BANK OF BARODA (UGANDA) LTD.

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

NOTICE IS HEREBY GIVEN that the 49th Annual General Meeting of Bank of Baroda (Uganda) Ltd. will be held at 3:00 pm on 27th day of June 2019 at "Gardenia Hall" Imperial Royale Hotel, Plot No 7, Kintu Road, Kampala to transact the following business :-

1. **CONFIRMATION OF THE MINUTES OF THE 48TH ANNUAL GENERAL MEETING**
   To confirm the minutes of the 48th Annual General Meeting of the Bank held on 8th June 2018.

2. **FINANCIAL STATEMENTS**
   To receive and consider the audited financial statements - consolidated Balance Sheet as at 31st December 2018, consolidated income statement for the year ended 31st December 2018, 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 10 per share for the F.Y. 2018.

4. **DIRECTORS**
   To ratify the appointment of Dr. Fred Kakongoro Muhumuza as the Non-Executive Director of the Bank w.e.f. 22nd November, 2018 and Mr. Odoch Charles Langoya as the Non-Executive Director of the Bank w.e.f. 08th January, 2019.

5. **AUDITORS**
   To consider and approve the appointment of M/s. Grant Thornton as the Statutory Auditors of the Bank for the period ending 31st December, 2019 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: 22nd May 2019

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 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 27th June 2019.

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 27th June 2019 and the same will be sent on or before 17th July 2019 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 27th June 2019 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 immense pleasure in welcoming you to the 49th Annual General Meeting of Bank of Baroda (Uganda) Ltd., one of the earliest overseas foray of Bank of Baroda, India, having a glorious history of uninterrupted service to the people of Uganda since 1953.

The Indian banking sector has recently witnessed a massive transformation with the Government of India implementing the first phase of consolidation of Public Sector Banks (PSBs) in India, with the amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda. It is a recognition of the Bank's stronger balance sheet which enables us to play a lead role in consolidation. With effect from April 1, 2019, the new entity is now the second largest PSB in India and the third largest Bank in the country, with 9500+ branches, 85000+ employees serving 120+ million customers and having total business of INR 15 lakh + crore (USD 214 Billion+) with deposits and advances of INR 8.75lakh+ crore (USD 125 Billion+) and INR 6.25lakh+ crore (USD 89 Billion+) respectively.

I am confident that the combined synergy shall further strengthen the Bank's capacity to deliver world class banking products and services to larger set of customers globally.

INDO-AFRICAN RELATIONS

In clear recognition of the importance that India attaches to Africa, the first ever "Africa Day" was celebrated during the '9th Vibrant Gujarat Summit 2019 held on 19th January 2019' at Gandhinagar, Gujarat, India, where the entire day was dedicated to the African Continent. I am happy to inform you that Bank of Baroda, which has always been in the forefront for developing Indo-African relations, also spearheaded the summit. The summit involved participation of customers and staff members from your Bank and other Banks in Africa and constructive interactions / discussions were held to understand and take forward business relationship in the sectors ranging from agriculture, food processing, manufacturing, pharmaceuticals, healthcare, etc. between India and African business houses.

ECONOMY & BANKING SECTOR

The economic outlook of Uganda continues to show a positive trend with signs of good weather conditions, robust external demand, increased FDI inflows and public infrastructure spending as planned. The medium term growth of the economy is also positive. Economic growth for the financial year 2018-19 is estimated at the range of 6-6.5%. Overall prospects are brighter as reflected in the increasing interest evinced by the overseas investors in the emerging economy of Uganda with its free market economy coupled with a secure and stable socio-economic environment.

PERFROMANCE OF THE BANK

I express my sincere gratitude to the shareholders and stakeholders of Bank of Baroda (Uganda) Ltd. for reposing faith and trust in the Bank which continues to inspire us to improve our performance. I am happy to state that the Bank has achieved a YoY growth of 14.42% in Total Business, 19.56% in Loans & Advances, 11.61% in Total Deposits and an exemplary YoY growth of 48.74% in Net Profit. These parameters of growth indicate high level of resilience shown by the Bank in the challenging Banking / Economic environment.

ACHIEVEMENTS

I feel proud to share that Bank of Baroda (Uganda) Ltd. continues to be recognized as one of the strongest brands in East Africa by SUPERBRANDS and has received 'Superbrands' title for the year 2017/18. Technology is the backbone of the Banking Industry in the present era and our bank continues to upgrade and adopt the best alternatives. Bank has launched VISA affiliated Debit Cards and ATMs. Bank has also launched 'mPassbook' and 'Mobile Banking' applications for the ease of our customers.

HUMAN RESOURCES INITIATIVES

To maintain high level of motivation and morale amongst the staff members, your Bank has taken various HR initiatives like recruitment and promotions of staff in all cadres, conducting training programs for the staff members, employee recognition by selecting employee of the month in all branches/offices, participation in various sports / co-curricular activities, etc.

WAY FORWARD

Africa occupies a special position in the overseas presence of Bank of Baroda. We are 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 and NPA management. Various broad business strategies for Africa inter-alia include:

1. Aggressive marketing of Bank's various products
2. Strengthening Risk Management System
3. Thrust on core sectors like Agriculture and Infrastructure
4. Robust Technology with effective overall control

Acknowledgement

I sincerely place on record my gratitude to the Government of Republic of Uganda and Bank of Uganda for their valuable guidance, advice and continued support. I also thank the officials of Indian High Commission, Uganda for their unstinted cooperation and support. In any organization, it is the contribution of each and every individual that takes the organization from being good to great. I acknowledge the dedication and contribution of every staff member and look forward to whole hearted support in the future too, as it is only with the joint effort that the Bank can grow bigger and better.

My good wishes to each one of you.

Yours sincerely,

P.S. Jayakumar

P.S. Jayakumar
Managing Director & CEO, Bank of Baroda, India

CHAIRPERSON'S STATEMENT

Dear Shareholders,

It's my honor to welcome you all to the 49th Annual General Meeting of your Bank. With my earnest pride I take this opportunity to report the financial results of the Bank for the year ended December, 2018.

The Ugandan economy is showing a positive outlook supported by the monetary policy initiatives taken to rein in inflation which had spiraled to dizzy heights. The Government's extensive infrastructure development program is going to boost local economic activities. The development in Oil exploration sector during the last year will lead to further expansion and development in the country. The focused steps taken by the government for increasing food production, infrastructure development, health and education etc. have led to direct improvement in the standard of living of the people across the board.

In the above economic scenario your Bank has performed well both in quantitative and qualitative terms. The Total Business of the Bank increased by 14.42% and Total Deposits witnessed a growth of 11.61% over previous year. The net profit after tax increased by 48.74% over last year.

During the year 2018 your bank has expanded its bouquet of services by offering VISA enabled Debit Cards, mPassbook and Mobile Banking facilities. Now all our ATMs within Uganda are VISA enabled and can cater to large number of customers.

Corporate governance is most important for securing the sustainable growth and enhancing enterprise value over the long term. The Board of Directors is the core of corporate governance, and we need to focus on enhancing the substance of discussion. Corporate governance needs to continually evolve with the changes and demands of times. Your bank is also committed to good Corporate Governance and has complied with all the applicable laws and regulations. Your Bank has also extended its commitment to be a part of the society through its Corporate Social Responsibility initiatives like sponsoring children of Uganda to undergo Heart Surgery in India, Blood Donation drive, Tree Plantation campaign 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 and all the officials of Bank of Uganda for their guidance and support in strengthening the operations of the Bank.

I acknowledge the valuable support received from all our shareholders and customers without whom the Bank would not have been able to achieve the appreciable results.

I also place on record my appreciation to the valuable support and guidance of my Director Colleagues on the Board of the Bank. I wish to thank all the staff members at various levels for the commendable work done by them during the year and am confident that the same zeal and enthusiasm will be continued to take the Bank to further glories in coming years.

My good wishes to each one of you.

Yours truly,

Mrs. Vastina Rukimirana Nsanze
Chairperson

MANAGING DIRECTOR'S STATEMENT

Dear Shareholders,

It is my pleasure to welcome you all to this 49th 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 2018

The year 2018 was a good year for the Bank, we witnessed good growth on the balance sheet coupled with growth in income. The bank continued its growth drive on all major business parameters, more particularly profitability and total advances. The growth has been achieved due to our continued focus on strategy execution.

There is a positive trend in the economic outlook of Uganda for the year 2019 which is expected to continue growing mainly driven by huge investment in infrastructure by the Government. The economy has continued to recover and growth for FY 2018/19 is estimated in the range of 6-6.5%. Increased infrastructure investment, foreign direct investment in the oil and mining subsectors, and reforms to improve the business environment will drive stronger growth over the short and medium term. Agriculture remains a strategic opportunity for spearheading the government's development objectives. Uganda is abundantly endowed with natural resources, including oil, gas, and mineral resources and a natural habitat for diverse wildlife that supports the tourism industry. The country continues to post high economic growth and price stability driven by prudent macroeconomic policies

Let me take you through the key financial highlights of your Bank for the Financial Year ended 31st December 2018

1. Total deposit increased by 135.48 Bn. Showing a growth of 11.61% over the previous year, an increase from UGX 1166.68 Bn in 2017 to UGX 1302.16 Bn in 2018.
2. Advances increased by UGX 124.99 Bn. Showing a growth of 19.56% over the previous year from UGX 639.11Bn to UGX 764.10 Bn.
3. Total Business i.e. Deposit + Advances increased by UGX 260.47 Bn. Showing growth of 14.42% over the previous year. In absolute terms the increase is from UGX 1805.80 Bn to UGX 2066.27 Bn.
4. Total Interest income increased by UGX 10.55 Bn showing a growth of 7.12% over the previous year i.e. increase from UGX 148.19 Bn to UGX 158.74Bn.
5. Total interest expenses decreased by UGX 9.29 Bn showing a decrease of 15.86% over the previous year i.e. decrease from UGX 58.56Bn to UGX 49.27 Bn.
6. Gross Profit increased by UGX 28.66Bn. Showing increase of 45.50% over the previous year i.e. increase from UGX 62.99Bn to UGX 91.65Bn.
7. Net Profit increased by UGX 24.06 Bn Showing increase of 48.74 % over the previous year i.e. increase from UGX 49.36Bn to UGX 73.42Bn.

8. Gross NPA is at UGX16397 Mn (2.15 % of total advances) and the net NPA is UGX 9481Mn (1.24% of total advances)
9. Total Assets size increased by UGX 178.39Bn showing a growth of 11.62% over the previous year i.e. increase from UGX 1535.46 Bn to UGX1713.85 Bn.
10. Total Net worth increased by UGX 44.20 Bn showing a growth of 13.39% over the previous year i.e. increase from UGX 329.94 Bn to UGX 374.14Bn.

This performance is the outcome of our customer centric approach and also indicative of the inbuilt strength the bank has. The bank is focused on its customers and their needs. We strive to understand the need to reach out to more customers and provide them with quality services. In pursuit to provide best IT enabled services this year we have introduced ***VISA*** enabled Debit Cards and ATMs. Bank has also launched **'mPassbook'** and **'Mobile Banking'** applications for the ease of our customers. We are also preparing for entering into Agency Banking Platform, introducing POS Machine etc. All this achievement is possible due to hard work of the employee all throughout the year. Our Human Capital is the most valuable asset in the Bank. We have a clear strategy for the growth and grooming of human capital and creating an environment that supports productivity.

My gratitude goes to all the stakeholders, shareholders, esteemed customers; thank you for being part of the success of Bank of Baroda (U) Ltd and reposing faith on us. I thank the Board of Directors for the good governance and Bank of Uganda for the guidance and support. My sincere thanks to the management and staff for the hard work and tireless efforts that resulted in good performance.

I extend my good wishes to each one of you.

Yours sincerely

Ashwini Kumar
Managing Director

BARODA'S BELIEF

Trust, Transparency and Togetherness

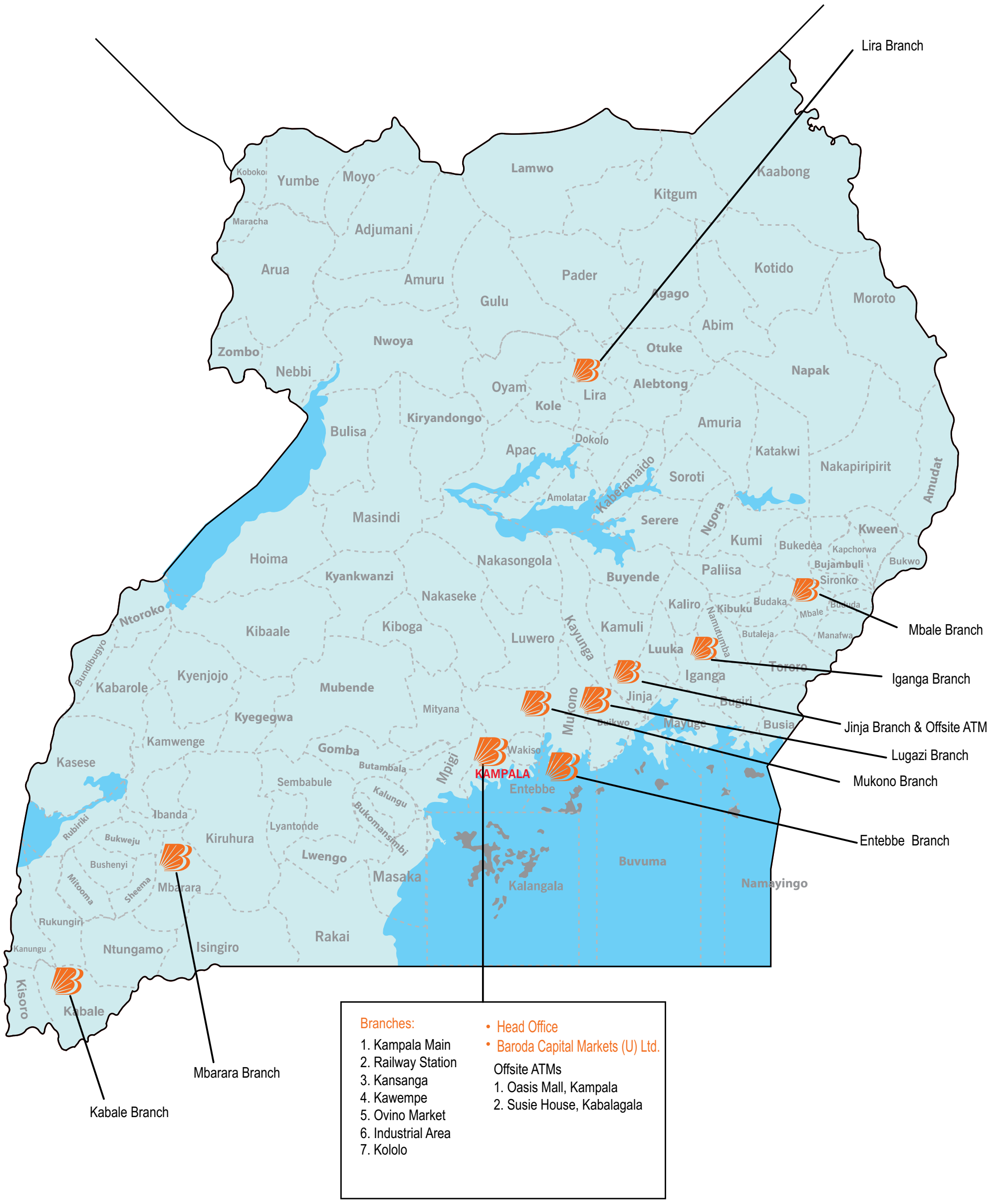
MOTTO FOR THE YEAR 2019

Committed to be the Bank of First choice

BARODA'S MISSION STATEMENT

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

Map of Uganda with Baroda's Presence



AWARD CONFERRED DURING 2018

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

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BOARD OF DIRECTORS AT PRESENT

Mrs. Vastina Rukimirana Nsanze
Chairperson

Mr. Ashwini Kumar
Managing Director

Mr. Manoj Kr. Bakshi
Executive Director

Mr. Rajneesh Sharma
Director

Mr. Sempijja Thadeus
Director

Dr. Fred Kakongoro Muhumuza
Director

Mr. Odoch Charles Langoya
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, Susie House - Kabalagala and Industrial Area Njeru. Thus in all there are 36 outlets consisting of 16 branches and 20 ATMs. Alternate delivery channels like Visa enabled Debit cards, ATMs 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.
- Our all branches are now equipped with V-SAT Backup links
- 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 is functional in the Treasury department complying with the guidelines of Bank of Uganda.
- Software for carrying out regular valuation of Treasury Bills / Bonds is installed at the Treasury Department
- Our Debit Cards and ATMs are VISA affiliated.

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 taking steps for mitigation of 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 among its staff.

