Annual Report 2014

Bank of Baroda (Uganda) Ltd

banking with passion

The Managing Director Mr. B. S. Dhaka receiving Superbrands Awards 2014 along with Mr. N. N Bhalerao - Director

BANK OF BARODA (U) LTD

Head Office : 18, Kampala Road
P O Box 7197, Kampala (Uganda)

NOTICE IS HEREBY GIVEN that the 45th Annual General Meeting of Bank of Baroda (Uganda) Ltd will be held at 3.00 pm on 19th day of June 2015 at "Gardenia Hall" Imperial Royal Hotel, Plot NO 7, Kintu Road, P O Box 4326, Kampala to transact the following business:-

1. **CONFIRMATION OF THE MINUTES OF THE 44th ANNUAL GENERAL MEETING.**
   To confirm the minutes of the 44th Annual General Meeting of the Bank held on 21st June 2014.

2. **FINANCIAL STATEMENTS.**
   To receive and consider the audited financial statements – consolidated balance sheet as at 31st December 2014, consolidated income statement for the year ended 31st December 2014, report of the Board of Directors on the working and activities of the Bank, together with the Auditor's report thereon.

3. **DIVIDEND.**
   To consider and if deemed fit, to approve the dividend proposed by the Directors at the rate of 25% of the paid up share capital.

4. **DIRECTORS.**
   To ratify the appointment of Mr. Rogers Matama as a Director of the Bank w.e.f 06th March 2015 for a period of 3 years.

   To ratify the appointment of Mr. O.P Khatkar as an Executive Director of the Bank w.e.f 19th September 2014.

   To ratify the appointment of Mr. V.L Rao as an Executive Director of the Bank w.e.f 19th December 2014.

   To accept resignation of Dr.W. Rama Makuza w.e.f 09th January 2015 on completion of his term.

   To accept resignation of Mr. N. N. Bhalerao w.e.f 31st December 2014 on completion of his term.

5. **AUDITORS.**
   To consider and approve re-appointment of M/s PKF Uganda as the Statutory Auditors of the Bank for the Financial Year ending 31st December 2015 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

Company Secretary
Date: 26th May 2015

NOTES

1. **Appointment of proxy.**

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

2. **Appointment of a representative.**

   No person shall be entitled to attend the meeting as a duly authorized representative of a Company, unless a copy of the resolution appointing her/him as a duly authorized representative certified to be true 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.

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4. **Closure of Register of Shareholders.**

   The Register of members and share transfer book of the Bank will be closed on 3rd July 2015

5. **Payment of Dividend.**

   The final dividend as declared by the Board of Directors and approved by the members will be paid to those shareholders whose name/s appear on the Bank's Register of Shareholders as on 03.07.2015 and the same will be mailed by 14.09.2015 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 03.07.2015 to enable to give effect of such change.

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 copies 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 Shareholders,

I take this opportunity to welcome you to the 45th Annual General meeting of the shareholders of Bank of Baroda (Uganda) Ltd, which was the second overseas presence for Bank of Baroda – India on the world map in the year 1953.

I place my sincere gratitude to the shareholders and stakeholders for reposing their faith and trust on the Bank that inspires us to improve our performance. The year gone by was challenging on economic front and despite that the Bank has performed considerably well. There has been an increase of 24.08 % in total business (Deposit + Advances) over the previous year i.e. an increase from Ugx.I,088.00 Bn. to Ugx.1,350.00 Bn. with 27 % growth in deposits and 18.82% growth in loans & advances. The net profit has grown by 19.43 %. These parameters signify Bank's inherent potential of performing better even in the difficult economic and banking environment.

The year 2014 was the year of pride for all the Barodians and for the Bank as two prestigious Awards were bestowed on the Bank i.e. Uganda Responsible Investment Award 2014 in recognition of excellent services & banking products and the second award being Superbrands East Africa 2014. These awards were in recognition of the relentless efforts put in by the Bank towards socio economic growth and development of the people of Uganda.

