2017 ANNUAL REPORT

Bank of Baroda (Uganda) Ltd.

We Believe in Trust, Transparency and Togetherness


Bank of Baroda (U) Ltd
Bank of Baroda (U) Ltd
"banking with passion"
Bank of Baroda (U) Ltd.

BANK OF BARODA (UGANDA) LTD.

Head Office : Kampala Road
P.O. Box 7197, Kampala (Uganda)

NOTICE IS HEREBY GIVEN that the 48th Annual General Meeting of Bank of Baroda (Uganda) Ltd. will be held at 3:00 pm on 8th day of June 2018 at "Gardenia Hall" Imperial Royale Hotel, Plot No 7, Kintu Road, Kampala to transact the following business :-

1. CONFIRMATION OF THE MINUTES OF THE 47TH ANNUAL GENERAL MEETING

To confirm the minutes of the 47th Annual General Meeting of the Bank held on 12th June 2017.

2. FINANCIAL STATEMENTS

To receive and consider the audited financial statements - consolidated Balance Sheet as at 31st December 2017, consolidated income statement for the year ended 31st December 2017, report of the Board of Directors on the working and activities of the Bank, together with the Auditors' report thereon.

3. DIVIDEND

To consider and if deemed fit to approve the dividend proposed by the Board of Directors at the rate of UGX 7.5 per share.

4. DIRECTORS

To ratify the appointment of Mr. Manoj Kr. Bakshi as the Executive Director of the Bank w.e.f. 29th August, 2017, Mr. Sempijja Thadeus as the Non-Executive Director of the Bank w.e.f. 16th March, 2018 and Mrs. Vastina Rukimirana Nsanze as the Non-Executive Director of the Bank w.e.f. 04th May, 2018.

To Approve the resignation of the Non-Executive Director - Mr. Anwar Malik w.e.f. 31st August, 2017.

5. AUDITORS

To consider and approve the appointment of M/s. Deloitte & Touche as the Statutory Auditors of the Bank for the period ending 31st December, 2018 and to approve their remuneration as proposed by the Board of Directors.

6. ANY OTHER BUSINESS

To transact any other business that may be legally transacted in the meeting.

BY ORDER OF THE BOARD

Ms. Anne Tumwesigye Mbonye
Company Secretary
Date: 07th May 2018

NOTES

1. Appointment of proxy

The members entitled to attend and vote at the meeting are entitled to appoint a proxy to attend instead of her/him/itself. Such proxy need not be a member of the Bank. The proxy, in order to be effective must be appointed using the proxy form and the proxy form must be received at the Bank at least 48 hours before start of the meeting. The format of the proxy form is attached with the Annual Report.

2. Appointment of a representative

No person shall be entitled to attend the meeting as a duly authorized representative of a Company, unless a copy of the resolution appointing her/him as a duly authorized representative certified to be true copy by the Chairman of the meeting at which the resolution was passed, has been deposited at the Head Office of the Bank at least 48 hours before the start of the meeting.

3. Admission Form

For the convenience of the members, admission form is annexed to the Annual Report. The members are requested to fill in the same ,affix their signature/s in the space provided therein and hand over the admission form at the entrance of the meeting place. Proxy / Representative of the Shareholders should mark on the attendance slip as proxy / representative as the case may be.

4. Closure of Register of Shareholders

The Register of members and share transfer book of the Bank will be closed on 8^{th} June 2018.

5. Payment of Dividend

The final dividend as declared by the Board of Directors and approved by the shareholders will be paid to those shareholders whose name/s appear on the Bank's Register of Shareholders as on 8^{th} June 2018 and the same will be sent on or before 29^{th} June 2018 after deducting withholding tax wherever applicable.

6. Change of address / Dividend Mandate

Information of change of address , dividend mandate and particulars of the Bank, Branch and Account Number , which the shareholder desires to incorporate in her/his dividend warrant should reach the Bank well before 8^{th} June 2018 to enable to give effect of such intimation.

7. Request to members.

Please note that the copies of the Annual Report will not be distributed at the Annual General Meeting, therefore members are requested to bring their copy of the Annual Report to the meeting. Members are also requested to inform the Bank , at least 48 hours before commencement of the meeting, about any other business which they propose to legally transact at the meeting.

GLOBAL MD & CEO's STATEMENT

Dear Stakeholders,

I take this opportunity to welcome you to the 48th Annual General Meeting of Bank of Baroda (Uganda) Ltd., one of the prominent overseas Subsidiary of Bank of Baroda and present with pleasure the Bank's Annual Audited Report and Financial Statements for the year ended December 31, 2017.

ECONOMY & BANKING SECTOR

The Ugandan economy is showing a positive trend in the year 2018 with signs of improving domestic production, employment generation and demand for goods. Uganda is one of the countries having the youngest population which indicates the immense potential available in the manpower of the country. The growing middle income group of Uganda is spearheading the demand curve. Steady growth is observed in the development of infrastructure in the country. Further, adequate rain since beginning of the season has boosted the agriculture production which will give a fillip to the Agro based industry.

PERFORMANCE OF THE BANK

The performance of the Bank during the financial year 2017 has been satisfactory inspite of a challenging economic scenario in 2017. The Bank has registered an increase of 2.1% in Total Business over the previous year. Total advances increased by 5.55% in 2017 which is much higher than the industry growth which remains at 1.50% as at December 2017. The Gross NPA as a percentage of Advances decreased to 5.56% in 2017 from 12.77% in 2016. The provision coverage ratio of the bank as on 31st December, 2017 is 97.50%. The total net worth has shown an increase of 19.11%. The figures indicate a significant qualitative growth in the Bank's business.

ACHIEVEMENTS

I am happy to inform you that Baroda is a well-established brand in Uganda. Bank continues to be recognized as one of the 'Best Brands in East Africa by Superbrands'. The Bank has signed agreement with VISA for accreditation of Bank's Debit Cards and ATMs. Pilot testing process is ongoing and cards has been issued in some of the accounts for further testing. On obtaining satisfactory result, the Bank shall go for bulk card printing by the last week of June 2018. The Bank is also ready to launch new IT products viz., M-passbook and Mobile banking.

WAY FORWARD

Africa occupies a special place in Bank of Baroda's International Business, as the Bank started its first overseas Branch in this continent. With the presence of Bank of Baroda, the Parent Bank in 23 countries around the globe, the Bank is strategically positioned for the future of financial services by embracing latest technology and leveraging it to sustain our business model with thrust on consistent growth in business, quality of credit, NPA management and augmenting fee based income.

ACKNOWLEDGEMENTS

I place my sincere gratitude to the stakeholders for reposing their faith and trust in the Bank that inspires us to keep on improving our performance. I also place on record gratitude to the Government of Republic of Uganda and Bank of Uganda for their valuable guidance, advice and continued support in strengthening the operations of the Bank. I also thank the officials of Indian High Commission for their unstinted cooperation and support. I express my deepest gratitude to all our customers for their continuous support and patronage.

I further acknowledge the contribution of the Board, Management and all the staff members of Bank of Baroda (Uganda) Ltd. I am confident that with their commitment and dedication the Bank will be able to post better results in the year 2018.

My good wishes to each one of you.

Yours sincerely,

P. S. Jayakumar

P. S. Jayakumar
MD & CEO
Bank of Baroda (India)

CHAIRMAN'S STATEMENT

Dear Shareholders,

It's my honor to welcome you all to the 48th Annual General Meeting of the Bank which has entered into the 66th year of excellence and uninterrupted service to this Country. I have great pleasure to report the financial results of the Bank for the financial year ending 31st December 2017.

The Ugandan economy is showing a positive outlook and continues to register impressive recovery. The inflation is now showing a downward trend and the same is coupled with the rising Government spending on Infrastructure / Agriculture etc that will lead to further expansion and growth of the economy.

The Bank has done well in FY 2017, showing remarkable growth in most of the parameters. The Total Business increased by 2.10%, Net Advances by 5.55%, Deposits by 0.31% and Net Profit by 0.27%.

The commitment to excel and render full value to its entire stakeholder is reflected in the motto of your Bank for the year 2018 "Committed to be the Bank of first choice".

The Bank is committed to good Corporate Governance and has complied with all the applicable laws and regulations. Bank has also extended its commitment to be part of the development of the society through its Corporate Social Responsibility activities like provision of Scholastic Materials in Schools, Health Centre etc.

On behalf of the Board of Directors, Management and Staff of the Bank I express my deep gratitude and sincere thanks to the Government, all officials of Bank of Uganda, and Government Departments for their guidance and support in strengthening the operations of the Bank.

I place on record appreciation for the continued support received from all our valued shareholders and customers without whom the Bank would not have been able to achieve the appreciable results.

I thank all the staff members at various levels in the Bank for the commendable work done during the year and am confident that the same zeal and enthusiasm will continue to take the Bank to further glories in coming years.

Bank of Baroda (Uganda) Ltd. rededicates its commitment to all its customers for rendering the highest standard of services and also for enhancing the stakeholder's value in coming years.

Yours Truly,

Dhizaala S Moses
Chairman

MANAGING DIRECTOR'S STATEMENT

Dear Shareholders,

It is my pleasure to welcome you all to this 48th Annual General Meeting of your Bank. The bank has entered into the 65th year of excellence and uninterrupted service to this country. It is my pleasure to place before you the financial results of the Bank for the financial year ended 31st December 2017.

The year 2017 was a challenging year for us. In the beginning of the year the NPA level was very high. As against the aggregate industry NPL ratio (non-performing loan to total gross loans) of 10.50 we were at 12.77%, which has been reduced to 5.56% during the financial year ended 2017. Despite various challenges and volatility the bank could perform well during the Financial Year 2017.

Uganda's economic outlook for 2018 is positive. Because of strong macroeconomic fundamentals the economy is expected to grow at a faster rate than observed last year. The year 2017 witnessed favorable weather conditions which boosted agriculture productions resulting into low food prices, a major driver of inflation. Even the year 2018 is witnessing good weather conditions because of which, inflation is expected to stay low. During the year 2017 Bank of Uganda reduced the Central Bank Rate, which is 9% at present. This would lead to a drop in commercial bank lending rates and increased private sector borrowing. Further, GDP is projected in the range of 5.0 to 5.5% during the Financial Year 2017-18. The economy will get boost because of the development and investment in infrastructure by the Government, betterment in service sector industries, increased agriculture production, higher FDI with the issuance of more oil exploration licenses by the Government and I foresee positive impact of these development in the Bank also.

Let me share with you the key financial highlights of your Bank for the financial year ended 31st December, 2017:

- Advances net of impairment provisions increased by 5.55% in 2017 to UGX 616,574 Million from UGX 584,165 Million in 2016, as against the industry average of 1.50%.
- Deposits increased by 0.31% in 2017 to UGX 1,166,687 Million from UGX 1,163,065 Million in 2016. We have shed some high cost deposits which resulted into lower growth percentage.
- Total Business (Deposits + Advances) increased by 2.10% in 2017 to UGX 1,783,260 Million from UGX 1,747,230 Million in 2016
- Total assets increased by 4.02% in 2017 to UGX 1,535,463 Million in 2017 from UGX 1,476,134 Million in 2016
- Net profit after Tax increased by 0.27% in 2017 to UGX 49,366 Million from UGX 49,234 Million in 2016.
- Gross NPA as a percentage of total advances is at 5.56% in 2017 decreased from 12.77% in 2016
- The provision coverage ratio of the bank as on 31/12/2017 is 97.50%.
- The total net worth has shown an increase of 19.11%.
- Capital Adequacy Ratio as at 31st December 2017 was 31.71% (Tier I) and 33.54% (Total Capital)

- Return on assets was 3.38% as at 31-12-2017
- Return on shareholder's equity was 16.97% as at 31-12-2017.

We are constantly striving to give best services to our esteemed customers. It will be our endeavor to increase bank's total business by 20% and profit by 30% during the current financial year. Various measures have been initiated to achieve the set goals. Further, with the introduction of Agency Banking we are hopeful to extend banking services to unbanked area and to bring more customers to our fold.

I am delighted to share with you that your Bank has been once again bestowed with prestigious award 'Superbrands East Africa' for the year 2017. 'Superbrands' is the world's largest independent arbiter of branding. It identifies and pays tribute to exceptional brand by recognizing, rewarding and reinforcing leading brands from all over the world.

Human resources are the most important resource for any organization. In keeping with this philosophy we have taken various initiatives for training & development of human resources. We introduced 'Employee of the month' recognition scheme for employees to boost the morale of the employees through recognition at all branches and head office.

I place on record our appreciation for the continued support received from our valued shareholders and customers without whom the Bank would not have achieved the appreciable results. I am thankful to the Government of Uganda and Bank of Uganda for their guidance. I also acknowledge the valuable support and guidance rendered by our Global Chairman, Global MD & CEO, Chairman, Bank of Baroda (Uganda) Ltd. and other Director colleagues on the Board of the Bank. I also wish to thank the staff members at all levels for the commendable work done during the year. I am confident that their continuous support and dedication will bring greater glory to the Bank in future.

My good wishes to each one of you.

Yours truly,

Ashwini Kumar
Managing Director

BARODA'S MISSION STATEMENT

To be a Top Ranking Local Bank of International Standards Committed to Augmenting Stakeholders' Value through Concern, Care & Competence

BARODA'S VISION 2020

To Triple Bank's Business

BARODA'S BELIEF

Trust, Transparency and Togetherness

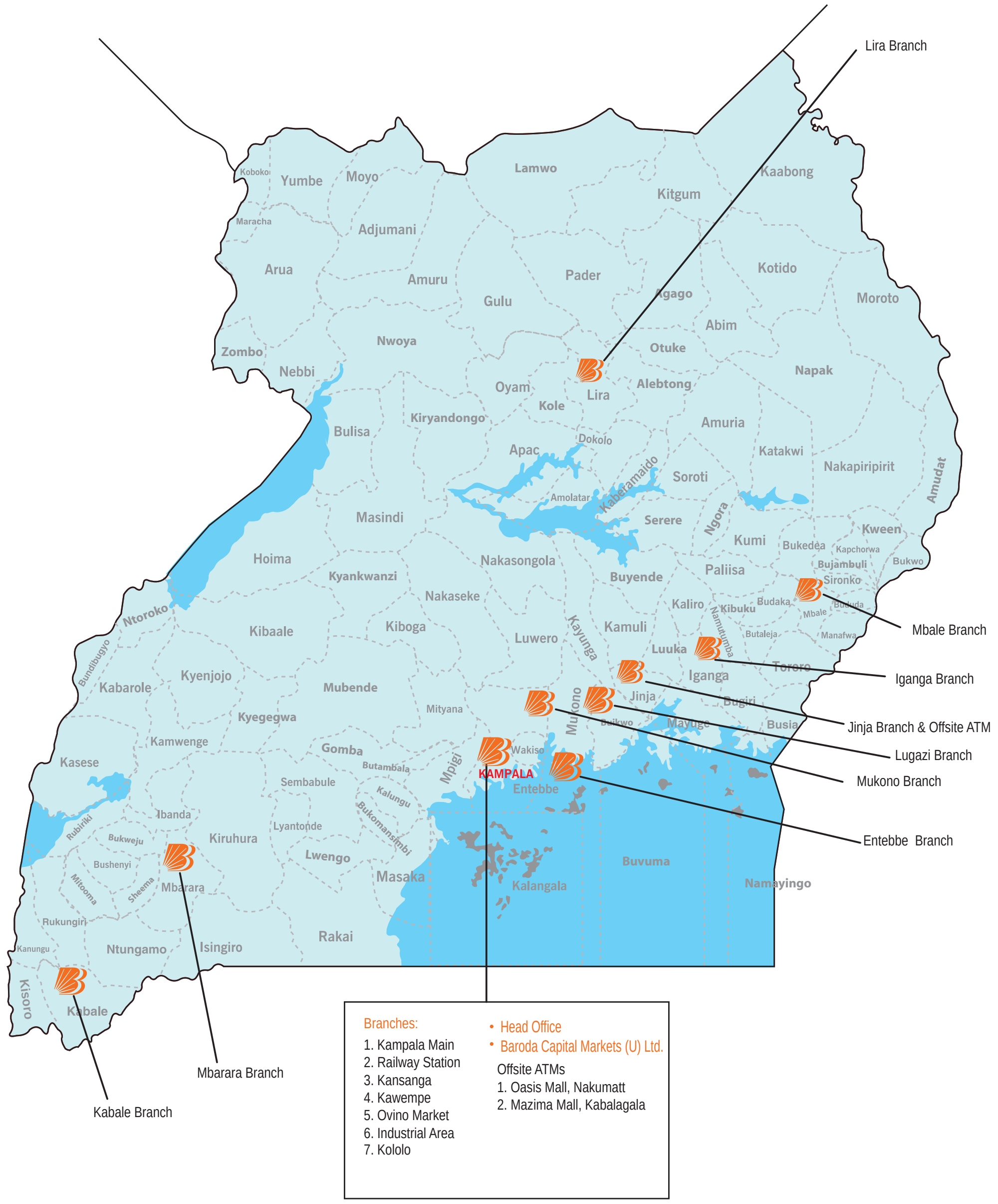
MOTTO FOR THE YEAR 2018

Committed to be the Bank of First choice

BUSINESS INITIATIVE PLAN 2018

1. Affiliation of Debit Card with VISA
2. Offering Alternate Delivery Channel like Mobile Banking

Map of Uganda with Baroda's Presence



AWARD CONFERRED DURING 2017

Awarded
Superbrands
East Africa 2017-2018

AWARD CONFERRED ON THE BANK
FOR THE SERVICE TO THE PEOPLE OF UGANDA

TABLE OF CONTENTS

BOARD OF DIRECTORS AT PRESENT

Mr. Dhizaala S. Moses
Chairman

Mr. Ashwini Kumar
Managing Director

Mr. Rajneesh Sharma
Director

Mr. Manoj Kr. Bakshi
Executive Director

Mr. Sempijja Thadeus
Director

Mrs. Vastina Rukimirana Nsanze
Director

KNOW YOUR BANK

History

Bank of Baroda (Uganda) Ltd. started its operations in Uganda and opened Kampala (Main) branch on 18th December 1953. The Bank was incorporated as a subsidiary of Bank of Baroda, India on 1st November 1969 with 49% shareholding of Government of Uganda. Subsequently Bank of Baroda – India took over 49% shareholding of Government of Uganda on 07.06.1999 to comply with the privatization programme of Government of Uganda for which the Bank had signed an agreement with Government of Uganda for divestment of 20 % of its shares to general public. In the year 2002 in compliance of Government of Uganda guidelines, 20% of the shares were divested to the general public in Uganda. Bank of Baroda (Uganda) Ltd. is the first Bank in this country to be listed on the Uganda Securities Exchange.

Issuance of Bonus Shares

Bank of Uganda, vide Circular No GOV.122.10 dated 10th December 2010, advised all the Commercial Banks to build up its minimum paid up capital unimpaired by losses to Ugx 10 billion by March 01, 2011 and up to Ugx 25 billion by March 01, 2013. This change in the minimum capital was necessitated by the Financial Institutions (Revision in Minimum Capital Requirement) Act 2010.

Accordingly the Authorized Share Capital of the Bank was increased from Ugx 4 Billion to Ugx 25 Billion. The Paid-up Share Capital was increased from Ugx 4 Billion to Ugx 10 Billion by issuing Bonus Shares in the ratio of 1.5 equity shares for every one equity share held by a shareholder. The same was done by capitalizing Ugx 6 Billion from the Retained Profits as on 28th February 2011. Dividend was paid on these Bonus Shares also.

Again in the year 2013 the Capital was increased from Ugx 10 Billion to Ugx 25 Billion by issuing Bonus Shares in the ratio of 1.5 equity shares for every share held by a shareholder as approved by shareholders in the Annual General Meeting held on 02.06.2012. It was also proposed to pay dividend on the entire increased capital i.e. including Bonus Shares.

Branch / ATM Network

Presently the Bank has 36 outlets comprising of 16 branches and 20 ATMs. All 16 branches are having on site ATMs. Kampala Main Branch has two on site ATMs. In addition to this Bank has 3 offsite ATMs – one each at Oasis Mall - Kampala, Mazima Mall - Kampala and Industrial Area Njeru. Thus in all there are 36 outlets consisting of 16 branches and 20 ATMs. Alternative delivery channels like ATM and Internet Banking allow our customers to have 24 x 7 x 365 days hassle free banking services from Baroda.

Systems & Procedures

- All the ATMs are supported by MTN back up lease lines with V-SAT backup leading to substantial reduction in down time.
- Work on the Back up links for V-SAT connectivity at all the branches has since been completed; ensuring uninterrupted connectivity at the branches in any unforeseen eventuality.
- The Bank has in place state-of-the-art technology Core Banking Solution (CBS) – ‘Finacle’ which is flawless system ensuring real time reconciliation of settlement leading to consistent quality of transaction data and reporting.
- Deal Tracker system has since been installed in the Treasury department complying with the guidelines of Bank of Uganda.
- Software has since been installed at the Treasury Department for carrying out regular valuation of Treasury Bills / Bonds.

Risk Management Systems

The business of banking always carries attendant risks like Credit Risk, Interest Rate Risk, Foreign Exchange Risk, Operational Risk etc. Bank has since adopted time tested methods in order to minimize and mitigate the various risk factors. The major customer centric risk mitigating measures adopted by the Bank are:-

- 24 Hours CCTV coverage at all the branches.
- Full time armed security personnel are deployed at all the branches.
- System generated Cash Receipt printouts are being generated by Finacle System for all cash deposits.
- Well laid down Business Continuity Plan – with time tested mock drill exercises adopted.
- Robust Risk Based Internal Audit process coupled with monthly/bi-monthly concurrent audit and yearly System & Operations audit.
- Stress Testing in areas of Credit and Market risks are being carried out on regular intervals.
- The Bank has a robust Core Banking System (CBS – Finacle). This is a Transaction system based on Maker – Checker / Four Eye Principle concept thereby mitigating the risks of frauds to a large extent.
- In country Data centre and DRS installed during 2016. DR site is located at Jinja and Main Data centre is located at Kampala.

The focus of the Bank is on identifying, measuring, monitoring and managing the various risks. While the risks cannot be fully eliminated, the Bank endeavours to minimize the same to a large extent by ensuring that appropriate infrastructure, controls and systems are in place.

Human Asset

We believe that our Human Resources are the biggest differentiator having a direct & significant impact on Bank's overall performance. Therefore, Bank takes due care in continuous up-skilling of staff members through in-house and external trainings and also for keeping them in high state of morale. Bank follows a policy of employing Ugandans amongst its staff.

- The total staff strength of our Bank as on 31.12.2017 is 186 consisting of 158 local staff and 28 expatriates.
- Management recognizes Birthday Anniversaries of staff members to instil sense of belongingness.
- We introduced a scheme for "Employee of the Month" at our all Branches & Head Office to boost the morale of employees through recognition and the best employee is given a special Badge and Rolling Trophy to be kept for the entire month. The name & photograph of "Employee of the Month" is displayed on the notice board of the Branch/Office.
- We depute staff for overseas training and during the year 2017, -2- staff members were deputed for training programme conducted by our Parent Bank, Bank of Baroda, India at its Apex Academy, Ahmedabad, India in February 2017 and -2- staff members attached to VISA accreditation project attended the "VISA First" training programme organised by Visa Inc. at Dubai (UAE) in October 2017.
- We have state of the art Training Centre located at Head Office, – Kampala wherein various extensive in-house training programmes are conducted by senior management staff. During the year 2017, we conducted -9- in-house training programmes attended by -136- participants, out of which, -5- training programmes were conducted by Apex Academy, Ahmedabad, India through Video Conferencing whereby -76- participants benefitted from such training.

- During the year 2017, we also deputed -42- staff members to -23- external training programmes conducted by The Uganda Institute of Banking and Financial Services; Bank of Uganda; Uganda Bankers Association; Federation of Uganda Employers, COSEKE, Uganda Law Society, Ministry of Finance, Planning & Economic Development.

- Staff meetings are held on regular basis wherein suggestions obtained from staff members on business development are discussed besides other issues including staff grievances for which, solutions are arrived at.

Town Hall Meeting with staff members at Kampala Main Branch

- Annual Staff Conclave is held on annual basis which is well attended by the staff along with their family members enabling further bonding among all the staff including their families.

- A Town Hall meeting of all staff members of Kampala based branches was held at the Banking Hall of Kampala Main Branch.

- Placards on Customer service quote of 'Mahatma Gandhi' was distributed to all staff members to steer their enthusiasm towards giving value to our customers.

- During the year 2017, our staff members participated in the Entebbe Marathon for raising funds to empower mothers with disabled children and disabled mothers. Our staff members also participated in the Charity Walk organized by Indian Women's Association to facilitate better medical assistance to Cancer Patients in Uganda and refurbishments of KCCA schools.

- Bank participated in the Kampala Carnival for the year 2017.

Corporate Social Responsibility

Bank of Baroda (Uganda) Ltd. in its own humble way tries to touch many aspects of community care by contributing towards various causes and helping the needy and underprivileged persons. It is a way to give back to the society by supporting the efforts of the Government.

Cake cutting on the 65th Foundation Day of the Bank

During the year, the Bank made donations aggregating to Ugx.48.07 million for various social causes, major ones are listed below.

1. Donation for the New Rotary Blood Bank at Mengo Hospital.
2. Donation for the New Mukono Rotary Hospital Projects.
3. Donation to needy and underprivileged members of the society by sponsoring Holi Celebration organized by Rajasthani Association in conjunction with Indian Association.
4. Financial support to meritorious students of the Universities.
5. Financial support to Fundraising program organized by Ministry of Foreign Affairs and Patron Uganda Council on Foreign Relations.
6. Donation for conducting Annual Wuhan International Marathon, Entebbe.
7. Donation to CPS Kampala Sports Gala.
8. Financial Support for Labour Day Celebrations at Busoga Square in Jinja.
9. Donation to Buddo Junior School for Pioneers Day Function.
10. Donation to Telangana Association for organizing a live Musical Charity Concert.
11. Plantation of -1300- Tree Saplings in conjuction with National Forestry Authority Uganda at Mpigi Town.
12. Contribution to National Prayer Breakfast of Parliament of Uganda.
13. Scholarship to the students of Busoga University.
14. Donation for Heart Surgery of Ugandan Children in India through Indian Association.
15. Health camp organized at Mukono Branch.

Tree plantation for Environment Conservation in Mpigi Town

Blood Donation Camp organised by the Bank

Free Eye Sight Saving Camp 2017 at Jinja

Mr. Rajneesh Sharma, Director, addressing the Esteemed Customers

International Yoga Day celebrations

PRODUCTS & SERVICES OFFERED BY THE BANK:

The Bank is offering to its customers – both Individual and Corporate, varied products and services which cater to their need for savings as well as loans. the products and services offered by the bank are general as well as customized products to suit the specific needs of the customers

Products / Services Offered to Individuals (Retail Products).

An individual, trust, registered societies can open a Savings Bank Account to route salary, earnings and to save for future. A facility of Recurring Deposit is also available to enable an individual/trust/society etc. to save at regular frequency and get a lump sum amount in future.

Deposit Products

Host of options available under Savings Bank Account:

- Classic Savings Bank Account (Min. Initial Deposit Ugx.20,000)
- Priority Savings Bank Account (Min. Initial Deposit Ugx.100,000) with freebies.
- Privilege Savings Bank Account (Min. Initial Deposit Ugx.500,000)with freebies
- Dollar Currency Savings Bank Account (Min. Initial Deposit USD/Euro/GBP 100/-)

The Bank also offers Fixed Deposits to its customers. The different products are:

1. Fixed Deposits for different tenures starting from 3 months to 36 months
2. Baroda Flexi Recurring Deposit from 12 months to 36 months

Baroda Connect

Transaction based internet banking facility for anywhere/anytime banking

Retail Loan Products

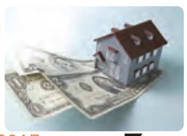
1. Baroda education loan Scheme for financing children education

2. Baroda Salary loan Scheme for salaried employees to meet Consumption needs and for purchase of consumer durables.

3. Baroda Housing loan for purchase of house / flat

4. Baroda Asset Finance – loans for purchase of cars ,vehicles, machinery

5. Baroda traders loans – Financing of working capital for business /development of business for individuals/firms etc



6. Loan Against Future Rent Receivables (In Ugx & USD)

Products & Services offered by the Bank (Continued)

Other Retail Loan Products:

1. Baroda Multipurpose loan for individual for different consumption or household needs
2. Baroda loan against own Deposits
3. Baroda IPO Finance - financing to subscribe for Initial Public Offer of Blue Chip companies
4. Baroda Business loans to finance small businesses of individuals/firms

Products / Services Offered to Businesses / Corporate – Small / Medium and Large

Bank offers different products / services to cater to the needs of businesses of individuals or corporate bodies. These products are designed to cater to the needs of various business units which can be a small, medium or a large unit. The products range from overdrafts to finance working capital for the businesses and term loans to finance acquisition of assets for business. The tenure of finance depends on the business requirement.

Products like Baroda Asset Finance can be availed for financing assets / plant and machinery for different businesses especially the Small & Medium Enterprises (SME). Baroda traders loan will also be useful to the SME units and the Small and Micro Enterprises. Customers can also avail letters of Credit and Bid/Performance/ Financial/ Advance payment/Guarantees for their business needs

The Bank offers various other services to its customers for Remittance of funds through RTGS or EFT

1. Rapid Funds 2 India
2. SWIFT for international remittances
3. Foreign exchange services to buy and sell foreign currencies
4. Acceptance of School fees
5. Collection of various Taxes/Payments

ELECTRICITY BILLS	URA TAXES
UMEME Powering Uganda	NSSF a better future.
WATER PAYMENT	**EMPLOYEE CONTRIBUTION**
NWSC	URA Uganda Revenue Authority DEVELOPING UGANDA TOGETHER

Other Informations

Share holding pattern as on 31st December 2017

Particulars	Number of Shares	%	Amt in Ugx
Bank of Baroda India	1,999,998,750	80%	19,999,987,500
Managing Director	1,250		12,500
Public Holding	500,000,000	20%	5,000,000,000
TOTAL	2,500,000,000	100%	25,000,000,000

Top Shareholders as on 31st December 2017

Sr.	SHAREHOLDER	NO. OF SHARES	%
1	BANK OF BARODA	1,999,998,750	80.00
2	MR. SUDHIR RUPARELIA	62,527,250	2.50
3	CRANE BANK LIMITED (Erstwhile)	62,500,000	2.50
4	NATIONAL SOCIAL SECURITY FUND	49,956,250	2.00
5	MAHESHWARY PURUSHOTTAM	25,000,000	1.00
6	AUGUSTUS CEASOR	19,124,301	0.76
7	BANK OF UGANDA STAFF RETIREMENT BENEFIT SCHEME AIG	15,975,187	0.64
8	DR. JOSEPH BYAMBARA BYAMUGISHA	15,625,000	0.63
9	PARLIAMENTARY PENSION SCHEME	13,895,738	0.56
10	NATIONAL SOCIAL SECURITY FUND-PINEBRIDGE	12,525,000	0.50

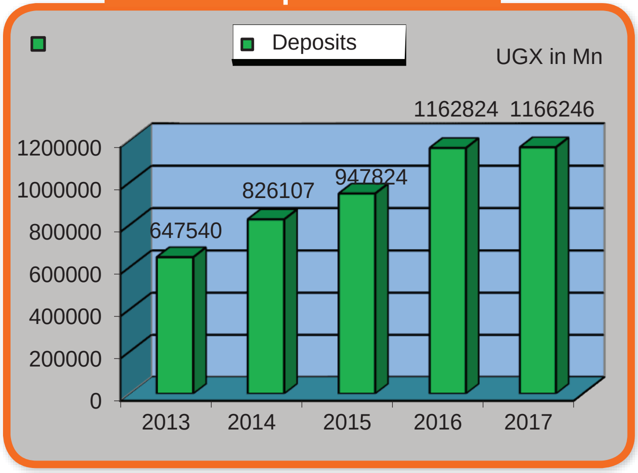
Financial for the last 5 years

	UGX Mn				
	2013	**2014**	**2015**	**2016**	**2017**
Capital	25,000	25,000	25,000	25,000	25,000
Reserves	137,667	169,086	196,295	277,487	330,465
Deposits	647,540	826,107	947,824	1,162,624	1,166,246
Advances	435,560	524,358	619,961	607,807	639,114
Total Business	1,083,100	1,350,465	1,567,785	1,770,631	1,805,360
Investments	232,082	398,407	267,329	474,5887	500,406
Net Profit	30,884	36,890	41,204	49,247	49,406
Adjusted Earnings per Share*	12	15	16.48	19.70	19.76
Dividend per share*	2	2.5	2.5	2.5	7.5**

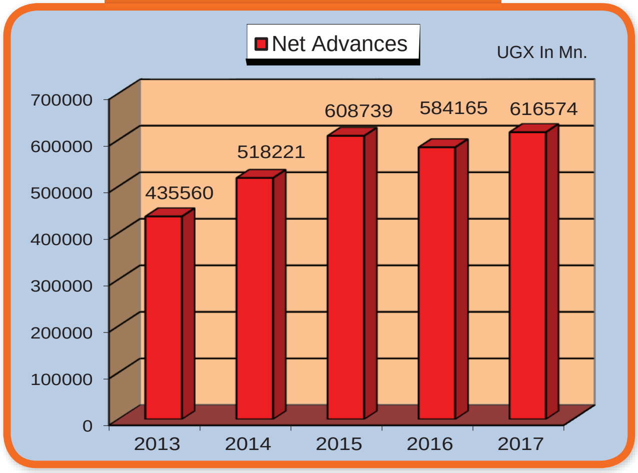
** For the year 2017 the Board of Directors have recommended dividend @ Ugx.7.50 per share.

Growth at a glance

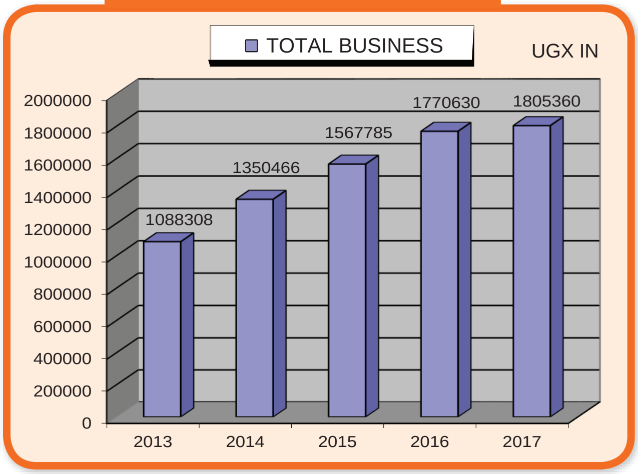
Deposits



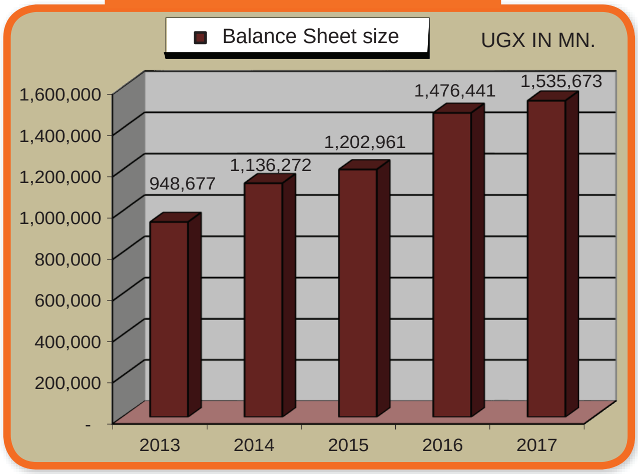
Net Advances



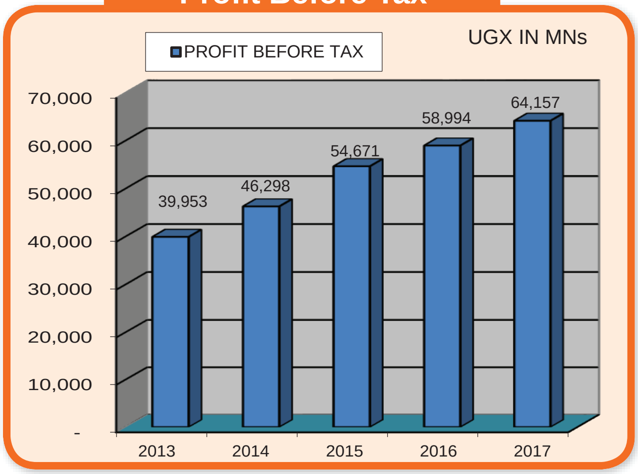
Total Business



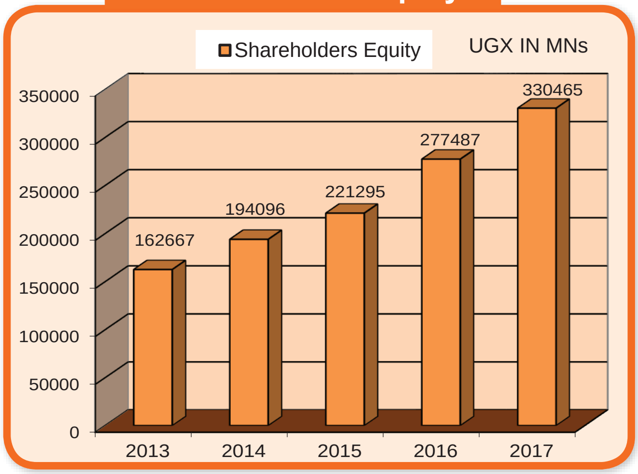
Balance Sheet Size



Profit Before Tax



Shareholders Equity



Subsidiary

Subsidiary Baroda Capital Markets (U) Ltd. is a fully owned subsidiary of the Bank. It was incorporated on 23rd of April 1997 to carry out the business of brokers / dealers in the Capital Market. The subsidiary is a Licensed Dealing Member (LDM) with the Ugandan Securities Exchange and operates under license issued by Capital Markets Authority, Uganda. Baroda Capital Markets (U) Ltd. is a member of the Governing Council of Uganda Securities Exchange.

The financial statements of the Baroda Capital Markets (U) Ltd. have been consolidated with that of the Bank. A brief financials of the subsidiary is given here below :-

Income Statement (Ugx '000)

Particulars	31.12.2017	31.12.2016
Operating Income	154,573	102,853
Operating Expenses	80,825	52,205
Profit before Tax	73,748	50,648
Tax Expense	21,727	22,245
Profit after Tax	52,021	28,403

Statement of Financial Position (Ugx '000)

Particulars	31.12.2017	31.12.2016
Assets		
Property & Equipment	2.040	2.376
Trade & Other Receivables	494,915	445,285
Cash & Cash Equivalent	179,891	148,968
Total Assets	**676,846**	**596,629**
Liabilities		
Trade & Other Payables	104,454	74,103
Deferred Tax Liabilities	-	-
Total Liabilities	**104,454**	**74,103**
Shareholder's Equity		
Ordinary Share Capital	40,000	40,000
Accumulated Reserves	532,392	482,526
Total Shareholder's Equity	**572,392**	**522,526**
Total Equity & Liabilities	**676,846**	**596,629**

The Financial Statements of Baroda Capital Markets (U) Ltd. have been audited by M/s Deloitte & Touche who have given an unqualified report.

CORPORATE INFORMATION AS ON 07.05.2018

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	COMMERCIAL BANKING ACTIVITIES	
DIRECTORS	Mr. Dhizaala S. Moses*	Board Chairman
	Mr. Ashwini Kumar**	Managing Director
	Mr. Rajneesh Sharma**	Director
	Mr. Manoj Kr. Bakshi**	Executive Director
	Mr. Sempijja Thadeus*	Director
	Mrs. Vastina Rukimirana Nsanze*	Director
CHIEF OFFICERS / EXECUTIVES	Mr. Ashwini Kumar **	Managing Director
	Mr. Manoj Kr. Bakshi**	Executive Director
	Mr. K. R. Meena**	Internal Auditor
	Mr. Anwar Malik**	Financial Controller
	Mr. R.S. Goyal**	Head Credit
	Mr. Subhaprateek Pradhan**	Head Information Techonology
	Mr. Obong S.*	Head Compliance
	Mr. Prithiwijit Gosh**	Head Treasury
	Mrs. Victoria Ocici*	Head Risk Management
BOARD CREDIT COMMITTEE	Mr. Rajneesh Sharma	Director & Chairperson
	Mr. Ashwini Kumar	Managing Director
	Mr. Manoj Kr. Bakshi	Executive Director
	Mr. Sempijja Thadeus	Director
BOARD AUDIT COMMITTEE	Mr. Sempijja Thadeus	Director & Chairperson
	Mr. Rajneesh Sharma	Director
BOARD RISK MANAGEMENT COMMITTEE	Mr. Rajneesh Sharma	Director & Chairperson
	Mr. Manoj Kr. Bakshi	Executive Director
	Mr. Sempijja Thadeus	Director
BOARD ASSET AND LIABILITIES COMMITTEE	Mr. Manoj Kr. Bakshi	Executive Director & Chairperson
	Mr. Sempijja Thadeus	Director
	Mr. Rajneesh Sharma	Director
BOARD PERSONNEL AND ADMINISTRATION COMMITTEE	Mr. Ashwini Kumar	Managing Director & Chairperson
	Mr. Rajneesh Sharma	Director
	Mr. Manoj Kr. Bakshi	Executive Director
	Mr. Sempijja Thadeus	Director
COMPENSATION COMMITTEE	Mr. Ashwini Kumar	Managing Director & Chairperson
	Mr. Rajneesh Sharma	Director
	Mr. Sempijja Thadeus	Director

*Ugandan

**Indian

REGISTERED OFFICE	Plot 18, Kampala Road, P.O Box 7197 Kampala, Uganda
COMPANY SECRETARY	Ms. Anne Tumwesigye Mbonye
INDEPENDENT AUDITOR	Deloitte & Touche Certified Public Accountants of Uganda P.O. Box 10314, Kampala,Uganda
PRINCIPAL LEGAL ADVISORS	Kateera & Kagumire Advocates & Solictors 10th Floor, Tall Crested Tower P.O Box 7026 Kampala, Uganda
PRINCIPAL CORRESPONDENT BANKS	1 Bank of Baroda Mumbai Main Office, Vostro A/c Cell, 2nd Floor, Mumbai Samachar Marg, Mumbai - 400023 2 Standard Chartered Bank 3, Madison Avenue New York, United States of America
PARENT BANK	Bank of Baroda - India Baroda Corporate Center C26, G-Block, Bandra- Kurla Complex Bandra East, Mumbai - 400 051
SUBSIDIARY	Baroda Capital Markets (U) Ltd. P.O Box 7197 Kampala, Uganda.

HEAD OFFICE

P.O. Box No. 7197,
Plot 18, Kampala Road
Kampala, Uganda
E-mail: md.uganda@bankofbaroda.com

BRANCHES

Kampala
P.O. Box No. 7197,18
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kampala@bankofbaroda.com

Iganga
P.O. Box No.61
84A & 84B Main Street
Iganga
iganga@bankofbaroda.com

Ovino Market
Plot 24,26 & 28 Shikh Temple
Rahid Khamis road,
Old Kampala
ovino@bankofbaroda.com

Railway Station
Plot No.2/2B,
Kampala Road,
P O Box 7266,
Kampala
railway.kampala@bankofbaroda.com

Kansanga
Plot No. 70 / 378
P.O. Box 7467,
3, KM Gaba Road,
Kansanga (Kampala)
kansanga@bankofbaroda.com

Kabale
Plot No.94, Kabale Main Road
P.O.Box 1137,
Kabale,
Uganda
kabale@bankofbaroda.com

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Plot 16A/B Iganga Road
Jinja
Uganda
jinja@bankofbaroda.com

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Plot No. 35/36
P.O. Box 7820
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kawampe@bankofbaroda.com

Entebbe
Plot No. 24, Gower Road,
P O Box . 589,
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entebbe@bankofbaroda.com

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P.O. Box No. 971
3, Pallisa Road
Mbale
Uganda
mbale@Bankofbaroda.com

Lira
Plot No 2, Aputi Road
P O Box 266
Lira Branch
Lira (Uganda)
lira@bankofbaroda.com

Industrial Area
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Kibira Road
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Industrial.kampala@bankofbaroda.com

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P.O. Box 1517
11 Masaka Road
Mbarara
Uganda
mbara@bankofbaroda.com

Mukono
Plot No 59-67, Jinja Road
P O Box 122
Mukono Branch
Mukono (Uganda)
mukono@bankofbaroda.com

Kololo
Plot -31, Kira Road,
Bank of Baroda (U) Ltd,
Kampala
Uganda
kololo@bankofbaroda.com

Lugazi
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Jinja Road, Lugazi Circle
Lugazi (Uganda)
E-mail : lugazi@bankofbaroda.com

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance statement sets out the governance framework adopted by the Board of Bank of Baroda (Uganda) Limited and its subsidiary (“the Group and the Bank”).

Bank of Baroda (Uganda) Limited is committed to adhering to the highest standards of good corporate governance at all levels of its operations. This commitment is rooted in our core values and beliefs. We have put in place elaborate governance processes which comply with industry best practice.

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

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

Code and regulations

As a licensed commercial Bank and listed company on the Uganda Stock Exchange (USE), the Bank operates in a highly regulated environment and is committed to complying with legislation, regulations, and codes of best practice.

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

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

Board of Directors

Board charter and work plan

The Board’s responsibilities are set out in the Board Charter. The Board Charter contains provisions which ensure that the Board observes best practice in corporate governance and contains among other things policies on: the size, role and functions of the Board; appointments and induction of Directors; board performance evaluation; and remuneration of Directors.

The work plan has a formal schedule of matters specifically reserved for the Board’s attention to ensure it exercises full control over all significant matters. It sets out the schedule of meetings of the Board and its committees and the main business to be dealt with at those meetings. Additional meetings are scheduled as and when necessary.

Board composition and appointments

The Board currently consists of:

- Chairman 1
- Executive Directors 2
- Non-Executive Directors 3

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Non-Executive Directors are drawn from a wide range of business and other backgrounds. This diversity is considered by the members as one of the strengths of the Board.

The board takes cognisance of the knowledge, skills and experience of prospective Directors as well as other attributes considered necessary for the role and as such there is a formal process of appointment of Directors. The appointment of Directors is governed by the Bank's articles of associations and is subject to regulatory approval (i.e Fit and proper test) as required by the Financial Institutions Act.

The Board evaluates the performance of the management in order to be satisfied as to the integrity and strength of financial information, controls and risk management. Through the Board Personnel and Administration Committee, the board exercises oversight in appointing, removing and succession planning of senior management.

All Directors receive regular and timely information about the Bank prior to Board meetings. They also have access to the Company Secretary for any further information they may require. Directors have unrestricted access to management and the Bank information as well as resources required to carry out their roles and responsibilities.

Board meetings

The full Board meets at least four times a year. The Board deals with all significant matters including strategic direction for the Bank and Group; ensuring competent management of the business; internal control; compliance with laws and regulations and reporting performance to shareholders.