- The total staff strength of our Bank as on 31.12.2018 is 180 consisting of 153 local staff and 27 expatriates.
- Management recognizes Birthday Anniversaries of staff members to instil sense of belongingness.
- We have introduced a scheme for "Employee of the Month" to boost the morale of employees through recognition at our all Branches & Head Office and the best employee is given a special Badge and Rolling Trophy to be kept for the entire month and the names & photograph are also displayed on the notice board.
- Our Bank deputes its staff for overseas training and during the year 2018, -2- staff members were deputed for training programme conducted by our Parent Bank, Bank of Baroda, India at its Apex Academy, Gandhinagar, India in January 2018 and -1- staff member in the Risk Department attended On-the-job Training for Risk Officers posted at Overseas and subsidiaries in June at Bank of Baroda Corporate Centre, Mumbai.

- We have state of the art Training Centre located at Head Office – Kampala wherein extensive in-house training programmes are conducted by senior management staff and external faculty. During the year 2018, we conducted -12- in-house training programmes attended by -143- participants, out of which, -4- training programmes were conducted by Apex Academy, Gandhinagar, India through Video Conferencing whereby -71- participants benefited from such training.

Cake cutting ceremony on the occasion of 111th Foundation Day of Parent Bank, Bank of Baroda, India at Head Office

- During the year 2018, we also deputed -27- staff members to -20- external training programmes conducted by The Uganda Institute of Banking and Financial Services; Bank of Uganda; Uganda Bankers Association; Financial Intelligence Authority, ACI Uganda & Front clear National Information Technology Authority, Uganda Registration Service Bureau, A.T.I Uganda, Federation of Uganda Employers, Uganda Law Society, M/s Agriculture & Finance Consultants (AFC); GmbH and M/s Friends Consult.
- 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.
- A Town Hall Meeting 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.
- During the year 2018, our staff members participated in the Workers' Marathon for raising funds to empower mothers with disabled children and for the 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.

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 social 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 66th Foundation Day of the Bank

During the year 2018, the Bank made donations aggregating Ugx.32.77 million for various social causes, major ones are listed below.

1. Financial support to meritorious students of the Universities.
2. Donation to Narayan Seva Sansthan, Uganda for the Medical Camp for Disable
3. Donation Camp at St. Francis Naggalama Hospital, Mukono
4. Donation to needy and underprivileged members of the society by sponsoring for Holi Celebration organized by Rajasthani Association in conjunction with Indian Association.
5. Scholarship to the students of Busoga University.
6. Donation for Heart Surgery of Ugandan Children in India through Indian Association.
7. Donation to Archdiocese of Tororo for Celebrating Martyrs Day at Namugongo Catholic Martyrs Shrine.
8. Financial Support to CPS Jinja for Charity Function.
9. Financial Support to Kabale Municipal Council for series of activities organized by them.
10. Support Towards Prisoners of Luzira and Kigo.
11. Sponsorship of Cancer Medical Camp organized by Indian Women Association.
12. Donation towards the Renovation of Church: Congregation of Holy Cross.
13. Blood Donation Camps organized every quarter.
14. Free Eye Sight saving Eye Camp organized at Jinja in conjunction with Lions Club of Jinja.
15. Health Camp organized at Mukono.
16. Plantation of -1300- Tree Saplings in conjunction with National Forestry Authority Uganda at Mpigi Town.

Tree plantation for Environment Conservation in Mpigi Town

Blood Donation Camp organised by the Bank

Participating in Sports Gala 2018

Launch of VISA Debit Card

Launch of Mobile Banking Application

Launch of mPassbook Application

PRODUCTS & SERVICES OFFERED BY THE BANK:

The Bank is offering 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 The debit cards & ATMs are VISA affiliated.

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

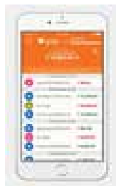
Host of options available under Savings Bank Account:

- 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:

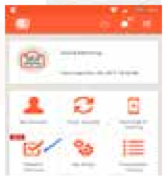
1. Fixed Deposits for different tenures starting from 3 months to 36 months
2. Baroda Flexi Recurring Deposit from 12 months to 36 months

mPassbook



View your account statement on your mobile using mPassbook Application

mConnect + UG



Do your banking transactions on the click of your mobile using mConnect + UG Application (Mobile Banking)

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

Bank of Baroda (Uganda) Ltd.

Launches

- **Baroda VISA DEBIT CARD**
- **VISA Enabled Baroda ATMs**

Use your BARODA VISA DEBIT CARD at any of the following terminals :

- Point of Sale (PoS) terminals which are VISA Enabled for payment of goods and services. No need to carry cash.
- Online Payment for purchase of goods & services e.g. Food Home Delivery / Taxi Payment / Airtime Recharge etc.
- Cash withdrawal from any VISA enabled ATM globally.
- Cash withdrawal at any of Baroda ATMs across the country.

- ***We request our esteemed customers to collect their Baroda Visa Debit Cards from their respective branches.***
- ***For new customers Baroda Visa Debit Cards will be issued instantly.***

Most Important :

- Please note that BARODA VISA DEBIT CARD is secured by Chip and PIN technology.
- Bank or its employees will never contact you asking for your Card Number / Card Expiry Date / CVV / OTP / PIN / Internet Password.
- Do not share these details with anyone as this could lead to fraud.
- To block / disable the card in case of misplacement / theft of BARODA VISA DEBIT CARD contact our

ANY BRANCH or TOLL FREE NUMBER : 0800240240.

HEAD OFFICE :
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P.O. Box 7197, Kampala, Uganda
Tel. :+256-41-4233680/1
(Gen.) +256-41-4237898
Fax : +256-41-4230781/258
Website : www.bankofbaroda.ug
Regulated by Bank of Uganda

Share holding pattern as on 31st December 2018

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 2018

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	DFCU Bank Limited	62,500,000	2.50
4	NATIONAL SOCIAL SECURITY FUND	49,956,250	2.00
5	MAHESHWARY PURUSHOTTAM	25,000,000	1.00
6	KING CEASOR AUGUSTUS MULENGA	19,940,056	0.80
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	10,025,000	0.40

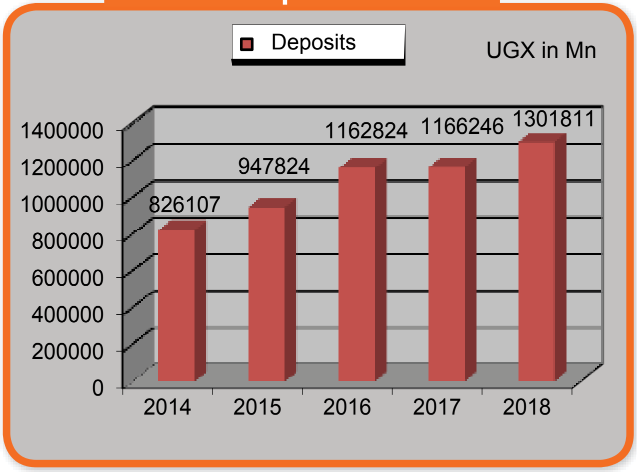
Financials for the last 5 years

	2014	2015	2016	2017	2018
Capital	25,000	25,000	25,000	25,000	25,000
Reserves	169,096	196,295	252,487	305,465	349,737
Deposits	826,107	947,824	1,162,624	1,166,246	1,301,811
Advances	524,358	619,961	607,807	639,114	764,105
Total Business	1,350,465	1,567,785	1,770,631	1,805,360	2,065,916
Investments	398,407	267,329	474,5887	500,406	508,317
Net Profit	36,890	41,204	49,247	49,406	73,483
Adjusted Earnings per Share*	15	16.48	19.70	19.76	29.39
Dividend per share*	2.5	2.5	2.5	7.5**	10.00**

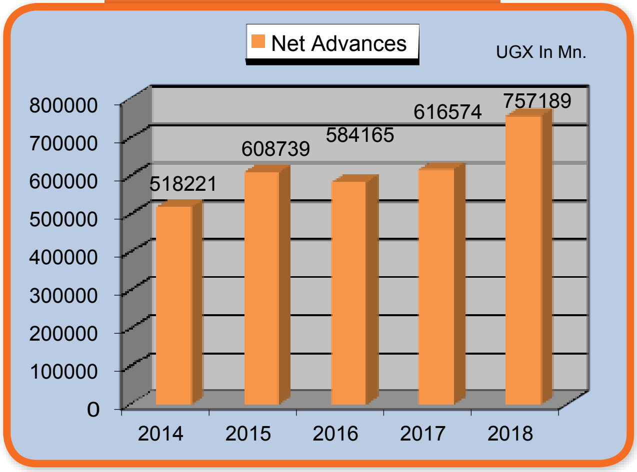
** For the year 2018 the Board of Directors have recommended dividend @ Ugx.10.00 per share.

Growth at a glance

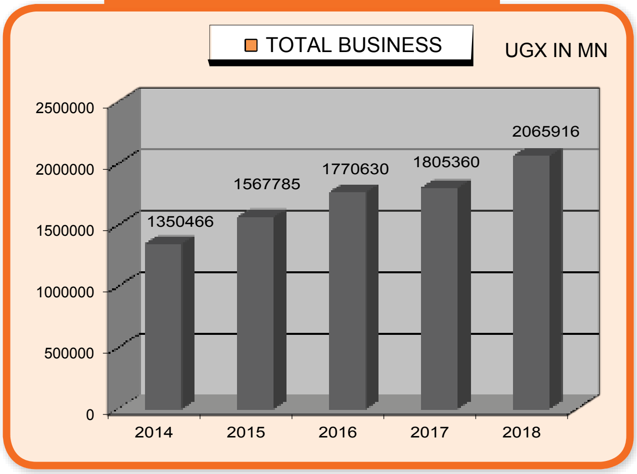
Deposits



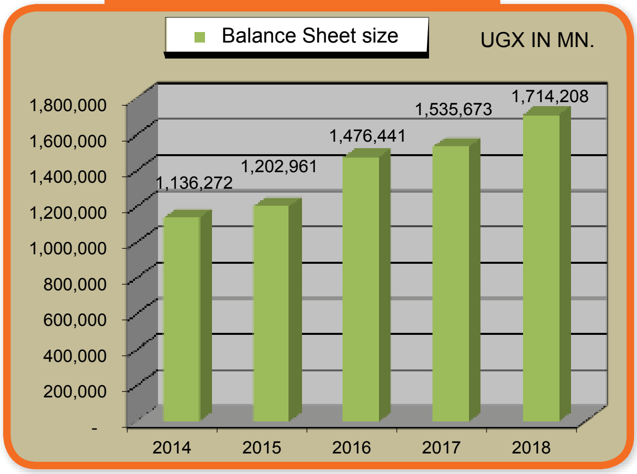
Net Advances



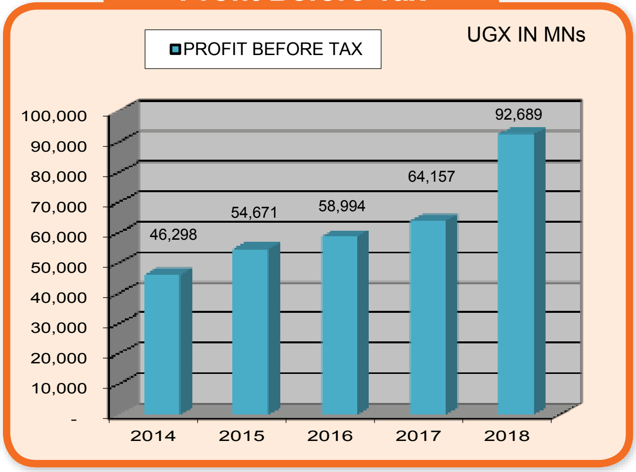
Total Business



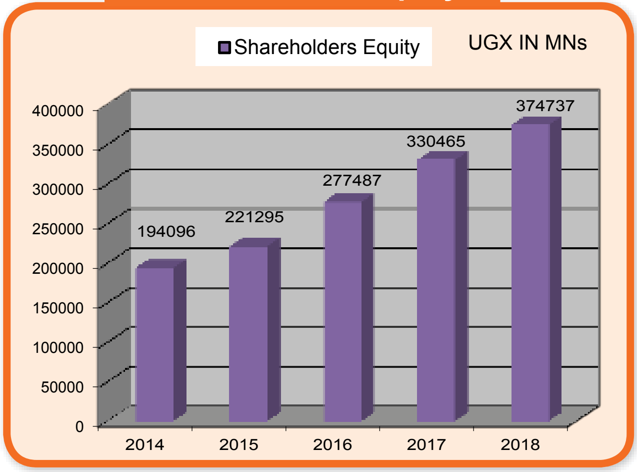
Balance Sheet Size



Profit Before Tax



Shareholders Equity



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	31.12.2018	31.12.2017
Operating Income	176,941	154,573
Operating Expenses	40,309	36,778
Profit before Tax	88,584	80,573
Tax Expense	25,950	23,763
Profit after Tax	62,634	56,774

Statement of Financial Position (Ugx '000)

Particulars	31.12.2018	31.12.2017
Assets		
Property & Equipment	1,758	2.040
Deposit with regulators	105,000	105,000
Deferred tax	4,465	601
Other financial Asset	369,060	323,277
Trade and other receivables	44,796	36,900
Cash and Cash equivalents	207,568	179,891
Tax recoverable	21,120	27,100
Total Asset	**753,767**	**674,809**
Liabilities		
Trade & Other Payables	37,656	39,475
Amounts due to releted parties	85,279	58,189
Total Liabilities	**122,935**	**97,664**
CAPITAL EMPLOYED		
Ordinary Share Capital	40,000	40,000
Retained earning	590,832	537,145
Total Equity & Liabilities	**630,832**	**577,145**

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 22.05.2019

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	COMMERCIAL BANKING ACTIVITIES	
DIRECTORS	Mrs.Vastina Rukimirana Nsanze*	Chairperson (Appointed 6 November 2018)
	Mr. Ashwini Kumar**	Managing Director
	Mr. Rajneesh Sharma**	Director
	Mr. Manoj Kumar Bakshi**	Executive Director
	Mr. Sempijja Thadeus*	Director / Alternate Chairperson (Appointed 16 March 2018)
	Dr. Fred Kakongoro Muhumuza*	Director (Appointed 22 November 2018)
	Mr. Odoch Charles Langoya*	Director (Appointed 8 January 2019)
	Mr. Dhizaala Moses*	Director (Resigned 5 November 2018)
CHIEF OFFICERS / EXECUTIVES	Mr. Ashwini Kumar **	Managing Director
	Mr. Manoj Kumar Bakshi**	Executive Director
	Mr. K. R. Meena**	Internal Auditor
	Mr. Anwar Malik**	Financial Controller
	Mr. Kamal Kumar**	Head Credit
	Mr. Subhaprateek Pradhan**	Head Information Techonology
	Mr. Obong S.*	Head Compliance
	Mr. Vikas Sharma**	Head Treasury
	Mrs. Victoria Ocici*	Head Risk Management
BOARD CREDIT COMMITTEE	Mr. Rajneesh Sharma	Director & Chairperson
	Mr. Ashwini Kumar	Managing Director
	Mr. Manoj Kumar Bakshi	Executive Director
	Mr. Sempijja Thadeus	Director
BOARD AUDIT COMMITTEE	Dr. Fred Kakongoro Muhumuza	Director/Chairperson
	Mr. Odoch Charles Langoya	Director
BOARD RISK MANAGEMENT COMMITTEE	Mr. Odoch Charles Langoya	Director /Chairperson
	Mr. Ashwini Kumar	Managing Director
	Mr. Manoj Kumar Bakshi	Executive Director
BOARD ASSET AND LIABILITIES COMMITTEE	Mr. Ashwini Kumar	Managing Director/Chairperson
	Mr. Rajneesh Sharma	Director
	Dr. Fred Kakongoro Muhumuza	Director
BOARD HUMAN RESOURCE AND COMPENSATION COMMITTEE	Mr. Sempijja Thadeus	Director / Chairperson
	Mr. Manoj Kumar Bakshi	Executive Director
	Mr. Rajneesh Sharma	Director

*Ugandan

**Indian

REGISTERED OFFICE	Plot 18, Kampala Road, P.O Box 7197 Kampala, Uganda
COMPANY SECRETARY	Ms. Anne Tumwesigye Mbonye Kampala, Uganda
INDEPENDENT AUDITOR	Deloitte & Touche Certified Public Accountants of Uganda P.O. Box 10314, Kampala,Uganda
PRINCIPAL LEGAL ADVISORS	Kateera & Kagumire Advocates & Solicitors 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.

CORPORATE INFORMATION (CONTINUED)

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
Kampala Road
Kampala, Uganda
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

Jinja
P.B. NO. 1102
Plot 16A/B Iganga Road
Jinja
Uganda
jinja@bankofbaroda.com

Kawempe
Plot No. 35/36
P.O. Box 7820
Bombo Road
Kawempe (Kampala)
kawempe@bankofbaroda.com

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

Mbale
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
Plot 37,39,41 & 43
P.O. Box No.73446
Kibira Road
Uganda
Industrial.kampala@bankofbaroda.com

Mbarara
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
SCOUL Sec. School Premises
Jinja Road, Lugazi Circle
Lugazi (Uganda)
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 practices.