I wish to share with you that Bank of Baroda has retained the motto of "Race Ahead" with an addition "Good to Great" and this holds relevance in our pursuit of racing ahead as we are the Bank with Retail Leaning, focused on Asset Quality, Capacity Building to enhance Earnings. This has the same parlance with the banking environment in Uganda.

The African continent is growing fast and in present scenario it is the best suitable option available to the investors. The Bank is going to continue its strategy of expansion with more new products for the customers. Bank shall introduce new products for small savers in current fiscal in order to promote saving culture and tap low cost deposits. The technology is the key for success in modern day banking and Bank is consistently investing to have robust IT platform with more secured and customer friendly environment.

I sincerely place on record my thanks to the Government of Republic of Uganda and Bank of Uganda for their valuable guidance, advice and continued support. I thank the officials of Indian Embassy for their unstinted cooperation and support.

In an organization it's the contribution of each and every individual that makes the organization good to great. We are committed to making the Bank a fine place to work. I acknowledge the dedication and contribution of every staff member. It is with this joint effort that the Bank can grow much bigger, better and it can race ahead.

My good wishes to each one of you.

Yours truly,

Ranjan Dhawan
MD & CEO, Bank of Baroda – India

CHAIRMAN'S STATEMENT

Dear Shareholders,

It's my pleasure to welcome you to the 45th 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 2014.

The Bank has been growing steadily and the growth it shown in 2014 is 24.08% in total business over the previous year, which is a very good growth as compared to that of the industry. There is a commendable growth in deposit and advances of 27.46% and 18.82% respectively over the previous year. The Net Non Performing Asset (NPA) level of your Bank is 0.19% of total Advances which is much lower than that of the industry. This is testimony of the standard and quality the Bank maintains in selection of borrowers and monitoring of loans. There is no dearth of opportunities but the prudence is in choosing the best out of available options. This is where your Bank has an edge over the others.

The Bank has been continuously expanding its reach to cater its services to more number of people. Last year one off-site ATM was opened in Lugazi, in the current year two new branches one at Lugazi and the other at Arua have been planned. The relocation of Ovino Market branch to Old Kampala area is in its final stage.

In the past few years the economic condition of the country has improved and it is improving at a constant pace. Though the current year seems to be quite challenging as lots of volatility is being observed in the market during the first quarter, however it is going to stabilize, since it has been a routine feature whereby the year starts with slackness and then picks up from the second quarter. There are many infrastructural activities which are going to take place in the current year which is going to boost up the market. Agriculture is also expected to be normal, but the only concern is the price of oil in the international market.

Your Bank has always come out of odds strongly whatever be the economic condition and I firmly believe this year as well your Bank is going to register a good growth.

I am overwhelmed to share with you that last year two prestigious awards were conferred on the Bank:

1. Uganda Responsible Investment Award 2014, and
2. Superbrands East Africa Award 2014.

I place on record my appreciation for the continued support received from all our valued shareholders and customers.

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

I place on record my sincere appreciation to the retired directors, Dr. Rama Makuza, Chairman, and Mr. Bhalerao, Director, for their valuable contribution.

I extend my good wishes to each one of you on this occasion

Yours truly,

Dhizaala S Moses

Chairman

MANAGING DIRECTOR'S STATEMENT

Dear Shareholders,

It is my pleasure to welcome you all to this 45th Annual General Meeting of your Bank. Last financial year, hardly any resilience was observed in the market, though it showed some signs of improvement but again tumbled back to square. However, despite all odds your Bank has been able to post considerable growth in all parameters.

The key financial highlights of the Bank's performance for the year ended 31st December, 2014 show that it has ability to outperform. Some performance highlights are as under:

1. Total Deposit increased by UGX 178 Bn. showing a growth of 27.46% over the previous year, i.e. increase from UGX 648 Bn. to UGX 826 Bn.
2. Advances increased by UGX 83 Bn. showing a growth of 18.82% over the previous year, i.e. increase from UGX 441 Bn. to UGX 524 Bn.
3. Total Business (Deposits + Advances) increased by UGX 262 Bn. showing a growth of 24.08% over the previous year, i.e. increase from UGX 1088 Bn. to UGX 1350 Bn.
4. Total Interest income increased by UGX 24.93 Bn. showing a growth of 26.23% over the previous year i.e. increase from UGX 95.03 Bn. to UGX 119.96 Bn.
5. Total Interest expense increased by UGX 14.73 Bn. showing an increase of 31.16% over the previous year i.e. increase from UGX 47.27 Bn. to UGX 62.00 Bn.
6. Gross Profit increased by UGX 7.25 Bn. showing increase of 18.18% over the previous year i.e. increase from UGX 39.86 Bn. to UGX 47.11 Bn.
7. Net Profit increased by UGX 5.99 Bn. showing a growth of 19.43% over the previous year i.e. increase from UGX 30.82 Bn. to UGX 36.81 Bn.
8. Gross NPA is at UGX 7,148 Mn. (1.36 % of the total Advances) and the Net NPA is UGX 1,011 (0.19% of total Advances).
9. Total Assets size increased by UGX 187.59 Bn. showing a growth of 19.78% over the previous year, i.e. increase from UGX 948.26 Bn. to UGX 1,135.85 Bn.
10. Total Net worth increased by UGX 31.34 Bn. showing a growth of 19.30% over the previous year, i.e. increase from UGX 162.35 Bn. to UGX 193.69 Bn.

As per the economic forecast issued by the World Bank, Ugandan economy is to grow at a rate of approximately 5.6% in the financial year 2014/15. This projection is largely based on investment in oil and large infrastructure program to boost construction activities. In the previous year the price of crude oil fell sharply in the international market, which has been a major setback to the country's oil exploration program and the impacts could be seen on other activities as well. Most of the labour force is engaged in agriculture sector which is over-burdened with supply-side constraints viz. limited use of improved inputs, lack of irrigation systems and low levels of mechanization. For banks this could be an opportunity to make a conducive environment for the investors as the huge public investment program is expected to drive economic growth.

The motto for the year 2015 is "PACE : Profitability, Asset quality, Customer delight & Expansion" as we believe in

steady growth. We have decided to improve our bottom line by bringing more quality advances into our fold and marching ahead through relatively better customer service culminating in customer delight. This motto is in sync with that of the Parent Bank "Race Ahead" - "Good to Great".

I am delighted to share with you that your Bank has been bestowed with two prestigious awards during the year 2014, the Uganda Responsible Investment Award in recognition of excellent services & the Banking products and Superbrands East Africa Award.

Continuous efforts are being made by top management to the front line staff of the Bank to provide quality services to our customers. Many customer centric initiatives are being undertaken to improve our services. In the year 2015 the Bank has planned to open two new branches one in Lugazi and the other at Arua in order to expand your Bank's reach. Shifting of the Ovino Branch to a more strategic location at Gurudwara in Old Kampala is scheduled shortly. New deposit and loan products are lined up to provide more options to our customers.

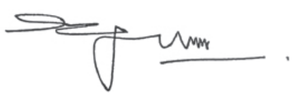
I place on record my sincere appreciation to the retired directors, Dr. W. Rama Makuza, Chairman, and Mr. N. N Bhalerao, Director, for their valuable contribution.

I acknowledge the support and guidance received from the parent Bank in the form of various financial and non financial services for the smooth functioning of the Bank.

I also place on record my sincere appreciation to our shareholders and customers for their unstinted support. I also place my sincere thanks to Government of Uganda and Bank of Uganda for their valuable guidance and support.

I wish to thank all my staff members for their commendable contribution and hope we together shall make it a bigger and better Bank.

Yours Truly,



B S Dhaka
Managing Director

BARODA'S MISSION STATEMENT

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

BARODA'S VISION

To double Bank's Business in 2013-2015

BARODA'S BELIEF

Trust, Transparency and Togetherness

MOTTO FOR THE YEAR 2015

" **PACE :** Profitability, Asset Quality, Customer Delight & Expansion"

Baroda believes in steady growth and keep this belief always ahead. We have decided to improve our bottom line by bringing more & more quality advances into our fold. There is always a room for improvement and we are committed to race ahead through relatively better customer service culminating to customer delight. The reach of the Bank is increasing through opening of new branches and setting up of alternative delivery channels like ATMs at most strategic locations.

It is with this thought and belief that the motto for the year 2015 is ***"PACE: Profitability, Asset Quality, Customer Delight & Expansion."***

The SMS alert system for ATM withdrawals and other debit / credit transactions has been operationalized. The system is very helpful in preventing frauds. The Bank has also adopted Fraud Risk Management System (FRMS) which will further improve the bank's risk mitigation mechanism.

Bank has been providing services of e-collection of Taxes on behalf of Uganda Revenue Authority (URA) since 2011. Now we are in process of providing functionality of paying taxes by our customers through Internet Banking "Baroda Connect" during the current year.

In order to encourage savings habit, the Bank has planned to introduce two new deposit products:

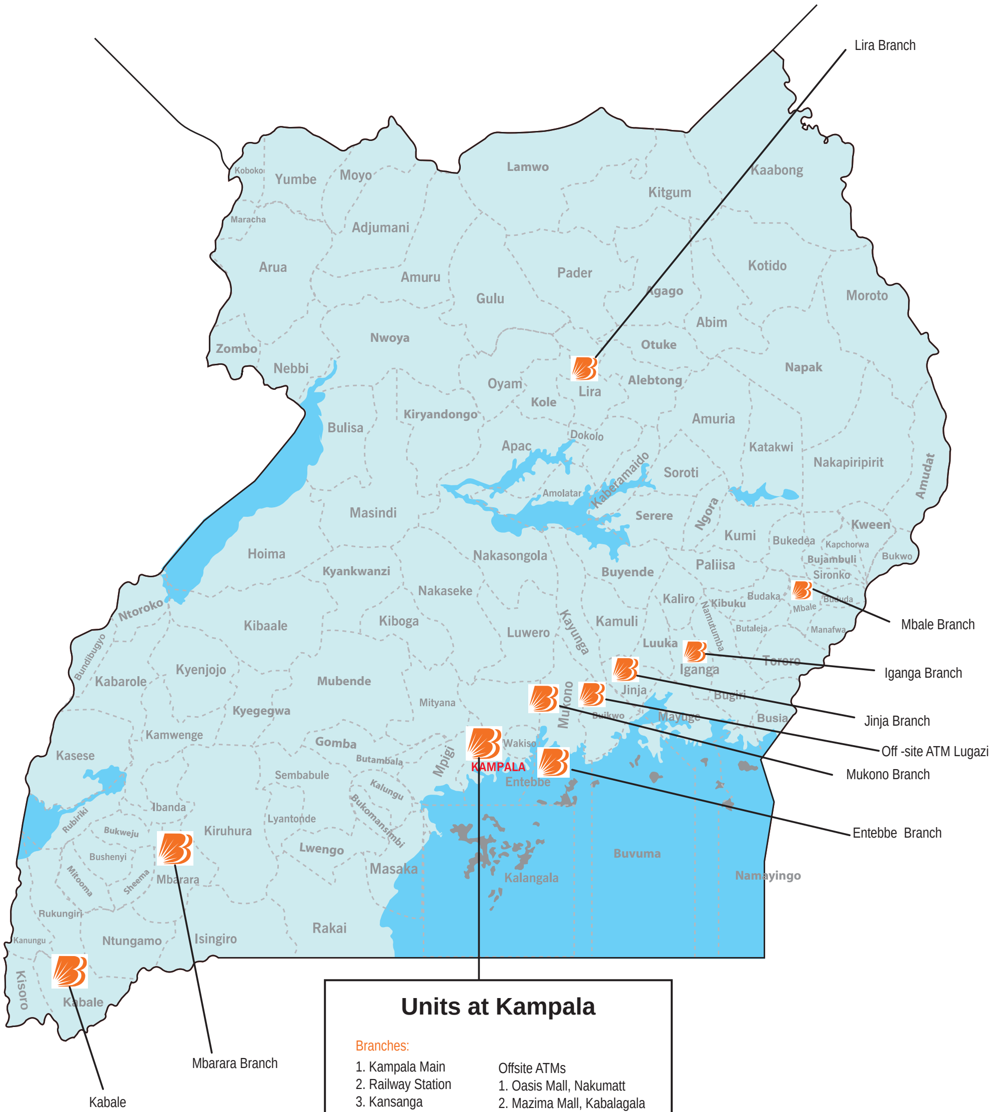
(i) Monthly Income Plan (MIP) and Quarterly Income Plan (QIP) under Term Deposits to meet the requirement of general households including senior citizens who don't have the regular and steady source of income.

(ii) Regular 'Recurring Deposit' scheme for general public including students, house wives, salaried people and small business men and women.

The Bank is also going to launch a new loan product i.e. Overdraft/Loan against property scheme with focus on those prospective borrowers who want to generate additional income from an otherwise idle property subject to their repayment capacity.

The Bank has been accorded with the Superbrands East Africa 2014 Award for being one of the best brands in the East African region. One more Award Uganda Responsible Investment Award 2014 was conferred on the Bank in recognition of its excellent services and the Banking products.

Map of Uganda with Baroda's Presence



Units at Kampala

Branches:
1. Kampala Main
2. Railway Station
3. Kansanga
4. Kawempe
5. Ovino Market
6. Industrial Area
7. Kololo

Offsite ATMs
1. Oasis Mall, Nakumatt
2. Mazima Mall, Kabalagala

- Head Office
- Baroda Capital Markets

AWARDS CONFERED DURING 2014

Superbrands East Africa 2014

Uganda Responsible Investment Award 2014

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BOARD OF DIRECTORS

Mr. Dhizaala S. Moses
Chairman

Mr. B. S. Dhaka
Managing Director

Mr. Matama Rogers
Director

Mr. O. P. Khatkar
Executive Director

Mr. V. L. Rao
Executive Director

KNOW YOUR BANK

History

Bank of Baroda (Uganda) Ltd started its operations in Uganda by opening Kampala (Main) branch on 18th December 1953. The Bank later became subsidiary of Bank of Baroda, India on 1.11.1969 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 the 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 35 outlets 15 branches and 20 ATMs. In the year 2014 an off-site ATM was opened at Lugazi Circle, Lugazi.

All 15 branches are having on site ATMs. Kampala main branch has two on site ATMs. In addition to this Bank has 4 offsite ATMs – one each at Oasis Mall - Kampala, Mazima Mall - Kampala, Lugazi Circle - and Industrial Area Njeru. Alternative delivery channels like ATM and Internet Banking allow our customers to have 24 x 7 x 365 days hassle free banking services from Baroda.

Systems & Procedures

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

Risk Management Systems

The business of banking is bereft with 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 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 bi monthly concurrent audit and half 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.
- The Data Center and the Backup server for the CBS – finacle are geographically located at two different seismic zones in India thereby ensuring Business Continuity in any eventuality.

The focus of the Bank is on identifying, measuring, monitoring and managing 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

Bank believes that Human Resource is one of the vital assets of the Bank. We take due care at the time of recruitment of the new staff and while conducting promotion exercises for the existing staff across various cadres. For skill development of existing staff, bank adopts the policy of continuous up-skilling of the staff through in-house and external training programmes. Bank follows the policy of employing Ugandans among its staff.

- The total staff strength is 181 consisting of 153 local staff and 28 expatriates.
- Extensive promotion exercise has been carried out during the year across all cadres ie Non Clerical to Clerical, Clerical to Supervisor and Supervisor to Officer.
- Bank has also recruited Officers / Supervisors / Banking Assistants directly attracting younger talent.
- The Bank conducts extensive in house training programmes which are conducted by senior management staff at its state-of-the-art Training Centre located at Head Office – Kampala. The training is imparted to staff in 18 different courses by in house trainers as well as through guest faculties from Uganda Institute of Banking and Financial Services.
- External Training is also imparted by deputing the candidates to other organizations within Uganda. -21- staff members were imparted training through -17-external training programmes held during 2014 by The Uganda Institute of Banking and Financial Services (UIB), Bank of Uganda, PKF Taxation Services Ltd., