,610	104,915,342
Past due but not impaired	50,067,141	38,792,356
Individually impaired	1,119,557	841,989
Gross	208,789,308	144,549,687
Less: allowance for impairment (Note 13)	1,150,415	397,467
Net	207,638,893	144,152,220

NOTES (continued)

No other financial assets are either past due or impaired.

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank:

	2008 Ush'000	2007 Ush'000
Loans and advances are summarised as follows:		
Standard	128,506,281	78,634,583
Watch List	29,096,329	26,280,759
Total	157,602,610	104,915,342

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

Past due up to 30 days	20,970,812	12,511,637
Past due 31 – 60 days	-	-
Past due 61 – 90 days	29,096,329	26,280,759
Total	50,067,141	38,792,396
Fair value of collateral held	429,125,800	348,599,769

Loans and advances individually impaired

Of the total gross amount of impaired loans, the following amounts have been individually assessed:

	Loans		Overdrafts	
	2008 Ush'000	2007 Ush'000	2008 Ush'000	2007 Ush'000
Individually assessed impaired loans and advances	401,499	439,827	718,058	402,162
Fair value of collateral held	1,084,000	1,852,000	1,170,000	610,000

c) Market risk

Market risk is the risk of loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The Bank's exposure to market risk is a function of its asset and liability management activities and its role as a financial intermediary in customer related transactions. The objective of market risk management is to minimise the impact of losses due to market risks on earnings and equity capital. Market risk policies include Asset-Liability Management (ALM) policies. ALM policies are approved by the Asset-Liability Board Committee (ALCO) and the Board of Directors. ALCO's role encompasses stipulating liquidity, interest rate and foreign exchange risk limits, monitoring risk levels by adherence to set limits, articulating the Bank's interest rate view and determining business strategy in the light of the current and expected business environment. These sets of policies and processes are articulated in the ALM policy.

NOTES (continued)

d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

i) ORIGINAL CONTRACTUAL MATURITY ANALYSIS

The bank's liquidity position is as follows:

	Within 3 months Ush '000	More than 3 months but less than 6 months Ush '000	More than 6 months but less than 12 months Ush '000	Over 12 months Ush '000	Total Ush '000
ANALYSIS 31 DECEMBER 2008					
ASSETS					
Cash and bank balances with Bank of Uganda	38,656,741	-	-	-	38,656,741
Deposits and balances due from banking institutions	33,522,062	-	-	-	33,522,062
Government securities		9,158,652	47,027,856	57,042,173	113,228,681
Loans and advances to customers	54,299,897	6,081,278	118,320,238	28,937,480	207,638,893
Investment in equity shares				8,997,135	8,997,135
Property and equipment				17,864,536	17,864,536
Operating lease prepayments				1,151,211	1,151,211
Intangible assets				3,918,318	3,918,318
Other assets				5,242,523	5,242,523
Goodwill				690,393	690,393
Investment in a subsidiary company				50,000	50,000
Total assets	126,478,700	15,239,930	165,348,094	123,893,769	430,960,493
Equity and Liabilities					
Customer deposits	161,575,196	5,638,468	142,824,697	31,520,526	341,558,887
Other liabilities	4,251,035	582,921	201,042	2,182,186	7,217,184
Current income tax payable				2,757,135	2,757,135
Deposits and balances due to banking institutions	1,275,000				1,275,000
Deferred income tax liability				3,146,132	3,146,132
Share Holders Funds				75,006,155	75,006,155
Total equity and liabilities	167,101,231	6,221,389	143,025,739	114,612,134	430,960,493
Net liquidity gap	(40,622,531)	9,018,541	22,322,355	9,281,635	-
31 December 2007					
Total financial assets	160,638,744	5,109,760	136,357,190	55,938,419	358,044,113
Total financial liabilities	188,074,023	18,212,815	52,126,942	99,630,334	358,044,113
Net liquidity gap	(27,435,279)	(13,103,055)	84,230,248	(43,691,915)	-

NOTES (continued)

ii) REMAINING CONTRACTUAL MATURITY ANALYSIS

The bank's liquidity position is as follows:

	Within 3 months Ush '000	More than 3 months but less than 6 months Ush '000	More than 6 months but less than 12 months Ush '000	Over 12 months Ush '000	Total Ush '000
31 December 2008					
ASSETS					
Cash and bank balances with Bank of Uganda	38,656,741				38,656,741
Deposits and balances due from banking institutions	33,522,062				33,522,062
Government securities	11,956,211	15,860,586	44,831,121	40,580,763	113,228,681
Loans and advances to customers	90,164,679	35,578,913	81,417,117	478,184	207,638,893
Investment in equity shares				8,997,135	8,997,135
Property and equipment				17,864,536	17,864,536
Operating lease prepayments				1,151,211	1,151,211
Intangible assets				4,257,675	3,918,318
Other assets				5,242,523	5,242,523
Goodwill				690,392	690,392
Investment in a subsidiary company				50,000	50,000
Total assets	174,299,693	51,439,499	126,248,238	79,312,419	430,960,492
Equity and Liabilities					
Customer deposits	227,082,191	40,280,276	70,748,012	3,448,408	341,558,887
Other liabilities	4,807,852	249,489	77,032	2,082,811	7,217,184
Tax payable				2,757,135	2,757,135
Deposits and balances due to banking institutions	1,275,000				1,275,000
Deferred income tax liability				3,146,132	3,146,132
Share Holders Funds				75,006,155	75,006,155
Total equity and liabilities	233,165,043	40,529,765	70,825,044	86,440,640	430,960,492
Net liquidity gap	(58,865,350)	10,909,734	55,423,194	(7,128,221)	-
31 December 2007					
Total financial assets	195,629,243	60,939,497	54,944,510	46,530,863	358,044,113
Total financial liabilities	240,743,705	24,823,161	32,424,238	60,053,010	358,044,113
Net liquidity gap	(45,114,462)	36,116,336	22,520,272	(13,522,147)	-