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 practices.

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 4

The Non-Executive Directors are drawn from a wide range of business and professional 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 2018 is detailed below:

Name of Director	Q1	Q2	Q3	Q4
Mr. Dhizaala Moses	✓	✓	✓	NA
Mr. Ashwini Kumar	✓	✓	✓	✓
Mr. Rajneesh Sharma	✓	✓	✓	✓
Mr. Sempijja Thadeues	✓	✓	✓	✓
Mr. Manoj Kumar Bakshi	✓	✓	✓	✓
Mrs.Vastina Rukimirana Nsanze	NA	✓	✓	✓
Dr. Fred Kakongoro Muhumuza	NA	NA	NA	✓

✓	Attendance
A	Apology
NA	Not applicable

Separation of roles and responsibilities

The roles of the Chairperson and Managing Director are separate. The Chairperson'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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board has 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

The Board Personnel and Administration Committee and Board Compensation Committee have now been merged and named as Board Human resources and 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 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 Auditor, who has access to the Committee members as required.

The Committee also ensures effective communication between the internal auditor, 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 from 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. Sempijja Thadeues	✔	✔	✔	✔
Mr. Rajneesh Sharma	✔	✔	NA	NA
Mr. Manoj Kumar Bakshi	✔	✔	NA	NA
Mrs.Vastina Rukimirana Nsanze	NA	NA	✔	NA
Dr. Fred Kakongoro Muhumuza	NA	NA	NA	✔

✔ 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Name of Director	Q1	Q2	Q3	Q4
Mr. Rajneesh Sharma	✓	✓	✓	✓
Mr. Sempijja Thadeues	✓	✓	NA	✓
Mr. Manoj Kumar Bakshi	✓	✓	✓	✓
Mr. Ashwini Kumar	✓	✓	✓	✓
Mrs.Vastina Rukimirana Nsanze	NA	NA	✓	NA

✓ Attendance
A Apology
NA Not applicable

Board Personnel and administration Committee

The purpose of this Committee is to attend to human capital and administrative matters within the Bank. The Committee oversees the administrative 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. Rajneesh Sharma	✓	✓	✓	✓
Mr. Sempijja Thadeues	✓	✓	✓	NA
Mr. Manoj Kumar Bakshi	✓	✓	✓	✓
Mr. Ashwini Kumar	✓	✓	✓	✓
Dr. Fred Kakongoro Muhumuza	NA	NA	NA	✓

✓ 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. Rajneesh Sharma	✓	✓	✓	NA
Mr. Manoj Kumar Bakshi	✓	✓	✓	✓
Mr. Sempijja Thadeues	✓	✓	✓	✓
Dr. Fred Kakongoro Muhumuza	NA	NA	NA	✓

✓ Attendance
A Apology
NA Not applicable

Board Assets and Liabilities Committee

The Board Asset and Liability Committee (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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Name of Director	Q1	Q2	Q3	Q4
Mr. Manoj Kumar Bakshi	✔	✔	✔	✔
Mr. Rajneesh Sharma	✔	✔	✔	✔
Dr. Fred Kakongoro Muhumuza	NA	NA	NA	✔

✔ 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. Rajneesh Sharma	✔	✔	✔	✔
Mr. Sempijja Thadeues	✔	✔	✔	✔
Mr. Manoj Kumar Bakshi	✔	✔	✔	NA
Mr. Ashwini Kumar	✔	✔	✔	✔

✔ Attendance
A Apology
NA Not applicable

Company Secretary

The role of the Bank Secretary is to ensure the Board remains cognisant 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 unauthorised 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 Resource and Compensation Committee reviews the fees paid to Non-Executive Directors annually and makes recommendations to the Board for consideration.

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 2018, 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 2018

- Deposits increased by 11.61% in 2018 to Shs 1,302,169 Million from Shs 1,166,687 Million in 2017.
- Advances net of impairment provisions increased by 22.81% in 2018 to Shs757,189 Million from Shs 616,574 Million in 2017.
- Total Business (Deposits + Advances) increased by 14.42 % in 2018 to Shs 2,066,274 Million from Shs 1,805,801, Million in 2017.
- Total assets increased by 11.62 % in 2018 to Shs 1,713,853 Million from Shs 1,535,463 Million in 2017.
- Total income increased by 12.60% to Shs 195,820 Million in 2018 from Shs 173,910 Million in 2017.
- Net Profit after Tax increased by 48.73.% in 2018 to Shs 73,421 Million from Shs 49,366 Million in 2017.
- Gross NPA as a percentage of total advances is at 2.15% in 2018 decreased from 12.77% in 2017.
- Capital Adequacy Ratio as at 31 December 2018 was 31.64 %(2017:31.71%)-Tier I and 33.28% (2017:33.54%) Total Capital.
- Return on Assets as at 31 December 2018 was 4.46 %(2017:3.38%).
- Return on shareholders' equity as at 31 December 2018 was 21.79 %(2017:16.97%).

SHARE CAPITAL

The authorised, issued and fully paid share capital of the Bank was Shs 25 Billion (2017: Shs 25 Billion) representing 2,500 million shares (2017: 2,500 million) of Shs 10 each (2017: 2,500 million share of Shs 10 each).

DIVIDENDS

The Board of Directors recommend payment of a final dividend of Shs 10.0 per share (2017: Shs 7.5 per share) amounting to a total of Shs 25,000,000,000 (2017: Shs 18,750,000,000).

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

During the year, the following changes occurred in the Board Directorships;- Mr. Dhizaala Moses's term ended on 5th November 2018 and was subsequently replaced by Mrs. Vastina Rukimirana Nsanze on 6th November 2018 as chairperson. Mr. Kakongoro Fred Muhumuza was appointed as Director on Board of the Bank on 22nd November 2018 and Mr. Odoch Charles Langoya on 8thJanuary 2019 respectively.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTEREST IN SHARES

At 31 December, 2018, 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, 2018. 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 and market 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.

REPORT OF THE DIRECTORS (CONTINUED)

OPERATING AND REGULATORY ENVIRONMENTS

The year opened with an exchange rate of US$/Shs 3,640 in the month of January 2018 and averaged at 3,735 but closed at US$/Shs. 3,710 by end of December 2018.

The Bank complied with the minimum core capital and total capital requirements, with 31.64% and 33.28 % against regulatory requirement of 10% and 12% respectively

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 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 Apex Academy of Bank of Baroda, India our inhouse training centre 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. The Bank has also gone through a major recruitment exercise where -2- Directly Recruited Officer, -4- Directly Recruited Supervisors and -25- Banking Assistants have been recruited. A promotion exercise was also conducted and -5- staff were promoted from Supervisor to Officer Cadre, -8- Clerks (Banking Assistants) to Supervisor Cadre and -1- Non- Clerical to Clerical Cadre.

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 2017. Information and Communication Technology (ICT) audit by external auditor was conducted in year 2018. Automated clearing house (ACH) for Electronic Funds Transfer (EFT) and Cheque Clearing System (CTS) implemented on 20 April 2019. VISA accreditation project for all our debit cards, ATMs and contact center was made live on 9 June 2018. Mobile Banking and Mobile Passbook launched on 9 June 2018. Rapid funds to India through Alternate Delivery channels, agency banking, ASCROM in finacle and website re-designing projects are expected to go live in year 2019. Continued focus on leveraging technology has resulted in process efficiencies and enhances customer convenience.

REPORT OF THE DIRECTORS (CONTINUED)

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 for financial year 2017 & 2018 .

For the finicial year 2019, we recommend the name of M/s.Grant Thornton, Certified Public Accountants as a Statutory / External Auditor of the bank for the year 2019 which is approved by the board.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23rd April, 2019.

BY ORDER OF THE BOARD

ANN TUMWESIGYE MBONYE
COMPANY SECRETARY
Kampala, 22 May, 2019

DIRECTORS' RESPONSIBILITIES AND APPROVAL

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 23rd April, 2019 on behalf of the Board of Directors by:

Mrs. Vastina Rukimirana Nsanze - Chairperson

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 33 to 113. These consolidated and separate financial statements ("the financial statements") comprise the Statements of financial position as at 31 December 2018, 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 2018, 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
Impairment of loans	
The directors consider the allowance for impairment of loans advanced to customers a matter of most significance, as it requires the application of significant judgement and use of subjective assumptions. The group records impairment for customers based on historic default experience and forecasts this into the future using macro-economic variables. The group also considers the collateral values for loans that are secured and estimates the expected recovery amounts and the time it takes to recover debt from sale of securities. Further to that group determines what Significant Increase in Credit Risk is considering qualitative and quantitative factors. Therefore, the Directors in assessing the impairment allowance require significant judgement. The significant judgements applied in determining the impairment allowance include: • the expected period of recovery in future expected cash flows; • the determination of probability of default • Risk Determination of Significant Increase in Credit Given the combination of inherent subjectivity in the significant judgement areas mentioned above, and the material nature of the impairment allowance balance; we considered the above to be a key audit matters in our audit of the financial statements. As at 31 December 2018, the Bank reported gross loans of 764,105 million and 6,916 million of expected credit loss provisions. Refer to Note 13 of the accounts	• a) Our procedures to assess the directors' provision for specific allowances, in response to the risks specific to the individually assessed impairment included the following: • We evaluated the processes for identifying impairment indicators and assessed compliance for classification of loans in accordance with The Financial Institutions (Credit Classification and Provisioning) Regulations, 2005. • For a sample of selected non-performing loans, we assessed the Directors' forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. We evaluated the consistency of key assumptions applied. • As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balances to gain assurance over the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the day one adjustment and disclosures made on transition. • We tested the design and implementation, operating effectiveness of key controls across the processes relevant to the ECL. This included the allocation of assets into stages, model governance, data accuracy and completeness, individual provisions and production journal entries and disclosures. • We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the bank's portfolio, risk profile, credit risk management practices and the macro economic environment. • We reviewed and challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9. We tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage.

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
	• With support from our internal modelling specialists, we tested the assumptions, inputs and formulae used in a sample of ECL models. This included assessing the appropriateness of model design and formulae used, considering alternative modelling techniques and recalculating the ECL. • To verify data quality, we tested the data used in the ECL calculation by reconciling to source systems. To test credit monitoring, we recalculated the risk ratings for a sample of performing loans. • With the support of our internal modelling specialists, we assessed the base case and alternative economic scenarios, including challenging probability weights and comparing to other scenarios. We assessed whether forecasted macroeconomic variables were appropriate, such as GDP, interest rates. With the support from our internal modelling specialists, we challenged the correlation and impact of the macroeconomic factors to the ECL including how non-linearity was captured. • With support from our internal specialists, we recalculated a sample of individually assessed provisions including comparing to alternative scenarios and challenging probability weights assigned. • We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition from IAS 39. Overall, the results of our evaluation of the Bank's allowance for impairment of loans are consistent with the directors' assessment. We found the model and assumptions used in the calculation of the specific allowances to be in line with the IFRS, professional guidance and market practice We found that adequate disclosures had been made by the directors pertaining to the allowance for impairment of loans and advances and the related credit risk.

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

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.

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.

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

- 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.

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 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)

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 Number P0053.

Deloitte & Touche

Certified Public Accountant of Uganda

Norbert Kagoro
Partner

24th April, 2019
Kampala

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

			Consolidated		Separate
		2018	2017	2018	2017
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
Interest income	5	158,741,498	148,197,743	158,741,498	148,197,743
Interest expense	6	(49,239,650)	(58,534,856)	(49,269,780)	(58,565,874)
Net interest income		**109,501,848**	**89,662,887**	**109,471,718**	**89,631,869**
Non interest income	7	37,225,555	25,836,286	37,078,743	25,712,732
Non interest expenses	8	(54,988,975)	(52,444,614)	(54,900,618)	(52,345,553)
Profit before impairment on loans and advances		91,738,428	63,054,559	91,649,843	62,999,048
Impairment gains/(losses) on loans and advances	13b	950,170	1,102,665	950,170	1,102,665
Profit before tax		92,688,598	64,157,224	92,600,013	64,101,713
Income tax charge	10	(19,205,138)	(14,751,601)	(19,179,188)	(14,735,395)
Profit for the year		73,483,460	49,405,623	73,420,825	49,366,318
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net (loss) in FVTOCI financial assets (net of taxes)	12	(18,955,486)		(18,946,539)	
Net gain in AFS assets(net of taxes)	12	-	11,203,207		11,201,051
Other comprehensive (loss)/ income (net of tax)		**(18,955,486)**	**11,203,207**	**(18,946,539)**	**11,201,051**
Total comprehensive income for the year		54,527,974	60,608,830	54,474,286	60,567,369
Profit for the year attributable to:					
• *Equity holders of the Bank*		73,483,460	49,405,623		
Total comprehensive income for the year attributable to:					
• *Equity holders of the Bank*		54,527,974	60,608,830		
Earnings per share					
Basic and diluted (Shs per share)	32	29.39	19.76		

The notes on pages 38 to 113 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

		Consolidated		Separate	
		2018	2017	2018	2017
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
ASSETS					
Cash and balances with Bank of Uganda	11	164,394,812	206,150,443	164,262,009	206,150,443
Government securities	12a	508,317,338	500,406,256	508,317,338	500,406,256
Loans and advances to Banks	12b	133,043,187	163,899,210	133,043,187	163,899,210
Amounts due from overseas branches of parent company	14	36,850,895	19,835,816	36,850,895	19,835,816
Deposits and balances due from other financial institutions	22	80,784,756	4,909,112	80,784,757	4,869,788
Other assets	15	3,476,544	3,476,050	3,241,524	3,296,633
Current tax receivable	10b	8,512,282	1,385,752	8,491,215	1,356,493
Loans and advances to customers (net)	13	757,188,839	616,574,425	757,188,839	616,574,425
Investment in subsidiary	16	-	-	40,000	40,000
Deferred income tax assets	17	3,425,511	-	3,420,987	-
Intangible assets	18	121,845	14,245	121,845	14,245
Property and equipment	19	18,091,963	19,021,439	18,090,204	19,019,401
Total assets		**1,714,207,972**	**1,535,672,748**	**1,713,852,800**	**1,535,462,710**
LIABILITIES					
Other financial liabilities	20	11,188,328	19,248,876	11,188,328	19,248,876
Customer deposits	21	1,301,810,777	1,166,245,602	1,302,169,378	1,166,686,542
Deferred income tax liabilities	17	-	2,281,634	-	2,282,293
Other liabilities	23	25,058,782	16,016,622	24,935,844	15,888,971
Retirement benefit obligation	24	1,413,064	1,415,443	1,413,064	1,415,443
Total liabilities		**1,339,470,951**	**1,205,208,177**	**1,339,706,614**	**1,205,522,125**
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS					
Share capital	25	25,000,000	25,000,000	25,000,000	25,000,000
Reserves		25,962,840	39,615,570	25,969,631	39,613,414
Proposed dividend	28	25,000,000	18,750,000	25,000,000	18,750,000
Retained earnings		298,774,181	247,099,001	298,176,555	246,577,171
Total shareholders` equity		**374,737,021**	**330,464,571**	**374,146,186**	**329,940,585**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1,714,207,972	1,535,672,748	1,713,852,800	1,535,462,710

The financial statements on pages 38 to 113 were approved for issue by the Board of Directors on April 23, 2019 and signed on its behalf by:

Mrs Vastina Rukimirana Nsanze
Chairman

Mr. Ashwini Kumar
Managing Director

Mr. Manoj Kumar Bakshi
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Ordinary Share capital	Regulatory general credit reserve	Revaluation reserve	Available for sale reserve	FVTOCI Reserve	Proposed dividend	Retained earnings	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2017	**Notes**								
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 FVTOCI reserve		-	-	-	6,926		-	(6,926)	-
Deferred tax charged on FVTOCI 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 31 December 2017		**25,000,000**	**18,139,251**	**9,650,923**	**11,825,396**		**18,750,000**	**247,099,001**	**330,464,571**
Day one IFRS 9 transition		-	-	-	(11,825,396)	11,825,396	-	8,274,510	8,274,510
Subsidiary restatement	35							13,161	13,161
At 1 January 2018		**25,000,000**	**18,139,251**	**9,650,923**	**-**	**11,825,396**	**18,750,000**	**255,386,672**	**338,752,242**
Changes in equity:									
Profit for the year		-	-	-		-	-	73,483,460	73,483,460
Other comprehensive income (net of taxes)		-	-	-		(18,955,486)	-	-	(18,955,486)
Transfer to regulatory reserves	26	-	5,785,302	-		-	-	(5,785,302)	-
Transfer from revaluation reserve		-	-	(689,351)		-	-	689,351	-
Transfer of excess depreciation on revaluation net of deferred tax	27	-	-	206,805		-	-	-	206,805
		25,000,000	23,924,553	9,168,377		(7,130,090)	18,750,000	323,774,181	393,487,021
Dividends paid		-	-	-		-	(18,750,000)	-	(18,750,000)
Dividends proposed	28	-	-	-		-	25,000,000	(25,000,000)	-
At 31 December 2018		25,000,000	23,924,553	9,168,377		(7,130,090)	25,000,000	298,774,181	374,737,021