Attendance at meetings

The attendance of members at board during 2017 is detailed below:

Name of Director	Q1	Q2	Q3	Q4
Mr. Dhizaala Moses	A	A	A	A
Mr. Rogers Matama	A	A	A	A
Mr. Rajneesh Sharma	A	A	A	A
Mr. Ashwini Kumar	NA	A	A	A
Mr. Anwar Malik	A	A	NA	NA
Mr. Manoj Kumar Bakshi	NA	A	A	A
Mr. K N Manvi	A	NA	NA	NA

A	Attendance
A'	Apology
NA	Not applicable

Separation of roles and responsibilities

The roles of the Chairman and Managing Director are separate. The Chairman's main responsibility is to lead and manage the work of the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. The Board has delegated the responsibility for the day-to-day management of the Bank to the Managing Director, who is responsible for recommending strategy to the Board, and for making and implementing operational decisions.

The Board has a collective responsibility for the success of the Bank and Group. However, the Executive Directors have direct responsibility for business operations, whereas Non Executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Management, providing objective challenge to the management.

Committees of the board

In order for the Board to carry out its functions, and to ensure independent oversight of internal control and risk management, certain aspects of its role are delegated to Board Committees. The specific matters for which delegated authority has been given are set out in each Board Committee's terms of reference, which are reviewed as and when required

The Board had delegated authority to six principal Board Committees:

Board Audit Committee

Board Credit Committee

Board Risk Committee

Board Assets and Liabilities Committee

Board Personnel and administration Committee

Board Compensation committee

These committees meet at least on a quarterly basis or on adhoc whenever there are urgent matters to attend to.

In addition, the Executive Committee, comprising the Managing Director and his Senior Management meet on a monthly basis. Its main function is to implement and monitor the Bank's strategy, operational plans and financial performance. It is also responsible for the assessment and management of risk.

Board Audit Committee

This Committee is constituted in accordance with the Financial Institutions Act which requires the Board to appoint at least two Non-Executive Directors to the Committee. As per the law, the Board has appointed the members of the committee which is comprised solely of independent Non-Executive Directors.

The role of this Committee is to assess the integrity and effectiveness of accounting, financial compliance and control systems. The committee has a constructive relationship with Internal Audit, who has access to the committee members as required.

The Committee also ensures effective communication between the internal auditors, external auditors, the Board, management and regulators. The committee considers reports from internal audit on any weaknesses in controls that have been identified, including financial controls, and considers corrective actions to be implemented by management to prevent such incidences recurring. This takes place on an ongoing basis.

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

Name of Director	Q1	Q2	Q3	Q4
Mr. Rogers Matama	A	A	A	A
Mr. Rajneesh Sharma	A	A	A	A
Mr. K N Manvi	A	NA	NA	NA

A Attendance

A' Apology

NA Not applicable

Board Credit Committee

The role of this committee is to ensure that effective frameworks for credit governance are in place in the Bank. This involves ensuring that the Management Credit Committee and the credit function operate according to clearly defined mandates and delegated authority, and providing for the adequate management, measurement, monitoring and control of credit risk. The Committee reports to the Board on credit portfolios, adequacy of provisions and status of non-performing loans. Further detail on the management of credit risk is set out in the Note 4 (a).

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

Name of Director	Q1	Q2	Q3	Q4
Mr. Rogers Matama	A	A	A	A
Mr. Rajneesh Sharma	A	A	A	A
Mr. K N Manvi	A	NA	NA	NA
Mr. Ashwini Kumar	NA	NA	A	A
Mr. Anwar Malik	A	A	NA	NA
Mr. Manoj Kumar Bakshi	NA	NA	A	A

A Attendance
A' Apology
NA Not applicable

Board Personnel and administration Committee

The purpose of this committee is to attend to human capital and adminstrative matters within the Bank. The committee oversees the admistrative matters affecting the Bank as well as the welfare, talent and skill development, and other human capital matters.

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

Name of Director	Q1	Q2	Q3	Q4
Mr. Rogers Matama	A	A	A	A
Mr. Rajneesh Sharma	A	A	A	A
Mr. K N Manvi	A	NA	NA	NA
Mr. Ashwini Kumar	NA	A	A	A
Mr. Anwar Malik	A	A	NA	NA
Mr. Manoj Kumar Bakshi	NA	NA	A	A

A Attendance
A' Apology
NA Not applicable

Board Risk Committee

The Board is ultimately responsible for risk management. The main purpose of the committee is to provide independent and objective oversight of risk management within the Bank. A number of management committees help the committee to fulfil its mandate, the main one of these being the risk management committee. To achieve oversight, the committee reviews and assesses the integrity of risk control systems and ensures that risk policies and strategies are managed effectively and contribute to a culture of discipline and control that reduces the opportunity of fraud. Assurance on the effectiveness of the risk management processes is provided to the committee through management reporting.

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

Name of Director	Q1	Q2	Q3	Q4
Mr. Rogers Matama	NA	NA	A	A
Mr. Manoj Kumar Bakshi	NA	NA	A	A
Mr. K N Manvi	A	NA	NA	NA
Mr. Anwar Malik	A	A	NA	NA
Mr. Rajneesh Sharma	A	A	A	A

A Attendance
A' Apology
NA Not applicable

Board Assets and Liabilities Committee

The Asset and Liability Committee of the Board (BALCO) has been established to assist the Board of Directors by assessing the adequacy and monitoring the implementation, of the Group and the Bank's Asset and Liability Management Policy ("ALM policy") and related procedures. The ALM Policy includes specific policies and procedures relating to (i) interest rate risk, (ii) market/investment risk, (iii) liquidity risk, and (iv) capital risk. BALCO is supported by the management committee (ALCO) which reports on a quarterly basis to help the committee to fulfil its mandate, the main one of these being the asset liability management. The committee is involved in management of treasury limits, approvals of internal liquidity limits, oversight on the investment portfolio and its mix, management of foreign currency placements and deposits with correspondent Banks among others.

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

Name of Director	Q1	Q2	Q3	Q4
Mr. Rogers Matama	A	A	A	A
Mr. Rajneesh Sharma	A	A	A	A
Mr. K N Manvi	A	NA	NA	NA
Mr. Anwar Malik	A	A	NA	NA
Mr. Manoj Kumar Bakshi	NA	NA	A	A

A Attendance
A’ Apology
NA Not applicable

Board Compensation Committee

The purpose of this committee is to provide oversight on the compensation of Staff (including key personnel) and ensure that the compensation is consistent with the Bank’s objectives and strategy. Furthermore, the committee performs other duties related to the Bank’s compensation structure in accordance with applicable laws, rules, policies and regulations.

The committee comprises of both Executive and Non-Executive Directors. No individual, irrespective of position, is present when his or her remuneration is discussed. The committee complied with its mandate for the year under review. Four scheduled meetings were held.

Name of Director	Q1	Q2	Q3	Q4
Mr. Rogers Matama	A	A	A	A
Mr. Rajneesh Sharma	A	A	A	A
Mr. K N Manvi	A	NA	NA	NA
Mr. Ashwini Kumar	NA	A	A	A
Mr. Manoj Kumar Bakshi	NA	NA	A	A

A Attendance
A’ Apology
NA Not applicable

Company Secretary

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

Internal control and risk management

Internal control

The Directors are responsible for reviewing the effectiveness of the Bank’s system of internal control, including internal financial control. This is designed to provide reasonable, but not absolute, assurance regarding (a) the safeguarding of assets against unauthorized use or disposition and (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal control framework

Effective corporate governance remains key to the business. The Bank continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. The effectiveness of the framework has been under regular review by the senior management.

Directors’ remuneration

The remuneration of all Directors is subject to regular monitoring to ensure that levels of remuneration are appropriate. Information on the remuneration received and dealings of the Directors with the Bank are included in note 31(e).

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Risk management

The Bank has a structure and process to help identify, assess and manage risks. This process has been in place throughout the year.

Relations with shareholders

The Board recognises the importance of good communication with all shareholders. The Annual General Meeting (AGM) as well as the published annual report is used as an opportunity to communicate with all shareholders. The Bank will give shareholders 21 days notice of the AGM as provided for in the Companies Act, 2012.

DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated and separate financial statements ("the financial statements") for the year ended 31 December 2017, which disclose the state of affairs of Bank of Baroda (Uganda) Limited and its subsidiary (the 'Group' and the "Bank" or the "Company").

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the business of providing Banking and other related services to the general public.

The principal activities of Baroda Capital Markets (U) Limited (the subsidiary) is brokerage of securities and shares traded on the Uganda Securities Exchange.

KEY FINANCIAL HIGHLIGHTS AS ON 31 DECEMBER 2017

- Deposits increased by 0.31% in 2017 to Shs 1,166,687 Million from Shs 1,163,065 Million in 2016.
- Advances net of impairment provisions increased by 5.55% in 2017 to Shs 616,574 Million from Shs 584,165 Million in 2016.
- Total Business (Deposits + Advances) increased by 2.1% in 2017 to Shs 1,783,260 Million from Shs 1,747,230 Million in 2016.
- Total assets increased by 4.02 % in 2017 to Shs 1,535,463 Million from Shs 1,476,134 Million in 2016.
- Total income increased by 2.57% to Shs 173,910 Million in 2017 from Shs 169,546 Million in 2016.
- Net Profit after Tax increased by 0.27% in 2017 to Shs 49,366 Million from Shs 49,234 Million in 2016.
- Gross NPA as a percentage of total advances is at 5.56% in 2017 decreased from 12.77% in 2016.
- Capital Adequacy Ratio as at 31 December 2017 was 31.71% (Tier I) and 33.54% (Total Capital).
- Return on Assets was 3.38% as at 31 December 2017.
- Return on shareholders' equity was 16.97% as at 31 December 2017.

SHARE CAPITAL

The authorised, issued and fully paid share capital of the Bank was Shs 25 Billion (2016: Shs 25 Billion) representing 2,500 million shares (2016: 2,500 million) of Shs 10 each (2016: Shs 10 each).

DIVIDEND

The Board of Directors recommend payment of a final dividend of Shs 7.5 per share (2016: Shs 2.5 per share) amounting to a total of Shs 18,750,000,000 (2016: Shs 6,250,000,000).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and Bank`s activities expose it to a variety of financial risks, including credit risk and the effects of changes in liquidity, foreign currency exchange rates and interest rates. The Bank or Group's overall risk management programme focuses on the acceptable level of risk and the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. Trading limits are set for the trading book to contain losses within a prescribed amount in the event of adverse price movements.

The Bank has policies in place to ensure that Banking services are availed to customers with performance and credit history.

DIRECTORS

The Directors who held office during the year and to the date of this report are set out on page 3. In accordance with the Bank's Articles of Association, no director is due for retirement by rotation

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTEREST IN SHARES

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

Director	Number of shares
Mr. Ashwini Kumar (Managing Director)	1,250

DIRECTORS' BENEFITS

During the period since the last Annual General Meeting of members to the date of this report, no Director has received or become entitled to receive any benefit other than Directors' fees and amounts/allowances received under employment contracts for Executive Directors. The aggregate amount of emoluments for Directors' services rendered in the financial year is disclosed under Note 31(e) to the financial statements. Neither at the end of the financial year nor at any time during the year did there exist any arrangement to which the institution is a party whereby Directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate

CAPITAL ADEQUACY

Bank of Baroda (Uganda) Limited (the Bank) monitors the adequacy of its capital using ratios established by the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act, 2016. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets and off-statement of financial position commitments at a weighted amount to reflect their relative risk.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied. e.g. Notes, coins and other cash assets, balances held with Bank of Uganda including securities issued by the Government of Uganda and securities held under the Bank of Uganda have a zero risk weighting, which means that no capital is required to support the holding of these assets. Loans and Advances, Property and equipment carry a 100% risk weighting. Based on the existing guidelines this means that they must be supported by capital equal to 100% of the risk weighted amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit etc., are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into balance sheet equivalents. The credit conversion factors used by the Bank closely follow those under Basel II Accord. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes revaluation reserves on property, unencumbered general provisions and non-dealing investments.

Disclosures in respect to capital management and capital adequacy ratios are set out in Note 4 (e).

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of total capital.

OPERATING AND REGULATORY ENVIRONMENTS

The year opened with US$/Ushs 3,610 in the month of January 2017 and the same averaged at 3,625 during the year and closed at US$/Ushs. 3,640 by end of December 2017.

The Bank complied with the minimum core capital and total capital requirements, which are 31.71% and 33.54 % as against regulatory requirement of 8% and 12% respectively.

REPORT OF THE DIRECTORS (CONTINUED)

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 the stakeholders. The corporate governance framework 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 Non-Executive Directors and chaired by an independent Director, to oversee all functional areas. We believe that excellence emanates from good governance therefore, we have adopted high standard of transparency and accountability, professionalism and social responsiveness with improved customer focus to maintain a value driven organization.

HUMAN RESOURCE MANAGEMENT

The Human Resource Management department continues to play a very important role in the ever-changing competitive scenario. The Bank's mission continues to be to convert every employee of the Bank into a knowledge worker to enable them to cope with increased customer expectations and new areas of Banking outside the traditional zone. Mainly Bank of Baroda, India and the Uganda Institute of Bankers conduct the training in addition to Conferences and workshops organized by Bank of Uganda (BOU) and Federation of Uganda Employers (FUE). Furthermore, the Bank has conducted a number of in-house training programmes in the process of empowering our staff so as to match with our standard operating procedures and any other changes affecting our Industry due to Globalization.

INFORMATION TECHNOLOGY

With effect from 25 February 2008 the Bank has installed Banking Software (Finacle) which was developed by Infosys Technologies Limited. All the branches and Alternative delivery channels of the Bank are connected to Core Banking System. Bank has implemented transaction based internet Banking "Baroda Connect" in June 2010. The Bank also launched its website in June 2011 facilitating our customers and public at large to have updated information about the Bank and its various Products/Services. The Bank has also implemented E-collection of Uganda Revenue Authority (URA) Taxes and National Water & Sewerage Corporation (NWSE) water taxes from November 2011. Collection of NSSF contributions from employers since August 2012 and collection of UMEME bills since July 2013. SMS alert system for debit and credit transactions has also been implemented in year 2016. Information and Communication Technology (ICT) audit by external auditor was conducted in year 2017. Automated clearing house (ACH) for Electronic Funds Transfer (EFT) and Cheque Clearing System (CTS) is in process of deployment and expected to go live in mid 2018. Visa accreditation project is in process and expected to go live in year 2018. ASCROM in finacle, Mobile Banking, Mobile Passbook, Rapid funds to India through Alternate Delivery channels are expected to go live in year 2018. Continued focus on leveraging technology has resulted in process efficiencies and enhances customer convenience.

INDEPENDENT AUDITOR

Deloitte & Touche, Certified Public Accountants of Uganda were appointed as statutory auditors of the Group and Bank in accordance with Section 167(1) of the Companies Act and were duly approved by the Bank of Uganda in accordance with Section 62 of the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act 2016.

Deloitte & Touche, being eligible, has expressed willingness to continue in office in accordance with the requirements of Section 167 (2) of the Uganda Companies Act, 2012.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 10 April, 2018.

BY ORDER OF THE BOARD

ANN TUMWESIGYE MBONYE
COMPANY SECRETARY

Kampala, 10 April 2018

DIRECTORS' RESPONSIBILITIES AND APPROVAL

STATEMENT OF DIRECTORS' RESPOSBILITIES

The Uganda Companies Act, 2012 requires the Directors to prepare consolidated and separate financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Bank as at the end of the financial year and of the operating results of the Group and the Bank for that year. It also requires the Directors to ensure the Group and the Bank keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Bank. They are also responsible for safeguarding the assets of the Group and the Bank.

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act 2016, International Financial Reporting Standards and in the manner required by the Uganda Companies Act, 2012. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these consolidated and separate 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.

The Directors accept responsibility for the annual consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act 2016, International Financial Reporting Standards and in the manner required by the Uganda Companies Act, 2012. The Directors are of the opinion that the consolidated and separate financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and of the Group's and Bank`s operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of consolidated and separate financial statements, as well as adequate systems of internal financial control.

The Directors certify that to the best of their knowledge, the information furnished to the auditors for the purpose of the audit was correct and is an accurate representation of the Group's and Bank's financial transactions.

Nothing has come to the attention of the Directors to indicate that the Group and the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Signed on April 10, 2018 on behalf of the Board of Directors by:

Mr. Dhizaala S. Moses - Chairman

Mr. Ashwini Kumar - Managing Director

Mr. Manoj Kr. Bakshi - Executive Director

INDEPENDENT AUDITORS' REPORT

REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF BANK OF BARODA (UGANDA) LIMITED

Report on the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Bank of Baroda (Uganda) Limited and its subsidiary ("the Group and the Bank"), as set out on pages 21 to 96. These consolidated and separate financial statements ("the financial statements") comprise the Statements of financial position as at 31 December 2017, and the Statements of profit or loss and other comprehensive income, Statements of changes in equity and Statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the state of the financial affairs of the Group and Bank as at 31 December 2017, and of its consolidated and separated financial performance and its consolidated and separated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and requirements of the Uganda Companies Act, 2012 as well as the Financial Institutions Act 2004 as amended by the Financial Institutions (Amendment) Act, 2016.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

The key audit matter identified during the audit is as follows and it applies to the consolidated and separate financial statements in the same manner.

Key audit matter	How the matter was addressed in the audit
Allowance for impairment of loans and advances to customers (Individual & portfolio impairment) - Group	
The allowance for impairment of loans and advances to customers is considered to be a matter of most significance as it requires the application of significant judgment and use of subjective assumptions by the Directors. The Group records both individual and portfolio allowances of loans and advances to customers. The individually impaired loans comprises exposures that are monitored individually due to size, based on the knowledge of each individual borrower. The assessment process requires detailed knowledge of the borrower and requires credit officers to use judgment to determine whether a loss event has occurred and the amount of the resulting loss. Significant judgment is required by the Directors in assessing the impairment against individual loans and advances. Given the combination of inherent subjectivity in the judgments, and the material nature of the balance, we considered the valuation of impairment allowance on loans and advances to customers to be a key audit matter in our audit of the financial statements. Impairment against individually assessed impaired loans and advances amounting to Shs 13.5 Billion described in Note 13, represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the advance in respect of loans that exhibit indicators of impairment. The judgments applied determining the impairment include: • the expected period of recovery in future expected cash flows; and • the realizable value of the collateral securing the advance and other expected cash flows. Additionally, the Directors also monitor homogeneous portfolios of loans by similar credit risk characteristics for an assessment of the general allowance for impairment. Significant judgment is required by the Directors in assessing the portfolio provision against loans and advances.	Our audit included identifying relevant controls that address the impairment risks identified and evaluating the design and implementation, and where possible the operating effectiveness, of these controls. We focused on controls over the identification of impairment losses; the governance processes in place for credit models, inputs and assumptions; the credit forums where key judgments are considered; and how the Directors ensure they have appropriate oversight over loan provisions a) Our procedures in response to the risks specific to the individually assessed impairment (in the Corporate and retail clusters) included the following: • We selected a sample of performing loans and advances and performed a detailed independent assessment of the credit losses identified, focusing on whether there is evidence of any incurred losses. • For a sample of loans and advances that had been individually assessed and impaired, including those loans on the watch list, we independently challenged the valuation of impairment losses that had been incurred, including developing our own expectation of the amount of the provision. • In order to focus our procedures on the areas where there is a higher risk, we performed detailed credit loss assessments of loans and advances with higher-risk credit grades. We also performed focused testing of loans in higher-risk and economically exposed sectors such as real estate, manufacturing, construction among others. • When performing work on the valuation of provisions, we paid particular attention to the valuation of, and rights to, security held. Where the Directors had used specialists to provide valuations, we assessed their competence and the timeliness of these valuations. • For a sample of selected impaired loans and advances, we assessed the Directors' forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment.

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF BANK OF BARODA (UGANDA) LIMITED (CONTINUED)

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans and advances to customers (Individual & portfolio impairment) - Group	
A portfolio impairment of Shs 9.0 Billion per Note 13 has been raised against non-impaired loans and advances. The judgments applied in determining the portfolio provision calculation include: • the average historical loss rate per portfolio; and • the average exposure at default at any point in time. The total loans and advances to customers contributed to 40% of the Group's total assets of which non-performing loans formed 5.56% of the total gross loans against which total impairment allowances of Shs 22.5 Billion was assessed. Refer to Note 13 and Note 4(a) to the consolidated and separate financial statements.	• We evaluated the consistency of key assumptions applied, benchmarking these to our own understanding of the relevant industries and business environments, to assess the validity of the collateral valuations. Additionally, we performed a sensitivity analysis on the assumptions used in the forecasts. • We made use of our internal specialists to review and evaluate the Directors` judgments , in particular: • The data, methodology, assumptions and impairment models used to calculate the individual impairment allowances as well as the reasonableness of the model to identify whether there were any indicators of the Directors` bias; and • The impairment processes applied in determination of these specific allowances by the Directors. • We substantively tested the completeness and accuracy of key inputs (i.e. realization period and expected cash flows) into the models. • We re-computed the Directors' calculation of the individual impairment allowances to assess the accuracy of data captured in the accounting records. We found the model and assumptions used in the calculation of the individual impairment allowances to be in line with the IFRS. b) With respect to the portfolio impairment allowances, procedures included the following: • We obtained an understanding of the inputs and data used in preparation of the portfolio impairment allowance and challenged the appropriateness the assumptions used in the estimate. • We used our internal specialists to critically assess impairment model and the key assumptions that drive the portfolio impairment. • We also performed a retrospective review and a sensitivity analysis on the assumptions used in the model and assessed the model`s compliance with the requirements of IFRS. Additionally, we re-computed the Directors' calculation of the portfolio impairment allowances to assess the accuracy of data captured in the accounting records.

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF BANK OF BARODA (UGANDA) LIMITED (CONTINUED)

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans and advances to customers (Individual & portfolio impairment) - Group	
	• Through our internal specialists, we established a point estimate based on observable inputs and compared this to the existing portfolio impairment allowances. We obtained and assessed the completeness and accuracy of the disclosures in the financial statements against the Group`s accounting policies and disclosure requirements in accordance with IFRS 7, Financial Instruments - Disclosures. We found the model and assumptions used in the calculation of the portfolio impairment allowances to be in line with the IFRS. Overall, the results of our evaluation of the Group's allowance for impairment of loans are consistent with the Directors' assessment. We found that adequate disclosures had been provided by the Directors pertaining to the allowance for impairment of loans and advances and the related credit risk in Note 13 and Note 4(a) to the consolidated and separate financial statements.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the 'Corporate Governance statement' and 'Report of the Directors', which we obtained before the date of our report. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for these Consolidated and Separate Financial Statements

The Directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Uganda Companies Act, 2012 and the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act, 2016 and for such internal control as the Directors determine is necessary to enable the preparation of these consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF BANK OF BARODA (UGANDA) LIMITED (CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group`s as well as Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. The Directors are responsible for overseeing the Group`s as well as Bank`s financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group`s and on the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors` use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group`s as well as Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF BANK OF BARODA (UGANDA) LIMITED (CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Continued)

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other Legal and Regulatory requirements

As required by the Uganda Companies Act, 2012, we report to you based on our audit, that:

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit;

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

iii) The Group`s as well as Bank`s statement of financial position (Balance sheet) and statement of profit or loss and other comprehensive income (profit or loss) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor`s report is Norbert Kagoro Practicing Certificate Number P0053.