NOTES (continued)

e) Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations of the levels of prevailing market interest rates on its financial position and cash flows. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. The table below summarises the exposure to interest rate risks. Included in the table below are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items.

i) ORIGINAL CONTRACTUAL MATURITY ANALYSIS

	Within 3 months Ush '000	More than 3 months but less than 6 months Ush '000	Over 6 months Ush '000	Non interest bearing Ush '000	Total Ush '000
31 DECEMBER 2008					
ASSETS					
Cash and bank balances with Bank of Uganda	-	-	-	38,656,741	38,656,741
Deposits and balances due from banking institutions	33,522,062				33,522,062
Government securities	9,158,652	47,027,856	57,042,173		113,228,681
Loans and advances to customers	54,299,897	6,081,278	147,145,139	112,579	207,638,893
Property and equipment				17,864,536	17,864,536
Operating lease prepayments				1,151,211	1,151,211
Intangible asset				3,918,318	3,918,318
Goodwill				690,392	690,392
Other assets				5,242,523	5,242,523
Investment in a subsidiary company				50,000	50,000
Investment in medium term notes					-
Investment in equity shares				8,997,135	8,997,135
Tax recoverable					
Total assets	96,980,611	53,109,134	204,187,312	76,683,435	430,960,492
Liabilities					
Customer deposits	149,223,747	5,420,393	167,602,188	19,312,559	341,558,887
Other liabilities				7,217,184	7,217,184
Tax payable				2,757,135	2,757,135
Deposits and balances due to banking institutions	1,275,000				1,275,000
Deferred income tax liability				3,146,132	3,146,132
Total liabilities	150,498,747	5,420,393	167,602,188	32,433,009	355,954,337
Interest sensitivity gap	(53,518,136)	47,688,741	36,585,124	-	30,755,729
31 December 2007					
Total assets	120,415,173	5,109,760	170,894,354	61,624,826	358,044,113
Total liabilities	173,451,000	17,760,372	95,729,292	18,829,006	305,769,670
Interest sensitivity gap	(53,035,827)	(12,650,612)	75,165,062	-	9,478,623

NOTES (continued)

e) Interest rate risk
ii) REMAINING CONTRACTUAL MATURITY ANALYSIS

	Within 3 months Ush '000	More than 3 months but less than 6 months Ush '000	Over 6 months Ush '000	Non interest bearing Ush '000	Total Ush '000
31 DECEMBER 2008					
ASSETS					
Cash and bank balances with Bank of Uganda	-	-	-	38,656,741	38,656,741
Deposits and balances due from banking institutions	33,522,062				33,522,062
Government securities	11,956,211	15,860,586	85,411,884		113,228,681
Loans and advances to customers	90,195,537	35,578,913	81,751,864	112,579	207,638,893
Property and equipment				17,864,536	17,864,536
Operating lease prepayments				1,151,211	1,151,211
Intangible asset				3,918,318	3,918,318
Goodwill				690,392	690,392
Other assets				5,242,523	5,242,523
Investment in a subsidiary company				50,000	50,000
Investment in medium term notes					-
Investment in equity shares				8,997,135	8,997,135
Tax recoverable					
Total assets	135,673,810	51,439,499	167,163,748	76,683,435	430,960,492
Liabilities					
Customer deposits	212,197,172	38,722,382	71,326,774	19,312,559	341,558,887
Other liabilities				7,217,184	7,217,184
Tax payable				2,757,135	2,757,135
Deposits and balances due to banking institutions	1,275,000				1,275,000
Deferred income tax liability				3,146,132	3,146,132
Total liabilities	213,472,172	38,722,382	71,326,774	32,433,009	355,954,337
Interest sensitivity gap	(77,798,362)	12,717,117	95,836,974	-	30,755,729
31 December 2007					
Total assets	154,452,186	60,639,877	81,327,224	61,624,826	358,044,113
Total liabilities	225,827,823	24,324,098	36,788,743	18,829,006	305,769,670
Interest sensitivity gap	(71,375,637)	36,315,779	44,538,481	42,795,820	9,478,623

NOTES (continued)

f) Currency risk

The bank's currency position is as follows:

	Uganda shillings Ush '000	US dollars Ush '000	Sterling pounds Ush '000	Euro Ush '000	Other Ush '000	Total Ush'000
31 DECEMBER 2008						
ASSETS						
Cash and bank balances with Bank of Uganda	34,696,577	2,507,721	388,792	1,017,103	46,548	38,656,741
Deposits and balances due from banking institutions	2,135,791	24,680,973	4,187,899	1,127,769	1,389,630	33,522,062
Government securities	113,228,681	-	-	-	-	113,228,681
Loans and advances to customers	139,074,299	68,387,984	105,673	69,951	986	207,638,893
Property and equipment	17,864,536	-	-	-	-	17,864,536
Operating lease prepayments	1,151,211	-	-	-	-	1,151,211
Intangible asset	3,918,318	-	-	-	-	3,918,318
Goodwill	690,392	-	-	-	-	690,392
Other assets	4,782,531	459,993	-	-	-	5,242,523
Investment in a subsidiary company	50,000	-	-	-	-	50,000
Investment in medium term notes	-	-	-	-	-	-
Investment in equity shares	8,632,032	-	-	-	365,103	8,997,135
Tax recoverable	-	-	-	-	-	-
TOTAL ASSETS	326,224,368	96,036,671	4,682,364	2,214,823	1,802,267	430,960,492
LIABILITIES AND SHAREHOLDERS' FUNDS						
Customer deposits	253,729,019	82,121,790	3,995,051	1,376,471	336,556	341,558,887
Other liabilities	3,281,144	2,376,520	567,699	7,289	984,532	7,217,184
Tax recoverable	2,757,135	-	-	-	-	2,757,135
Deposits and balances due to banking institutions	1,000,000	-	-	-	275,000	1,275,000
Deferred income tax liability	3,146,132	-	-	-	-	3,146,132
TOTAL LIABILITIES	263,913,429	84,498,310	4,562,750	1,383,760	1,596,088	355,954,337
NET BALANCE SHEET POSITION	62,310,939	11,538,361	119,614	831,063	206,179	75,006,155
31 December 2007						
Total assets	231,533,148	122,592,168	2,111,975	1,256,778	550,044	358,044,113
Total liabilities	176,908,322	126,150,013	2,139,431	571,754	150	305,769,670
NET BALANCE SHEET POSITION	54,624,826	(3,557,845)	(27,456)	685,024	549,894	52,274,443

The bank operates wholly within Uganda and its assets and liabilities are reported in the local currency.