The notes on pages 38 to 113 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

		Ordinary Share capital	Regulatory General Credit reserve	Revaluation reserve	Fair value assets available-for-sale	FVTOCI Reserve	Proposed dividend	Retained earnings	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2017	**Notes**								
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 FVTOCI reserves	26	-	-	-	6,926		-	(6,926)	-
Deferred tax charged on FVTOCI gains		-	-	-	(1,598,618)		-	-	(1,598,618)
Transfer to regulatory reserves	27	-	(3,370,623)	-	-		-	3,370,623	-
Transfer from revaluation reserve		-	-	(725,633)	-		-	725,633	-
Transfer from investment fluctuation reserves		-	-	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 31 December 2017		**25,000,000**	**18,139,251**	**9,650,923**	**11,823,24**		**18,750,000**	**246,577,171**	**329,940,585**
Day one IFRS 9 transition adjustment		-	-	-		-	-	8,274,510	8,274,510
At 1 January 2018		**25,000,000**	**18,139,251**	**9,650,923**		**11,823,240**	**18,750,000**	**254,851,681**	**338,215,095**
Changes in equity:									
Profit for the year		-	-	-		-	-	73,420,825	73,420,825
Other comprehensive income (net of taxes)		-	-	-		(18,946,539)	-	-	(18,946,539)
Transfer to regulatory reserves	26	-	5,785,302	-		-	-	(5,785,302)	-
Transfer from revaluation reserve		-	-	(689,351)		-	-	689,351	-
Transfer of excess depreciation on revaluation net of deferred tax	27	-	-	206,805		-	-	-	206,805
		25,000,000	**23,924,553**	**9,168,377**		**(7,123,299)**	**18,750,000**	**323,176,555**	**392,896,186**
Dividends paid		-	-	-		-	(18,750,000)	-	(18,750,000)
Dividends proposed	28	-	-	-		-	25,000,000	(25,000,000)	-
At 31 December 2018		**25,000,000**	**23,924,553**	**9,168,377**		**(7,123,299)**	**25,000,000**	**298,176,555**	**374,146,186**

The notes on pages 38 to 113 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

		Consolidated		Separate	
		2018	2017	2018	2017
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
Cash flows from operating activities					
Interest receipts		158,772,276	135,556,495	158,629,778	135,435,529
Interest payments		(47,628,554)	(67,481,243)	(47,628,554)	(67,481,243)
Fee and commission receipts		13,937,740	14,592,074	13,937,740	14,592,074
Realised foreign exchange gain on trading book		3,574,196	2,522,796	3,574,196	2,522,796
Profit on sale of investments		2,293,403	2,307,361	2,293,403	2,307,361
Other income		2,015,262	35,809	1,980,819	2,203
Recoveries on loans previously written off		15,292,586	6,288,298	15,292,586	6,288,298
Payments to employees and suppliers		(28,600,558)	(46,808,534)	(28,519,165)	(46,711,041)
Income tax paid	10b	(23,710,441)	(14,946,811)	(23,690,441)	(14,926,811)
Cash flows from operating activities before changes in operating assets and liabilities		95,945,910	32,066,245	95,870,362	32,029,166
Loans and advances to Customers		(124,991,182)	(31,307,127)	(124,991,182)	(31,307,127)
Cash reserve requirement		9,808,000	261,000	9,808,000	261,000
Loans and advances to Banks		(76,717,078)	(49,680,379)	(76,717,078)	(49,680,379)
Government securities		10,852,146	(62,855,715)	10,852,146	(62,855,715)
Other assets		33,445	(82,036)	55,109	(73,392)
Customer deposits		135,408,071	3,422,005	135,482,836	3,621,178
Other liabilities		2,760,303	(10,754,504)	2,645,942	(10,815,595)
Other financial liabilities		(8,060,548)	11,304,636	(8,060,548)	11,304,636
Net cash (used in)/generated from operating activities		(50,906,843)	(139,692,120)	(50,924,775)	(139,545,394)
Cash flows from investing activities					
Cash paid for purchase of property and equipment	19	(469,306)	(1,156,177)	(469,306)	(1,156,177)
Cash paid for purchase of intangible assets	18	(159,660)	(4,765)	(159,660)	(4,765)
Net cash used in investing activities		(628,966)	(1,160,942)	(628,966)	(1,160,942)
Cash flows from financing activities					
Dividend paid		(18,750,000)	(6,250,000)	(18,750,000)	(6,250,000)
Net cash used in financing activities		(18,750,000)	(6,250,000)	(18,750,000)	(6,250,000)
increase/(Decrease) in cash and cash equivalents		25,660,101	(115,036,816)	25,566,621	(114,927,170)
Movement in cash and cash equivalents					
Cash and cash equivalents at beginning of the year		486,395,920	598,909,940	486,356,597	598,760,971
Increase/(Decrease) in cash and cash equivalents		25,660,102	(115,036,816)	25,566,621	(114,927,170)
Effects of exchange rate changes on the balances held in foreign currencies		3,574,197	2,522,796	3,574,197	2,522,796
Cash and cash equivalents at end of the year	30	**515,630,218**	**486,395,920**	**515,497,415**	**486,356,597**

The notes on pages 38 to 113 form an integral part of these consolidated and separate financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of Uganda, 2012 and Financial Institutions Act, (2004) as amended by the Financial Institutions (Amendment) Act, 2016. The financial statements were authorised for issue by the Board of Directors on 26 March 2019.

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

The Bank presents the 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.

(a) Basis of Measurement

The financial statements have been prepared on a going concern basis and under the historical cost basis except for the following:

- *Financial instruments measured at fair value through Profit or loss are measured at fair value*
- *Financial instruments measured through other comprehensive income with changes in fair value through statement of other comprehensive income*

(b) Functional and presentation currency

These financial statements are presented in Uganda shillings, which is the Bank's functional currency. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation(continued)

(c) Use of estimates and judgement

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies, business models and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reporting period.

Assumptions and estimates of uncertainties

The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

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

The Bank regularly reviews its assets and makes judgements in determining whether an impairment loss should be recognised in respect of observable data that may impact on future estimated 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is set out below:

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 1). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit

Expected credit losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. The Bank currently has no financial assets that are impaired on a collective basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation(continued)

(c) Use of estimates and judgement(continued)

Models and assumptions used:

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating expected credit losses. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (PD): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. (Refer to classification of financial assets for a detailed explanation of the drivers and inputs into the PD computations)

Loss Given Default (LGD): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. (Refer to classification of financial assets for a detailed explanation of the drivers and inputs into the LGD computations)

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 36.

Recognition and measurement of provisions and contingencies

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation arising in the ordinary course of the Bank's business; When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details on provisions and contingencies see Notes 23.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation(continued)

(c) Use of estimates and judgement(continued)

Impairment losses for loans and advances

On 1 January 2018, the Bank adopted International Financial Reporting Standard IFRS 9 Financial Instruments. IFRS 9 replaces IAS 39 financial instruments: Recognition and Measurement and introduces a new requirement for the classification and measurement of financial instruments, the recognition and measurement of credit impairment provisions; and provides a simplified approach to hedge accounting. Due to the transition method chosen in applying IFRS 9, comparative information has not been restated to reflect the new requirements.

IFRS 9 introduces an expected credit losses model 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.

Expected credit losses are determined for all financial debt instruments that are classified as amortised cost or fair value through other comprehensive income, undrawn commitments or financial guarantees. An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitments or financial guarantee. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instruments and the cash flows that the Bank expects to receive over the contractual life of the instrument.

Measurement of Expected Credit Loss

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money and considering all reasonable and supportive information including that which is forward looking.

The estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of the instrument.

Forward looking economic assumptions are incorporated into PD, LGD and EAD where relevant and where they have an effect on the credit risk, such as GDP growth rates, interest rates, inflationary rates among others. Where credit losses are linear in nature, these assumptions are incorporated using the most likely forecast for the range of macroeconomic assumptions. The forecasts are determined using all reasonable and supportable information, which include both internally developed forecasts and those available externally and are consistent with those used for budgeting and forecasting.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Bank is exposed to credit risk. However, for certain revolving credit facilities like overdrafts; the Bank's exposure to credit risk is not limited to the contractual period. For these instruments, the Bank estimates an appropriate life based on the period the Bank is exposed to credit risks which include the effect of credit risk management actions such as withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of future cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Bank may also measure credit impairment on the basis of the instrument fair value using observable market prices.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount of timing of cash flows that are expected from foreclosure on the collateral less costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable. Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation(continued)

(c) Use of estimates and judgement(continued)

Cash shortfalls are discounted using the effective interest rate on the financial instruments as calculated at initial recognition or if the instrument has variable interest rate, the current effective interest rate under the contract.

Expected credit loss allowances are presented in the statement of financial position as follows;

Financial Instruments	Location of expected credit loss allowances
• Financial instruments held at amortised cost	• Loss allowances netted against gross carrying value
• Financial assets held FVOCI- Debt instruments	• Other comprehensive income (FVOCI ECL Reserve)
• Loan commitments	• Other liabilities
• Financial Guarantees	• Other liabilities

Bonds and treasury securities classified as FVOCI are held at fair value on the face of the balance sheet. The ECL attributed to these instruments is held as a separate reserve within OCI and is recycled to the profit or loss account along with any fair value measurement gains or losses held within FVOCI when the applicable instrument is derecognized.

ECL on loan commitments and financial guarantees is recognized as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and undrawn commitment (i.e. loan commitment component) and it's not possible to separately identify ECL on these components. ECL amounts on loan commitments are recognized together with ECL amounts on the financial asset.

Ugandan Financial Institutions Act, 2004 requirements as amended by the FIA Act, 2016

In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Bank is also required by the Ugandan Financial Institutions Act 2004 as amended by the Financial Institutions (Amendment) Act, 2016, to estimate losses on loans and advances as follows:

1. 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 Financial Institutions Act 2004, as amended by the Financial Institutions (Amendment) Act, 2016, as follows:

   a) Substandard assets with arrears period between 90 days and 179 days – 20%

   b) Doubtful assets with arrears period between 180 days and 364 days – 50%

   c) Loss assets with arrears period over one year or more – 100%

   Loans classified as "loss" are written off within 90 days, unless approval is obtained from Bank of Uganda not to write-off.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation(continued)

(c) Use of estimates and judgement(continued)

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

Where provisions for impairment of loans and advances in accordance with the Ugandan 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 general credit risk reserve as an appropriation of retained earnings. Where a loan has been classified as "loss" and is due for write-off in accordance with the Uganda Financial Institutions Act 2004 as amended by the Financial Institutions (Amendment) Act, 2016, but there is objective evidence that the Bank has not lost its right to this asset and the cash flows thereon, and as such the de-recognition criteria under the International Financial Reporting Standards and policy note (f) (iv) have not been met, the outstanding amount net of any impairment provision made in accordance with International Financial Reporting Standards is taken to the regulatory general credit risk reserve as an appropriation of retained earnings. Otherwise no further accounting entries are made.

Determining fair values

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

(e) Revenue recognition

(i) Interest income and expense

Interest income for financial assets held at either fair value through other comprehensive income or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognized in profit or loss using the effective interest method. The Bank earns interest income primarily through two activities – lending to customers and investing in debt securities – and incurs interest expense through accepting customer deposits and issuing debt securities or subordinated debt. Lending to customers to earn interest income is one of the Banks' main business activities

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

The effective interest method is the method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income and interest expense over the expected life of the instrument. When calculating the effective interest rate for financial instruments other than credit impaired assets, the bank estimates cash flows considering all contractual terms of the financial instrument (for example prepayments, extension, call and similar options) but does not consider expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation(continued)

Revenue recognition(continued)

(j) **Interest income and expense(continued)**

Interest income for financial assets that are either held at fair value through other comprehensive income or amortised costs are either purchased or originated credit impaired financial assets (POCI) or assets that have become credit impaired subsequent to initial recognition and have the amounts written off, is recognised using credit adjusted effective interest rate. The rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Should the credit risk on a stage 3 financial asset improve such that the financial asset is no longer considered credit impaired, interest income recognition reverts back to a computation based on a rehabilitated gross carrying value of a financial asset.

The Bank recognises interest income on stage 1 and stage 2 financial assets by applying the effective interest rate on the gross outstanding balance while for stage 3 financial assets, The Bank applies credit adjusted effective interest rate on recoverable amount after adjusting for the specific provisions on the impaired asset.

Interest income and expense presented in profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on Fair value through other comprehensive income and Fair value through profit or loss investment securities calculated on an effective interest basis;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The following amendments to IFRSs became mandatorily effective in the current year. The amendments generally require full retrospective application (i.e. comparative amounts have to be restated), with some amendments requiring prospective application.

- IFRS 9 Financial instruments
- IFRS 15 IFRS 15 Revenue from Contracts with Customers.
- Amendments to IFRS 12 Classification and Measurement of Share-based Payment Transactions

IFRS 9 Financial instruments

The standard became effective for annual periods beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. The bank took 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 have been recognised in retained earnings and reserves as at 1 January 2018.

IFRS 9 introduced 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 replaced 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 reclassification to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The table below sets out the impact of adopting International Financial Reporting Standard (IFRS 9) on the financial position of the Bank:

ASSETS	Note	IAS 39 (Shs'000)	Classification and measurement (Shs'000)	ECL (Shs'000)	IFRS 9 (Shs'000)
Cash and balances with BOU	11	206,150,443	-	-	206,150,443
Government securities	12a	500,406,256	-	-	500,406,256
Loans and advances to Banks	12b	163,899,210	-	-	163,899,210
Amounts due from overseas branches of parent company	14	19,835,816	-	-	19,835,816
Financial institutions	22	4,869,788	-	-	4,869,788
Other assets	15	3,296,633	-	-	3,296,633
Current tax receivable	10b	1,356,493	-	-	1,356,493
Loans and advances to customers (net)	13	616,574,425	-	13,413,750	629,988,175
Investment in subsidiary	16	40,000	-	-	40,000
Intangible assets	18	14,245	-	-	14,245
Property and equipment	19	19,019,401	-	-	19,019,401
Total assets		**1,535,462,710**	-		**1,548,876,460**
LIABILITIES					
Other financial liabilities	20	19,248,876	-	-	19,248,876
Customer deposits	21	1,166,686,542	-	-	1,166,686,542
Deferred income tax liabilities	17	2,282,293	-	-	2,282,293
Other liabilities	23	15,888,971	-	5,139,240	21,028,211
Retirement benefit obligation	24	1,415,443	-	-	1,415,443
Total liabilities		**1,205,522,125**	-	**-**	**1,210,661,365**
Share capital	25	25,000,000	-	-	25,000,000
Reserves		39,613,414	-	-	39,613,414
Proposed dividend	28	18,750,000	-	-	18,750,000
Retained earnings		246,577,171	-	8,274,510	254,851,681
Total shareholders` equity		**329,940,585**	-	**-**	**338,215,095**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,535,462,710**	-	-	**1,548,876,460**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The table below sets out the impact of adopting International Financial Reporting Standard (IFRS 9) on the financial position of the Group:

ASSETS	Note	IAS 39 (Shs'000)	Classification and measurement (Shs'000)	ECL (Shs'000)	IFRS 9 (Shs'000)
Cash and balances with BOU	11	206,150,443	-	-	206,150,443
Government securities	12a	500,406,256	-	-	500,406,256
Loans and advances to Banks	12b	163,899,210	-	-	163,899,210
Amounts due from overseas branches of parent company	14	19,835,816	-	-	19,835,816
Financial institutions	22	4,909,112	-	-	4,909,112
Other assets	15	3,476,050	-	-	3,476,050
Current tax receivable	10b	1,385,752	-	-	1,385,752
Loans and advances to customers (net)	13	616,574,425	-	13,413,750	629,988,175
Investment in subsidiary	16	-	-	-	-
Intangible assets	18	14,245	-	-	14,245
Property and equipment	19	19,021,439	-	-	19,021,439
Total assets		**1,535,672,748**	-		**1,549,086,498**
LIABILITIES					
Other financial liabilities	20	19,248,876	-	-	19,248,876
Customer deposits	21	1,166,245,602	-	-	1,166,245,602
Deferred income tax liabilities	17	2,281,634	-	-	2,281,634
Other liabilities	23	16,016,622	-	5,139,240	21,155,862
Retirement benefit obligation	24	1,415,443	-	-	1,415,443
Total liabilities		**1,205,208,177**	-	**-**	**1,210,347,417**
Share capital	25	25,000,000	-	-	25,000,000
Reserves		39,615,570	-	-	39,615,570
Proposed dividend	28	18,750,000	-	-	18,750,000
Retained earnings		247,099,001	-	8,274,510	255,373,511
Total shareholders` equity		**330,464,571**	-	**-**	**338,739,081**
TOTAL LIABILITIES AND					
SHAREHOLDER'S EQUITY		**1,535,672,748**	-	-	**1,549,086,498**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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

In the current year, the Bank has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The standard has not had a significant impact on the financial statements.

The Bank has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

IFRS 15 uses the terms ‘contract asset’ and ‘contract liability’ to describe what might more commonly be known as ‘accrued revenue’ and ‘deferred revenue’, however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Bank has adopted the terminology used in IFRS 15 to describe such balances.

The standard has not had any material changes to the recognition of revenue of the bank’s services customers. The bank recognises revenue when control of the services underlying a particular performance obligation is transferred to the customer.

Amendments to IFRS 12 Classification and Measurement of Share-based Payment Transactions

The amendments clarified the following:

- In estimating the fair value of cash-settled share-based payments, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to 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 entirety, provided that the share-based payment would have been classified as equity-settled had it not been included the net settlement feature.
- A modification of a share-based payment that changes the transaction from cash-settled to equity should be accounted for as follows:
    - 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 modification date; and
    - any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.
    - The amendments have not had an impact to the financial statements of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Section 1B: New and revised IFRSs that are not mandatorily effective (but allow early application) for the year ended 31 December 2018

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow for early application) for the year ended 31 December 2018*

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements,
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 23 Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

The Bank has chosen the full retrospective application of IFRS 16 in accordance with IFRS 16:C5 (a). Consequently, the Group will restate the comparative information. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessors accounting requirements in IAS 17.

Identification of a lease

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

- the right to obtain substantially all the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

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 lessee 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 commencement for all leases, except for short-term leases and leases of low value assets.

The right-of-use assets 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 present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and the lease payments, as well as the impact of lease modification, amongst others.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 has a lease term at commencement date of 12 months or less) and leases of low value assets, the lessee should recognise 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.

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 or 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 as an adjustment to opening retained earnings (or other component of equity as appropriate).

The impact of the new standard is being assessed by the Bank. However it is expected that office space leases for may qualify to be capitalised on the statement of financial position.

IFRS 17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees. The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

The implementation of the Standard is not likely to have a material impact to the Bank's operations.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9. The directors of the Bank do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations
The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted. The Bank does not anticipate that the application of the amendments in the future will have an impact on the Bank's financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this re-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as re-measured under IAS 19.99 with the discount rate used in the re-measurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so. The Bank does not anticipate that the application of the amendments in the future will have an impact on the Bank's financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture specifically, the amendments state that 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 re-measurement of 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise. The Bank does not anticipate that the application of the amendments in the future will have an impact on the Bank's financial statements

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019.

Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The Bank does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

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

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

2.3a 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 2018. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3a Basis of Consolidation (continued)

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.

2.4b 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.

2.5 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

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 amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 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.

2.7 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.

2.8 Financial assets and liabilities

(i) ***Recognition***

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. Financial instruments held by the Bank include balances with Bank of Uganda, loans and advances, investments in government securities, balances with other banks, deposits, derivatives and group balances.

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) ***Classification***

The Bank classifies its financial assets into the following measurement categories; amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss. Financial liabilities are classified as either amortised cost or held at fair value through profit or loss, management determines the classification of its financial assets and liabilities at initial recognition of the instrument or where applicable at the time of reclassification.

Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial instruments are appropriately classified. The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics.

Financial assets held at amortised cost and fair value through other comprehensive income.

Debt instruments held at amortised cost or fair value through profit or loss have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as the amounts are repaid. Interest consists of consideration for time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and other basic lending risks and costs as well as a profit margin.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets and liabilities(continued)

In assessing whether the contractual cash flows have the SPPI characteristics, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the bank considers;

- Contingents events that would change the timing and amount of the cash flows;
- Prepayment and extension terms;
- Terms that limit the Banks claim to cash flows from a specified asset;
- Features that may modify consideration of time value of money e.g. periodical reset of interest rates.
- The Bank makes an assessment of the objective of a business model in which an asset is held at the individual product business line and where applicable within the business lines depending on the way the business is managed and information provided to management. Factors considered include;
- How the performance of the product business line is evaluated and reported to the Bank's management;
- How managers of the business model are compensated including whether management is compensated based on the fair value of the asset or the contractual cash flows collected.
- The risks that affect the performance of the business model and how risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

The Bank makes an assessment of the objective of a business model in which an asset is held at the individual product business line and where applicable within the business lines depending on the way the business is managed and information provided to management. Factors considered include;

Business Model	Business Objective	Characteristics	Products
Hold to collect	Intent to originate financial assets and hold them to maturity, collecting the contractual cash flows over the term of the instrument	- Providing financing and originating assets to earn interest income as a primary income stream. - Performing credit risk management activities - Costs include funding costs, transaction and impairment losses	-Loans and advances -Repos -Placements
Hold to collect and sell	Business objective met through both hold to collect and by selling financial assets	- -Portfolio held for liquidity needs; or where a certain interest yield profile is maintained; or that are normally rebalanced to achieve matching of duration of assets and liabilities. - -Income streams come from interest income, fair value changes and impairment losses	Treasury bills and bonds
Fair value through profit or loss	All other business objectives, including trading and managing financial assets on fair value basis	- Assets held for trading - Performance of portfolio is evaluated on a fair value basis - Income streams are from fair value changes or trading gains and losses	-Government bills and bonds -Derivatives

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets and liabilities (continued)

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Hold to collect and sell") are classified as FVOCI.

Both hold to collect and hold to collect and sell business models involve holding financial assets to collect the contractual cash flows. However the business models are distinct by reference to the frequency and significance that asset values play in meeting the objective under which a particular group of assets is managed. Hold to collect business models are characterised by asset values that are incidental to meeting the objective under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in credit risk of financial assets but sales for other reasons should be infrequent and insignificant.

Cash flows from the sale of a financial asset under a hold to collect and sell business model in contrast are integral to achieving the objectives under which a particular group of financial assets is managed. This may be a case where frequent sales of financial assets are required to manage the Bank's liquidity requirements or in order to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business model are therefore both more frequent and more significant in value than those under hold to collect model.

Financial assets and liabilities held at fair value through profit or loss

Financial assets which are not held at amortised cost or that are not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Mandatorily classified at fair value through profit or loss

Financial assets and liabilities which are mandatorily held at fair value through profit or loss include:

- financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term;
- Hybrid financial assets that contain one or more embedded derivatives;
- financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics;
- Equity instruments that have not been designated as held at FVOCI; and
- Financial liabilities that constitute contingent consideration in a business combination.

Designated at fair value through profit or loss

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis ('accounting mismatch').

Interest rate swaps have been acquired with the intention of significantly reducing interest rate risk on certain loans and advances and debt securities with fixed rates of interest. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 **Financial assets and liabilities (continued)**

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have a bifurcatable embedded derivative where the Bank is not able to separately value the embedded derivative component.

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

The Bank issues financial guarantee contracts and loan commitments in return for fees. Under a financial guarantee contract, the Bank undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value and subsequently at the higher of the expected credit loss allowance, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS15 Revenue from contracts with Customers.

Fair value of financial assets and liabilities

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 in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Bank has access at that date. The fair value of a liability includes the risk that the bank will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Bank establishes fair value by using valuation techniques.

Initial measurement of financial instruments

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade-date (the date on which the Bank commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers). All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, which are recorded at fair value.

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised or released to the income statement as the inputs become observable, or the transaction matures or is terminated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets and liabilities (continued)

Subsequent measurement of financial instruments

Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method (see Interest income and expense). Foreign exchange gains and losses are recognised in the profit or loss. Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in income.

Changes in expected credit losses are recognised in the profit or loss and are accumulated in a separate component of equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to the profit or loss. Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss

Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in the profit or loss unless the instrument is part of a cash flow hedging relationship. Contractual interest income on financial assets held at fair value through profit or loss is recognised as interest income in a separate line in the profit or loss.

Financial liabilities designated at fair value through profit or loss

Financial liabilities designated fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in the profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk and recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated fair value through profit or loss is recognised in profit or loss

De-recognition of financial instruments

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. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Bank's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred such that the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets and liabilities (continued)

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 derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for equity instruments elected FVOCI (see above) and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent.

If the Bank purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income' except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income which are never recycled to the profit or loss.

Reclassification of financial instruments

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or expected credit loss computations.

Reclassified from Amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss. For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss allowances to a separate reserve in other comprehensive income at the date of reclassification.

Reclassified from fair value through other comprehensive income

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the profit or loss.

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets and liabilities (continued)

Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

Identification and measurement of impairment losses

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. The impairment model (ECL model) contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

12 months expected credit losses (Stage1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12 month basis.

Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

At each reporting date, the Bank shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Bank shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

The Bank follows a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Bank can rebut this presumption if there is reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When an entity determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring) and observed changes in external indicators, such as market reports information from other banks, press and credit bureau information, days past due and other management actions for retail portfolios.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets and liabilities (continued)

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances amongst other factors.

Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired. Evidence that a financial asset is credit impaired include observable data about the following events;

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

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn y cause financial assets to become credit impaired.

Loss allowances against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss allowances held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Modified financial instruments

Financial assets and financial liabilities whose original contractual terms have been modified, including those loans subject to forbearance strategies, are considered to be modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates amongst other factors.). Where derecognition of financial assets is appropriate (see Derecognition), the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets (POCI).

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original Effective Interest Rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets and liabilities (continued)

The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Gains and losses arising from modifications for credit reasons are recorded as part of 'Impairment'. Modification gains and losses arising for non credit reasons are recognised either as part of "Impairment" or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities is recognised within income.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Bank or a third party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans are considered to credit impaired if there is a detrimental impact on cash flows. The modification loss (see Classification and measurement – Modifications) is recognised in the profit or loss within 'Impairment' and the gross carrying value of the loan reduced by the same amount. The modified loan is disclosed as 'Loans subject to forbearance – credit impaired'.

Write-offs of credit impaired instruments & reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan allowance. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery 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 credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Improvement in credit risk/Curing

A period of time may elapse from the point at which financial instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12 month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms. For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 where the residual lifetime PD reverts to at least the origination residual lifetime PD for the same time period. Where instruments were transferred to Stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to Stage 1. This includes instances where management actions led to instruments being classified as Stage 2, requiring that action to be resolved before loans are reclassified to Stage 1.

For modifications that result in a significant increase in credit risk, instruments are only be eligible for transfer back to stage 1 after the counterparty has complied with the modified contractual terms for a period of at least 12 months.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Significant accounting estimates and Judgements

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining ECL include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk
- Development of ECL models, including the various formulas and the choice of inputs including those relating to macroeconomic variables

The calculation of credit-impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive from various sources including relationship managers and on external market information.

(iii) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when and only when, there is currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted under IFRS or from gains and losses arising from a group of similar transactions such as the Bank's trading activity.

Classes of financial instruments

The table summarises the impact on classification and measurement to the Bank's financial assets and financial liabilities on 1 January 2018:

Financial assets and liabilities	Notes	Original measurement category under IAS 39	New Measurement category under IFRS 9
Loans and advances to banks	12b	Loans and receivables	Amortised cost
Loans and advances to customers	13	Loans and receivables	Amortised cost
Government securities	12a	Available-for-sale investment securities	Fair value through other comprehensive income
Government securities	12a	Held to maturity investment securities	Amortised cost
Other assets	15	Loans and receivables	Amortised cost
Other financial liabilities	20	Amortised cost	Amortised cost
Other liabilities	23	Amortised cost	Amortised cost
Customer deposits	21	Amortised cost	Amortised cost

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 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.

2.10 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.

2.11 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.

2.12 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 **Income taxes (continued)**

(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.

2.13 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.

2.14 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.

2.15 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”.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Employee benefits/post employment benefits(continued)

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.

2.16 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.

2.17 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.

2.18 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.

2.19 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) Solely Payments of Principal or Interest and Business model test

The group assesses whether the financial instruments cash flows represent solely repayments of principal and interest (the SPPI test) In making this assessment the bank considers whether the cash flows are consistent with a basic lending arrangement I.e. the interest includes only time value for money, credit risk and other basic lending risks and a profit margin that is consistent with basic lending arrangement.

The business model reflects how the bank manages assets in order to generate cash flows that is whether the bank's objective is solely to collect contractual cash flows from the assets or is to collect contractual cash flows and cash flows arising from sale of the assets.

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 2018 (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 2018 (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**	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Loans and advances with Banks	133,043,187	163,899,210	133,043,187	163,899,210
Government & other securities:				
- Amortised cost	7,149,500	12,662,515	7,149,500	12,662,515
- Fair Value	501,167,838	487,743,741	501,167,838	487,743,741
Amounts due from other Group companies	36,850,895	19,835,816	36,850,895	19,835,816
Loans and advances to customers (net)	757,188,839	616,574,425	757,188,839	616,574,425
Other assets	3,476,544	3,476,050	3,241,524	3,296,633
Credit exposure relating to off-balance sheet items:				
- Contingencies secured by cash collateral	28,631,405	25,528,944	28,631,405	25,528,944
- Direct credit substitutes (guarantees and acceptances)	38,796,659	34,607,248	38,796,659	34,607,248
- Transaction related (performance bonds and standbys)	11,900,110	14,230,150	11,900,110	14,230,150
- Documentary credits (trade related and self-liquidating)	50,965,186	25,762,284	50,965,186	25,762,284
- Unutilised formal facilities	145,961,162	101,754,710	145,961,162	101,754,710
	1,715,131,325	1,506,075,093	1,714,896,305	1,505,895,676

The table above represents a worst-case scenario of credit risk exposure to the Group and Bank at 31 December 2018 and 31 December 2017, 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, 46.16% of the total maximum exposure of the Bank is derived from loans and advances to Banks and customers (2017: 40.94%). 30.99% represents investments in debt securities (2017: 33.23%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 Group and Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 80.91% (2017: 93.52%) of the loans and advances portfolio are neither past due nor impaired
- 92.71% (2017: 98.60%) of the loans are backed by collaterals
- 100.00% (2017: 100%) of the investments in debt securities are government securities.
- The Bank exercises stringent control over granting of new loans

	2018	**2017**
Loans and advances are categorized asfollows:	**Shs'000**	**Shs'000**
Neither past due nor impaired	618,210,570	597,693,104
Past due but not impaired	129,497,293	5,903,704
Impaired	16,397,329	35,517,203
Gross advances	764,105,192	639,114,011
Less: Allowance for impairment (Note 13)	(6,916,354)	(22,539,586)
	757,188,838	616,574,425

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:

	2018	**2017**
	Shs'000	**Shs'000**
Standard	618,210,570	597,693,104

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:

	2018	**2017**
	Shs'000	**Shs'000**
Past due up to 30 days	56,808,185	2,479,556
Past due 31 – 60 days	41,288,858	2,066,296
Past due 61 – 89 days	31,400,250	1,357,852
Total	129,497,293	5,903,704

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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:

		2018	2017
		Shs'000	Shs'000
Loans			
-	Corporate	4,477,019	16,451,020
-	Retail	377,823	468,578
		4,854,842	16,919,598
Overdrafts			
-	Corporate	11,010,112	17,637,934
-	Retail	532,375	959,671
		11,542,487	18,597,605
Total impaired loans and advances		**16,397,329**	**35,517,203**

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 2018		%	%
Manufacturing	35.07	4.40	34.12
Wholesale and retail trade	10.40	4.45	18.55
Transport and communications	0.01	0.30	0.0
Building and construction	15.01	2.68	8.22
Agricultural	26.57	1.38	19.62
Individuals	0.60	58.39	0.20
Other	12.33	28.4	19.28
Gross	100.00	100.00	100.00
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
	100.00	100.00	100.00

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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	2018	2017	Principal type of security held
Personal Loans-Unsecured	3,682,361	455,802	Un-secured
Personal Loans-Secured	735,206	20,817,658	Property, Lien on deposit
Overdrafts	409,072,850	337,418,049	General Asset Charge, Property, Guarantees
Commercial Loans	350,614,775	268,818,020	General Asset Charge, Property, Guarantees
Repos and Reverse Repos	-	86,717,078	Marketable Securities
TOTAL	**764,102,192**	**714,226,607**	

Trading assets

The bank held assets at Fair Value of Shs 501 Billion as at 31 December 2018 (2017: Shs 488 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 2018 (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 2018, the net carrying amount of impaired loans and advances to corporate customers amounted to Shs 15,487 million (2017: Shs 34,088 million) and the value of identifiable collateral held against those loans and advances amounted to Shs 39,453 million (2017: Shs 74,114 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	2018 Ushs'000	2017 Ushs'000
Less than 60%	-	-
61 - 100%	910,198	1,428,249
More than 100%	-	
	910,198	1,428,249