Deloitte & Touche

Certified Public Accountants of Uganda

Norbert Kagoro
Partner

13 April 2018
Kampala, Uganda

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

			Consolidated		Separate
		2017	2016	2017	2016
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
Interest income	5	148,197,743	151,665,549	148,197,743	151,665,549
Interest expense	6	(58,534,856)	(60,176,831)	(58,565,874)	(60,176,831)
Net interest income		**89,662,887**	**91,488,718**	**89,631,869**	**91,488,718**
Non interest income	7	25,836,286	17,967,351	25,712,732	17,880,447
Non interest expenses	8	(52,444,614)	(38,042,309)	(52,345,553)	(37,990,103)
Profit before impairment on loans and advances		63,054,559	71,413,760	62,999,048	71,379,062
Impairment gains/(losses) on loans and advances	13	1,102,665	(12,419,930)	1,102,665	(12,419,930)
Profit before tax		64,157,224	58,993,830	64,101,713	58,959,132
Income tax charge	10	(14,751,601)	(9,747,119)	(14,735,395)	(9,724,874)
Profit for the year		49,405,623	49,246,711	49,366,318	49,234,258
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net gain in available-for-sale financial assets (net of taxes)	12a	11,203,207	5,933,989	11,201,051	5,943,988
Gains on property revaluation		-	7,251,352	-	7,251,352
Other comprehensive income (net of tax)		**11,203,207**	**13,185,341**	**11,201,051**	**13,195,340**
Total comprehensive income for the year		60,608,830	62,432,052	60,567,369	62,429,598
Profit for the year attributable to:					
• *Equity holders of the Bank*		49,405,623	49,246,711		
Total comprehensive income for the year attributable to:					
• *Equity holders of the Bank*		60,608,830	62,432,052		
Earnings per share					
Basic and diluted (Shs per share)	32	19.76	19.70		

The notes on pages 36 to 106 form an integral part of these consolidated and separate financial statements.
Report of the independent auditor - pages 25 to 30.

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

		Consolidated		Separate	
		2017	2016	2017	2016
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
ASSETS					
Cash and balances with Bank of Uganda	11	206,150,443	159,718,675	206,150,443	159,718,675
Government securities	12a	500,406,256	437,550,541	500,406,256	437,550,541
Loans and advances to Banks	12b	163,899,210	244,555,358	163,899,210	244,555,358
Amounts due from overseas branches of parent company	14	19,835,816	7,549,222	19,835,816	7,549,222
Deposits and balances due from other financial institutions	22	4,909,111	17,384,351	4,869,788	17,235,382
Other assets	15	3,476,050	3,394,014	3,296,633	3,223,241
Current tax receivable	10b	1,385,752	753,478	1,356,493	727,926
Loans and advances to customers (net)	13	616,574,425	584,164,632	616,574,425	584,164,632
Investment in subsidiary	16	-	-	40,000	40,000
Deferred income tax assets	17	-	2,055,050	-	2,055,402
Intangible assets	18	14,245	26,936	14,245	26,936
Property and equipment	19	19,021,439	19,288,818	19,019,401	19,286,442
Total assets		**1,535,672,748**	**1,476,441,075**	**1,535,462,710**	**1,476,133,757**
LIABILITIES					
Other financial liabilities	20	19,248,876	7,944,240	19,248,876	7,944,240
Customer deposits	21	1,166,245,602	1,162,823,597	1,166,686,542	1,163,065,364
Deferred income tax liabilities	17	2,281,634	-	2,282,293	-
Other liabilities	23	16,016,622	27,052,112	15,888,971	26,985,552
Retirement benefit obligation	24	1,415,443	1,134,457	1,415,443	1,134,457
Total liabilities		**1,205,208,177**	**1,198,954,406**	**1,205,522,125**	**1,199,129,613**
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS					
Share capital	25	25,000,000	25,000,000	25,000,000	25,000,000
Reserves		39,615,570	33,882,621	39,613,414	33,882,621
Proposed dividend	28	18,750,000	6,250,000	18,750,000	6,250,000
Retained earnings		247,099,001	212,354,048	246,577,171	211,871,523
Total shareholders` equity		330,464,571	277,486,669	329,940,585	277,004,144
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1,535,672,748	1,476,441,075	1,535,462,710	1,476,133,757

The financial statements on pages 31 to 106 were approved for issue by the Board of Directors on April 10, 2018 and signed on its behalf by:

Mr. Dhizaala S. Moses
Chairman

Mr. Ashwini Kumar
Managing Director

Mr. Manoj Kumar Bakshi
Executive Director

The notes on pages 36 to 106 form an integral part of these consolidated and separate financial statements.
Report of the independent auditor - pages 25 to 30.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Ordinary Share capital Shs'000	Regulatory general credit reserve Shs'000	Revaluation reserve Shs'000	Available-for-sale reserve Shs'000	Proposed dividend Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2016								
At start of year		25,000,000	718,446	4,509,693	-	6,250,000	184,816,545	221,294,684
Changes in equity:								
Profit for the year		-	-			-	49,246,711	49,246,711
Other comprehensive income (net of taxes)		-	-	7,251,352	5,933,989	-	-	13,185,341
Transfer to regulatory reserves	26	-	20,791,428	-	-	-	(20,791,428)	-
Transfer from revaluation reserve		-	-	(1,449,152)	-	-	1,449,152	-
Transfer of excess depreciation on								
revaluation net of deferred tax	27	-	-	(153,027)	-	-	153,027	-
Transfer from investment fluctuation reserves		-	-	-	(3,720,108)	-	3,730,041	9,933
		25,000,000	21,509,874	10,158,866	2,213,881	6,250,000	218,604,048	283,736,669
Dividends paid		-	-	-	-	(6,250,000)	-	(6,250,000)
Dividends proposed	28	-	-	-	-	6,250,000	(6,250,000)	-
At end of year		25,000,000	21,509,874	10,158,866	2,213,881	6,250,000	212,354,048	277,486,669
Year ended 31 December 2017								
At start of year		25,000,000	21,509,874	10,158,866	2,213,881	6,250,000	212,354,048	277,486,669
Changes in equity:								
Profit for the year		-	-	-	-	-	49,405,623	49,405,623
Other comprehensive income (net of taxes)		-	-	-	11,203,207	-	-	11,203,207
Transfer to available for sale reserves		-	-	-	6,926	-	(6,926)	-
Deferred tax charged on available for sale gains		-	-	-	(1,598,618)	-	-	(1,598,618)
Transfer from regulatory reserves	26	-	(3,370,623)	-	-	-	3,370,623	-
Transfer from revaluation reserve		-	-	(725,633)	-	-	725,633	-
Transfer of excess depreciation on								
revaluation net of deferred tax	27	-	-	217,690	-	-	-	217,690
		25,000,000	18,139,251	9,650,923	11,825,396	6,250,000	265,849,001	336,714,571
Dividends paid		-	-	-	-	(6,250,000)	-	(6,250,000)
Dividends proposed	28	-	-	-	-	18,750,000	(18,750,000)	-
At end of year		25,000,000	18,139,251	9,650,923	11,825,396	18,750,000	247,099,001	330,464,571

The notes on pages 36 to 106 form an integral part of these consolidated and separate financial statements.
Report of the independent auditor - pages 25 to 30.

SEPARATE STATEMENT OF CHANGES IN EQUITY

		Ordinary share capital Shs'000	Regulatory general credit reserve Shs'000	Revaluation reserve Shs'000	Available-for sale Shs'000	Proposed dividend Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2016	**Notes**							
At start of year		25,000,000	718,446	4,509,693	-	6,250,000	184,346,406	220,824,545
Changes in equity:								
Profit for the year		-	-	-	-	-	49,234,258	49,234,258
Other comprehensive income (net of taxes)		-	-	7,251,352	5,943,989	-	-	13,195,341
Transfer to regulatory reserves	26	-	20,791,428	-	-	-	(20,791,428)	-
Transfer from revaluation reserve		-	-	(1,449,152)			1,449,152	-
Transfer of excess depreciation on net of deferred tax	27	-	-	(153,027)	-	-	153,027	-
Transfer from investment fluctuation reserves					(3,730,108)		3,730,108	
		25,000,000	21,509,874	10,158,866	2,213,881	6,250,000	218,121,523	283,254,144
Dividends paid		-	-	-	-	(6,250,000)	-	(6,250,000)
Dividends proposed	28	-	-	-	-	6,250,000	(6,250,000)	-
At end of year		25,000,000	21,509,874	10,158,866	2,213,881	6,250,000	211,871,523	277,004,144
Year ended 31 December 2017								
At start of year		25,000,000	21,509,874	10,158,866	2,213,881	6,250,000	211,871,523	277,004,144
Changes in equity:								
Profit for the year		-	-	-	-	-	49,366,318	49,366,318
Other comprehensive income (net of taxes)		-	-	-	11,201,051	-	-	11,201,051
Transfer to available for sale reserves		-	-	-	6,926	-	(6,926)	-
Deferred tax charged on available for sale gains		-	-	-	(1,598,618)	-	-	(1,598,618)
Transfer to regulatory reserves	26	-	(3,370,623)	-	-	-	3,370,623	-
Transfer from revaluation reserve		-	-	(725,633)	-	-	725,633	-
Transfer of excess depreciation on revaluation								
net of deferred tax	27	-	-	217,690	-	-	-	217,690
		25,000,000	18,139,251	9,650,923	11,823,240	6,250,000	265,327,171	336,190,585
Dividends paid		-	-	-	-	(6,250,000)	-	(6,250,000)
Dividends proposed	28	-	-	-	-	18,750,000	(18,750,000)	-
At end of year		25,000,000	18,139,251	9,650,923	11,823,240	18,750,000	246,577,171	329,940,585

The notes on pages 36 to 106 form an integral part of these consolidated and separate financial statements.
Report of the independent auditor - pages 25 to 30.

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

		Consolidated		Separate	
		2017	2016	2017	2016
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
Cash flows from operating activities					
Interest receipts		135,556,495	153,398,434	135,435,529	153,372,658
Interest payments		(67,481,243)	(53,477,732)	(67,481,243)	(53,477,732)
Net fee and commission receipts		14,592,074	13,391,330	14,592,074	13,391,330
Other income received		4,865,966	3,209,616	4,832,360	3,240,762
Recoveries on loans previously written off		6,288,298	1,248,355	6,288,298	1,248,355
Payments to employees and suppliers		(46,808,534)	(39,011,837)	(46,711,041)	(38,897,336)
Income tax paid	10b	(14,946,811)	(17,272,084)	(14,926,811)	(17,240,420)
Cash flows from operating activities before					
changes in operating assets and liabilities		32,066,245	61,486,082	32,029,166	61,637,617
Loans and advances to Customers		(31,307,127)	12,154,558	(31,307,127)	12,154,558
Cash reserve requirement		261,000	(53,653,000)	261,000	(53,653,000)
Loans and advances to Banks		(49,680,379)	-	(49,680,379)	-
Government securities		(62,855,715)	(66,234,764)	(62,855,715)	(66,234,764)
Other assets		(82,036)	(614,767)	(73,392)	(614,767)
Customer deposits		3,422,005	204,067,945	3,621,178	204,067,945
Other liabilities		(10,754,504)	2,147,268	(10,815,595)	2,147,268
Other financial liabilities		11,304,636	(1,352,358)	11,304,636	(1,352,358)
		(139,692,120)	96,514,882	(139,545,394)	96,514,882
Cash flows from investing activities					
Cash paid for purchase of intangible assets Proceeds from sale of property and equipment	19	(1,156,177)	(693,193)	(1,156,177)	(693,193)
Net cash used in investing activities	19	(4,765)	(32,810)	(4,765)	(32,810)
		-	11,099	-	11,099
Cash flows from financing activities	18	(1,160,942)	(714,904)	(1,160,942)	(714,904)
Dividend paid		(6,250,000)	(6,212,488)	(6,250,000)	(6,212,488)
Net cash used in financing activities		(6,250,000)	(6,212,488)	(6,250,000)	(6,212,488)
(Decrease)/increase in cash and cash equivalents		(115,036,816)	151,073,572	(114,927,170)	151,225,107
Movement in cash and cash equivalents					
Cash and cash equivalents at beginning of the year		598,909,940	445,700,310	598,760,971	445,399,806
(Decrease)/increase in cash and cash equivalents		(115,036,816)	151,073,572	(114,927,170)	151,225,107
Effects of exchange rate changes on the balances held in foreign currencies		2,522,796	2,136,058	2,522,796	2,136,058
Cash and cash equivalents at end of the year	30	**486,395,920**	**598,909,940**	**486,356,597**	**598,760,971**

The notes on pages 36 to 106 form an integral part of these consolidated and separate financial statements.
Report of the independent auditor - pages 25 to 30.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1 GENERAL INFORMATION

Bank of Baroda (Uganda) Limited (the Bank) is incorporated in Uganda under the Companies Act as a limited liability company. Its parent and ultimate holding company is Bank of Baroda (India) headquartered in Mumbai. The Bank is domiciled in Uganda principally engaged in the provision commercial Banking services and provision of related services. The address of its registered office is:

Plot 18, Kampala Road
P O Box 7197
Kampala, Uganda

The Bank's shares are listed on the Uganda Securities Exchange (USE) and is licensed under the Financial Institutions Act, 2004 as amended by the Financial Institutions Amendment Act, 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and requirements of the Uganda Companies Act, 2012 as well as the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act 2016. 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 (Shs), rounded off to the nearest thousand.

For purposes of reporting under the Uganda Companies Act, 2012, the balance sheet in these financial statements is represented by the consolidated and separate statement of financial position and the profit and loss account is represented by the consolidated and separate statement of profit or loss and other comprehensive income.

The Group presents the consolidated statement of financial position showing assets and liabilities in their broad order of liquidity, because this presentation provides reliable and more relevant information than separate current and non-current classifications.

Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The consolidated and separate financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis except for the **following:**

1. Financial instruments at fair value through Profit or loss are measured at fair value
2. Available-for-sale financial assets are measured at fair value with gains/losses reported through Statement of other Comprehensive Income
3. Land and Buildings are measured at cost

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net value in use in IAS 36 - Impairment of Assets.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 4.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability,either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The disclosures on fair value measurements from financial instruments are presented in the financial risk management report contained in Note 4 (f).

Going concern

The financial performance of the Group and the Bank as set out in the report of the Directors and in the Bank's consolidated and separate statement of profit or loss and the other comprehensive income. The financial position of the Group is set out in the consolidated while that for the Bank is set in the separate statement of financial position. Disclosures in respect to capital management are set out in note 4 (e).

Based on the financial performance and position of the Group and its risk management policies, the Directors are of the opinion that the Bank or Group is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

2.2 Application of new and revised International Financial Reporting Standards (IFRSs)

Section 1A: Amendments to IFRSs that are mandatorily effective for annual periods beginning on or after 1 January 2017

The amendments generally require full retrospective application (i.e. comparative amounts have to be restated),withsome amendments requiring retrospective application.

- Amendments to IAS 7 - Statement of Cash flows, disclosure initiative;
- Amendments to IAS 12 - Income taxes, Recognition of Deferred Tax Assets for unrealised losses; and
- Amendments to IFRS 12 - Disclosure of Interests in other entities, included in Annual Improvements to IFRS Standards 2014 – 2016 cycle.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs)

Section 1A: Amendments to IFRSs that are mandatorily effective for annual periods beginning on or after 1 January 2017

Amendments to IAS 7 disclosure initiate (effective for annual periods beginning on or after 1 January 2017)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods when they first apply the amendments.

The application of these amendments has not resulted in any impact on the financial performance or financial positon of the Group.

Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017)

The amendments clarify the following:

1. Unrealised losses on a debt instrument measured at fair value for which the tax base remains at cost given rise a deductible temporary difference, irrespective of whether the debt instrument's holders expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recover of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future table profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively.

The application of these amendments has not resulted in any impact on the financial performance or financial positon of the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

Amendments to IFRS 12 included in the 2014 – 2016 annual improvements cycle (effective for annual periods beginning on or after 1 January 2017)

The 2014 – 2016 annual improvements cycle includes amendments to an number of IFRSs, one of which is

Standard	Subject of amendment	Details
IFRS 12 Disclosure of interests in other entities	Clarification of the scope of the Standard	IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal Group that is classified) as held for sale The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The amendments apply retrospectively..

The application of these amendments has not resulted in any impact on the financial performance or financial positon of the Group.

Section 1B: New and revised IFRSs that are not mandatorily effective (but allow early application) for the year ended 31 December 2017

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ended 31 December 2017*:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers and the related clarifications;
- IFRS 16 Leases;
- Amendments to IFRS 2 classification and measurement of share based payment transactions;
- Amendments to IFRS 10 and IAS 28 sale or contribution of Assets between an Investor and its associate or Joint Venture;
- Amendments to IAS 40 transfers of investment property;
- Annual improvements to IFRS 2014 -2016 cycle; and
- IFRS 22 foreign currency transactions and advance consideration.

*The IASB has also issued Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts', which is effective for annual periods beginning on or after 1 January 2018; however, it is not applicable to Bank of Baroda (Uganda) Limited as the Group does not issue any insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

IFRS 9 Financial Instruments (as revised in 2014) (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 *Financial Instruments: Recognition and Measurement upon its effective date.*

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. As the bank is still in the process of implementation of IFRS 9. The bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

IFRS 9 Financial Instruments (as revised in 2014) (effective for annual periods beginning on or after 1 January 2018) - Continued

Phase 1: Classification and measurement of financial assets and financial liabilities (continued)

IFRS 9 introduces a principles-based approach to the classification of financial assets. There are three measurement classifications under IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets, fair value through other comprehensive income (FVOCI) based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9has been reduced, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value though profit or loss (FVTPL) under the fair value option.
- Debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of a principal and interest on the principal amount outstanding must be measured at FVTOCL, unless the asset is designated at FVTPL under the fair value option.
- All other debt instruments must be measured at FVTPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows ('hold to collect'), and where those contractual cash flows are solely payments of principal and interest (SPPI). Principal represents the fair value of the instrument at the time of initial recognition. Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other risks and costs consistent with a basic lending arrangement and a profit margin. This requires an assessment at initial recognition of the contractual terms to determine whether it contains a term that could change the timing or amount of cash flows in a way that is inconsistent with the SPPI criteria.

Assets may be sold out of 'hold to collect' portfolios where there is an increase in credit risk. Disposals for other reasons are permitted but such sales should be insignificant in value or infrequent in nature.

Financial asset debt instruments where the business model objectives are achieved by collecting the contractual cash flows and by selling the assets ('hold to collect and sell') and that have SPPI cash flows are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised. In certain circumstances, non-trading equity instruments can be irrevocably designated as FVOCI but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends received are recognised in the Statement of profit or loss.

All other financial assets will mandatorily be held at FVTPL. Financial assets may be designated at FVTPL only if doing so eliminates or reduces an accounting mismatch.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

Where the contractual terms of financial assets are modified, and that modification does not result in de-recognition, a modification gain or loss is recognised in the Statement of profit or loss and the gross carrying amount of the asset adjusted accordingly.

Phase 1: Transition impact

The Directors have assessed the business models that it operates across the Bank. In its assessment, the Directors considered the objectives of the business model, how performance is measured and how staff are remunerated amongst other factors. Where the objective of a business is to manage financial assets on a fair value basis, the instruments within that business model are measured at FVTPL. This includes the Bank's trading portfolios.

Most of the Bank's loans to banks and customers are held within a 'hold to collect' business model.

Investment debt securities held with Treasury Markets are held within a 'hold to trade and sell' portfolio. The majority of the remaining investment debt securities are held within a 'hold to sell' business model.

Instruments (including hybrid financial assets) that do not meet the SPPI criteria are measured at FVTPL regardless of the business model in which they are held.

Non-trading equity investments are measured at FVTPL except for a small portfolio of strategic equity investments which are irrevocably designated at FVOCI.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

Phase 2: Impairment of Financial Assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of the expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of our application of the new expected credit loss impairment model.

IFRS 9 also extends the measurement of impairment allowances on financial guarantees, letters of credit, and commitments (including undrawn lines of credit). The Bank uses the credit conversion factors as per the Basel II Accord to convert any off-balance sheet exposure to on-balance sheet and thereafter stage the exposure at default in determination of the expected credit loss.

Phase 2: Transitional Impact

The Bank primarily uses models that utilise the probability of default (PD), loss given default (LGD) and exposure at default (EAD) metrics, discounted using the effective interest rate. .

Expected credit losses are recognised for all financial debt instruments, loan commitments and financial guarantees that are classified as ‘hold to collect’/‘hold to collect and sell’ and have cash flows that are solely payments of principal and interest. Expected credit losses are not recognised for equity instruments designated at FVOCI.

Measurement of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument. The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded;

- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Bank`s policy on curing of loans; and

- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

Phase 2: Transitional Impact (continued)

An ECL allowance is recognised at the time of initial recognition for all financial instruments that are in the scope of ECL in respect of default events that may occur over the next 12 months (so-called 'stage 1 assets' with allowances equivalent to 12-months expected credit losses).

ECL continues to be determined on this basis until there is either a significant increase in credit risk (SICR) or the asset becomes credit impaired. If a financial asset (or portfolio of financial assets) experiences an SICR since initial recognition, an ECL allowance is recognised for default events that may occur over the lifetime of the asset (so-called 'stage 2 assets' with loss allowances equivalent to lifetime expected credit losses). SICR is assessed in the context of an increase in the risk of a default occurring over the remaining life of the financial instrument when compared with that expected at the time of initial recognition for the same period. It is not assessed in the context of an increase in the expected credit loss.

Measurement of Expected Credit Losses (continued)

The Bank uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to the relative and absolute changes in the lifetime PD compared with those expected at initial recognition. Qualitative factors include placement of loans on watch list, classification as higher credit risk or where principal and/or interest payments are 30 days or more past due.

An asset is only considered credit impaired, and lifetime expected credit losses recognised, if there is observed objective evidence of impairment. These factors are similar to the indicators of objective evidence of impairment under IAS 39. This includes, amongst other factors, assets in default, experiencing significant financial difficulty or subject to forbearance actions credit-impaired (so-called 'stage 3 assets').

The definition of default is aligned to the regulatory definition within Financial Instruments (Credit Classification and Provisioning) Regulations, 2005 and considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest or is considered unlikely to pay without realisation of any collateral held.

To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired. An expected credit loss allowance is recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the Statement of profit or loss through 'Impairment charges'.

The measurement of expected credit losses across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. The Bank uses a linear regression among other forecasting approaches to simulate a various scenarios around the central forecast to incorporate the potential non-linearity.

The period considered when measuring expected credit loss is the shorter of the expected life and the contractual term of the financial asset.

The expected life may be impacted by prepayments and the maximum contractual term by extension options. For certain revolving portfolios, the expected life is assessed over the period that the Group is exposed to credit risk (which is based on the length of time it takes for credit facilities to be withdrawn) rather than the contractual term.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

Phase 2: Transitional Impact (continued)

For stage 3, financial assets, the determination of lifetime expected credit losses will be similar to the IAS 39 approach; for example, loan loss allowances on individually impaired loans and advances will be based on the present value of estimated future cash flows for those individual clients.

Modifications for other reasons are accounted for in a similar way, except the modification gain or loss will be reported as part of income. For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for ECL.

For debt instruments held at FVOCI, the balance sheet amount reflects the instrument's fair value, with the expected credit loss allowance held as a separate reserve within other comprehensive income.

ECL allowances on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39.However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. The IFRS 9 Hedge accounting requirements will not have any significant impact as the bank does not apply hedge accounting.

The work on macro hedging by the IASB is still at a preliminary stage – a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period which ended in October 2014. The project is still under analysis at the time of writing

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 at the same time, except for those relating to:

1. The presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and

2. Hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

IFRS 9 contains specific transitional provisions for i) classification and measurement of financial assets; ii) impairment of financial assets; and iii) hedge accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 13 Revue-Barter Transactions involving advertising services.

As suggested by the title of the new Revenue Standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

As mentioned above, the new Revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new Revenue Standard introduces a 5 step approach to revenue recognition and measurement:

Far more prescriptive guidance has been introduced by the new Revenue Standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.

- Whether the transaction process allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IA 18 , the new Standard does not include separate guidance for 'sale of goods' and 'provision of services'' rather' the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods ' or 'provision of services'.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018) - Continued

- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that a significant reversals in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

- When costs incurred to obtain a contact and costs to fulfil a contract can be recognised as an asset.

IFRS 15, together with the clarifications there to issued in April 2016, is effective for reporting periods beginning on or after 1 January 2018 with early application permitted. Entities can choose to apply the Standard retrospectively or to use a modified transition approach, which is to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January 2018 for an entity with a 31 December year-end). The clarifications to IFRS also introduces additional practical expedients for entities transition to IFRS 15 on (i) contracts modifications that occurred prior to the beginning of the earliest period presented and (ii) contracts that were completed at the beginning of the earliest period presented.

The preliminary impact of the new standard has being analysed by the Group and in the opinion of the Directors, the adoption of the new standard on 1 January 2018 will not have a material impact on the financial position or results of the Group.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 leases;
- IFRIC 4 determining whether an arrangement contains a lease;
- SIC-15 operating leases – incentives; and
- SIC -27 evaluating the substance of transactions involving the legal form of a lease.

Identification of a lease

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service transactions on the basis of whether there is an identified asset controlled by the customer. Control is considered to exist if the customer has:

a) The right to obtain substantially all of the economic benefits from the use of an identified asset; and

b) The right to direct the use of that asset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). - Continued

The standard provides detailed guidance to determine whether those conditions are met, including instances where the supplier has substantive substitution rights, and where the relevant decisions about how and for what purpose the asset is used are predetermined.

Lessee accounting

IFRS 16 introduces significant changes to leases accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right – of – use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases if low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

If a lessee elects not to apply the general requirements of IFRS 16 to short-term leases (i.e. one that does not include a purchase option and had a lease tern at commencement date of 12 months or less) and leases if low value assets, the lessee should recorgnise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, similar to the current accounting for operating leases.

Lessor accounting

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease either as an operating lease or a finance lease.

In addition, IFRS 16 also provides guidance on the accounting for sale and leaseback transactions. Extensive disclosure are also required by the new Standard.

Due to the prominence of leasing transactions in the economy, many entities across different industries will be affected by IFRS 16. In some cases the changes may be substantial and may require changes to the existing IT systems and internal controls. Entities should consider the nature and extent of these changes.

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. A lessee can apply IFRS 16 either by a full retrospective approach of a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented to opening retained earnings (or other component of equity as appropriate)

The Directors of the Group anticipate that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in the consolidated and separate financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Group performs a detailed review.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). - Continued

Amendments to IFRS 2 Classification and Management of Share-based Payment Transactions (Effective for manual periods beginning on after 1 January 2018)

The amendments clarify the following:

1. In estimating the fair value of cash-settled share-based payment, the accounting for the effects pf vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulations requires an entity to withhold a specified number of equity instruments equals to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a net settlement feature such an arrangement should be classified as equity-settled in its entirely, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

   i. The original liability is derecognised

   The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the

   ii. modification date; and

   iii. Any difference between the carrying amount of the liability at the modification date and

   iv. the amount recognised in equity should be recognised in profit or loss immediately.

IFRS 2 is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The application of these amendments is not expected to result into any impact on the financial performance or financial positon of the Group.

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

(Effective for annual periods beginning on or after a date to be determined)

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture IAS 28 and IFRS 10 are amended, as follows:

IAS 28 has been amended to reflect the following:

- Gains and losses resulting from transactions involving assets that do not constitute a business between an investor and its associate or joint venture are recognised to the extent of unrelated investors' interest in the associate or joint venture.
- Gains and losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognised in full in the investor's financial statements.

The application of these amendments is not expected to result into any impact on the financial performance or financial positon of the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

Amendments to IFRS 2 Classification and Management of Share-based Payment Transactions (Effective for manual periods beginning on after 1 January 2018)

IFRS 10 has been amended to reflect the following:

- Gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the measurement or investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

In December 2015, the IASB postponed the effective date amendment indefinitely pending the outcome of its research project on the equity method of accounting. Earlier application of these amendments is still permitted.

The application of these amendments is not expected to result into any impact on the financial performance or financial positon of the Group.

Amendments to IAS 40 Transfers Investment Property

(Effective for annual periods beginning on or after 1 January 2018)

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet the definition of investment property supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties.)

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The application of these amendments is not expected to result into any impact on the financial performance or financial positon of the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

Annual improvements to IFRS 2014 - 2016 Cycle

(Effective for annual periods beginning on or after 1 January 2018)

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below. The package also includes amendments to IFRS 12 *Disclosure of interests in Other Entities, which is effective for annual periods beginning on or after 1 January 2017 (see section IA above for details)*

Standards	Subject of amendment	Details
IAS 28 Investments in Associates and Joint Ventures	Measuring an associate or joint venture at fair value	The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint venture at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or joint venture. The amendments apply retrospectively with earlier application permitted.

The application of these amendments is not applicable as the Group does not have any investments in associates and Joint Ventures.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018)

IFRIC 22 addresses how to determine the date of transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for the that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue)

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provision apply to prospective application.

The application of these amendments is not expected to result into any impact on the financial performance or financial positon of the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Key sources of estimation uncertainty

In the application of the accounting policies, the Directors are required to make the judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The Directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Impairment of loans and advances** - the Bank reviews its portfolios of loans and advances on a monthly and quarterly basis based on internally determined portfolio review thresholds. In determining whether loans and advances are impaired, management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.
- **- Useful lives of property and equipment** - The Directors review the useful lives and residual values of the items of property and equipment on an annual basis. During the financial year, the Directors determined that there were no significant changes in the useful lives and residual values.
- **Fair value measurement and valuation process** - In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group makes use of financial models or engages third party qualified values to perform the valuation and provide inputs to the model.

2.4 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those designated at fair value through profit or loss, are recognised within ‘interest income’ or ‘interest expense’ in the Statement of profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized 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.

2.5a Basis of Consolidation

The consolidated financial statements comprise the financial statements of Bank of Baroda (Uganda) Limited and its subsidiary, Baroda Capital Markets Uganda Limited, made up to 31 December 2017. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5a Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated and separate statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.5b Investment in Subsidiary

Investments in the subsidiaries (details of which are disclosed in Note 16) are stated in the Separate statement of financial position at cost less provision for impairment loss where applicable. Where, in the opinion of the Directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

2.6 Translation of foreign currencies

(i) Functional and presentation currency

Items included in the consolidated and separate financial statements of the Group and Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are presented in Ugandan Shillings (Shs), which is the Group's presentation currency and figures are stated in thousands of Shillings (Shs`000) unless otherwise stated.

(ii) Transactions and balances

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Translation of foreign currencies (continued)

(ii) Transactions and balances (continued)

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

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

2.7 Fees and commission income and expense

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised over the life of the loan.

2.8 Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are reclassified in the consolidated and separate financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in deposits from Banks or deposits from customers, as appropriate. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and advances to other Banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

2.9 Financial assets and liabilities

2.9.1 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The Directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

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

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as ‘Net gains/(losses) on financial instruments classified as held for trading’. Interest income and expense and dividend income and expenses on financial assets held for trading are included in ‘Net interest income’ or ‘Dividend income’, respectively. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in ‘Net gains on financial instruments designated at fair value through profit or loss’.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9.1 Financial assets (continued)

(b) 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:

- those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans, advances and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Loans, advances and receivables are reported in the statement of financial position as loans and advances to Banks or customers or as investment securities. Interest on loans is included in the income statement and is reported as 'Interest income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as 'Impairment charge for credit losses'.

Loans and advances to Banks

Loans and advances to Banks relate to money market placements with other financial institutions (both local and foreign) for maturities less than one year. Loans and advances to Banks are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Interest on loans to Banks is included in the income statement and is reported as 'Interest income on placements'.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Directors have the positive intention and ability to hold to maturity, other than:

- those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available-for-sale; and
- those that meet the definition of loans and receivables.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

(d) Available-for-sale

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets and liabilities (continued)

2.9.1 Financial assets (continued)

(d) Available-for-sale (continued)

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

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

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

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

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

2.9.2 Financial liabilities

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

2.9.3 Measurement

(a) Fair value measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets and liabilities (continued)

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

2.9.3 Measurement

(a) Fair value measurement

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, Foreign Exchange ("FX") rates, volatilities and counterparty spreads) existing at the reporting dates.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The Bank uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Bank's credit spreads widen, the Bank recognises a gain on these liabilities because the value of the liabilities has decreased. When the Bank's credit spreads narrow, the Bank recognises a loss on these liabilities because the value of the liabilities has increased.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

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

(b) Amortised cost measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets and liabilities (continued)

2.9.5 Offsetting

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

2.9.6 De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

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

2.9.7 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

<table>
<tr><th colspan="2">Category
(as defined by IAS 39)</th><th colspan="2">Class (as determined by the Bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="23">Financial assets and liabilities</td><td rowspan="7">Financial assets at fair value through profit or loss</td><td rowspan="3">Financial assets held for trading</td><td>Debt securities</td><td>Available for Trading</td></tr>
<tr><td>Equity securities</td><td>Investments in shares</td></tr>
<tr><td>Derivatives – non-hedging</td><td>Derivatives</td></tr>
<tr><td rowspan="4">Financial assets designated at fair value through profit or loss</td><td>Debt securities</td><td>Available for Trading</td></tr>
<tr><td>Equity securities</td><td>Investments in shares</td></tr>
<tr><td>Loans and advances to Banks</td><td>Loans and advances to Banks</td></tr>
<tr><td>Loans and advances to customers</td><td>Loans and advances to customers</td></tr>
<tr><td rowspan="8">Loans and receivables</td><td colspan="2">Loans and advances to Banks</td><td>Placements</td></tr>
<tr><td rowspan="7">Loans and advances to customers</td><td rowspan="4">Loans to individuals (retail)</td><td>Overdrafts</td></tr>
<tr><td>Individual loans</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="3">Loans to corporate entities</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td></td></tr>
<tr><td rowspan="2">Held-to-maturity Investments</td><td colspan="2" rowspan="2">Investment securities - debt instruments</td><td>Bank of Uganda</td></tr>
<tr><td>Listed</td></tr>
<tr><td rowspan="3">Available-for-sale financial assets</td><td colspan="2">Investment securities - debt instruments</td><td>Bank of Uganda</td></tr>
<tr><td colspan="2" rowspan="2">Investment securities - equity securities</td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td rowspan="3">Financial liabilities at amortised cost</td><td colspan="2">Deposits from Banks</td><td>Deposits due to Banks</td></tr>
<tr><td rowspan="2">Deposits from customers</td><td>Retail customers</td><td>Customer Deposits</td></tr>
<tr><td>Corporate customers</td><td>Customer Deposits</td></tr>
<tr><td rowspan="2">Off-balance sheet financial Instruments</td><td colspan="3">Loan commitments</td><td>Un-used credit lines</td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2">Acceptances and financial guarantees</td></tr>
</table>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the 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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) it becomes 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

(c) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be

(i) adverse changes in the payment status of borrowers in the portfolio; and

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by the Directors for each identified portfolio. In general, the periods used vary between 3 and 12 months; in exceptional cases, longer periods are warranted.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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 asset'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 profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a 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 (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). 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.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of profit or loss.

In addition to the measurement of impairment losses on loans and advances in accordance with the International Financial Reporting Standards as set out above, the Bank is also required by the Financial Institutions Act (FIA) 2004 to establish provisions for losses on loans and advances as follows:

i) A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Bank of Uganda, as:
   a) substandard assets being facilities in arrears between 90 and 179 days – 20%;
   b) doubtful assets being facilities in arrears between 180 days and 364 days – 50%;
   c) loss assets being facilities in arrears between over 365 days – 100%; and

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

Where provisions for impairment of loans and advances determined in accordance with the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act, 2016 exceed amounts determined in accordance with International Financial Reporting Standards, the excess is taken to the regulatory credit risk reserve as an appropriation of retained earnings. Otherwise no further accounting entries are made.

Re-negotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due. The effective interest rate of renegotiated loans that have not been derecognised is predetermined based on the loan`s renegotiated terms.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets (continued)

(b) Assets carried at fair value

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

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the Statement of profit or loss.

2.11 Property and equipment

Property and equipment are initially recorded at cost. All other property and equipment are stated at historical cost less depreciation and accumulated impairment losses. The cost of purchased property and equipment is the value of consideration given to acquire the assets and the value of other directly attributed costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Property and equipment are depreciated on a straight line basis and reducing balance basis to write down the cost of assets, or the revalued amounts, to its residual value over its estimated useful life using the following annual rates;

Item	***Rate %***	***Method of Depreciation***
Buildings	5.0	Straight line basis
IT equipment	20.0 - 33.3	Straight line basis
Furniture and fixtures	12.5	Reducing balance basis
Motor vehicles	20.0	Reducing balance basis

Freehold Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

2.12 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

2.13 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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). Non-financial assets (other than goodwill) that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Income tax

(a) Current income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax currently payable is determined in accordance with the Ugandan Income Tax Act and is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the consolidated and separate statements of profit of loss because of items of income or expense that are taxable or deduction in other years and items that are never taxable or deductible.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from 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 substantially enacted by the reporting 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 categorised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be categorised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

(i) With the Group as lessee

To date, all leases entered into by the Group and/or Bank are operating leases. Payments made under operating leases are recognised as an expense charged to the Statement of profit or loss on a straight-line basis over the period of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) With the Group as lessor

When assets are leased out under a finance lease, the present value of the lease payments is categorized as a receivable. The difference between the gross receivable and the present value of the receivable is categorised as unearned finance income. Lease income is categorised over the term of the lease using the net investment method (before income tax), which reflects a constant periodic rate of return.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 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 non-restricted balances with the Central Bank, Treasury and other eligible bills, and amounts due from other Banks. Cash and cash equivalents excludes the Cash Reserve Requirement held with the Central Bank.

2.17 Employee benefits/post employment benefits

a) Statutory obligations

All employees of the Group and Bank are obliged to be members of the National Social Security Fund, a state managed defined contribution pension scheme. The Bank contributes to the scheme in line with the requirements of the National Social Security Fund Act. The regular contributions by the Bank and employees constitute net periodic costs for the year in which they are due and as such charged to the Statement of profit or loss under "Employment benefits expense" in Staff costs as incurred. Any differences between the charge to Statement of Profit or loss and NSSF contributions payable is recorded in the Statement of Financial position under "Other liabilities".

b) Long service awards

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees as at the reporting date.

The estimated monetary liability for employees' accrued annual leave entitlement at the date of the statement of financial position is categorised as an expense accrual.

2.18 Borrowings

Borrowings are categorized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is categorised in the Statement of profit or loss over the period of the borrowings using the effective interest method.

Interest expense on borrowings is recognised in the statement of profit or loss for all interest bearing liabilities measured at amortised cost using the effective interest method, in the period in which it is charged. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense over the relevant period.

2.19 Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Ordinary shares are classified as equity.

Dividends on ordinary shares

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until approved by the shareholders at the Annual General Meeting.

Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all any potentially dilutive ordinary shares which comprise share options granted to employees.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Dividends payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

2.21 Financial guarantees and commitments

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities. Transaction gains or losses on foreign denominated items are recognised immediately in the profit or loss.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Such financial guarantees are given to Banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other facilities.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

2.22 Operating segments

The major part of business of the bank, which is all within Uganda, falls under the category of commercial banking, with other income comprising less than 2% of the total income of the bank. No segment information is therefore provided.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The consolidated and separate financial statements and their financial results are influenced by accounting policies, assumptions, estimates and Directors' judgement, which necessarily have to be made in the course of preparation of these financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and Directors' judgments for certain items are especially critical for the Group's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Directors review the Bank`s loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Directors make judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio.This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. The Directors use 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.

(b) Held-to-maturity investments

The Group follows the guidance of IAS 39 Financial Instruments - Recognition and Measurement, on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group 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 and not amortised cost. If the entire class of held-to-maturity investments is tainted, it will be reported at the fair value, with a corresponding entry in shareholders' equity.

(c) Income taxes

The Group is subject to income taxes in Uganda in accordance with the Ugandan Income Tax Act which is considered complex due to the expertise required. The Group therefore uses external tax consultants in reviewing of the tax computations and related income tax returns. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

4. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and categorise potential adverse effects on its financial performance.

Financial risk management is carried out by the Treasury and Credit department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

(a) 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. For risk management purposes, credit risk arising on trading of securities is managed independently, but reported as a component of market risk exposure.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry segments.

Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Directors.

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

The credit risk management and control are centralised in credit and treasury departments of the Bank.

Measurement of credit risk

In measuring credit risk of loans and advances to customers, the Bank reflects on various components. These include:

- current exposures on the borrower/client and the likely future development, from which the Bank derives the exposure at default;
- the probability of default by the borrower/client on their contractual obligations; and
- the likely recovery ratio on the defaulted obligations.

The Bank assesses the probability of default of individual borrower/client using internal rating methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgment and are validated, where appropriate, by comparison with externally available data. The Directors assess the credit quality of the customer, taking into account their financial position, past experience and other factors. Individual limits are set based on internal or external information in accordance with limits set. The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Risk limit control and mitigation policies

The Bank manages its credit risk, inter-alia by:

- Formulating credit policies covering collateral requirements, credit assessment risk grading, legal procedures for documentation, reporting and compliance with regulatory and statutory requirements.
- Establishing the authority structure for approval and renewal of credit facilities. Discretionary lending powers have been allocated to the Credit Committee of Board, Credit Management Committee, Managing Director, Assistant General Managers, Chief Managers/ Senior Branch Managers, Credit Committee of the Board to oversee the credit portfolio of the Bank.
- Developing and maintaining the Bank`s risk grading in order to categorise exposures according to degree of risk of financial loss faced and the focus on management of consequent risk or loss. The current risk grading framework consist of 5 categories of risk grades reflecting the varying grades of risk of default and availability of collaterals or other risk mitigates, risk grades are subject to regular review by the Bank.
- Setting exposure limits i.e. credit concentration. The Bank has in place a framework of exposure ceiling of various industries, counterparties, country (for investment securities) etc.
- In review and assessment of credit risk, the Bank carries out a conscious assessment of credit exposure in excess of designated limits, prior to the facilities being committed to the customer. This is a part of the appraisal system for processing the request of borrower for a credit facility. Renewals and review of credit facilities are also subject to the same appraisal criteria.
- Review of the compliance of the various regulatory limits, exposure ceilings etc. at regular intervals by the Bank.
- The Directors provide assistance to the business units/branches to promote best practices for credit appraisal throughout the Bank in management of credit risk.

Each branch/business unit is responsible for implementing, complying and monitoring with the credit policies in order to build up a quality credit portfolio, including those which are sanctioned by head office. Regular audit of the branches is undertaken by the internal audit.

Some other specific control and mitigation measures are outlined below:

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:

- Mortgages over properties;
- Charges over business assets such as land and buildings, inventory and receivables;
- Charges over financial instruments such as investments; and
- Deposits placed under lien.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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 categorized a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are categorizations 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 categorizations 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.

Bank's maximum exposure to credit risk before collateral

	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Loans and advances with Banks	163,899,210	244,555,358	163,899,210	244,555,358
Government & other securities: - held to maturity	12,662,515	49,693,644	12,662,515	49,693,644
- available for sale	487,743,741	424,893,596	487,743,741	424,893,596
Amounts due from other Group companies	19,835,816	7,549,222	19,835,816	7,549,222
Loans and advances to customers (net)	616,574,425	584,164,632	616,574,425	584,164,632
Other assets	3,476,050	3,394,014	3,296,633	3,223,241
Credit exposure relating to off-balance sheet items:				
• Contingencies secured by cash collateral	25,528,944	17,671,506	25,528,944	17,671,506
• Direct credit substitutes (guarantees and acceptances)	34,607,248	44,811,619	34,607,248	44,811,619
• Transaction related (performance bonds and standbys)	14,230,150	18,326,164	14,230,150	18,326,164
• Documentary credits (trade related and self-liquidating)	25,762,284	28,400,673	25,762,284	28,400,673
• Unused formal facilities	101,754,710	4,148,200	101,754,710	4,148,200
	1,506,075,093	**1,427,608,628**	**1,505,895,676**	**1,427,437,855**

The table above represents a worst case scenario of credit risk exposure to the Group and Bank at 31 December 2017 and 31 December 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 40.94% of the total maximum exposure of the Bank is derived from loans and advances to Banks and customers (2016: 40.92%). 33.24% represents investments in debt securities (2016: 33.25%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Management is confident on 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:

- 93.52% (2016: 80.69%) of the loans and advances portfolio are neither past due nor impaired
- 98.60% (2016: 99.10%) of the loans are backed by collaterals
- 100.00% (2016: 99.96%) of the investments in debt securities are government securities.
- The Bank exercises stringent control over granting of new loans

Loans and advances are categorized as follows:	2017 Shs'000	2016 Shs'000
Neither past due nor impaired	597,693,104	490,466,879
Past due but not impaired	5,903,704	26,283,466
Impaired	35,517,203	91,056,539
Gross advances	639,114,011	607,806,884
Less: Allowance for impairment (Note 13)	(22,539,586)	(23,642,252)
	616,574,425	**584,164,632**

No other financial assets are either past due or impaired.

Loans and advances are categorized as follows:

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:

	2017 Shs'000	2016 Shs'000
Standard	597,693,104	490,466,879

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:

	2017 Shs'000	2016 Shs'000
Past due up to 30 days	2,479,556	11,039,056
Past due 31 – 60 days	2,066,296	9,199,213
Past due 61 – 89 days	1,357,852	6,045,197
Total	**5,903,704**	**26,283,466**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances individually impaired

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

		2017	2016
Individually assessed impaired loans and advances		Shs'000	Shs'000
Loans			
-	Corporate	16,451,020	42,518,529
-	Retail	468,578	180,738
		16,919,598	42,699,267
Overdrafts			
-	Corporate	17,637,934	47,356,973
-	Retail	959,671	1,000,299
		18,597,605	48,357,272
Total impaired loans and advances		**35,517,203**	**91,056,539**

Concentration of risk

Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:

	Loans and advances	Customer deposits	Credit commitments
At 31 December 2017	%	%	%
Manufacturing	29.27	1.82	40.8
Wholesale and retail trade	12.61	5.9	13.1
Transport and communications	0.54	0.44	0.0
Building and construction	15.72	1.94	5.8
Agricultural	27.57	3.31	21.9
Individuals	0.65	56.4	0.0
Other	13.63	30.19	18.4
Gross	100.00	100.00	100.00
At 31 December 2016			
Manufacturing	31.88	23.48	8.79
Wholesale and retail trade	15.15	31.66	18.92
Transport and communications	0.79	-	0.03
Building and construction	15.78	6.64	1.78
Agricultural	21.50	9.78	4.14
Individuals	0.73	-	38.89
Other	14.17	28.44	27.45
Gross	100.00	100.00	100.00

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value. The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Bank's credit policy, loan restructure is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest and principal payments and amending the terms of loan covenants. For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's credit risk profile, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, earlier repayment or until it is written off.

Collateral held and other credit enhancements and their financial effect

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are regularly updated through the life of the credit facility. Collateral requirements are based on the individual risk rating of borrowers as stipulated in the Bank's policy.

The table below sets out the principal types of collateral held against different types of financial assets.

Exposure that is subject to collateral

As at 31 December (Shs`000)

Type of credit exposure	2017	2016	Principal type of security held
Personal Loans-Unsecured	455,802	417,040	Un-secured
Personal Loans-Secured	20,817,658	24,927,125	Property, Lien on deposit
Overdrafts	337,418,049	311,586,938	General Asset Charge, Property, Guarantees
Commercial Loans	268,818,020	265,261,286	General Asset Charge, Property, Guarantees
Repos and Reverse Repos	86,717,078	37,036,699	Marketable Securities

Trading assets

The bank held Available for Sale assets of Shs 488 Billion as at 31 December 2017 (2016: Shs 424 Billion) comprise of treasury bills and bonds issued by Bank of Uganda which are considered to be low risk.