NOTES (continued)

g) Capital adequacy and management

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Uganda for supervisory purposes. The required information is filed with the Bank of Uganda on a monthly basis.

The Bank of Uganda requires each bank to: (a) hold the minimum level of regulatory capital of Ush 250 million; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The bank's total regulatory capital is divided into two tiers:

■ **Tier 1 capital (core capital): share capital, share premium, plus retained earnings.**

■ **Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.**

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank monitors the adequacy of its capital using ratios established by the Bank for International Settlements (BIS) and the Bank of Uganda. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments, market and other risk positions at a weighted amount to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies, 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. Five categories of risk weights (0%, 20%, 50%, 70% and 100%) are applied. Cash and money instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. A placement with a correspondent bank which have minimum long term rating by internationally recognized agencies of AAA to AA- will be subject to risk weight of 20%. Property and equipment carried a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet related commitments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of shareholders' equity. Tier 2 capital includes the Bank's eligible long term debt and general provisions.

NOTES (continued)

	Nominal balance sheet amounts		Risk weighted amounts	
	2008 Ush '000	2007 Ush '000	2008 Ush '000	2007 Ush '000
Balance sheet assets (net of provisions)				
Cash and balances with Bank of Uganda	38,656,741	36,579,712	-	-
Deposits and balances due from banking institutions	33,522,062	68,386,502	10,383,681	13,983,246
Government securities	113,228,681	84,320,088	-	-
Net advances to customers	207,638,893	144,152,220	202,113,059	137,925,129
Property and equipment	17,864,536	14,595,230	17,864,536	14,595,230
Operating lease prepayments	1,151,211	1,148,865	1,151,211	1,148,865
Goodwill	690,392	690,392	690,392	690,392
Intangible assets	3,918,318	2,416,426	3,918,318	2,416,426
Other assets	5,242,523	5,141,615	3,047,019	5,141,614
Investment in a subsidiary company	50,000	50,000	-	-
Investment in bonds	-	5,000	-	5,000
Investment in equity shares	8,997,135	558,063	8,997,135	558,063
Tax recoverable	-	-	-	-
	430,960,492	358,044,113	248,165,351	176,463,965
Off-balance sheet positions				
Credit related commitments	54,937,567	32,382,020	27,309,589	15,881,965
TOTAL RISK-WEIGHTED ASSETS			275,474,940	192,345,930

BIS capital ratios	Capital		BIS%	
	2008 Ush '000	2007 Ush '000	2008 %	2007 %
Tier 1 capital	71,866,145	50,309,567	26.09%	26.16%
Tier 1 + Tier 2 capital	75,510,630	52,224,443	27.41%	27.15%

The above computation indicates that the Bank complies with the capital adequacy requirements under Section 27 of the Financial Institutions Act, 2004.

NOTES (continued)

h) IFRS 7 Market risks - sensitivity analysis

The objective of Crane Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the Bank's mission.

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce Crane Bank's income or capital.

A principal part of Crane Bank's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling) and the sensitivity of future earnings and capital to varying foreign exchange rates. Crane Bank aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital.

For simulation modeling, Crane Bank uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on Crane Bank's earnings and capital.

a) Interest Rate Risks – Increase / Decrease of 10% in Net Interest Margin

The Interest Rate Risks sensitivity analysis is based on the following assumptions.

- ▶ Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments
- ▶ Changes in Market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- ▶ The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modeling is applied to Net interest margins.
- ▶ The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- ▶ The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2009. Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below;

	Amount 31-Dec-08 Ush (millions)	Scenario 1	Scenario 2
		10% Increase in Net interest margin Ush (millions)	10% Decrease in Net interest margin Ush (millions)
Profit Before Income Tax	34,782	38,212	31,352
Adjusted Core Capital	71,866	75,296	68,436
Adjusted Total Capital	75,511	78,941	72,081
Risk Weighted Assets (RWA)	275,814	279,244	272,384
	%	%	%
Adjusted Core Capital to RWA	26.06%	26.96%	25.12%
Adjusted total Capital to RWA	27.38%	28.27%	26.46%

Assuming no management actions, a series of such rises would increase net interest income for 2009 by Ush 3,430 million, while a series of such falls would decrease net interest income for 2009 by Ush 3,430 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.90% and 0.89% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.94% and 0.92% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

NOTES (continued)

b) Foreign Exchange Risks – Appreciation/Depreciation of Ush against other currencies by 10%

The Foreign Exchange Risks sensitivity analysis is based on the following assumptions;

- Foreign exchange exposures represent net currency positions of all currencies other than Uganda Shillings.
- The Currency Risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The Base currency in which Crane Bank's business is transacted are Uganda Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2009.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below;

	Amount 31-Dec-08 Ush (millions)	Scenario 1 10% Appreciation of Ush Ush (millions)	Scenario 2 10% Depreciation of Ush Ush (millions)
Profit Before Income Tax	34,782	34,598	34,966
Adjusted Core Capital	71,866	71,682	72,050
Adjusted Total Capital	75,511	75,327	75,695
Risk Weighted Assets (RWA)	275,814	275,630	275,998
Adjusted Core Capital to RWA	26.06%	26.01%	26.11%
Adjusted total Capital to RWA	27.38%	27.33%	27.43%

Assuming no management actions, a series of such appreciation would decrease earnings for 2009 by Ush 184 million, while a series of such falls would increase net interest income for 2009 by Ush 184 million.

Also a series of such rises would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.05% and 0.05% respectively, while a series of such falls would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.05% and 0.05% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively

c) Financial Risk on Investment in equity shares – Appreciation/Depreciation of 25%

The Risk sensitivity analysis on Investments in equity is based on the following assumptions;

- Investments are made in Uganda Stock Exchange and Nairobi Stock Exchange.
- The Base currency in which Crane Bank's business is transacted are Uganda Shillings.

The table below sets out the impact on future earnings of an incremental 25% parallel fall or rise in the investments market value at the beginning of each quarter during the 12 months from 1 January 2009.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below;

	Amount 31-Dec-08 Ush (millions)	Scenario 1 25% Appreciation of Ush Ush (millions)	Scenario 2 25% Depreciation of Ush Ush (millions)
Profit Before Income Tax	34,782	37,031	32,533
Adjusted Core Capital	71,866	74,115	69,617
Adjusted Total Capital	75,511	77,760	73,262
Risk Weighted Assets (RWA)	275,814	278,063	273,565
Adjusted Core Capital to RWA	26.06%	26.06%	25.45%
Adjusted total Capital to RWA	27.38%	27.96%	26.78%

Assuming no management actions, a series of such appreciation would increase Investment Fair Value Reserve for 2009 by Ush935 million, while a series of such falls would decrease future earnings by Ush935 Million (Net of Investment Fairvalue Reserve Ush1,314 million).

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0% and 0.58% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.61% and 0.60% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively

NOTES (continued)

	2008 Ush '000	2007 Ush '000
4 INTEREST INCOME		
On loans and advances	43,759,228	29,494,144
On Government securities	12,765,488	8,528,818
On placements	2,022,008	1,880,703
	58,546,724	39,903,665
5 INTEREST EXPENSE		
Fixed and short term deposits	17,863,588	12,343,013
Demand deposits	2,219,007	1,011,187
Savings accounts	1,255,648	810,308
	21,338,243	14,164,508
6 OPERATING EXPENSES		
Administration expenses	8,470,166	5,841,611
Establishment expenses	4,546,982	4,178,764
Management fees	2,471,801	2,029,827
Depreciation	2,197,093	1,559,763
Employee Benefits Expense (note 7)	3,217,485	2,650,070
Directors' emoluments	921,250	840,000
Deposit protection fund contribution	447,415	310,871
Amortisation of intangible asset	706,369	230,134
Auditors' remuneration	98,500	69,987
Amortisation of operating lease prepayments	41,095	41,142
	23,118,156	17,752,169
7 EMPLOYEE BENEFITS EXPENSES		
Salaries and wages	2,130,326	2,012,689
Other benefits	874,027	454,758
National Social Security Fund contributions	213,132	182,623
	3,217,485	2,650,070
8 INCOME TAX EXPENSE		
(a) Income Tax Expense		
Income tax	(9,254,547)	(5,718,319)
Deferred income	347,268	(366,855)
	(8,907,279)	(6,085,174)
(b) Reconciliation of income tax expense		
The 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:		
Profit before income tax	34,782,352	22,114,389
Tax at applicable rate of 30%	(10,434,706)	(6,634,317)
Tax effect of non-taxable income	3,592,159	2,767,894
Prior year under-provision for current income tax	(606,950)	(1,017,271)
Prior year over-provision for deferred income tax	457,040	-
Tax effect of prior year under provision	-	(51,789)
Withholding tax on bills interest and dividend	(1,914,823)	(1,149,691)
Income Tax Expense	(8,907,280)	(6,085,174)
(c) Movement in current income tax payable		
At start of year	341,592	(8,838)
Current income tax expense	9,254,547	5,718,319
Income tax paid	(5,131,203)	(4,218,198)
Withholding tax suffered at source	(1,707,801)	(1,149,691)
	2,757,135	341,592

NOTES (continued)

	2008 Ush '000	2007 Ush '000
9 CASH AND BALANCES WITH BANK OF UGANDA		
Cash on hand	11,728,399	8,880,066
Balances with Bank of Uganda (includes the cash reserve requirement)	26,928,342	27,699,646
	38,656,741	36,579,712

Included in the balances with Bank of Uganda is a minimum cash reserve requirement maintained in accordance with the provisions of the Financial Institutions Act 2004. The reserve requirement is based on the value of customer deposits as adjusted by the Bank of Uganda and is monitored on a rolling fortnightly basis. These funds are available for the day to day operations of the bank. As at 31 December 2008, the reserve required was Ushs.29,815 million (2007: Ushs.32,009 million)

10 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

Maturing within 30 days of the balance sheet date:		
Balances due from correspondent banks - Foreign currency	27,065,805	8,835,834
Balances due from other banks - Local currency	21,065	21,065
Placements with other banks	6,435,192	59,529,603
	33,522,062	68,386,502

11 GOVERNMENT SECURITIES - Held to maturity

Treasury bills-redemption value	52,492,343	21,665,300
Less: unearned interest	4,416,114	1,223,872
Maturing within one year	48,076,229	20,441,428
Treasury Bond - at amortised cost	65,152,452	63,878,660
	113,228,681	84,320,088

All the above securities mature after 90 days of the date of acquisition

12 (a) LOANS AND ADVANCES TO CUSTOMERS

Overdrafts	98,633,407	61,989,887
Loans	108,797,855	81,589,885
Bills discounted	976,869	390,101
Advances to staff	86,887	39,383
Finance leases ^{12b}	294,290	540,431
Gross advances	208,789,308	144,549,687
Less: Provision for impaired loans and advances ¹³		
Individually assessed	(33,630)	(397,467)
Collectively assessed	(1,116,785)	0
	(1,150,415)	(397,467)
	207,638,893	144,152,220

Included in overdrafts are amounts due from related parties amounting to approximately Ushs.469 million (2007 - Ush 439 million). The aggregate amount of non performing loans and advances was Ush 1,119 million (2007 - Ush 841 million). This is included in the balance sheet net of provisions amounting to Ush 1,085 million (2007 - Ush 444 million).