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 Shs164,395 million (2017: Shs 206,150 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 2018 (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 Baa2 obtained from Moody`s credit agency. Bank of Baroda, Nairobi is unrated. BOB London is now a subsidiary of the parent bank and 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, 2018 was nil (2017: 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 2018 (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (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 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial Assets						
Cash and balances with Bank of Uganda	164,394,812	-	-			164,394,812
Government debt securities	18,575,131	72,210,078	210,969,583	179,756,578	26,805,968	508,317,338
Loans and advances to Banks	79,084,916	44,683,271	9,275,000	-	-	133,043,187
Loans and advances to customers	41,994,847	67,922,823	120,647,334	176,448,448	350,175,387	757,188,839
Amounts due from overseas branches of parent company	36,850,895	-	-	-	-	36,850,895
Deposits and balances due form other financial institutions	80,784,756	-	-	-	-	80,784,756
Total financial assets (expected maturity dates)	**421,685,357**	**184,816,172**	**340,591,917**	**356,205,026**	**376,981,355**	**1,680,579,827**
Financial Liabilities						
Customer deposits	96,068,718	248,519,924	335,441,840	621,780,295	-	1,301,810,777
Other financial liabilities	11,188,328	-	-	-	-	11,188,328
Other liabilities	-	-	25,058,781	-	-	25,058,781
Deferred Income tax liabilities	-	-	1,413,064	-	-	1,413,064
Shareholders' Equity	-	-	-	-	374,737,021	374,737,021
Total Financial liabilities (contractual maturity dates)	**107,257,046**	**248,519,924**	**361,913,685**	**621,780,295**	**374,737,021**	**1,714,207,971**
On balance sheet liquidity gap	**314,428,311**	**(63,703,752)**	**(5,485,586)**	**(265,575,269)**	**20,336,296**	**-**
Off balance sheet						
Acceptance guarantees, letters of credit	25,006,748	35,621,673	66,770,067	2,894,873	-	130,293,361
Credit commitments	36,490,291	109,470,872				145,961,163
Off balance sheet exposure	61,497,039	145,092,545	66,770,067	2,894,873	-	276,254,524
Net liquidity gap	**252,931,272**	**(208,796,297)**	**(72,255,653)**	**(268,470,142)**	**20,336,296**	**(276,254,524)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial Assets						
Cash and balances with Bank of Uganda	164,262,009					164,262,009
Government debt securities	18,575,131	72,210,078	210,969,583	179,756,578	26,805,968	508,317,338
Loans and advances to Banks	79,084,916	44,683,271	9,275,000	-	-	133,043,187
Loans and advances to customers	41,994,847	67,922,823	120,647,334	176,448,448	350,175,387	757,188,839
Amounts due from overseas branches of parent company	36,850,895					36,850,895
Deposits and balances due form other financial institutions	80,784,756					80,784,756
Total financial assets (expected maturity dates)	**421,552,554**	**184,816,172**	**340,891,917**	**356,205,026**	**376,981,355**	**1,680,447,024**
Financial Liabilities						
Customer Deposit	96,068,717	248,519,924	335,441,840	622,138,897	-	1,302,169,378
Other financial liabilities	11,188,328			-	-	11,188,328
Amounts due to overseas branches of parent company	-	-	-	-	-	-
Other liabilities	-	-	-	24,935,844	-	24,935,844
Retirement benefit obligation	-	-	-	1,413,064	-	1,413,064
Shareholders' Equity	-	-	-	-	374,146,186	374,146,186
Total financial liabilities (contractual maturity dates)	**107,257,045**	**248,519,924**	**335,441,840**	**648,487,805**	**374,146,186**	**1,713,852,800**
On balance sheet liquidity gap	**314,295,509**	**(63,703,752)**	**20,765,649**	**(292,282,779)**	**20,925,373**	**-**
Off balance sheet						
Acceptance guarantees, letters of credit	25,006,748	35,621,673	66,770,067	2,894,873	-	130,293,361
Credit commitments	36,490,291	109,470,872				145,961,163
Off balance sheet exposure	61,497,039	145,092,545	66,770,067	2,894,873	-	276,254,524
Net liquidity gap	**252,798,470**	**(208,796,297)**	**(46,004,418)**	**(295,177,652)**	**20,925,373**	**(276,254,524)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (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 company	19,835,816	-	-	-	-	19,835,816
Deposits and balances due form other financial institutions	4,909,111	-	-	-	-	4,909,111
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						
Acceptance guarantees, letters of credit	18,297,294	23,864,913	56,602,339	1,364,080	-	100,128,626
Credit commitments						-
Off balance sheet exposure	18,297,294	23,864,913	56,602,339	1,364,080	-	100,128,626
Net liquidity 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 2018 (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 2018 and 2017:

- VaR by risk type	**Consolidated and separate**		
	Average	**High**	**Low**
	Shs`000	**Shs`000**	**Shs`000**
12 Months ended 31 December 2018			
Foreign exchange risk	**3,490,083**	**3,698,072**	**3,175,978**
Interest rate risk	**9,104,303**	**10,023,585**	**9,237,195**
	12,594,386	13,721,657	12,413,173
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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 2018	**Shs`000**	**Shs`000**	**Shs`000**
Foreign exchange risk	3,490,083	3,698,072	3,175,978
Interest rate risk	9,104,303	10,023,585	9,237,195
	12,594,386	13,721,657	12,413,173
Year 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

- **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 2018				
Effect on profit and equity : decrease	**(876,727**	**(267,358)**	**(91,294)**	**(427,299)**
Year ended 31 December 2017				
Effect on profit and equity : decrease	(2,968,854)	(506,379)	(22,592)	(92,719)

* 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets						
Cash and balances with BOU	274,589	31,738,451	228,577	131,888,889	131,503	164,262,009
Government securities				508,317,338	-	508,317,338
Loans and advances with Banks		121,023,941		12,019,246		133,043,187
Amounts due from overseas branches of parent Bank (net)	4,313,153	18,959,032	13,589,276	-	(10,566)	36,850,895
Deposits and balances due from other financial institutions	-	80,784,756	-	-	-	80,784,756
Other assets	(242,840)	855,694	79,374	2,596,250	(46,953)	3,241,525
Current tax receivable	-	-	-	8,491,215	-	8,491,215
Investment in subsidiaries	-	-	-	40,000	-	40,000
Loans and advances to customers (net)	-	507,736,600	-	249,452,239	-	757,188,839
Deferred tax	-	-	-	3,420,987	-	3,420,987
Intangible assets				121,845		121,845
property and equipment	-	-	-	18,090,204	-	18,090,204
Total Assets	**4,344,902**	**761,098,474**	**13,897,227**	**934,438,213**	**73,984**	**1,713,852,800**
Liabilities and shareholders` equity						
Other financial liabilities	-	-	-	11,188,328	-	11,188,328
Customer deposits	4,230,077	757,543,129	13,827,083	526,548,449	20,640	1,302,169,378
Other liabilities	114,825	3,555,345	70,144	21,142,186	53,344	24,935,844
Retirement benefit obligation	-	-	-	1,413,064	-	1,413,064
Deferred income tax liabilities	-	-	-	-	-	-
Shareholder`s equity	-	-	-	374,146,186	-	374,146,186
Total liabilities and shareholders' equity	**4,344,902**	**761,098,474**	**13,897,227**	**934,438,213**	**73,984**	**1,713,852,800**
Net on Balance sheet position	**-**	**-**	**-**	**-**	**-**	**-**
Acceptance guarantees, letters of credit						-
Credit commitments	-		-		-	-
Net off Balance sheet position	-	-	-	-	-	-
Overall position	-	-	-	-	-	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

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 2017	----					
Total Assets	4,879,503	602,999,475	15,127,554	912,290,525	165,653	1,535,462,710
Total Liabilities	3,959,472	593,211,959	15,148,440	593,126,208	76,046	1,205,522,125
Net on Balance sheet position	920,031	9,787,516	(20,886)	319,164,317	89,607	329,940,585
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**	**316,074,365**	**2,384,888**	**430,069,211**

* 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 2018 (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	2018	2017
US Dollar	3,710	3,640
GBP	4,746	4,917
Euro	4,238	4,363
INR	53	57
KShs	36	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 2018 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

Separate

At 31 December 2018	Up to 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	10,000,000	-	-			154,262,009	164,262,009
Government Securities	18,575,131	72,210,078	210,969,583	179,756,578	26,805,968	-	508,317,338
Loans and advances to Banks	79,084,916	44,683,271	9,275,000	-	-	-	133,043,187
Loans and advances to customers	41,994,847	67,922,823	120,647,334	176,448,448	350,175,387	-	757,188,839
Amounts due from overseas branches of parent company	36,850,895	-	-	-	-	-	36,850,895
Deposits and balances due form other financial institutions	80,784,756	-	-	-	-	-	80,784,756
Other assets	-	-	-	-	-	3,241,525	3,241,525
Current tax receivable	-	-		-	-	8,491,215	8,491,215
Investment in subsidiaries	-	-	-	-	-	40,000	40,000
Deferred Tax	-	-		-	-	3,420,987	3,420,987
Property and Equipment	-	-	-	-		18,212,049	18,212,049
Total assets	**267,290,545**	**184,816,172**	**340,891,917**	**356,205,026**	**376,981,355**	**187,667,785**	**1,713,852,800**
Liabilities and shareholders` equity							
Customer Deposits	85,298,262	226,979,015	335,441,840	440,084,835	-	214,365,426	1,302,169,378
Other financial liabilities	11,188,328	-	-	-	-	-	11,188,328
Other Liabilities		-	-	-	-	24,935,844	24,935,844
Retirement benefit obligation	-	-	-	-	-	1,413,064	1,413,064
Shareholders' Equity	-	-	-	-	-	374,146,186	374,146,186
Total liabilities and shareholders' equity	**96,486,590**	**226,979,015**	**335,441,840**	**440,084,835**	**-**	**614,860,520**	**1,713,852,800**
Interest sensitivity gap as at 31 December 2018	**170,803,955**	**(42,162,843)**	**5,450,077**	**(83,879,809)**	**376,981,355**	**(427,192,735)**	**-**
At 31 December 2017							
Total Assets	340,039,187	236,052,703	420,293,030	249,587,322	265,763,696	23,726,772	1,535,462,710
Total Liabilities and equity	109,772,245	231,436,767	635,348,769	3,106,467	206,271,170	349,527,292	1,535,462,710
Interest sensitivity gap as At 31 December 2017	**230,266,942**	**4,615,936**	**(215,055,739)**	**246,480,855**	**59,492,526**	**(325,800,520)**	**-**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 risk 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:

	2018			
	Shs	US $	GB£	Euro
	%	%	%	%
Government securities	12.57	-	-	-
Other financial assets	9.12	1.73	0.29	1.01
Customer deposits	8.32	0.64	0.77	0.09

	2017			
	Shs	US $	GBP £	Euro
	%	%	%	%
Government securities	17.42	-	-	-
Other financial assets	13.42	0.68	0.42	1.83
Customer deposits	9.8	0.56	1.29	0.08

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, 2018, 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 14,055 million (2017: Shs 10,374 million) lower/higher, arising mainly as a result of change in interest income.

As at December 31, 2017, 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 10,878 million (2017: Shs 4,100 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 2018 (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 2018 (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

Bank of Uganda requires each Bank to: (a) hold the minimum level of regulatory capital of Shs 25 Billion as at 31 December 2018 (2017: Shs 25 billlion); (b) maintain core capital of not less than 10% of total risk weighted assets plus risk weighted off balance sheet items as per " The Financial Institutions (Capital Adequacy Requirements) Regulations, 2018"; 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 December2018:

Core Capital (Tier 1)	**Notes**	**2018**	**2017**
		Shs'000	**Shs'000**
Share Capital		25,000,000	25,000,000
Retained earnings		298,176,555	246,577,171
Investment in subsidiary	16	(40,000)	(40,000)
Deferred income tax assets	17	(3,420,987)	-
Intangible assets	18	(121,845)	(14,245)
Unrealised foreign exchange gain		(3,653)	(13,891)
Total Tier 1 Capital		319,590,070	271,509,035
Supplementary Capital (Tier 2)			
Unencumbered general provisions (regulatory)	26	7,400,248	6,043,364
Revaluation reserve	27	9,168,377	9,650,923
Total Tier 2 Capital		16,568,625	15,694,287
Total Capital (Tier 1+Tier 2)		336,158,695	287,203,322

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Capital management (continued)

Year ended 31 December 2018	Nominal Amount	Risk weight	Risk weighted amounts
Assets			
Notes, coins & other cash assets	16,686,348	0%	-
Balances with Bank of Uganda	137,575,661	0%	-
Repurchase agreements with Bank of Uganda	10,000,000	0%	-
Government securities	508,317,338	0%	-
Placements with local Banks	21,294,247	20%	4,258,849
Placements with foreign Banks	111,748,941	100%	111,748,941
Amount due from overseas branch of parent bank- BOB, Kenya	79,731	100%	79,731
Due from Banking institutions within Uganda	8,686,269	20%	1,737,254
Due from Banking institutions outside Uganda	72,098,487	50%	36,049,244
Due from foreign related Banking institutions outside Uganda	36,771,164	100%	36,771,164
Loans and advances to customers (Excluding loans secured by 100% cash margin)*	661,609,880	100%	661,609,880
Outstanding balance fully secured by FDR/SDR	78,414,882	0%	-
Investment in subsidiary	40,000	0%	-
Property and equipment	18,090,204	100%	18,090,204
Current tax receivable	8,491,215	100%	8,491,215
Intangible assets	121,845	0%	-
Deferred income tax	3,420,987	0%	-
Other assets	3,241,524	100%	3,241,524
Sub total	1,696,688,723		882,078,006
Off-balance sheet items			
Contingents secured by cash collateral	28,631,405	0%	-
Direct credit substitutes (guarantees and acceptances)	38,796,659	100%	38,796,659
Transaction related (performance bonds and standbys)	11,900,110	50%	5,950,055
Documentary Credits (trade related and self-liquidating)	50,965,186	20%	10,193,037
Other Commitments (unused formal facilities)	145,961,162	50%	72,980,581
Sub total	276,254,522		127,920,332
Total risk-weighted assets			**1,009,998,338**
Weighted items with Market risk			28,399*
Weighted items with Counter party credit risk			0
Total Risk Weighted items			**1,010,026,737**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) **Capital Management (continued)**

	2018 Shs'000	2017 Shs'000
On balance sheet	882,078,006	758,489,252
Off Balance sheet	127,920,332	97,752,135
Total risk-weighted assets	1,009,998,338	856,241,387
Tier 1 Capital	319,590,070	271,509,035
Total Capital (Tier 1+Tier 2)	336,158,695	287,203,322
Capital Ratio		
Tier 1 – Minimum10%@	31.64%	31.71%
Tier 1+Tier 2 – Minimum 12%	33.28%	33.54%
@ As per Financial Institutions (Capital Adequacy Requirements) Regulations, 2018 *Loans and advances to customers comprises of:		
Gross Loans and advances	764,105,193	
Less : Interest in suspense	(639,771)	
Less : Regulatory Specific Provision (Note 26)	(23,440,660	
Less : Cash backed facilities	(78,414,882)	
	661,609,880	

***Weighted items for market risk**	
Total minimum capital required for market risk (1)	3,408
Multiplier (2)	8.33
Weighted items with market risk (1x2)	28,399

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
Placements with foreign Banks - Unrated			
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
	1,523,224,715		758,489,252

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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**
		2018	**2017**
		Shs'000	**Shs'000**
On balance sheet		882,078,006	758,489,252
Off Balance sheet		127,920,332	97,752,135
Total risk-weighted assets		1,009,998,338	856,241,387
Tier 1 Capital		319,590,070	271,509,035
Total Capital (Tier 1+Tier 2)		336,158,695	287,203,322
Capital Ratio			
Tier 1 - Minimum10%@		31.64%	31.71%
Tier 1 + Tier 2 - Minimum - 12%		33.28%	33.54%

@ As per Financial Institutions (Capital Adequacy Requirements) Regulations, 2018

(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 2018, the Bank had treasury bills and treasury bonds that are hel 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 2018 and 2017. 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	
	2018	**2017**
	Shs`000	**Shs`000**
Fair Value through Other Comprehensive Income (FVTOCI) - Level 2	501,167,838	487,743,741

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

During the reporting period ended 31 December 2018, 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).

Assets and liabilities measured at fair value

In determining the fair value of assets and liabilities measured at fair value, the bank uses prices for similar instruments for which market observable prices exist. The assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, expected price volatilities and correlations.

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Debt Securities measured at FVOCI:				
Government securities measured at FVOCI	-	501,167,838	-	501,167,838
Total assets	**-**	**501,167,838**	**-**	**501,167,838**
31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Available –for –sale financial assets:				
Government securities – available-for-sale	-	487,743,741	-	487,743,741
Total Assets	**-**	**487,743,741**	**-**	**487,743,741**

There were no transfers in and out of different levels of fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table sets out the carrying values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2018.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total fair values**
Cash and Balances with Bank of Uganda	-	-	164,394,812	164,394,812
Loans and advances to banks	-	-	133,043,187	133,043,187
Amounts due from overseas branches of parent company	-	-	36,850,895	36,850,895
Deposits and balances due from other institutions	-	-	80,784,756	80,784,756
Other assets	-	-	3,476,544	3,476,544
Liabilities				
Other financial liabilities	-	-	11,188,328	11,188,328
Customer deposits	-	-	1,301,810,777	1,301,810,777
Other liabilities	-	-	25,058,782	25,058,782
Retirement benefit obligation	-	-	1,413,064	1,413,064

31 December 2017

Assets	**Level 1**	**Level 2**	**Level 3**	**Total fair values**
Cash and Balances with Bank of Uganda	-	-	206,150,443	206,150,443
Loans and advances to banks			163,899,210	163,899,210
Amounts due from overseas branches of parent company	-	-	19,835,816	19,835,816
Deposits and balances due from other institutions	-	-	4,909,112	4,909,112
Other assets	-	-	3,476,050	3,476,050
Liabilities				
Other financial liabilities	-	-	19,248,876	19,248,876
Customer deposits	-	-	1,166,245,602	1,166,245,602
Other liabilities	-	-	16,016,622	16,016,622
Retirement benefit obligation	-	-	1,415,443	1,415,443

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5. INTEREST INCOME

	Consolidated			Separate
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Income from treasury bills	18,395,916	31,050,880	18,395,916	31,050,880
Income from treasury bonds	45,101,803	34,021,375	45,101,803	34,021,375
Income from loans and advances	86,384,915	74,121,421	86,384,915	74,121,421
Income earned from placements and repurchase agreements ("repos")	8,858,864	9,004,067	8,858,864	9,004,067
	158,741,498	**148,197,743**	**158,741,498**	**148,197,743**

6. INTEREST EXPENSE

Current and Demand deposits	94,048	59,130	94,048	59,130
Savings accounts	2,477,617	2,244,343	2,477,617	2,244,343
Time deposits	46,213,419	55,916,728	46,243,549	55,947,746
Interbank borrowings	454,566	314,655	454,566	314,655
	49,239,650	58,534,856	49,269,780	58,565,874

7a. NON INTEREST INCOME

Fees and commission income	13,937,740	14,592,074	13,937,740	14,592,074
Realised foreign exchange gain on trading book	3,570,544	2,508,905	3,570,544	2,508,905
Unrealised foreign exchange gain on trading book	3,653	13,891	3,653	13,891
Profit on sale of investments	2,293,403	2,307,361	2,293,403	2,307,361
Recoveries in bad debts written off	15,292,586	6,288,298	15,292,585	6,288,298
Other income	2,127,629	125,757	1,980,819	2,203
	37,225,555	**25,836,286**	**37,078,744**	**25,712,732**

8. NON INTEREST EXPENSE

Employee benefits expense (Note 9)	13,482,187	14,854,658	13,455,094	14,827,564
Advertising	817,701	368,542	817,701	368,542
Auditor's remuneration	-			
- current year	326,153	260,504	318,733	253,224
Depreciation, amortisation and impairments	1,450,843	1,403,980	1,450,561	1,403,643
Repairs and maintenance	684,955	919,718	684,955	919,718
Directors' emoluments as executives	178,951	265,671	178,951	265,671
Administration and service level agreement fees	1,316,093	765,757	1,316,093	765,757
Consulting and professional fees	385,803	185,795	385,803	185,795
Rent and rates	2,294,141	2,189,872	2,294,142	2,189,872
General expenses	10,031,055	7,754,933	9,977,492	7,690,583
Bad debts written off	24,021,093	23,475,184	24,021,093	23,475,184
	54,988,975	**52,444,614**	**54,900,618**	**52,345,553**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

9. EMPLOYEE BENEFITS EXPENSE

	Consolidated		Separate	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Salaries and wages	12,164,779	12,613,858	12,137,685	12,586,764
Other benefits	339,083	651,259	339,083	651,259
Employment benefits` expenses	978,326	1,589,541	978,326	1,589,541
	13,482,188	**14,854,658**	**13,455,094**	**14,827,564**

10a. INCOME TAX EXPENSE

Current income tax - current year charge	2,967,148	437,726	2,941,168	421,433
Deferred income tax - charge/(credit) (Note 17)	2,623,440	437,064	2,623,470	437,150
Withholding tax ("WHT") on investment income	13,614,551	13,876,811	13,614,551	13,876,811
	19,205,139	14,751,601	19,179,189	14,735,394

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
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Profit before income tax	92,688,598	64,157,224	92,600,013	64,101,713
Tax applicable in Uganda - 30%	27,806,579	19,247,167	27,780,004	19,230,514
Tax effect of:				
- Final tax (WHT) on investment income*	13,614,551	13,876,811	13,614,551	13,876,811
Income not subject to tax**	(19,049,316)	(19,521,677)	(19,049,316)	(19,521,677)
- Other timing differences	2,610,000	-	2,610,000	-
- Expenses not deductible for tax purposes**	(5,776,676)	1,149,300	(5,776,050)	1,149,747
Income tax expense	19,205,139	14,751,601	19,179,189	14,735,395
Effective tax rate	**21%**	**23%**	**21%**	**23%**

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

** Income not subject to tax relates to income earned on government securities that had already had withholding tax as a 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 2018 (CONTINUED)

10b MOVEMENT IN THE CURRENT INCOME TAX RECOVERABLE	**Consolidated**		**Separate**	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At 1 January	1,385,752	753,478	1,356,493	727,926
Current year tax charge	(16,581,699)	(14,314,537)	(16,555,719)	(14,298,244)
Final tax on investment income	13,614,551	13,876,811	13,614,551	13,876,811
Tax paid	10,093,679	1,070,000	10,075,891	1,050,000
At 31 December	8,512,282	1,385,752	8,491,216	1,356,493

11. CASH AND BALANCES WITH BANK OF UGANDA

Notes and Coins	16,819,151	17,323,065	16,686,348	17,323,065
Balances with Bank of Uganda	137,575,661	102,110,300	137,575,661	102,110,300
	154,394,812	119,433,365	154,262,009	119,433,365
Analysed as:				
Restricted cash reserves (mandatory deposits)	99,470,000	89,662,000	99,470,000	89,662,000
Unrestricted cash and cash equivalents	54,924,812	29,771,365	54,792,009	29,771,365
	154,394,812	**119,433,365**	**154,262,009**	**119,433,365**
Repurchase agreements (Repos)				
Repos with Bank of Uganda	10,000,000	86,717,078	10,000,000	86,717,078
Total cash and balances with Bank of Uganda	**164,394,812**	**206,150,443**	**164,262,009**	**206,150,443**

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 2018, the mandatory deposits were 8% of total deposits (2017: 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 19 Million (2017: Shs 717 Million) and this has been included together with principal balance advanced.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12a. GOVERNMENT SECURITIES	Consolidated		Separate	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
A) Fair Value Through OCI				
- Treasury bills for 91 days - 365 days	200,026,568	181,263,340	200,026,568	181,263,340
- Treasury bonds after 91 days	288,349,972	293,992,948	288,349,972	293,992,948
- Interest receivable	12,791,298	12,487,453	12,791,298	12,487,453
	501,167,838	487,743,741	501,167,838	487,743,741
B) Amortised Cost				
- B) Treasury bonds after 1 year	7,149,500	12,662,515	7,149,500	12,662,515
	7,149,500	12,662,515	7,149,500	12,662,515
Government securities (A+B)	508,317,338	500,406,256	508,317,338	500,406,256

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

	Consolidated		Separate	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	487,743,741	424,893,596	487,743,741	424,893,596
Additions	19,579,338	39,161,641	19,579,338	39,161,641
Interest receivable	12,791,298	12,487,453	12,791,298	12,487,453
Net gain in Fair Value Through OCI	(18,946,539)	11,201,051	(18,946,539)	11,201,051
	501,167,838	487,743,741	501,167,838	487,743,741

Break down of net gain in fair value for AFS

		Consolidated		Separate	
		2018	2017	2018	2017
		Shs'000	Shs'000	Shs'000	Shs'000
Gain		(27,066,483)	13,720,667	(27,066,483)	13,720,667
Deferred tax		8,119,945	(2,519,616)	8,119,945	(2,519,616)
		(18,946,538)	**11,201,051**	**(18,946,538)**	**11,201,051**

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 amortised cost or fair value portfolio. These debt securities are categorised as financial assets which are carried at amortised cost and fair value 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 assets recognised under amortised cost in 2018 and 2017, as all the financial assets were disposed of at their redemption date.

The weighted average effective interest rate on treasury bonds as at 2018 was 13.77% (2017: 14.81%) and on treasury bills was 10.77% (2017: 11.44%).

As at the reporting date, the Bank pledged treasury bills of 91 days to Shs 1,714 million (2017: Shs 1,396 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 2018 (CONTINUED)

12 b. LOANS AND ADVANCES TO OTHER FINANCIAL INSTITUTIONS

	Consolidated		Separate	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
• Placements with local Banks	21,294,246	8,004,356	21,294,246	8,004,356
• Placements with foreign Banks	111,748,941	155,894,854	111,748,941	155,894,854
	133,043,187	163,899,210	133,043,187	163,899,210

The weighted average effective rate of interest on local placements as at 31 December 2018 was 9.12% and foreign placements 1.70% (2017: local placements 10.04% and foreign placements 1.31%).

13. LOANS AND ADVANCES TO CUSTOMERS

		Consolidated		Separate
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Overdrafts	409,492,924	348,973,615	409,492,924	348,973,615
Demand and term loans	354,250,850	289,684,594	354,250,850	289,684,594
Individual & Personal loans	361,419	455,802	361,419	455,802
Gross loans and advances	**764,105,193**	**639,114,011**	**764,105,193**	**639,114,011**
Less: Provision for Impairment (Individual)	(6,916,354)	(13,543,265)	(6,916,354)	(13,543,265)
Less: Provision for impairment (Portfolio)	-	(8,996,321)	-	(8,996,321)
	757,188,839	**616,574,425**	**757,188,839**	**616,574,425**

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

a) Stage 3				
At 1 January	13,543,265	17,741,599	13,543,265	17,741,599
Day one adjustment IFRS 9	(9,124,919)	-	(9,124,919)	-
Additional provision in the year	2,085,095	10,065,649	2,085,095	10,065,649
Recoveries/upgradation	(644,559)	(6,070,840)	(644,559)	(6,070,840)
Write offs during the year	(3,773,787)	(8,193,143)	(3,773,787)	(8,193,143)
At 31 December	**2,085,095**	**13,543,265**	**2,085,095**	**13,543,265**
b) b) Stage 1 and 2				
At 1 January	8,996,321	5,900,653	8,996,321	5,900,653
Day one adjustment IFRS 9	(4,288,833)	-	(4,288,833)	-
Additional provision in the year	123,770	3,095,668	123,770	3,095,668
At 31 December	**4,831,258**	**8,996,321**	**4,831,259**	**8,996,321**
Total Impairment provisions	**6,916,353**	**22,539,586**	**6,916,354**	**22,539,586**
Net (credit)/ charge to the profit or loss	**(2,209,481)**	**(1,102,665)**	**(2,209,481)**	**(1,102,665)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13. LOANS AND ADVANCES TO CUSTOMERS

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans At 31 December 2018 was Shs 16.4 Billion (2017: Shs 35.5 Billion) on which provision of Shs 6.92 Billion (2017: Shs 13.5 Billion).

Advances to customers include loans to employees of Shs 361 Million (2017: Shs 456 Million). The weighted average effective interest rate on local currency loans and advances to customers as at 2018 was 19.73% (2017: 17.93%) and 8.95% (2017: 8.36%) for foreign currency loans and advances.

Gross carrying amount for customer loans and advances

	Stage 1	**Stage 2**	**Stage 3**	**Total**
In Ushs'000	**Collective**	**Collective**		
Gross Carrying amount as at 1 January 2018	541,172,888	62,423,919	35,517,203	**639,114,011**
New assets originated or purchased	226,289,329	25,560,496	45,322	**251,895,147**
Assets derecognised or repaid (excluding write offs)	(73,954,088)	(21,530,653)	(31,419,224)	**(126,903,965)**
Transfers:				
Transfers in (out) of stage 1	(38,182,278)	27,504,304	10,677,974	**-**
Transfers in (out) of stage 2	15,667,150	(21,268,959)	5,601,809	**-**
Transfers in (out) of stage 3	4,025,755	-	(4,025,755)	**-**
Write –offs/reversals				
At 31 December 2018	**675,018,756**	**72,689,107**	**16,397,329**	**764,105,193**

ECLs for customer loans and advances

	Stage 1	**Stage 2**	**Stage 3**	**Total**
In Ushs'000	**Collective**	**Collective**		
ECL allowance as at 1 January 2018 under IFRS 9	4,569,236	138,253	4,418,346	**9,125,835**
New assets originated or purchased	1,686,269	51,415	1,358,971	**3,096,655**
Assets derecognised or repaid (excluding write offs)	(908,167)	(404,407)	(3,993,562)	**(5,306,136)**
Transfers:				
Transfers in (out) of stage 1	(1,068,461)	692,813	375,649	**-**
Transfers in (out) of stage 2	-	-	-	**-**
Transfers in (out) of stage 3	74,309	-	(74,309)	**-**
Write –offs/reversals				
At 31 December 2018	**4,353,186**	**478,073**	**2,085,095**	**6,916,354**

An analysis of the allowance for impairment losses under IAS 39 for loans and advances for year ended 31 December 2017 is as follows;

Impairment under IAS 39	**Dec 2017**
	Ushs'000
Balance, beginning of period/year	**23,642,252**
Impairment charge for the period/year	(1,10,666)
Balance, end of period/year	**22,539,586**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13b CREDIT LOSS EXPENSE

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

	Loans and advances			Off balance sheet	
31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Total**
In Shs'000	Collective	Collective	Individual	Collective	
At start of the year.	4,569,236	138,253	4,418,346	5,139,240	14,265,075
Charge/credit to profit and loss	(216,050)	339,820	(2,333,252)	1,259,312	(950,170)
At end of year	**4,353,186**	**478,073**	**2,085,094**	**6,398,552**	**13,832,705**

The table below shows the impairment charges recorded in the income statement under IAS 39 during 2017:

31 December 2017 In Shs '000	Specific	Collective	Total
At start of the year	17,741,599	5,900,653	23,642,252
Charge/Credit	(4,198,333)	3,095,668	(1,102,655)
At end of year	**13,543,265**	**8,996,321**	**22,539,586**

IFRS Transition adjustment (Bank)

	As at 31 Dec 2017	**Day one impairment**	**Movement**
	Shs'000	**Shs'000**	**Shs'000**
Stage 1	**-**	4,569,236	(4,569,236)
Stage 2	-	138,253	(138,253)
Portfolio	8,996,321	-	8,996,321
Stage 3	13,543,265	4,418,346	9,124,919
Off balance sheet	-	5,139,240	(5,139,240)
Total	22,539,586	14,265,075	8,274,510

The movement of Shs 8.27 billion has been taken as an adjustment to the Statement of Changes in Equity in the to increase the retained earnings.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14. DEPOSITS DUE FROM/ (TO) OVERSEAS BRANCHES OF PARENT COMPANY

	Consolidated		Separate	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Bank of Baroda, London - GBP	13,589,276	14,764,430	13,589,276	14,764,430
Bank of Baroda, Nairobi - Kshs	79,731	22,141	79,731	22,141
Bank of Baroda, Mumbai - INR	(90,297)	81,609	(90,297)	81,609
Bank of Baroda, Brussels - Euro	4,313,153	4,181,029	4,313,153	4,181,029
Bank of Baroda, New York - US Dollar	18,959,032	786,607	18,959,032	786,607
	36,850,895	19,835,816	36,850,895	19,835,816
Classified as;				
Deposits due from overseas branches	36,850,895	19,835,816	36,850,895	19,835,816
Deposits to from overseas branches	-	-	-	-
	36,850,895	19,835,816	36,850,895	19,835,816

The weighted average effective interest rate on deposits due from overseas branches of parent company for the year ended 31 December 2018 was 1.71% (2017: 0.79%).