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to them. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Because of the Bank's focus on corporate customers' creditworthiness, the Bank has established a policy to update the valuation of collateral held against all loans to customers after every three (3) years. Additionally, valuation of collateral is updated, or fresh valuations are carried out when the credit risk of a loan deteriorates significantly and the loan is monitored more closely or at point of foreclosure. For impaired loans, the Bank obtains appraisals of collateral because the current value of the collateral is an input to the impairment measurement. At 31 December 2017, the net carrying amount of impaired loans and advances to corporate customers amounted to Shs 34,088 million (2016: Shs 89,875 million) and the value of identifiable collateral held against those loans and advances amounted to Shs 74,114 million (2016: Shs 110,220 million).

Residential mortgage lending

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value ("LTV") ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

LTV ratio	2017 Shs`000	2016 Shs`000
Less than 60%	-	-
61 - 100%	1,428,249	1,181,037
More than 100%	-	-
	1,428,249	1,181,037

Other types of collateral and credit enhancements

In addition to the collateral included in the tables above, the Bank also holds other types of collateral and credit enhancements such as second charges and floating charges for which specific values are not generally available.

Assets obtained by taking possession of collateral

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

Write off policy

The Bank writes off a loan balance in accordance with the Financial Institution Regulation on Credit Classification and Provisioning, regulation 11 (5), which requires credit facilities classified "loss" to be written off within 90 days, unless approval of the Central Bank has been obtained.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Bank to honour its obligations to deliver cash, securities or other assets as contractually agreed. Settlement limits form part of the credit approval/limit monitoring process described earlier.

Cash and cash equivalents

As at the reporting date, the total cash and cash equivalents held by the Group amounted to Shs 206,150 million (2016: Shs 159,719 million) as disclosed in Note 30 to these consolidated and separate financial statements. The cash and cash equivalents included Notes and coins, Balances with Bank of Uganda, Overseas branches of the Bank of Baroda ("BOB") and Deposits/ balances with other financial institution counterparties whose credit risk is considered to be medium to low.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The Parent Bank (i.e. BOB India) and its overseas branches/ banks (i.e. BOB Brussels, BOB London, BOB New York) have a similar credit rating of Baa3 obtained from Moody`s credit agency. Bank of Baroda, Nairobi is unrated.

Other than the banks under the parent company, the Bank has deposits/ balances with Standard Chartered Bank, New York, which has a credit rating of A1 based on Moody`s Credit Agency.

Loans and advances to Banks

The total gross amount of individually impaired loans and advances to Banks as at 31 December, 2017 was nil (2016: nil). No collateral is held by the Bank.

(b) Liquidity risk

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

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

The Bank of Uganda requires that the Bank maintains a Cash Reserve Ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum inter-Bank and other borrowing facilities that should be in place to cover withdrawals at unexpected level of demand. The treasury department of the Bank monitors the liquidity ratio on a daily basis.

The table overleaf analyses the Group`s and Bank`s financial assets and liabilities into the relevant maturity groupings based on the remaining period at the Statement of financial position date to the contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) **Liqidity risk (continued)**

Consolidated	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
At 31 December 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial Assets						
Cash and balances with Bank of Uganda	187,847,620	18,302,823	-	-	-	206,150,443
Government debt securities	92,438,378	164,828,410	154,374,663	64,191,968	24,572,837	500,406,256
Loans and advances to Banks	-	-	163,899,210	-	-	163,899,210
Loans and advances to customers	35,047,585	52,921,470	102,019,157	185,524,531	241,061,682	616,574,425
Amounts due from overseas branches of parent	19,835,816	-	-	-	-	19,835,816
Deposits and balances due form other financial	4,909,111	-	-	-	-	4,909,111
institutions						
Other assets	-	-	3,476,050	-	-	3,476,050
Current tax receivable	-	-	1,385,752	-	-	1,385,752
Total financial assets (expected maturity dates)	**340,078,510**	**236,052,703**	**425,154,832**	**249,716,499**	**265,634,519**	**1,516,637,063**
Financial Liabilities						
Customer deposits	98,039,375	228,729,444	635,348,769	3,106,467	201,021,547	1,166,245,602
Other financial liabilities	11,732,870	2,618,994	-	-	4,897,012	19,248,876
Other liabilities	-	-	16,016,622	-	-	16,016,622
Total Financial liabilities (contractual maturity						
dates)	**109,772,245**	**231,348,438**	**651,365,391**	**3,106,467**	**205,918,559**	**1,201,511,100**
On balance sheet liquidity gap	**230,306,265**	**4,704,265**	**(226,210,559)**	**246,610,032**	**59,715,960**	**315,125,963**
Off balance sheet exposure	18,297,294	23,864,913	56,602,339	1,364,080	-	100,128,626
Net liguiddity gap	**212,008,971**	**(19,160,648)**	**(282,812,898)**	**245,245,952**	**59,715,960**	**214,997,337**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Separate	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
At 31 December 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial Assets						
Cash and balances with Bank of Uganda	187,847,620	18,302,823	-	-	-	206,150,443
Government debt securities	92,438,378	164,828,410	154,374,663	64,191,968	24,572,837	500,406,256
Loans and advances to Banks	-	-	163,899,210	-	-	163,899,210
Loans and advances to customers	35,047,585	52,921,470	102,019,157	185,524,531	241,061,682	616,574,425
Amounts due from overseas branches of parent	19,835,815	-	-	-	-	19,835,815
Deposits and balances due form other financial	4,869,788	-	-	-	-	4,869,788
institutions						
Other assets	-	-	3,296,633	-	-	3,296,633
Current tax receivable	-	-	1,356,493	-	-	1,356,493
Total financial assets (expected maturity dates)	**340,039,186**	**236,052,703**	**424,946,156**	**249,716,499**	**265,634,519**	**1,516,389,063**
Financial Liabilities						
Customer Deposit	98,039,375	228,729,444	635,348,769	3,106,467	201,462,487	1,166,686,542
Other financial liabilities	11,732,870	2,618,994	-	-	4,897,012	19,248,876
Other liabilities	-	-	15,888,971	-	-	15,888,971
Total financial liabilities (contractual maturity						
dates)	**109,772,245**	**231,348,438**	**651,237,740**	**3,106,467**	**206,359,499**	**1,201,824,389**
On balance sheet liquidity gap	**230,266,941**	**4,704,265**	**(226,291,584)**	**246,610,032**	**59,275,020**	**314,564,674**
Off balance sheet exposure	18,297,294	23,864,913	56,602,339	1,364,080	-	100,128,626
Net liquidity gap	**211,969,647**	**(19,160,648)**	**(282,893,923)**	**245,245,952**	**59,275,020**	**214,436,048**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(b) **Liquidity risk (continued)**						
Consolidated	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
At 31 December 2016	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets						
Cash and balances with Bank of Uganda	122,681,976	-	-	-	-	122,681,976
Other financial assets	129,203,405	193,247,275	254,666,244	140,120,998	1,904,676	719,142,598
Loans and advances to customers	33,715,762	49,829,778	96,318,194	206,516,021	197,784,877	584,164,632
Deposit and balances due from other financial institutions	17,235,382	-	-	-	-	17,235,382
Other assets	-	-	3,394,014	-	-	3,394,014
Current tax receivable	-	-	753,478	-	-	753,478
Total financial assets (expected maturity dates)	**302,836,525**	**243,077,053**	**355,131,930**	**346,637,019**	**199,689,553**	**1,447,372,080**
Financial Liabilities						
Customer deposits	173,559,281	239,388,482	579,718,576	5,857,971	164,299,287	1,162,823,597
Other financial liabilities	1,000,493	-	-	6,943,747	-	7,944,240
Other liabilities	-	-	27,052,112	-	-	27,052,112
Total financial liabilities (contractual maturity dates)	**174,559,774**	**239,388,482**	**606,770,688**	**12,801,718**	**164,299,287**	**1,197,819,949**
On balance sheet liquidity gap	**128,276,751**	**3,688,571**	**(251,638,758)**	**333,835,301**	**35,390,266**	**249,552,131**
Off balance sheet exposure	21,507,833	27,005,598	63,355,485	1,489,246	-	113,358,162
Net liquidity gap	**106,768,918**	**(23,317,027)**	**(314,994,243)**	**332,346,055**	**35,390,266**	**136,193,969**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) **Liquidity risk (continued)**						
Separate	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
At 31 December 2016	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets						
Cash and balances with Bank of Uganda	122,681,976	-	-	-	-	122,681,976
Other financial assets	129,203,405	193,247,275	254,666,244	140,120,998	1,904,676	719,142,598
Loans and advances to customers	33,715,762	49,829,778	96,318,194	206,516,021	197,784,877	584,164,632
Deposit and balances due from other financial	17,235,382	-	-	-	-	17,235,382
institutions						
Other assets	-	-	3,223,241	-	-	3,223,241
Current tax receivable	-	-	727,926	-	-	727,926
Total financial assets (expected maturity dates)	**302,836,525**	**243,077,053**	**354,935,605**	**346,637,019**	**199,689,553**	**1,447,175,755**
Financial Liabilities						
Customer deposits	173,559,281	239,388,482	579,718,576	5,857,971	164,541,054	1,163,065,364
Other financial liabilities	1,000,493	-	-	6,943,747	-	7,944,240
Other liabilities	-	-	26,985,552	-	-	26,985,552
Total Financial liabilities (contractual maturity						
dates)	**174,559,774**	**239,388,482**	**606,704,128**	**12,801,718**	**164,541,054**	**1,197,995,156**
On balance sheet liquidity gap	**128,276,751**	**3,688,571**	**(251,768,523)**	**333,835,301**	**35,148,499**	**249,180,599**
Off balance sheet exposure	21,507,833	27,005,598	63,355,485	1,489,246	-	113,358,162
Net liquidity gap	**106,768,918**	**(23,317,027)**	**(315,124,008)**	**332,346,055**	**35,148,499**	**135,822,437**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while the return on risk. Overall responsibility for managing market risk rests with the Board Assets and Liabilities Committee (BALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by BALCO) and for the day to day implementation of those policies.

The major measurement techniques used to measure and control market risk are outlined below;

- **Value at Risk**

The Bank applies a “Value at Risk” methodology (VaR) to its trading and non-trading portfolios, to estimate market risk of positions held and maximum losses expected based upon a number of assumptions for various changes in market conditions. The board sets limits on the value of risk that may be accepted by the Bank, trading and non-trading separately, which are monitored on a daily basis by the treasury department.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the maximum amount the Bank might lose, but only to a certain level of confidence (98%). Therefore there is a specified statistical probability (2%) that actual loss could be greater than the VaR estimate. The VaR model assumes a certain holding period until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have over 10 day period in the past. The Bank`s assessment of past movement is based on data for the past five years. The Bank applies these historical simulation in the model to generate the outcomes on the trading and non-trading portfolios. The actual outcome is monitored regularly to test the validity of the assumptions and parameters/factors used in VaR calculation.

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

The quality of the VaR model is continuously monitored by back testing the VaR results on trading books. All back testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated and all back testing results are reported to the Board of Directors.

Group and Bank`s VaR summary for 2017 and 2016:

- VaR by risk type	**Consolidated and separate**		
	Average	**High**	**Low**
	Shs`000	**Shs`000**	**Shs`000**
12 Months ended 31 December 2017			
Foreign exchange risk	8,646,459	9,212,412	7,791,754
Interest rate risk	9,841,069	10,053,566	9,616,100
	18,487,528	**19,265,978**	**17,407,854**
12 Months ended 31 December 2016			
Foreign exchange risk	6,126,115	6,502,203	5,558,145
Interest rate risk	2,109,156	2,262,666	1,873,089
	8,235,271	**8,764,869**	**7,431,234**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

- **Value at Risk (continued)**

- *Non trading portfolio VaR by risk type*	Consolidated and separate		
	Average	High	Low
Year ended 31 December 2017	Shs`000	Shs`000	Shs`000
Foreign exchange risk	8,646,459	9,212,412	7,791,754
Interest rate risk	9,841,069	10,053,566	9,616,100
	18,487,528	19,265,978	17,407,854
Year ended 31 December 2016			
Foreign exchange risk	6,126,115	6,502,203	5,558,145
Interest rate risk	2,109,156	2,262,666	1,873,089
	8,235,271	8,764,869	7,431,234

- **Stress test**

Stress test provides an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the treasury department include: risk factor, stress testing where stress movements are applied to each risk category, emerging market stress testing, where emerging market portfolios are subject to stress movements and adhoc stress testing, which includes applying possible stress events to specific positions or regions - for example the stress outcome to a region following currency peg break. The results of the stress tests are reviewed by senior management in each business unit. The stress test is tailored to the business and typically uses scenario analysis.

(i) Foreign exchange risk

The Group`s assets are typically funded in the same currency as the business transacted to eliminates foreign exchange exposures. However, the Group maintains an open position within the tolerance limits prescribed by the Financial Institutions Act 2004 and approved by the board.

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar, Euro and GBP. The risk arises from future transactions, assets and liabilities in the statement of financial position date.

The intraday positions are managed by treasury through stop loss/dealer limits. End of day positions are marked to market.

The table below summarises the effect on post-tax profit and components of equity had the Uganda Shillings weakened by 10% against each currency, with all other variables held constant. If the Uganda Shilling strengthened against each currency, the effect would have been the opposite. The 10% sensitivity represents Director's assessment of the reasonable change in exchange rates.

	USD	EURO	GBP	Other currencies*
Year ended 31 December 2017				
Effect on profit and equity : decrease	(2,968,854)	(506,379)	(22,592)	(92,719)
Year ended 31 December 2016				
Effect on profit and equity : decrease	(2,105,285)	(2,408)	(180,839)	(515,848)

* Other currencies comprise of Kenyan Shillings (KES), Tanzanian Shillings (TZS) & Indian Rupee (INR) which are individually small and thus have been aggregated in one portfolio to assess the foreign exchange risk.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group`s transactional exposures give rise to foreign currency gains and losses that are recognised in the Statement of profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

Separate						
	EURO	USD	GBP	USH	Others*	Total
At 31 December 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets						
Cash and balances with BOU	238,459	15,434,541	363,124	190,052,416	61,903	206,150,443
Government securities				500,406,256	-	500,406,256
Loans and advances with Banks		155,894,854		8,004,356		163,899,210
Amounts due from overseas branches of parent Bank (net)	4,181,029	786,607	14,764,430	-	103,750	19,835,816
Deposits and balances due from other financial institutions	-	4,869,788	-	-	-	4,869,788
Other assets	460,015	2,458,864	-	377,754	-	3,296,633
Current tax receivable	-	-	-	1,356,493	-	1,356,493
Investment in subsidiaries	-	-	-	40,000	-	40,000
Loans and advances to customers (net)	-	423,554,821	-	193,019,604	-	616,574,425
Intangible assets	-	-	-	19,033,646	-	19,033,646
Total Assets	4,879,503	602,999,475	15,127,554	912,290,525	165,653	1,535,462,710
Liabilities and shareholders` equity						
Other financial liabilities	-	3,640,000	-	15,608,876	-	19,248,876
Customer deposits	3,944,898	582,531,359	14,996,445	565,195,003	18,837	1,166,686,542
Other liabilities	14,574	7,040,600	151,995	8,624,593	57,209	15,888,971
Retirement benefit obligation	-	-	-	1,415,443	-	1,415,443
Deferred income tax liabilities	-	-	-	2,282,293	-	2,282,293
Shareholder`s equity	-	-	-	329,940,585	-	329,940,585
Total liabilities and shareholders' equity	3,959,472	593,211,959	15,148,440	923,066,793	76,046	1,535,462,710
Net on Balance sheet position	920,031	9,787,516	(20,886)	(10,776,268)	89,607	-
Net off Balance sheet position	2,540,231	97,646,536	736,530	(3,089,952)	2,295,281	100,128,626
Overall position	**3,460,262**	**107,434,052**	**715,644**	**(13,866,220)**	**2,384,888**	**100,128,626**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk (continued)

Separate

	EURO	USD	GBP	USH	Others*	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 31 December 2016						
Total Assets	4,602,104	651,935,105	12,866,426	806,711,995	18,127	1,476,133,757
Total Liabilities	3,808,474	631,205,982	12,808,845	828,292,329	18,127	1,476,133,757
Net on Balance sheet position	793,630	20,729,123	57,581	(21,580,334)	-	-
Net off Balance sheet position	5,442,674	85,069,803	133,680	22,712,005	2,648,853	116,007,015
Overall position	**6,236,304**	**105,798,926**	**191,261**	**1,131,671**	**2,648,853**	**116,007,015**

* Others comprise of Kenyan Shillings (KES), Tanzanian Shillings (TZS) & Indian Rupee (INR) which are individually small and thus have been aggregated in one portfolio to assess the foreign exchange risk.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk (continued)

Exchange rates used for conversion of foreign items were:

Consolidated and Separate	2017	2016
US Dollar	3,640	3,610
GBP	4,917	4,456
Euro	4,363	3,795
INR	57	53
KShs	35	35

(iii) Interest rate risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

The Bank`s operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different rimes or in different amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Bank`s business strategies.

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitor the interest rate trends to minimise the potential adverse impact of interest rate changes. The major portion related to this risk is reflected in the Banking book owing to investments in fixed rate treasury bonds. The overall potential impact of the mismatches on the earnings in short-term and economic value of the portfolio in the long-term is not material and is being managed within the tolerance limits approved by the Board.

The table summarises the exposure to interest rate risk at the date of the Statement of financial position. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing on maturity dates. The Bank does not have any derivative financial instruments. The Bank does not bear an interest rate risk on off balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

Separate

At 31 December 2017	Upto 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with Bank of Uganda	187,847,621	18,302,823	-	-	-	-	206,150,443
Government Securities	92,438,378	164,828,410	154,374,663	64,062,791	24,702,014	-	500,406,256
Loans and advances to Banks	-	-	163,899,210	-	-	-	163,899,210
Loans and advances to customers	35,047,585	52,921,470	102,019,157	185,524,531	241,061,682	-	616,574,425
Amounts due from overseas branches of parent	19,835,816	-	-	-	-	-	19,835,816
Deposits and balances due form other financial institutions	4,869,788	-	-	-	-	-	4,869,788
Other assets	-	-	-	-	-	3,296,632	3,296,633
Current tax receivable	-	-	-	-	-	1,356,493	1,356,493
Investment in subsidiaries	-	-	-	-	-	40,000	40,000
Property and Equipment	-	-	-	-	-	19,033,646	19,033,646
Total assets	**340,039,188**	**236,052,703**	**420,293,030**	**249,587,322**	**265,763,696**	**23,726,721**	**1,535,462,710**
Liabilities and shareholders` equity							
Customer Deposits	98,480,315	228,729,444	635,348,769	3,106,467	201,021,547	-	1,166,686,542
Other financial liabilities	11,732,870	2,707,323	-	-	4,808,683	-	19,248,876
Other Liabilities	-	-	-	-	-	15,888,971	15,888,971
Deferred tax liabilities	-	-	-	-	-	2,282,293	2,282,293
Retirement benefit obligation	-	-	-	-	-	1,415,443	1,415,443
Shareholders Equity	-	-	-	-	-	329,940,585	329,940,585
Total liabilities and shareholders' equity	**110,213,485**	**231,436,767**	**635,348,769**	**3,106,467**	**205,830,230**	**349,527,292**	**1,535,462,710**
Interest sensitivity gap as at 31 December 2017	**229,826,003**	**4,615,936**	**(215,055,739)**	**246,480,855**	**59,933,466**	**(325,800,521)**	**-**
At 31 December 2016							
Total Assets	309,068,092	243,077,053	350,984,438	346,637,019	199,689,553	26,677,602	1,476,133,757
Total Liabilities and equity	95,982,769	131,008,049	579,718,576	12,801,718	164,541,054	492,081,591	1,476,133,757
Interest sensitivity gap as At 31 December 2016	**213,085,323**	**112,069,004**	**(228,734,138)**	**333,835,301**	**35,148,499**	**(465,403,989)**	**-**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for Bank ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Management is of the view that the mismatch does not subject the Bank to severe liquidity risks because maturities for all government securities and balances with overseas financial institutions can be restructured in accordance with business demands.

The table below summarises the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

		2017		
	Shs	US $	GB£	Euro
	%	%	%	%
Government securities	17.42	-	-	-
Other financial assets	13.42	0.68	0.42	1.83
Customer deposits	6.21	-	-	-

		2016		
	Shs	US $	GBP £	Euro
	%	%	%	%
Government securities	16.68	-	-	-
Other financial assets	13.95	1.73	0.25	-
Customer deposits	6.09	-	-	-

The Bank has various financial assets and liabilities at variable rates, which expose the Bank to cash flow interest rate risk. The Bank regularly monitors financing options available to ensure optimum interest rates are obtained.

Interest rate sensitivity

As at December 31, 2017, if the weighted average interest rate for all interest bearing assets as at that date had been 10% lower/higher with all other variables held constant, post-tax profit for the year would have been Shs 10,374 million (2016: Shs 10,617 million) lower/higher, arising mainly as a result of change in interest income.

As at December 31, 2016, if the weighted average interest rate for all interest bearing liabilities as at that date had been 10% lower/higher with all other variables held constant, post-tax profit for the year would have been Shs 4,100 million (2016: Shs 4,212 million) higher/lower, arising mainly as a result of change in interest expense.

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising out of legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from the Bank's operations and is faced by all other business entities. The Bank endeavours to manage the operational risk by creating a balance between avoidance of cost or financial losses and damage to the Bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development policies and programs to implement the Bank's operational risk management is with the senior policies and programs to implement the Bank's operational risk management is with the senior management of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iv) Operational risk (continued)

The above is achieved by development of overall standards for the Bank to manage the risk in the following areas:

1) Segregation of duties including independent authorisation of transactions
2) Monitoring and reconciliation of transactions
3) Compliance to regulatory and legal requirement
4) Documentation of control and procedure
5) Assessment of the operational risk on a yearly basis to address the deficiencies observed, if any
6) Reporting of operational losses and initiation of remedial action
7) Development of contingency plans
8) Giving training to staff to improve their professional competency
9) Ethical and business standards
10) Obtaining insurance wherever feasible, as a risk mitigation measure.

Compliance of Bank's standards is supported by periodic reviews undertaken by Internal Audit. The observations of the Internal Audit are discussed with the management of the Bank and the summaries are submitted to the Audit Committee of the Board.

Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the Bank's risk limits. The Bank's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the Bank in measuring the market risks (i.e. currency and liquidity risks) inherent in its trading and non-trading positions.

(d) Fair values of non-financial assets and liabilities

The Directors estimate the fair values of the Bank's non-financial assets and liabilities to approximate their respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available to the Bank at the date of the Statement of financial position.

(e) Capital Management

Internally imposed capital requirements

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

- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk;
- to comply with the capital requirements set by Bank of Uganda(BOU);
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business; and
- to maintain an optimal capital structure to reduce the cost of capital.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Capital Management (continued)

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 quarterly basis.

Externally imposed capital requirements

The Financial Institutions Act 2004 requires each Bank to: (a) hold the minimum level of regulatory capital of Shs 25 Billion as at

31 December 2017 (2016: Shs 25 billion); (b) maintain core capital of not less than 8% of total risk weighted assets plus risk weighted off balance sheet items; and (c) 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, and retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill, current year losses, prohibited loans to insiders, investments in unconsolidated financial statements, future income tax benefits, other deductions determined by BOU are deducted in arriving at Tier 1 capital.