The maturity analysis of advances to customers is as follows:

Within three months	54,299,897	54,134,381
Between three and six months	6,081,278	4,500,460
Over six months	148,408,133	85,517,379
Gross advances to customers	208,789,308	144,152,220

Economic risk concentration within loans and advances portfolio is as follows:

Trade and commerce	68,823,907	41,353,548
Agriculture	13,630,599	12,118,421
Manufacturing	14,056,021	12,459,888
Transport, communication, electricity and water	7,387,947	2,924,155
Building and construction	34,846,281	3,631,292
Others	70,044,553	71,664,916
	208,789,308	144,152,220

As at 31 December 2008, the bank had no exposures to a single borrower or group of borrowers exceeding 25% of the core capital of the bank.

NOTES (continued)

12 (b) FINANCE LEASE RECEIVABLES

	Minimum lease receipts		Present value of minimum lease payments	
	2008 Ush '000	2007 Ush '000	2008 Ush '000	2007 Ush '000
Amounts receivable under finance leases				
Within one year	323,766	323,766	294,290	294,290
Two-five years	-	323,766	-	246,141
	323,766	647,532	294,290	540,431
Less: Unearned income	(29,476)	(107,102)	n/a	n/a
Present value of minimum lease payments	294,290	540,431	294,290	540,431

The bank enters into finance leasing arrangements for some plant and equipment. The average term of the leases entered into is 5 years. Unguaranteed residual values of assets leased under the finance leases is estimated at nil (2007:nil).

13 PROVISION FOR IMPAIRED LOANS AND ADVANCES

	Individually assessed Ush '000	Collectively assessed Ush '000	Total Ush '000
At 1 January 2007	138,453	-	138,453
Provision for the year	1,955,000	-	1,955,000
Transfer from interest suspended to specific provisions	276,112	-	276,112
Amounts written off during the year	(1,968,726)	-	(1,968,726)
Exchange loss on valuation	(3,372)	-	(3,372)
At 31 December 2007	397,467	-	397,467
At 1 January 2008	397,467	-	397,467
Provision for the year	46,655	1,112,879	1,159,534
Amounts written off during the year	(410,492)	-	(410,492)
Exchange loss on valuation	-	3,906	3,906
At 31 December 2008	33,630	1,116,785	1,150,415

Reconciliation of movement in provisions for impairment of loans and advances to the charge for the year**Year ended 31 December 2007**

Increase	1,955,000	-	1,955,000
Recovery of amounts previously written off	(375,638)	0	(375,638)
Charge for the year	1,579,362	-	1,579,362

Year ended 31 December 2008

Increase	46,655	1,112,879	1,159,534
Recovery of amounts previously written off	(523,448)	0	(523,448)
Charge for the year	(476,793)	1,112,879	636,086

NOTES (continued)

	Freehold Land and buildings Ush '000	Equipment, furniture and fittings Ush '000	Computers Ush '000	Motor vehicles Ush '000	Total Ush '000
14 PROPERTY AND EQUIPMENT					
COST					
At 1 January 2007	2,084,615	9,563,625	6,868,515	871,981	19,388,736
Additions	1,668,334	905,169	2,447,276	240,500	5,261,279
Disposals	-	-	-	(15,300)	(15,300)
At 1 January 2008	3,752,949	10,468,794	9,315,791	1,097,181	24,634,715
Additions	2,767,483	2,094,664	479,804	129,800	5,471,751
Disposals	-	-	-	(62,000)	(62,000)
At 31 December 2008	6,520,432	12,563,458	9,795,595	1,164,981	30,044,466
DEPRECIATION					
At 1 January 2007	255,878	5,241,565	2,452,266	540,913	8,490,622
Charge for the year	123,493	641,820	653,291	141,159	1,559,763
Eliminated on disposals	-	-	-	(10,900)	(10,900)
At 1 January 2008	379,371	5,883,385	3,105,557	671,172	10,039,485
Charge for the year	137,609	790,700	887,477	381,409	2,197,195
Eliminated on disposals	-	-	-	(56,750)	(56,750)
At 31 December 2008	516,980	6,674,085	3,993,034	995,831	12,179,930
NET BOOK VALUE					
At 31 December 2008	6,003,452	5,889,373	5,802,561	169,150	17,864,536
At 31 December 2007	3,373,578	4,585,409	6,210,234	426,009	14,595,230

Included in equipment, furniture and fittings, computers and motor vehicles are assets with a cost of approximately Ush 1,236 million (2007 - Ush 1,396 million), which were fully depreciated. The nominal annual depreciation charge on these assets is approximately Ush 262 million (2007 - Ush 469 million).

15 OPERATING LEASE PREPAYMENTS

	2008 Ush '000	2007 Ush '000
COST		
At 1 January and 31 December	1,223,068	108,194
Additions: lease hold Land	43,441	1,114,874
	1,266,509	1,223,068
AMORTISATION		
At 1 January	74,203	33,061
Charge for the year	41,095	41,142
At 31 December	115,298	74,203
NET BOOK VALUE		
At 31 December	1,151,211	1,148,865

NOTES (continued)

16 INTANGIBLE ASSET
COST

	2008 Ush '000	2007 Ush '000
At 1 January	3,189,720	2,874,290
Additions: Computer Software	2,208,261	315,430
	5,397,981	3,189,720

AMORTISATION

At 1 January	773,294	543,159
Charge for the year	706,369	230,135
At 31 December	1,479,663	773,294

NET BOOK VALUE

At 31 December	3,918,318	2,416,426
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The intangible asset relates to computer software acquired to support the bank's operations.

17 OTHER ASSETS

Clearing accounts	2,744,381	2,026,999
Other receivables	2,498,142	3,095,911
Foreign currency dealing accounts	-	18,705
	5,242,523	5,141,615

18 GOODWILL
COST

At 1 January and 31 December	690,392	690,392
Amount recognised during the year	-	-
	690,392	690,392

During the year 2006, the bank acquired the business of Stanhope Finance Company. The difference between the net assets taken over and the consideration given was recognised as goodwill. The goodwill has been assessed for impairment as at 31 December 2008, however no impairment losses were noted.

19 INVESTMENT IN A SUBSIDIARY COMPANY
Crane Financial Services Limited:

At 1 January (50,000,000 shares at Ushs 1 each)	50,000	50,000
Additional investment in the year	-	-
50,000,000 ordinary shares of Ushs 1 each	50,000	50,000
Summary of results;		
Assets	435,004	3,501,175
Liabilities	(85,657)	(3,167,841)
Net Assets	349,347	333,334
Share holders equity	50,000	50,000
Retained earnings	299,347	283,334
Shareholders funds	349,347	333,334

Crane Financial Services Ltd is a 100% owned subsidiary of the bank which is a licensed broker on the Ugandan Securities Exchange. The results of Crane Financial Services Limited have not been consolidated in these financial statements because, in the opinion of the directors, this would provide no real benefit to the shareholders in view of the insignificant amounts involved.

NOTES (continued)

	2008 Ush '000	2007 Ush '000
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20 INVESTMENT IN MEDIUM TERM NOTES - Held to maturity

Medium term notes issued by Uganda Telecom Limited
Maturing in 2008

	2008 Ush '000	2007 Ush '000
At 1 January	5,000	10,000
Notes redeemed on maturity	(5,000)	(5,000)
At 31 December	-	5,000

Investment in bonds comprises medium term notes issued by Uganda Telecom Limited. These medium term notes were issued on 30 July 2003 under the Medium Term Note Programme listed on the Uganda Securities Exchange.

21 INVESTMENT IN EQUITY SHARES - Available for sale

	2008 Ush '000	2007 Ush '000
At 1 January	558,063	196,933
Shares Purchased/Allotted	7,019,133	7,665
Fair value gains	1,419,939	353,465
At 31 December	8,997,135	558,063

Investments in equity shares comprises 359,693 shares of New Vision Printing and Publishing Corporation Limited, 109,500 shares of Stanbic Bank U Ltd, 10,774,000 shares of Bank of Baroda, 2,036,769 shares of British American Tobacco, 4,056,700 shares of Safaricom Ltd. These shares are quoted on the Uganda Securities Exchange (except Safaricom Ltd listed in Nairobi Stock Exchange) and have been revalued at the closing price for December 2008 respectively.

22 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2007: 30%). The movement on the deferred income tax account is as follows:

	2008 Ush '000	Restated 2007 Ush '000
At start of year as previously stated	3,195,502	2,563,246
Prior year adjustment	(265,401)	-
Profit and Loss account (credit)/charge (Note 9)	(347,268)	366,855
Tax effect of revaluations of available-for-sale assets	563,299	-
At end of year	3,146,132	2,930,101

The deferred income tax asset, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge/(credit) in equity are attributable to the following items:

	At 1 January Ush'000	(Charged)/ credited to P/L Ush'000	Charged/ (credited) to equity Ush'000	At 31 December Ush'000
Year ended 31 December 2008				
Deferred income tax liabilities				
Property and equipment	3,195,502	52,611	-	3,248,113
Available for sale fair value reserve	-	0	563,299	563,299
	3,195,502	52,611	563,299	3,811,412
Deferred income tax assets				
Provisions for impairment	-	(335,036)	-	(335,036)
Deferred fee income	-	(330,245)	-	(330,245)
	-	(665,280)	-	(665,280)
Net deferred income tax liability	3,195,502	(612,669)	563,299	3,146,132
Year ended 31 December 2007				
Deferred income tax liability				
Property and equipment	2,563,246	632,256	-	3,195,502

NOTES (continued)

	2008 Ush '000	2007 Ush '000
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23 CUSTOMERS DEPOSIT

	2008 Ush '000	2007 Ush '000
Term deposits	196,977,337	108,052,128
Demand deposits	97,923,853	148,495,750
Savings accounts	38,732,830	30,613,447
Accrued interest	7,924,867	2,858,730
	341,558,887	290,020,055

The maturity analysis of customer deposits is as follows:

(a) From government and parastatals:

	2008 Ush '000	2007 Ush '000
Within three months	40,445,355	5,763,894
Between three and six months	27,532,949	4,850,375
Over six months	43,020,206	32,199,745
	110,998,510	42,814,014

(b) From private sector and individuals:

	2008 Ush '000	2007 Ush '000
Within three months	187,940,765	171,381,706
Between three and six months	12,919,543	12,909,997
Over six months	29,700,069	62,914,338
	230,560,377	247,206,041

	341,558,887	290,020,055
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24 OTHER LIABILITIES

	2008 Ush '000	2007 Ush '000
Bankers' cheques	283,367	94,406
Letters of credit and finance lease margins	1,881,822	1,228,192
Sundry liabilities	3,861,040	1,939,190
Deferred fee income	1,100,815	884,669
Foreign bills for collection	90,140	81,465
	7,217,184	4,227,922

Letters of credit are written by the 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. The customer deposits a percentage of the value of the letter of credit (the margin) with the bank and this is refundable when the term of the letter of credit expires or when performance of the guaranteed transaction is completed.

25 SHARE CAPITAL

Authorised, Issued and fully paid:

	2008 Ush '000	2007 Ush '000
50 billion (2007: 34 billion) ordinary shares of Ush 1 each	50,000,000	34,000,000

During the year, 16 billion bonus shares ranking pari passu with the existing shareholders were issued in the ratio of 8 shares for every 17 shares held by existing shareholders. The issued and fully paid up share capital was therefore increased to Ushs 50 billion by capitalising retained earnings.