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

	Consolidated		Separate	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Kenya Shilling	79,731	22,141	79,731	22,141
US Dollar	18,959,032	786,607	18,959,032	786,607
Euro	4,313,153	4,181,029	4,313,153	4,181,029
Indian Rupees	(90,297)	81,609	(90,297)	81,609
Great Britain Pound	13,589,276	14,764,430	13,589,276	14,764,430
	36,850,895	**19,835,816**	**36,850,895**	**19,835,816**

15. OTHER ASSETS

Clearing account	10,182	174,601	10,182	174,601
Others	3,466,362	3,301,449	3,231,342	3,301,449
	3,476,544	3,476,050	3,241,524	3,476,050

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 (Uganda) LimitedUganda	Uganda	100	100	40,000	40,000

Baroda Capital Markets (U) 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 (2017: 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 Board of Directors of the subsidiary based on simple majority votes determines the relevant activities of the subsidiary. 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% (2017: 30%). The movement on the deferred income tax account is as follows:

		Consolidated		Separate
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January	(2,281,634)	2,055,050	(2,282,293)	2,055,402
(Charge)/credit to:				
Statement of profit or loss	(2,623,440)	(437,064)	(2,623,470)	(437,151)
- Statement of other comprehensive income	8,123,780	(2,518,692)	8,119,945	(2,519,616)
Statement of changes in equity	206,805	(1,380,928)	206,805	(1,380,928)
At 31 December	**3,425,511**	**(2,281,634)**	**3,420,987**	**(2,282,293)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 2018	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	(270,114)	147,749	-	-	(122,365)
Property revaluations	(4,136,109)	-	-	206,805	(3,929,304)
Allowances for Loan losses	6,761,876	(2,767,404)	-	-	3,994,472
Other provisions and timing differences	421,750	(3,785)	-	-	417,965
Fair value gains on AFS assets[1]	(5,059,037)	-	8,123,780	-	3,064,743
Net deferred income tax asset/ (liability)	**(2,281,634)**	**(2,623,440)**	**8,123,780**	**206,805**	**3,425,511**
Separate					
Accelerated tax depreciation	(269,820)	147,719	-	-	(122,101)
Property revaluations	(4,136,109)	-	-	206,805	(3,929,304)
Allowances for Loan losses	6,761,876	(2,767,404)	-	-	3,994,472
Other provisions and timing differences	428,800	(3,785)	-	-	425,015
Fair value gains on AFS assets[1]	(5,067,040)	-	8,119,945	-	3,052,905
Net deferred income tax asset/ (liability)	**(2,282,293)**	**(2,623,470)**	**8,119,945**	**206,805**	**3,420,987**
Year ended 31 December 2017					
Consolidated					
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)
	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	**2,055,402**	**(437,151)**	**(2,519,616)**	**(1,380,928)**	**(2,282,293)**

Deferred tax asset amounting to Shs 3,825 million(Group) and 3,420 million(company) has been recognised as it is probable that future taxable profits will be available against which a deductible temporary difference can be utilised when there are sufficient appropriate taxable temporary differences that are expected to reverse in the appropriate period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

18. INTANGIBLE ASSETS	Consolidated		Separate	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Cost				
At start of year	137,236	132,471	137,236	132,471
Additions	159,660	4,765	159,660	4,765
At end of year	296,896	137,236	296,896	137,236
Amortisation				
At start of year	122,990	105,536	122,990	105,536
Charge for the year	52,061	17,455	52,060	17,455
At end of year	175,051	122,991	175,051	122,991
Net book value	121,845	14,245	121,845	14,245

PROPERTY AND EQUIPMENT

Consolidated 31 December 2018	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	6,342,638	2,685,006	212,441	1,081,354	19,021,439
Additions	-	-	93,113	-	376,193	469,306
Write offs	-	-	-	-	-	-
Transfer to branches	-	-	-	-	(13,100)	(13,100)
Transfer from branches	-	-	-	-	13,100	13,100
Depreciation charge	-	(653,362)	(338,320)	(42,488)	(364,612)	(1,398,782)
Closing net book amount	**8,700,000**	**5,689,276**	**2,439,799**	**169,953**	**1,092,935**	**18,091,963**
At 31 December 2018						
Cost or valuation	8,700,000	13,067,409	7,103,568	1,153,180	5,303,219	35,327,376
Accumulated depreciation	-	(7,378,133)	(4,663,769)	(983,227)	(4,210,284)	(17,235,413)
Net book Value	**8,700,000**	**5,689,276**	**2,439,799**	**169,953**	**1,092,935**	**18,091,963**
31 December 2017						
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)
Transfers to branches	-	-	(29,274)	-	2,524	(26,750)
Transfers 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**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

19. PROPERTY AND EQUIPMENT (CONTINUED)

Sepatate 31 December 2018	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	6,342,638	2,683,159	212,441	1,081,163	19,019,401
Additions		-	93,113	-	376,193	469,306
Write offs	-	-	-	-	-	-
Transfer to branches	-	-	-	-	(13,100)	(13,100)
Transfer from branches	-	-	-	-	13,100	13,100
Depreciation charge	-	(653,362)	(338,082)	(42,488)	(364,571)	(1,398,503)
Closing net book amount	**8,700,000**	**5,689,276**	**2,438,190**	**169,953**	**1,092,785**	**18,090,204**
At 31 December 2018						
Cost	8,700,000	13,067,409	7,096,865	1,153,180	5,298,884	35,316,338
Accumulated depreciation	-	(7,378,133)	(4,658,675)	(983,227)	(4,206,099)	(17,226,134)
Net book Value	**8,700,000**	**5,689,276**	**2,438,190**	**169,953**	**1,092,785**	**18,090,204**
Year ended 31						
December 2017						
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)
Transfers to branches	-	-	(29,274)	-	2,524	(26,750)
Transfers 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**

19. PROPERTY AND EQUIPMENT (CONTINUED)

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 2017 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 fiar 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 valuers used the depreciation replacement cost method of valuation and performed a direct comparison method to analyse the current undeveloped land value

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 2018 (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 31/12/18**
Freehold land	8,700,000	8,700,000
Building	6,342,638	6,342,638

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 2018 Shs'000**	**Carrying value 2017 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 (2017: None).

20. OTHER FINANCIAL LIABILITIES

		Consolidated		**Separate**
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Deposits due to other Banks within 90 days	8,001,808	14,351,864	8,001,808	14,351,864
Bank of Uganda: Agricultural Credit Facility	3,186,520	4,897,012	3,186,520	4,897,012
	11,188,328	19,248,876	11,188,328	19,248,876

The Government of Uganda through Bank of Uganda set up an Agricultural Credit Facility scheme for supporting agricultural expansion and modernisation 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 2018 was Shs 3,186 million (2017: Shs 4,897 million).

The weighted average effective rate of interest on foreign Bank borrowings for the year ended 2018 was 1.56% (2017: 1.68%). The weighted average effective rate of interest on local Bank borrowings for the year ended 2017 was 7.68% (2017: 7.55%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

21. CUSTOMER DEPOSITS

		Consolidated		Separate
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Current and demand deposits	214,290,661	216,626,253	214,365,426	216,766,820
Savings deposits	202,394,590	179,236,324	202,394,590	179,236,324
Time deposits	885,125,526	770,383,025	885,409,362	770,683,398
	1,301,810,777	**1,166,245,602**	**1,302,169,378**	**1,166,686,542**
Analysis of customer deposits by maturity:				
- Payable within 90 days	326,768,819	326,768,819	326,768,819	326,768,819
- Payable after 90 days and within one year	635,348,769	635,348,769	635,348,769	635,348,769
- Payable after one year	339,693,189	204,128,014	340,051,790	204,568,954
	1,301,810,777	1,166,245,602	1,302,169,378	1,166,686,542

The weighted average effective interest rate on interest bearing current and savings deposits for the year ended 2018 was 0.61% (2017: 0.69%) and 5.22% (2017: 7.42%) on time deposits.

22. DEPOSITS AND BALANCES DUE FROM OTHER FINANCIAL INSTITUTIONS

		Consolidated		Separate
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Due to local Banking Institutions	80,784,756	4,909,112	80,784,757	4,869,788
Total	**80,784,756**	**4,909,112**	**80,784,757**	**4,869,788**
Maturity analysed as;				
Maturity less than 90 days	80,784,756	4,909,112	80,784,757	4,869,788
Maturity of 91 to 180 days	-	-	-	-
	80,784,756	**4,909,112**	**80,784,757**	**4,869,788**

23. OTHER LIABILITIES

Unearned interest	7,308,253	7,289,024	7,308,253	7,289,024
Bills payable	352,425	183,333	352,425	183,333
Uncleared effects (net)	801,710	430,610	801,710	430,610
Others*	10,197,843	8,113,655	10,074,905	7,986,004
Provision Off balance sheet	6,398,551	-	6,398,551	-
	25,058,782	**16,016,622**	**24,935,844**	**15,888,971**

*Included in Others are are cash margin deposits for letters of credit and financial guarantees amounting to Shs 530 million (2017: Shs 632 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

24. RETIREMENT BENEFIT OBLIGATIONS

		Consolidated		Separate
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Long service awards	1,413,064	1,415,443	1,413,064	1,415,443
Movements for the year:				
At 1 January	1,415,444	1,134,458	1,415,444	1,134,458
Additional provision made during the year	147,620	505,222	147,620	505,222
Awards paid	(150,000)	(224,236)	(150,000)	(224,236)
At 31 December	**1,413,064**	**1,415,444**	**1,413,064**	**1,415,444**

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 (2017: 2,500 million) with a par value of Shs 10 per share. All issued shares are fully paid.

26. REGULATORY GENERAL CREDIT RISK RESERVE

		Consolidated		Separate
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Provisions as per FIA 2004				
Specific provision	23,440,660	34,635,473	23,440,660	34,635,473
General provisions	7,400,248	6,043,364	7,400,248	6,043,364
	30,840,908	40,678,837	30,840,908	40,678,837
Impairment assessment as per IFRS 9 (Note 13)				
Individual impairment provisions	6,916,354	13,543,265	6,916,354	13,543,265
Portfolio impairment provisions	-	8,996,321	-	8,996,321
	6,916,354	**22,539,586**	**6,916,354**	**22,539,586**
Regulatory Credit Risk Reserve at 31				
December	**23,924,554**	**18,139,251**	**23,924,554**	**18,139,251**
Movement in Credit risk reserves;				
Transfer (to)/from retained earnings	5,785,302	(3,370,623)	5,785,302	(3,370,623)

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 2018 (CONTINUED)

27. REVALUATION RESERVE

		Consolidated		Separate
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	9,650,923	10,158,866	9,650,923	10,158,866
Transfer of excess depreciation on revaluation	(689,351)	(725,633)	(689,351)	(725,633)
Deferred tax on transfer of excess depreciation	206,805	217,690	206,805	217,690
At end of year	**9,168,377**	**9,650,923**	**9,168,377**	**9,650,923**

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 DIVIDEND

At the annual general meeting to be held in 2019, a dividend of Shs 10 per share amounting to Shs 25 Billion in total is to be proposed. (2017: total dividend per share of Shs 7.50 amounting to Shs 18.75 Billion). The dividend is at 100% of paid up share capital of Shs 25,000,000,000 (2017: 75% 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
	2018	2017	2018	20176
Contingencies securities by	Shs'000	Shs'000	Shs'000	Shs'000
cash collateral	28,631,405	25,528,944	28,631,405	25,528,944
Direct credit substitutes (guarantees and acceptances)	38,796,659	34,607,248	38,796,659	34,607,248
Transactions related (performance bonds and standbys)	11,900,110	14,230,150	11,900,110	14,230,150
Documentary credits (trade related and self liquidating)	50,965,186	25,762,284	50,965,186	25,762,284
	130,293,360	**100,128,626**	**130,293,360**	**100,128,626**
Commitments				
Undrawn formal stand-by facilities, credit lines and other commitments to lend	145,961,162	101,754,710	145,961,162	101,754,710

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).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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	
	2018	**2017**
	Shs'000	**Shs'000**
Within one year	136,004	949,008
After one year but not more than five years	1,383,395	16,475,833
	1,519,399	**17,424,841**

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 commitment for such leases.

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

	Consolidated and Separate	
	2018	**2017**
Capital Commitments	**Shs'000**	**Shs'000**
Authorised capital commitments	7,436,000	6,111,000

Capital commitments include proforma costs for the Data Center, expansion of IT infrastructure, branch 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 2018 (CONTINUED)

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

b. Impairment losses on guarantees and other commitments

Impairment losses on guarantees and other commitments

Guarantees and performance bonds:

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows In shs'000

	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
Outstanding exposure as at 1 January 2018	67,265,506	-	-	67,265,506
New Exposures	63,946,922	-	-	63,946,922
Exposure derecognised or matured/ lapsed(excluding write-offs)	(58,618,449)	-	-	(58,618,449)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
At 31 December 2018	**72,593,979**			**72,593,979**

In shs'000	Stage 1	Stage 2	Stage 3	Total
	Collective	Collective		
ECLs as at 1 January 2018	3,197,924	-	-	3,197,924
New Exposures	2,760,331	-	-	2,760,331
Exposure derecognised or matured/lapsed(excluding write-offs)	(3,102,872)	-	-	(3,102,872)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2018	**2,855,383**	-	-	**2,855,383**

Loan commitments

An analysis of changes in the gross carrying amount and the corresponding ECLs in relation to other undrawn loan commitments is as follows;

Gross carrying amount of loan commitments

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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

	Stage 1	Stage 2	Stage 3	Total
	Collective	Collective		
Outstanding exposure as at	32,863,219	-	-	32,863,219
1 January 2018				
New Exposures	50,184,164	-	-	50,184,164
Exposure derecognised or matured /lapsed (excluding write-offs)	(25,348,002)	-	-	(25,348,002)
Transfers to stage 1	-	-	-	
Transfers to stage 2	-	-	-	
Transfers to stage 3	-	-	-	
At 31 December 2018	**57,699,381**	-	-	**57,699,381**

ECLs of Loan commitments

In shs'000

	Stage 1	Stage 2	Stage 3	Total
	Collective	Collective		
ECLs as at 1 January 2018	1,941,316	-	-	1,941,316
New Exposures	2,942,308	-	-	2,942,308
Exposure derecognised or matured/lapsed (excluding write-offs)	(1,340,455)	-	-	(1,340,455)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2018	**3,543,169**	-	-	**3,543,169**

30. ANALYSIS OF CASH AND CASH EQUIVALENTS

	Consolidated		Separate	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and Balances with Central Banks (Note 11)	154,394,812	119,433,365	154,262,009	119,433,365
Cash reserve requirement	(99,470,000)	(89,662,000)	(99,470,000)	(89,662,000)
Repurchase agreements with Bank of Uganda	10,000,000	86,717,078	10,000,000	86,717,078
Government securities maturing within 90 days of the date of acquisition (Note 12a)	200,026,568	181,263,340	200,026,568	181,263,340
Loans and advances to Banks	133,043,187	163,899,210	133,043,187	163,899,210
Amounts due from Group companies	36,850,895	19,835,816	36,850,895	19,835,816
Deposits and balances due from other Banks (Note 22)	80,784,756	4,909,111	80,784,756	4,869,788
	515,630,218	**486,395,920**	**515,497,415**	**486,356,597**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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	**2018**	**2017**
	Shs'000	**Shs'000**
Parent		
- Management and administrative fees	1,316,093	765,757

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.

(b) Amounts due from/(to) overseas branches of parent company		**Separate**
	2018	**2017**
	Shs'000	**Shs'000**
Bank of Baroda, Mumbai - INR	(90,297)	81,609
Bank of Baroda, London - GBP	13,589,276	14,764,430
Bank of Baroda, Nairobi - Kshs	79,731	22,141
Bank of Baroda, Brussels - Euro	4,313,153	4,181,029
Bank of Baroda, New York - US Dollar	18,959,032	786,607
Placements with overseas branches of parent company	111,748,941	155,894,854
	148,599,836	**175,730,670**

The amounts outstanding relate to nostro account balances, 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	
	2018	**2017**
	Shs'000	**Shs'000**
(c) Outstanding balances with subsidiary		
Baroda Capital Markets (U) Limited - Fixed Deposits	**283,329**	**272,036**

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 23.6 Million (2017: Shs 4.2 Million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

RELATED PARTY TRANSACTIONS (CONTINUED)

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	**2018**	**2017**
	Shs'000	**Shs'000**
Salaries and other short-term employment benefits	5,087,677	5,076,423
(e) Directors' remuneration and benefits		
Directors' remuneration and benefits	178,951	265,671
Fees for services as a director	**37,483**	**9,386**

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.

	2018	**2017**
Profit attributable to equity holders of the Group (Shs`000)	73,483,459	49,405,623
Weighted average number of ordinary shares in issue (`000)	2,500,000	2,500,000
Basic earnings per share (Shs)	**29.39**	**19.76**

There were no potentially dilutive shares outstanding at 31 December 2018 or 2017. Diluted earnings per share are therefore the same as basic earnings per share.

33. 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.

34. 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.

35. 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. An adjustment has been made to interest expense on borrowings on note 6 to restate the amount as an intra group adjustment of Shs 31 million of interest expense had been wrongly adjusted against interest expense on borrowings instead of interest expense on fixed deposits.

An adjustment of Shs 13 million has also been made to the consolidated retained earnings to align the retained earnings of the bank's subsidiary to those of the group as there were expenses that were erroneously taken in the consolidated financial statements.

Notably the above adjustments have been made to enhance consistency however the financial statements of prior year have not been retrospectively restated as these adjustments are not material to the consolidated and separate financial statements.

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 49th Annual General Meeting of the Company, to be held on the 14th June 2019 and at every adjournment thereof

As witness my / out hand(s) this...day of...2019.

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 49th 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...