- Tier 2 capital (Supplementary capital): Revaluation reserves and general provisions, Qualifying Tier 2 Capital is Limited to 100% 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 table below summarizes the composition of regulatory capital and the ratios of the Bank at 31 December 2017:

Core Capital (Tier 1)	**Notes**	**2017**	**2016**
		Shs'000	**Shs'000**
Share Capital		25,000,000	25,000,000
Retained earnings		246,577,171	211,871,523
Investment in subsidiary	16	(40,000)	(40,000)
Deferred income tax assets	17	-	(2,055,402)
Intangible assets	18	(14,245)	(26,936)
Unrealised foreign exchange gain	7a	(13,891)	(7,944)
Total Tier 1 Capital		271,509,035	234,741,241
Supplementary Capital (Tier 2)			
Unencumbered general provisions (regulatory)	26	6,043,364	5,900,653
Revaluation reserve	27	9,650,923	10,158,866
Total Tier 2 Capital		15,694,287	16,059,519
Total Capital (Tier 1+Tier 2)		287,203,322	250,800,760

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Capital Management (continued)

Year ended 31 December 2017	Nominal Amount	Risk weight	Risk weighted amounts
Assets			
Notes, coins & other cash assets	17,323,065	0%	-
Balances with Bank of Uganda	102,110,300	0%	-
Repurchase agreements with Bank of Uganda	86,717,078	0%	-
Government securities	500,406,256	0%	-
Placements with local Banks	8,004,356	20%	1,600,871
Placements with foreign Banks	155,894,854	100%	155,894,854
Due from Banking institutions within Uganda	1,168,303	20%	233,661
Due from Banking institutions outside Uganda	3,701,485	50%	1,850,743
Due from foreign related Banking institutions outside Uganda	19,835,816	100%	19,835,816
Loans and advances to customers (Excluding loans secured by 100% cash margin)*	555,400,780	100%	555,400,780
Outstanding balance fully secured by FDR/SDR	48,935,650	0%	-
Investment in subsidiary	40,000	0%	-
Property and equipment	19,019,401	100%	19,019,401
Current tax receivable	1,356,493	100%	1,356,493
Intangible assets	14,245	0%	-
Deferred income tax	-	0%	-
Other assets	3,296,633	100%	3,296,633
Sub total	**1,523,224,715**		**758,489,252**
Off-balance sheet items			
Contingents secured by cash collateral	25,528,944	0%	-
Direct credit substitutes (guarantees and acceptances)	34,607,248	100%	34,607,248
Transaction related (performance bonds and standbys)	14,230,150	50%	7,115,075
Documentary Credits (trade related and self-liquidating)	25,762,284	20%	5,152,457
Other Commitments (unused formal facilities)	101,754,710	50%	50,877,355
Sub total	201,883,336		97,752,135
Total risk-weighted assets			**856,241,387**
On balance sheet		758,489,252	652,483,615
Off Balance sheet		97,752,135	61,728,936
Total risk-weighted assets		856,241,387	714,212,551
Tier 1 Capital		271,509,035	234,741,241
Total Capital (Tier 1+Tier 2)		287,203,322	250,800,760
Capital Ratio			
Tier 1 (BOU Minimum - 8%)		31.71%	32.87%
Tier 1 + Tier 2 (BOU Minimum - 12%)		33.54%	35.12%
*Loans and advances to customers comprises of:			
Gross Loans and advances		639,114,011	
Less : Interest in suspense		(142,108)	
Less : Regulatory Specific Provision (Note 26)		(34,635,473)	
Less : Cash backed facilities		(48,935,650)	
		555,400,780	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Capital Management (continued)

Year ended 31 December 2016	Nominal Amount	Risk weight	Risk weighted amounts
Assets			
Notes, coins & other cash assets	11,495,310	0%	-
Balances with Bank of Uganda	111,186,666	0%	-
Repurchase agreements with Bank of Uganda	37,036,699	0%	-
Government securities	437,550,541	0%	-
Placements with local Banks	1,000,438	20%	200,088
Placements with foreign Banks	218,171,243	20%	43,634,249
Placements with foreign Banks - Unrated	25,383,676	100%	25,383,676
Due from Banking institutions within Uganda	17,235,382	20%	3,447,076
Due from foreign related Banking institutions outside Uganda - Unrated	13,408	100%	13,408
Due from foreign related Banking institutions outsideUganda	7,535,814	20%	1,507,163
Loans and advances to customers (Excluding loans			
secured by 100% cash margin)	555,060,347	100%	555,060,347
Outstanding balance fully secured by FDR/SDR	37,538,380	0%	-
Investment in subsidiary	40,000	0%	-
Current tax receivable	727,926	100%	727,926
Property and equipment	19,286,442	100%	19,286,442
Intangible assets	26,936	0%	-
Deferred income tax	2,055,402	0%	-
Other assets	3,223,241	100%	3,223,241
	1,484,567,851		652,483,615
Off-balance sheet items			
Contingents secured by cash collateral	17,671,506	0%	-
Direct credit substitutes (guarantees and acceptances)	44,811,619	100%	44,811,619
Transaction related (performance bonds and standbys)	18,326,164	50%	9,163,082
Documentary Credits (trade related and self			
liquidating)	28,400,673	20%	5,680,135
Other Commitments (unused formal facilities)	4,148,200	50%	2,074,100
Sub total	113,358,162		61,728,936
Total risk-weighted assets			**714,212,550**

		2016 Shs'000	2015 Shs'000
On balance sheet		652,483,615	655,784,981
Off Balance sheet		61,728,936	72,368,482
Total risk-weighted assets		714,212,551	728,153,463
Tier 1 Capital		234,741,241	207,785,225
Total Capital (Tier 1+Tier 2)		250,800,760	218,436,541
Capital Ratio			
Tier 1 (BOU Minimum - 8%)		32.87%	28.54%
Tier 1 + Tier 2 (BOU Minimum - 12%)		35.12%	30.00%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair value of financial assets and liabilities

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

As at 31 December 2017, the Bank had treasury bills and treasury bonds that are available for sale and are measured at fair value. Available-for-sale treasury bills and treasury bonds` fair values are derived from discounting future cash flows. The discounting rates used for the valuation of treasury bills and bonds are derived from observable market data.

The information below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below for the year ended 31 December 2017 and 2016. The fair values are Grouped into three levels as mentioned in Note 2.1 of these financials, based on the degree to which the fair value is observable.

	Consolidated and Separate	
	2017	**2016**
	Shs`000	**Shs`000**
Available for sale financial assets (Level 2)	487,743,741	424,893,596

During the reporting period ended 31 December 2017, there were no transfers into and out of Level 2 fair value measurements.

Available-for-sale financial assets include only Government securities classified as available-for-sale are measured at fair value with changes through Other Comprehensive income. The fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics in the secondary market.

The estimated fair value of available-for-sale Government securities is closely approximated using simple discounted cash flow models and extrapolation methods using known, observable yields quoted in the secondary market based on instruments with similar credit and maturity characteristics.

The fair values of the Bank's other financial assets and liabilities that are measured at amortised cost approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out in note 4b (Liquidity risk).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5. INTEREST INCOME

	Consolidated			Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Income from treasury bills	31,050,880	34,722,971	31,050,880	34,722,971
Income from treasury bonds	34,021,375	19,451,089	34,021,375	19,451,089
Income from loans and advances	74,121,421	87,528,119	74,121,421	87,528,119
Income earned from placements and repurchase				
agreements ("repos")	9,004,067	9,963,370	9,004,067	9,963,370
	148,197,743	**151,665,549**	**148,197,743**	**151,665,549**

6. INTEREST EXPENSE

Current and Demand deposits	59,130	71,487	59,130	71,487
Savings accounts	2,244,343	1,836,153	2,244,343	1,836,153
Time deposits	55,947,746	57,997,506	55,947,746	57,997,506
Interbank borrowings	283,637	271,685	314,655	271,685
	58,534,856	60,176,831	58,565,874	60,176,831

7a. NON INTEREST INCOME

Fees and commission income	14,592,074	13,386,613	14,592,074	13,386,613
Realised foreign exchange gain on trading book	2,508,905	2,128,114	2,508,905	2,128,114
Unrealised foreign exchange gain on trading book	13,891	7,944	13,891	7,944
Profit on disposal of assets	-	4,717	-	4,717
Profit on sale of investments	2,307,361	1,104,704	2,307,361	1,104,704
Recoveries in bad debts written off	6,288,298	1,248,355	6,288,298	1,248,355
Other income	125,757	86,904	2,203	-
	25,836,286	**17,967,351**	**25,712,732**	**17,880,447**

8. NON INTEREST EXPENSE

Employee benefits expense (Note 9)	14,854,658	15,238,202	14,827,564	15,211,108
Advertising	368,542	443,721	368,542	443,721
Auditor's remuneration	-			
- current year	260,504	127,794	253,224	123,534
Loss on sale of investments	-	30,758	-	30,758
Depreciation, amortisation and impairments	1,403,980	1,399,784	1,403,643	1,399,376
Repairs and maintenance	919,718	525,145	919,718	525,145
Directors' emoluments as executives	265,671	285,986	265,671	285,986
Fines and penalties	-	300,000	-	300,000
Administration and service level agreement fees	765,757	4,498,866	765,757	4,498,866
Consulting and professional fees	185,795	216,773	185,795	216,773
Rent and rates	2,189,872	2,121,034	2,189,872	2,121,034
General expenses	7,754,933	6,454,385	7,690,583	6,433,941
Bad debts written off	23,475,184	6,399,861	23,475,184	6,399,861
	52,444,614	**38,042,309**	**52,345,553**	**37,990,103**

9. EMPLOYEE BENEFITS EXPENSE

Salaries and wages	12,613,858	10,783,704	12,586,764	10,756,610
Other benefits	651,259	523,282	651,259	523,282
Employment benefits` expenses	1,589,541	3,931,216	1,589,541	3,931,216
	14,854,658	**15,238,202**	**14,827,564**	**15,211,108**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	Consolidated			Separate
	2017	2016	2017	2016
10. INCOME TAX EXPENSE	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Current income tax - current year charge	437,726	6,738,824	421,433	6,723,600
Current income tax: prior period adjustment	-	279,599	-	279,599
Deferred income tax - charge/(credit) (Note 17)	437,064	(4,045,439)	437,151	(4,052,460)
Deferred income tax - prior period adjustment	-	(2,163,093)	-	(2,163,093)
Withholding tax ("WHT") on investment income	13,876,811	8,937,228	13,876,811	8,937,228
	14,751,601	9,747,119	14,735,395	9,724,873

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

	Consolidated			Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax	64,157,224	58,993,830	64,101,713	58,959,132
Tax applicable in Uganda - 30% (2016 - 30%)	19,247,167	17,698,149	19,230,514	17,687,740
Tax effect of:				
- Final tax (WHT) on investment income*	13,876,811	8,937,228	13,876,811	8,937,228
- Income not subject to tax	(19,521,677)	(15,255,060)	(19,521,677)	(15,255,060)
- Other timing differences	-	(1,871,659)	-	(1,883,495)
- Expenses not deductible for tax purposes**	1,149,300	238,461	1,149,747	238,460
Income tax expense	14,751,601	9,747,119	14,735,395	9,724,873
Effective tax rate	**23%**	**17%**	**23%**	**16%**

*Withholding tax, which is currently at 20% on interest income from government securities (Treasury bills and Government bonds), is treated as final tax.

**These expenses consist of low value transactions not deductible in determining taxable loss in accordance with the Ugandan Income Tax Act.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	Consolidated		Separate	
	2017	2016	2017	2016
10b Movement in the current income tax recoverable	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At 1 January	753,478	540,238	727,926	531,125
Current year tax charge	(14,314,537)	(15,955,651)	(14,298,244)	(15,940,427)
Final tax on investment income	13,876,811	8,937,228	13,876,811	8,937,228
Tax paid	1,070,000	7,231,663	1,050,000	7,200,000
At 31 December	1,385,752	753,478	1,356,493	727,926
11. Cash and balances with Bank of Uganda				
Notes and Coins	17,323,065	11,495,310	17,323,065	11,495,310
Balances with Bank of Uganda	102,110,300	111,186,666	102,110,300	111,186,666
	119,433,365	122,681,976	119,433,365	122,681,976
Analysed as:				
Restricted cash reserves (mandatory deposits)	89,662,000	89,923,000	89,662,000	89,923,000
Unrestricted cash and cash equivalents	29,771,365	32,758,976	29,771,365	32,758,976
	119,433,365	**122,681,976**	**119,433,365**	**122,681,976**
Repurchase agreements (Repos)				
Repos with Bank of Uganda	86,717,078	37,036,699	86,717,078	37,036,699
Total cash and balances with Bank of Uganda	**206,150,443**	**159,718,675**	**206,150,443**	**159,718,675**

Balances with Bank of Uganda include the mandatory deposits which are advised fortnightly by the Central Bank based on the deposit balances held for the past two weeks. The amount advised includes cash and balances held with Bank of Uganda and this amount not available to finance the day to day activities of the Bank. Balances in excess of the advised amount is however available to finance the Banks investment activities. As at 31 December 2017, the mandatory deposits were 8% of total deposits (2016: 8% of total deposits).

Repurchase agreements (repo) are borrowings between the Bank and Bank of Uganda ranging from one to three months at market interest rates. As at reporting date, the accrued interest receivable on the repurchase agreement with Bank of Uganda amounted to Shs 717 Million (2016: Shs 37 Million) and this has been included together with principal balance advanced.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

12a. OTHER FINANCIAL ASSETS		Consolidated		Separate	
		2017	2016	2017	2016
		Shs'000	Shs'000	Shs'000	Shs'000
Available-for-sale					
- Treasury bills for 91 days - 365 days		181,263,340	259,625,334	181,263,340	259,625,334
- Treasury bonds after 91 days		293,992,948	158,551,072	293,992,948	158,551,072
- Corporate bonds		-	155,967	-	155,967
- Interest receivable		12,487,453	6,561,223	12,487,453	6,561,223
	(A)	487,743,741	424,893,596	487,743,741	424,893,596
Held to Maturity					
- Treasury bonds after 1 year		12,662,515	12,656,945	12,662,515	12,656,945
	(B)	12,662,515	12,656,945	12,662,515	12,656,945
Government securities	**(A+B)**	500,406,256	437,550,541	500,406,256	437,550,541

The movement in investment securities available-for-sale during the year is summarised as follows;

	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	424,893,596	249,337,484	424,893,596	249,337,484
Additions	39,161,641	165,832,202	39,161,641	165,832,202
Interest receivable	12,487,453	6,561,223	12,487,453	6,561,223
Net gain in fair value of available-for-sale	11,201,051	3,162,687	11,201,051	3,162,687
	487,743,741	424,893,596	487,743,741	424,893,596

	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Gain	13,722,823	8,477,277	13,720,667	8,491,561
Deferred tax	(2,519,616)	(2,543,288)	(2,519,616)	(2,547,573)
	11,203,207	**5,933,989**	**11,201,051**	**5,943,988**

Treasury bills and bonds are debt securities issued by the Bank of Uganda. The Bank decides at inception whether to classify the securities under the held to maturity or available for sale portfolio. These debt securities are categorised as financial assets held to maturity which are carried at amortised cost and available for sale which are fair valued with gains/losses through Other Comprehensive Income. The Bank has not reclassified any financial assets from cost or amortised to fair value, or from fair value to cost or amortised cost during the current or prior year. Gains from sale of available-for-sale investments has been reported under Note 7. There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2017 and 2016, as all the financial assets were disposed of at their redemption date.

The weighted average effective interest rate on treasury bonds as at 2017 was 14.81% (2016: 17.07%) and on treasury bills was 11.44% (2016: 16.43%).

As at the reporting date, the Bank pledged treasury bills of 91 days to Shs 1,396 million (2016: Shs 1,377 million) with Bank of Uganda as collateral for the repurchase agreements and other balances with Bank of Uganda. These securities continued to be reported under Government securities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

12 B. LOANS AND ADVANCES TO OTHER FINANCIAL INSTITUTIONS

	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
• Placements with local Banks	8,004,356	1,000,438	8,004,356	1,000,438
• Placements with foreign Banks	155,894,854	243,554,920	155,894,854	243,554,920
	163,899,210	244,555,358	163,899,210	244,555,358

The weighted average effective rate of interest on local placements as at 31 December 2017 was 10.04% and foreign placements 1.31% (2016: local placements 13.95% and foreign placements 1.73%).

13. LOANS AND ADVANCES TO CUSTOMERS

		Consolidated		Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Overdrafts	348,973,615	318,331,434	348,973,615	318,331,434
Demand and term loans	289,684,594	289,058,400	289,684,594	289,058,400
Individual & Personal loans	455,802	417,050	455,802	417,050
Gross loans and advances	639,114,011	607,806,884	639,114,011	607,806,884
Less: Provision for impairment (Individual)	(13,543,265)	(17,741,599)	(13,543,265)	(17,741,599)
Less: Provision for impairment (Portfolio)	(8,996,321)	(5,900,653)	(8,996,321)	(5,900,653)
	616,574,425	**584,164,632**	**616,574,425**	**584,164,632**

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

a) Individual Impairment Provision				
At 1 January	17,741,599	5,073,442	17,741,599	5,073,442
Additional provision in the year	10,065,649	20,449,528	10,065,649	20,449,528
Recoveries/upgradation	(6,070,840)	(1,248,355)	(6,070,840)	(1,248,355)
Write offs during the year	(8,193,143)	(6,533,016)	(8,193,143)	(6,533,016)
At 31 December	13,543,265	17,741,599	13,543,265	17,741,599
b) Portfolio Impairment Provision				
At 1 January	5,900,653	6,148,880	5,900,653	6,148,880
Additional provision in the year	3,095,668	(248,227)	3,095,668	(248,227)
At 31 December	8,996,321	5,900,653	8,996,321	5,900,653
Total Impairment provisions	**22,539,586**	**23,642,252**	**22,539,586**	**23,642,252**
Net (credit)/ charge to the profit or loss	**(1,102,665)**	**12,668,157**	**(1,102,666)**	**12,668,157**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2017 was Shs 35.5 Billion (2016: Shs 77.7 Billion) on which provision of Shs 13.5 Billion (2016: Shs 17.7 Billion).

Advances to customers include loans to employees of Shs 456 Million (2016: Shs 417 Million). The weighted average effective interest rate on local currency loans and advances to customers as at 2017 was 17.93% (2016: 19.08%) and 8.36% (2016: 8.05%) for foreign currency loans and advances.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

14. DEPOSITS DUE FROM/(TO) OVERSEAS BRANCHES of parent company

	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Bank of Baroda, London - GBP	14,764,430	491,261	14,764,430	491,261
Bank of Baroda, Nairobi - Kshs	22,141	13,408	22,141	13,408
Bank of Baroda, Mumbai - INR	81,609	(395,984)	81,609	(395,984)
Bank of Baroda, Brussels - Euro	4,181,029	4,261,782	4,181,029	4,261,782
Bank of Baroda, New York - US Dollar	786,607	3,178,755	786,607	3,178,755
	19,835,816	7,549,222	19,835,816	7,549,222
Classified as;				
Deposits due from overseas branches	19,835,816	7,945,206	19,835,816	7,945,206
Deposits to from overseas branches	-	(395,984)	-	(395,984)
	19,835,816	7,549,222	19,835,816	7,549,222

The weighted average effective interest rate on deposits due from overseas branches of parent company for the year ended 31 December 2017 was 0.79% (2016: 1.73%).

The carrying amounts of the deposits due to overseas branches of parent company are denominated in the following currencies:

	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Kenya Shilling	22,141	31,747	22,141	13,408
US Dollar	786,607	12,962,407	786,607	3,178,755
Euro	4,181,029	3,258,923	4,181,029	4,261,782
Indian Rupees	81,609	(324,794)	81,609	(395,984)
Great Britain Pound	14,764,430	349,863	14,764,430	491,261
	19,835,816	16,278,146	19,835,816	7,549,222

15. OTHER ASSETS

Clearing account	174,600	30,628	174,600	30,628
Others	3,301,449	3,363,386	3,122,032	3,192,613
	3,476,050	3,394,014	3,296,633	3,223,241

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

16. INVESTMENT IN SUBSIDIARY

The composition of the Group is as follows:

			Holding	Company	
	Country of	2017	2016	2017	2016
Subsidiary	incorporation	%	%	Shs'000	Shs'000
Baroda Capital Markets (U) Limited	Uganda	100	100	40,000	40,000

Baroda Capital Markets (Uganda) Limited (the subsidiary) is principally engaged in brokerage of securities and shares traded on the Uganda Securities Exchange. The subsidiary is incorporated in Uganda under the Companies Act as a limited liability company and is domiciled in Uganda.

The Bank owns 100% equity shares (2016: 100% equity shares) of Baroda Capital Markets (U) Limited. The Bank has the power to appoint and remove the majority of the Board of Directors of the subsidiary. The relevant activities of the subsidiary are determined by the Board of Directors of the subsidiary based on simple majority votes. The Directors of the Bank have thus concluded that the Bank has control over the subsidiary and therefore, it has been consolidated in these financial statements.