26 ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CASH FLOW STATEMENT

	2008 Ush '000	2007 Ush '000
Cash at hand	11,728,399	8,880,066
Balances with Bank of Uganda	26,928,342	27,699,646
Deposits and balances due from other banks	33,522,062	68,386,502
	72,178,803	104,966,214

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the central bank and amounts due from other banks. Included within cash and cash equivalents is the minimum cash reserve requirement that is maintained in accordance with the provisions of the Financial Institutions Act 2004. The reserve is computed by the Bank of Uganda on a rolling fortnightly basis. This reserve is available for use in the bank's day-to-day operations.

NOTES (continued)

	2008 Ush '000	2007 Ush '000
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27 RELATED PARTIES' TRANSACTIONS

The bank is controlled by Mr Sudhir Ruparella who controls 66.67% of the voting rights in the bank by virtue of shares held directly and by close members of his family. There are other parties and companies connected to Crane Bank Limited through common shareholdings and/ or directorships.

In the normal course of business, current accounts/ overdrafts are operated and placings of foreign currencies are made with Crane Bank by other group companies at interest rates in line with the market. The relevant balances are shown below:

Loans and advances to group companies

At 1 January	439,540	448,240
Advances during the year	14,590,633	41,204,459
Repayments during the year	(14,588,365)	(41,201,446)
Exchange revaluation	27,730	(11,713)
At 31 December	469,538	439,540
Interest income earned on the above	506,198	476,955
Deposits due to:		
Other group companies	11,392,623	13,261,536
Interest paid to related parties	48,499	269,163

Advances to customers at 31 December 2008 include loans to directors, loans to companies controlled by directors or their families, and loans to employees as follows:

Loans to directors

At start of year	-	0
Advanced during the year	210,767	0
Repaid during the year	(166,500)	0
At end of year	44,267	0

At 31 December 2008 advances to companies controlled by directors or their families amounted to Ush.469 million (2007: Ush 439million). At 31 December 2008 advances to employees amounted to Ush 83 million (2007: Ush 39 million). All the above loans were issued at interest rates of 15% (2007: 15%) and were all performing as at 31 December 2008 and 2007.

Interest income earned on loans to Directors & Employee advances	33,255	13,274
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No provisions have been recognised in respect of loans given to related parties (2007: nil).

Deposits by directors

At start of year	432,161	224,314
Received during the year	23,862,826	12,489,676
Repaid during the year	(23,080,794)	(12,274,761)
Exchange Difference	66,359	(7,068)
At end of year	1,280,552	432,161
Interest expense incurred	16,564	7,543
Key management compensation		
Salaries and other short-term employment benefits	1,094,928	650,644
Termination benefits	0	0
Post-employment benefits	0	0
Other long-term benefits	0	0
	1,094,928	650,644

Directors' remuneration

Fees for services as a director	1,531,139	1,150,050
Other emoluments (included in key management compensation above)	72,797	85,547
	1,603,936	1,235,597

NOTES (continued)

	2008 Ush '000	2007 Ush '000
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27 RELATED PARTIES' TRANSACTIONS (cont.)
Deposits

At 1 January	13,261,536	16,457,959
Deposits during the year	677,339,589	584,412,620
Withdrawals during the year	(679,965,861)	(587,176,539)
Exchange revaluation	757,359	(432,504)
At 31 December	11,392,623	13,261,536

Interest:

Interest paid to related parties	48,499	269,163
Interest earned from related parties	506,198	476,955

All related party transactions are on commercial terms and in the normal course of business. Directors' emoluments have been disclosed in note 6.

Services Provided:

Rent for Premises		-
Management services provided	120,000	228,600

Services received:

Lease of premises and accommodation, Utilities	3,163,969	2,751,056
Insurance premium	487,028	424,662
Staff welfare expenses	154,105	110,489
Travelling expenses	104,535	43,625
Sundry expenses	348,160	672,451

Balances due from/to related parties as at 31 December 2008 are disclosed under note 12 and note 23.

28 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Amounts payable in respect of obligations under operating leases expiring:

Within one year	1,964,511	1,412,033
Between one and two years	1,764,023	1,328,008
Between two and five years	1,313,227	2,427,180
	5,041,761	5,167,221

29 CONTINGENT LIABILITIES

Letters of guarantee and performance bonds	13,830,705	10,892,736
Acceptances and letters of credit	6,987,186	4,840,670
Forward Contracts	-	1,190,000
	20,817,891	16,923,406

Included in the letters of guarantee and performance bonds is Ush 40 million issued in favour of the company's subsidiary, Crane Financial Services Limited.

OUTSTANDING LEGAL MATTERS

The bank is a defendant in a few outstanding legal cases. Based on professional legal advice, the outcome of all outstanding legal claims is not likely to result in material losses to the bank. Accordingly no provisions have been made in these financial statements.



NOTES (continued)

	2008 Ush '000	2007 Ush '000
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30 COMMITMENTS

Undrawn formal standby facilities, credit lines and other commitments to lend	34,119,676	16,648,614
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31 CAPITAL COMMITMENTS

Authorised and contracted for but not provided for in these financial statements	Nil	487,000
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32 PRIOR YEAR ADJUSTMENT

During the year a post period error was discovered regarding overstatement of accrued interest income amounting to Ush 2,106 million arising out of income recognition method used on secondary market purchases of Treasury Bonds. In addition, the bank has previously recognised loan arrangement and utilisation as and when received. During the year, this policy was changed so as to recognise such fees over the period to which they relate. These change was made in order to comply with International Financial Reporting Standards.

The impact on the financial statements of the prior period adjustments above was as follows:

- i) A reduction in previously reported interest income recognised in 2007 by Ush 2,106 million
- ii) A reduction in previously reported fees and commission income in 2007 by Ush 885 million
- iii) A reduction in the previously reported income tax expense for 2007 of Ush 265 million
- iv) A net decrease in the previously reported retained earnings and net assets of Ush 2,726 million

33 INVESTMENT FAIR VALUE RESERVE

IAS 39 requires the bank to recognise fair value gains on revaluation of Available For Sale financial instruments in the statement of changes in equity. These gains are then recycled to the income statement when the AFS financial instruments are derecognised. The Investment Valuation Reserve books the gains on the revaluation of AFS financial assets. The reserve is undistributable.

The movement in the reserve is stated below.

	2008 Ush '000	2007 Ush '000
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At 1 January	457,724	104,259
Fair value gains	1,602,374	353,465
Amounts transferred to profit and loss account	(182,435)	-
Deferred income tax on available for sale reserve	(563,299)	-
At 31 December	1,314,364	457,724

34 REGULATORY RESERVE

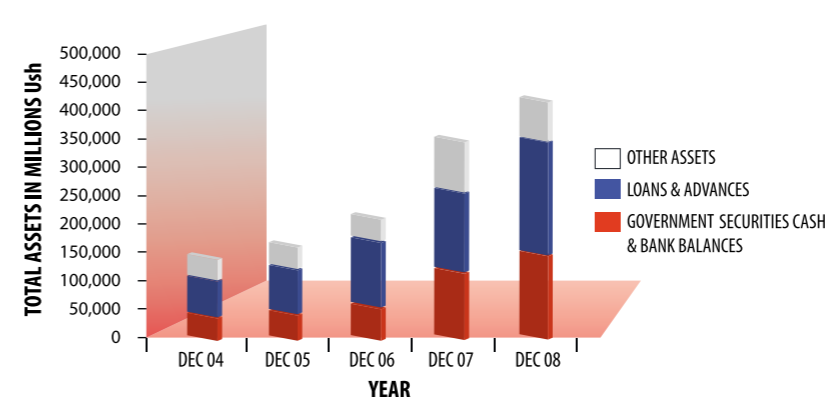
At 1 January	1,457,152	1,200,574
Increase	872,969	256,578
At end of year	2,330,121	1,457,152

The regulatory 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. The reserve is not distributable.

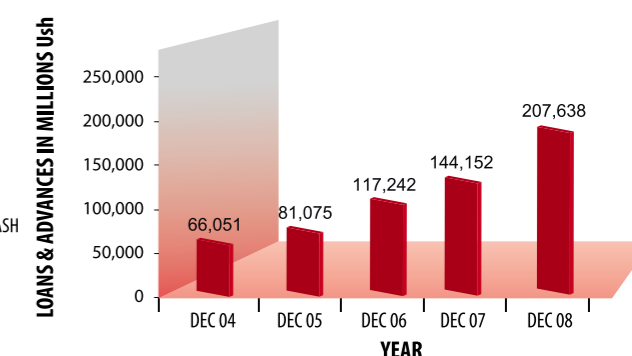
Highlights of Performance

- Net profit before taxation increased to Ushs 34.78 billion, from Ush 22.11 billion an increase of 57.28% in the last 12 months.
- Net profit after taxation increased to Ush 25.88 billion from, Ush 16.03 billion an increase of 61.42% in the last 12 months.
- Customer deposits increased to Ush 341.56 billion from, Ush 290.02 billion an increase of 17.77% in the last 12 months.
- Customer advances increased to Ush 207.64 billion from, Ush 144.15 billion an increase of 44% in the last 12 months.
- Total Assets increased to Ush 430.96 billion from Ush 358.04 billion an increase of 20.37% in the last 12 months.
- Share Capital and Reserves increased to Ush 75.01 billion from, Ush 52.27 billion an increase of 43.49% in the last 12 months.

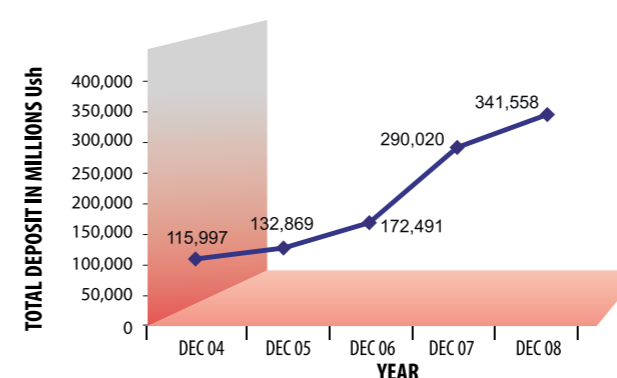
GROWTH IN TOTAL ASSETS



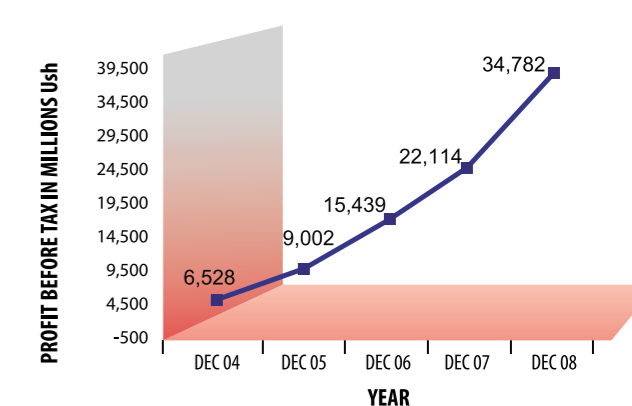
GROWTH IN LOANS & ADVANCES



GROWTH IN DEPOSITS



GROWTH IN PROFIT BEFORE TAXATION





Crane Bank Gulu branch



Crane Bank Mbarara branch



Crane Bank Lira branch



Crane Bank Iganga branch



Crane Bank Jinja branch



Crane Bank Kabale branch



Crane Bank Nakivubo branch



Crane Bank Mbale branch



A large, semi-transparent, light red 'CB' logo is centered in the background. The 'C' is a thick, rounded shape, and the 'B' is a tall, blocky letter with a curved top. In the center of the 'C', there is a smaller, white, serif 'CB' monogram.

CB

SERVING TO GROW, GROWING TO SERVE