17. Deferred taxation

Deferred income tax is calculated using the enacted income tax rate of 30% (2016: 30%). The movement on the deferred income tax account is as follows:

		Consolidated		Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January	2,055,050	1,497,378	2,055,402	1,494,994
(Charge)/credit to:				
- Statement of profit or loss	(437,064)	6,208,532	(437,151)	6,215,553
- Statement of other comprehensive income	(2,518,692)	(5,650,860)	(2,519,616)	(5,655,145)
- Statement of changes in equity	(1,380,928)	-	(1,380,928)	-
At 31 December	(2,281,634)	2,055,050	(2,282,293)	2,055,402

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

17. DEFERRED TAX (CONTINUED)

The deferred income tax asset and liability and deferred income tax charge/(credit) in the statement of profit or loss and other comprehensive income ("OCI") are attributable to the following items:

Year ended 31 December 2017	At start of year	Credited to profit or loss	Credited to OCI	Charge to Equity	At end of year
Consolidated	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Accelerated tax depreciation	(435,614)	165,500	-	-	(270,114)
Property revaluations	(4,353,799)	-	-	217,690	(4,136,109)
Allowances for Loan losses	5,948,576	813,300	-	-	6,761,876
Other provisions and timing differences	1,837,614	(1,415,864)	-	-	421,750
Fair value gains on AFS assets[1]	(941,727)	-	(2,518,692)	(1,598,618)	(5,059,037)
Net deferred income tax asset/ (liability)	**2,055,050**	**(437,064)**	**(2,518,692)**	**(1,380,928)**	**(2,281,634)**
Separate					
Accelerated tax depreciation	(435,233)	165,413	-	-	(269,820)
Property revaluations	(4,353,799)	-	-	217,690	(4,136,109)
Allowances for Loan losses	5,948,576	813,300	-	-	6,761,876
Other provisions and timing differences	1,844,664	(1,415,864)	-	-	428,800
Fair value gains on AFS assets[1]	(948,806)	-	(2,519,616)	(1,598,618)	(5,067,040)
Net deferred income tax asset/ (liability)	**2,055,402**	**(437,151)**	**(2,519,616)**	**(1,380,928)**	**(2,282,293)**
	At start of year	**Credited to profit or loss**	**Credited to OCI**	**Charge to Equity**	**At end of year**
Consolidated	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Accelerated tax depreciation	(468,287)	32,673	-	-	(435,614)
Property revaluations	(1,564,507)	318,280	(3,107,572)	-	(4,353,799)
Allowances for Loan losses	1,928,611	4,019,965	-	-	5,948,576
Fair value gains on AFS assets[1]	1,601,561	1,837,614	(2,543,288)	-	895,887
Net deferred income tax asset	**1,497,378**	**6,208,532**	**(5,650,860)**	**-**	**2,055,050**
Separate					
Accelerated tax depreciation	(467,877)	32,644	-	-	(435,233)
Property revaluations	(1,564,507)	318,280	(3,107,572)	-	(4,353,799)
Allowances for Loan losses	1,928,611	4,019,965	-	-	5,948,576
Fair value gains on AFS assets[1]	1,598,767	1,844,664	(2,547,573)	-	895,858
Net deferred income tax asset	**1,494,994**	**6,215,553**	**(5,655,145)**	**-**	**2,055,402**

Timing differences on Available-for-sale ("AFS") are considered in measurement of deferred tax assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

18. INTANGIBLE ASSETS	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Cost				
At start of year	132,471	99,661	132,471	99,661
Additions	4,765	32,810	4,765	32,810
At end of year	137,236	132,471	137,236	132,471
Amortisation				
At start of year	105,536	79,141	105,536	79,141
Charge for the year	17,455	26,395	17,455	26,395
At end of year	122,990	105,536	122,990	105,536
Net book value	14,245	26,936	14,245	26,936

19. PROPERTY AND EQUIPMENT CONSOLIDATED

31 December 2017	Freehold Land	Buildings	Fixtures and fittings	Motor Vehicles	IT Equipment	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Opening net book amount	8,700,000	6,996,000	2,874,740	265,551	452,527	19,288,818
Additions	-	-	219,785	-	936,392	1,156,177
Write offs	-	-	(37,032)	-	-	(37,032)
Transfer to branches	-	-	(29,274)	-	2,524	(26,750)
Transfer from branches	-	-	26,750	-	-	26,750
Depreciation charge	-	(653,362)	(369,963)	(53,110)	(310,089)	(1,386,524)
Closing net book amount	**8,700,000**	**6,342,638**	**2,685,006**	**212,441**	**1,081,354**	**19,021,439**
At 31 December 2017						
Cost or valuation	8,700,000	13,067,408	7,006,095	1,153,181	4,922,691	34,849,375
Accumulated depreciation	-	(6,724,770)	(4,321,089)	(940,740)	(3,841,337)	(15,827,936)
Net book Value	**8,700,000**	**6,342,638**	**2,685,006**	**212,441**	**1,081,354**	**19,021,439**
31 December 2016						
Opening net book amount	-	5,907,342	2,937,147	197,760	586,482	9,628,731
Additions	-	-	363,841	137,400	191,952	693,193
Transfers	8,700,000	(8,700,000)	-	-	-	-
Revaluation	-	10,359,075	-	-	-	10,359,075
Disposals	-	-	(15,571)	(3,221)	-	(18,792)
Depreciation charge	-	(570,417)	(410,677)	(66,388)	(325,907)	(1,373,389)
Closing net book amount	**8,700,000**	**6,996,000**	**2,874,740**	**265,551**	**452,527**	**19,288,818**
At 31 December 2016						
Cost or valuation	8,700,000	13,067,409	7,128,856	1,153,180	4,227,515	34,276,960
Accumulated depreciation	-	(6,071,409)	(4,254,116)	(887,629)	(3,774,988)	(14,988,142)
Net book Value	**8,700,000**	**6,996,000**	**2,874,740**	**265,551**	**452,527**	**19,288,818**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

19. PROPERTY AND EQUIPMENT (CONTINUED)

Sepatate

31 December 2017	Freehold Land Shs'000	Buildings Shs'000	Fixtures and fittings Shs'000	Motor Vehicles Shs'000	IT Equipment Shs'000	Total Shs'000
Opening net book amount	8,700,000	6,996,000	2,872,556	265,551	452,335	19,286,442
Additions	-	-	219,785	-	936,392	1,156,177
Write offs	-	-	(37,032)	-	-	(37,032)
Transfer to branches	-	-	(29,274)	-	2,524	(26,750)
Transfer from branches	-	-	26,750	-	-	26,750
Depreciation charge	-	(653,362)	(369,626)	(53,110)	(310,089)	(1,386,187)
Closing net book amount	**8,700,000**	**6,342,638**	**2,683,159**	**212,441**	**1,081,163**	**19,019,401**
At 31 December 2017						
Cost	8,700,000	13,067,408	7,003,752	1,153,180	4,922,691	34,847,031
Accumulated depreciation	-	(6,724,770)	(4,320,593)	(940,739)	(3,841,528)	(15,827,630)
Net book Value	**8,700,000**	**6,342,638**	**2,683,159**	**212,441**	**1,081,163**	**19,019,401**
Year ended 31 December 2016						
Opening net book amount	-	5,907,342	2,934,651	197,760	586,194	9,625,947
Additions	-	-	363,841	137,400	191,952	693,193
Transfers	8,700,000	(8,700,000)	-	-	-	-
Revaluation	-	10,359,075	-	-	-	10,359,075
Disposals	-	-	(15,571)	(3,221)	-	(18,792)
Depreciation charge	-	(570,417)	(410,365)	(66,388)	(325,811)	(1,372,981)
Closing net book amount	**8,700,000**	**6,996,000**	**2,872,556**	**265,551**	**452,335**	**19,286,442**
At 31 December 2016						
Cost	8,700,000	13,067,408	7,129,016	1,153,180	4,227,515	34,277,120
Accumulated depreciation	-	(6,071,409)	(4,256,460)	(887,629)	(3,775,180)	(14,990,678)
Net book Value	**8,700,000**	**6,995,999**	**2,872,556**	**265,551**	**452,335**	**19,286,442**

The useful lives used in the calculation of depreciation have been disclosed in Note 2.11 of the Significant accounting policies. The Group re-assesses the useful lives and residual values of items of property and equipment at the end of each reporting period, in line with the accounting policy and IAS 16 Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

The Group`s freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses. The fair value measurements of the Group`s freehold land and buildings as at 31 December 2016 were performed by Messers Ideal Surveyors, Valuers and Real Estate Management Consultants, independent valuers not related to the group. Messers Ideal Surveyors, Valuers and Real Estate Management Consultants of the Institute of Valuers of Uganda, and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

The fair value of the freehold land and building was determined based on the market comparable approach that reflects recent transaction prices for similar properties within Kampala.

The Directors of the group, after seeking legal advice, have shown the freehold land as a separate class of assets as the Group has rights to this land and was granted the freehold land at inception. The value of the freehold land has been determined after valuation of both the land and buildings. In the prior years, the value of the land and building were shown together.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

19. PROPERTY AND EQUIPMENT (CONTINUED)

Details of the Group`s freehold land and buildings and information about the fair value hierarchy as at the end of the reporting report are as follows;

Consolidated and Separate	Level 2	Fair value as at 31/12/16
Freehold land	8,700,000	8,700,000
Building	6,996,000	6,996,000

There were no transfers between Level 1 and Level 2 during the year.

Had the Group`s freehold land and buildings (other than land and buildings classified as held for sale or included in a disposal group) been measured on a historical cost basis, their carrying amount would be as follows.

Consolidated and Separate	Carrying value 2017 Shs'000	Carrying value 2016 Shs'000
Freehold land	8,700,000	8,700,000
Building	1,199,145	1,262,258

As at the reporting date, there were no assets that were pledged as collateral for borrowings or other financing arrangements (2016: None).

20. Other financial liabilities

	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Deposits due to other Banks within 90 days	14,351,864	1,000,493	14,351,864	1,000,493
Bank of Uganda: Agricultural Credit Facility	4,897,012	6,943,747	4,897,012	6,943,747
	19,248,876	7,944,240	19,248,876	7,944,240

The Government of Uganda through Bank of Uganda set up an Agricultural Credit Facility scheme for the purpose of supporting agricultural expansion and modernization in partnership with commercial Banks. All eligible Bank customers receive 50% financing from the Government of Uganda while the remaining 50% is provided by the Bank. The outstanding balance as at 31 December 2017 was Shs 4,897 million (2016: Shs 6,944 million).

The weighted average effective rate of interest on foreign Bank borrowings for the year ended 2017 was 1.68% (2016: 1.12%). The weighted average effective rate of interest on local Bank borrowings for the year ended 2016 was 7.55% (2016: 10.72%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

21. CUSTOMER DEPOSITS

		Consolidated		Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Current and demand deposits	216,626,253	189,807,371	216,766,820	189,807,371
Savings deposits	179,236,324	161,764,881	179,236,324	161,764,881
Time deposits	770,383,024	811,251,345	770,683,398	811,493,112
	1,166,245,602	**1,162,823,597**	**1,166,686,542**	**1,163,065,364**
Analysis of customer deposits by maturity:				
- Payable within 90 days	326,768,819	412,947,763	326,768,819	412,947,763
- Payable after 90 days and within one year	635,348,769	579,718,576	635,348,769	579,718,576
- Payable after one year	204,128,014	170,157,258	204,568,954	170,399,025
	1,166,245,602	**1,162,823,597**	**1,166,686,542**	**1,163,065,364**

The weighted average effective interest rate on interest bearing current and savings deposits for the year ended 2017 was 0.69% (2016: 0.70%) and 7.42% (2016: 8.15%) on time deposits.

22. DEPOSITS AND BALANCES DUE FROM OTHER FINANCIAL INSTITUTIONS

		Consolidated		Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Due to local Banking Institutions	1,207,626	16,066,696	1,168,303	15,917,727
Due to foreign Banking Institutions	3,701,485	1,317,655	3,701,485	1,317,655
Total	**4,909,111**	**17,384,351**	**4,869,788**	**17,235,382**
Maturity analysed as;				
Maturity less than 90 days	4,909,111	17,384,351	4,869,788	17,235,382
Maturity of 91 to 180 days	-	-	-	-
	4,909,111	**17,384,351**	**4,869,788**	**17,235,382**

23 OTHER LIABILITIES

Unearned interest	7,289,024	18,415,250	7,289,024	18,415,250
Bills payable	183,333	240,157	183,333	240,157
Un-cleared effects (net)	430,610	279,685	430,610	279,685
Others*	8,113,655	8,117,020	7,986,004	8,050,460
	16,016,622	**27,052,112**	**15,888,971**	**26,985,552**

*Included in Others are cash margin deposits for letters of credit and financial guarantees amounting to Shs 632 million (2016: Shs 955 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

24. RETIREMENT BENEFIT OBLIGATIONS

		Consolidated		Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Long service awards	1,415,443	1,134,457	1,415,443	1,134,457
Movements for the year:				
At 1 January	1,134,457	1,245,189	1,134,457	1,245,189
Additional provision made during the year	505,222	20,117	505,222	20,117
Awards paid	(224,236)	(130,849)	(224,236)	(130,849)
At 31 December	**1,415,443**	**1,134,457**	**1,415,443**	**1,134,457**

The retirement benefit obligations relate to long service awards for staff who have served over a certain number of years with the Bank. The provision is computed at 75% of the monthly salary last drawn by each employee multiplied by each completed year of service, subject to eligibility under the terms and conditions of the scheme.

25. SHARE CAPITAL CONSOLIDATED AND SEPARATE

	Number of ordinary shares (`000)	Par value of ordinary shares	Total Shs'000
As at start and end of year	2,500,000	10	25,000,000

The total authorised number of ordinary shares is 2,500 million (2016: 2,500 million) with a par value of Shs 10 per share. All issued shares are fully paid.

25. 26. REGULATORY GENERAL CREDIT RISK RESERVE

		Consolidated		Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Provisions as per FIA 2004				
Specific provision	34,635,473	39,251,473	34,635,473	39,251,473
General provisions	6,043,364	5,900,653	6,043,364	5,900,653
	40,678,837	45,152,126	40,678,837	45,152,126
Impairment assessment as per IAS 39				
(Note 13)				
Individual impairment provisions	13,543,265	17,741,599	13,543,265	17,741,599
Portfolio impairment provisions	8,996,321	5,900,653	8,996,321	5,900,653
	22,539,586	**23,642,251**	**22,539,586**	**23,642,251**
Regulatory Credit Risk Reserve at 31				
December	**18,139,251**	**21,509,874**	**18,139,251**	**21,509,874**
Movement in Credit risk reserves;				
Transfer (to)/from retained earnings	(3,370,623)	20,791,428	(3,370,623)	20,791,428

The statutory credit risk reserve represents amounts by which provisions for impairments of loans and advances, determined in accordance with the Financial Institutions Act (FIA) exceed those determined in accordance with International Financial Reporting Standards. The regulatory reserve represents an appropriation from retained earnings to comply with Bank of Uganda's Prudential Regulations in accordance with the Bank's accounting policy. The reserve is non-distributable.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

27. REVALUATION RESERVE

		Consolidated		Separate
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	10,158,866	4,842,753	10,158,866	4,509,693
Transfer to retained earnings	-	-	-	(1,449,152)
Revaluation as at year end	-	-	-	10,359,074
Deferred tax on revaluation during the year	-	-	-	(3,107,722)
Transfer of excess depreciation on revaluation	(725,633)	(242,138)	(725,633)	(218,610)
Deferred tax on transfer of excess depreciation	217,690	72,641	217,690	65,583
At end of year	**9,650,923**	**4,673,257**	**9,650,923**	**10,158,866**

Revaluation reserves relate to valuations of Land and Buildings carried out by professional independent valuers. Excess depreciation on revaluation is transferred from to retained earnings, net of deferred tax on a year to year basis. The reserve is non- distributable.

28. PROPOSED

At the annual general meeting to be held in 2018, a dividend of Shs 7.50 per share amounting to Shs 18.75 Billion in total is to be proposed. (2016: total dividend per share of Shs 2.50 amounting to Shs 6.25 Billion). The dividend is at 75% of paid up share capital of Shs 25,000,000,000 (2016: 25% of paid up share capital of Shs 25,000,000,000)

The payment of dividends is subject to withholding tax at rates depending on the tax status or residence of the recipient.

29. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

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

		Consolidated		Separate
	2017	2016	2017	2016
Contingent liabilities	Shs'000	Shs'000	Shs'000	Shs'000
Contingencies secured by cash collateral	25,528,944	17,671,506	25,528,944	17,671,506
Direct credit substitutes (guarantees and acceptances)	34,607,248	44,811,619	34,607,248	44,811,619
Transactions related (performance bonds and standbys)	14,230,150	18,326,164	14,230,150	18,326,164
Documentary credits (trade related and self liquidating)	25,762,284	28,400,673	25,762,284	28,400,673
	100,128,626	**109,209,962**	**100,128,626**	**109,209,962**
Commitments				
Undrawn formal stand-by facilities, credit lines and other commitments to lend	101,754,710	4,148,200	101,754,710	4,148,200

Nature of contingent liabilities

An acceptance is an undertaking by a Bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers. Contingent liabilities are secured by both cash and property collaterals as disclosed under Note 4(a)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

NATURE OF COMMITMENTS

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

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

Operating lease commitments - Group as lessee

The Bank has entered into commercial leases for premises and equipment. These leases have an average life of between 3 and 5 years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December were as follows:

	Consolidated and Separate	
	2017	**2016**
	Shs'000	**Shs'000**
Within one year	949,008	858,662
After one year but not more than five years	16,475,833	15,826,866
	17,424,841	**16,685,528**

Operating lease rentals are the amounts payable by the Group in the period after year end to expiry of the tenancy lease agreements for the various premises occupied.

The Group does not have any operating leases where it is the lessor. Accordingly, there is no operating lease commitments for such leases.

The Group does not have any finance leases as at the reporting date.

	Consolidated and Separate	
	2017	**2016**
Capital Commitments	**Shs'000**	**Shs'000**
Authorised capital commitments	6,111,000	5,836,000

expansions and other overhauls to the Automated Teller Machines (ATMs) which have been authorised by the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30. ANALYSIS OF CASH AND CASH EQUIVALENTS

	Consolidated		Separate	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and Balances with Central Banks (Note 11)	119,433,365	122,681,976	119,433,365	122,681,976
Cash reserve requirement	(89,662,000)	(89,923,000)	(89,662,000)	(89,923,000)
Repurchase agreements with Bank of Uganda	86,717,078	37,036,699	86,717,078	37,036,699
Government securities maturing within 90 days of the date of acquisition (Note 14)	181,263,340	259,625,334	181,263,340	259,625,334
Loans and advances to Banks	163,899,210	244,555,358	163,899,210	244,555,358
Amounts due from Group companies	19,835,816	7,549,222	19,835,816	7,549,222
Deposits and balances due from other Banks (Note 22)	4,909,111	17,384,351	4,869,788	17,235,382
	486,395,920	**598,909,940**	**486,356,597**	**598,760,971**

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

Banks are required to maintain a prescribed minimum balance with the Bank of Uganda the usage of which is subject to restrictions. The amount is determined as a percentage of the average outstanding deposits over a cash reserve cycle period of two weeks.

31 RELATED PARTY TRANSACTIONS

Parties are considered related if one party has the ability to control the other party or exercise significant influence over that party's financial or operational decisions. Bank of Baroda, Mumbai controls 80% of the total voting rights in the Bank. There are other companies which are related to Bank of Baroda (Uganda) Limited through common shareholdings or common Directorships. In the normal course of business, current accounts are operated and placements made between the Subsidiary companies at interest rates in line with market. Balances and transactions between the Bank and its subsidiary, which is a related party of the Bank, have been eliminated on consolidation.

Details of transactions between the Group and other related parties are disclosed below.

	Separate	
(a) Purchase of services	**2017**	**2016**
	Shs'000	**Shs'000**
Parent		
- Management and administrative fees	765,757	4,498,866

Purchases of services from the Parent Bank have been made at prices determined in the Service Level Agreements to reflect the nature of services provided and relationships between the parties. In the opinion of the Directors, the transactions with the Parent Bank have been carried out at arm`s length.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from/(to) overseas branches of parent company		Separate
	2017	**2016**
	Shs'000	**Shs'000**
Bank of Baroda, Mumbai - INR	81,609	(395,984)
Bank of Baroda, London - GBP	14,764,430	491,261
Bank of Baroda, Nairobi - Kshs	22,141	13,408
Bank of Baroda, Brussels - Euro	4,181,029	4,261,782
Bank of Baroda, New York - US Dollar	786,607	3,178,755
Placements with overseas branches of parent company	155,894,854	243,554,920
	175,730,670	**251,104,142**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior years for impairment losses in respect of the amounts owed by related parties.

	Separate	
	2017	**2016**
	Shs'000	**Shs'000**
Outstanding balances with subsidiary		
Baroda Capital Markets (U) Limited - Fixed Deposits	**272,036**	**241,767**

The amounts outstanding with the subsidiary reflect fixed deposits with maturities of 12 months offered at market rates of interest and are renewable at instructions of the subsidiary. These balances have been eliminated in the consolidated financial statements. The interest accrued on fixed deposits as at the reporting date amounted to Shs 4.2 Million (2016: Shs 6.2 Million).

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group considers the members of the Board of Directors and Executive Committee to be key management personnel for the purposes of Related Party Disclosures.

		Separate
(d) Key management compensation	**2017**	**2016**
	Shs'000	**Shs'000**
Salaries and other short-term employment benefits	5,076,423	4,555,170
(e) Directors' remuneration and benefits		
Directors' remuneration and benefits	265,671	285,986
Fees for services as a director	**9,386**	**9,300**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit attributable to equity holders of the Group (Shs`000)	49,405,623	49,246,711
Weighted average number of ordinary shares in issue (`000)	2,500,000	2,500,000
Basic earnings per share (Shs)	**19.76**	**19.70**

There were no potentially dilutive shares outstanding at 31 December 2017 or 2016. Diluted earnings per share are therefore the same as basic earnings per share.

33. RECLASSIFICATIONS AND COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. The repurchase agreements ("repos") with Bank of Uganda are financial assets of short term maturity less than 90 days and as a result, these repos have been reclassified from Government Securities to Cash and Balances with Bank of Uganda.

The statements of financial position and the related notes to the financial statements and Comparative figures have been adjusted to conform to the current year's presentation.

	Previously reported 2016	After Reclassification 2016
	Shs`000	Shs`000
Cash and Balances with Bank of Uganda	122,681,976	159,718,675
Government Securities	474,587,240	437,550,541

34 COUNTRY OF INCORPORATION

The Bank is incorporated in Uganda under the Companies Act, 2012 and has been licensed under the Financial Institutions Act 2004 to conduct business of commercial Banking.

35. EVENTS AFTER THE REPORTING PERIOD

The Directors of the Group or Bank are not aware of any events after the reporting period; which may have a significant impact on the operational existence or on the financial performance of the Group or Bank for the year.

36. PRESENTATION CURRENCY

The financial statements are presented in thousands of Uganda Shillings rounded off to the nearest thousands (i.e. Shs 000).

Proxy Form

Bank of Baroda (Uganda) Ltd.

PROXY FORM

I / We...

Of..

....being (a) member (s) of the above named company , hereby appoint...

....as proxy to vote for me/us and on my / our behalf at the 48th Annual General Meeting of the Company, to be held on the 8th June 2018 and at every adjournment thereof

As witness my / out hand(s) this...day of..2018.

Share Certificate No..

....

Signature (s)

NOTE: This form should be deposited with the Company Secretary of the Bank within not later than 48 hours before the time of the meeting.

Bank of Baroda (Uganda) Ltd.

ADMISSION FORM

The Shareholder or his / her proxy must produce this admission form in order to obtain admission to the 48th Annual General Meeting.

Shareholders or their proxies are requested to sign the admission form before attending the meeting.

Signature of the person attending...

Share Certificate Number...

KAMPALA MAIN BRANCH
P.O. Box No. 7197,
18, Kampala Road Kampala,
Tel: 0414-233680 (Gen)

MBARARA BRANCH
P.O. Box 1517
11 Masaka Road, Mbarara
Tel: 04854-21330

LIRA BRANCH
P.O. Box 266
Plot No 2, Aputi Road,Lira
Tel: 0473-420033

ENTEBBE BRANCH
Plot No. 24, Gowers's Road,
P.O. Box 589, Entebbe,Uganda
Tel: 0414-323155

RAILWAY STATION BRANCH
P.O. Box 7266,
Plot No.2/2B,ESSO Corner,Kampala
Tel: 0414-255248 (Gen)

IGANGA BRANCH
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84A & 84B Main Street, Iganga
Tel: 0434-242400

MUKONO BRANCH
P.O. Box 122
Plot No 59-67, Jinja Road, Mukono
Tel: 0414-291990

INDUSTRIAL AREA KAMPALA BRANCH
P.O. Box No.73446
Clock Tower, Kampala
Plot 37,39,41 & 43, Kibira Road
Tel: 0393-206079

JINJA BRANCH
P.O. Box 1102
Plot 16A/B, Iganga Road, Jinja
Tel: 0434-120478

KANSANGA BRANCH
P.O. Box 7467, Plot No. 70 / 378
Gaba Road,Kansanga Kampala
Tel: 0414-269641

OVINO MARKET BRANCH
P.O. Box 7239, Kampala
Plot 24,26 & 28
Rahid Khamis Road,Old Kampala
Tel: 0414-256183

KOLOLO BRANCH
Plot -31, Kira Road,
Tel: 0414-532227

MBALE BRANCH
P.O. Box 971,Baroda House
3, Pallisa Road, Mbale
Tel: 0454-432817

KAWEMPE BRANCH
P.O. Box 7820,Plot No. 35/36
Shree Hari Complex, Kawempe
Kampala, Tel: 0414 568740

KABALE BRANCH
Plot No.94, P.O.Box 1137,
Kabale (Uganda)
Tel: 0486-422087

LUGAZI BRANCH
SCOUL Sec. School Premises
Jinja Road, Lugazi Circle
Tel: 0414-448005

Offsite ATM's at: OASIS MALL, KAMPALA, MAZIMA MALL IN KABALAGALA , NJERU INDUSTRIAL AREA, JINJA

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Regulated by Bank of Uganda

Serving the People of Uganda since 1953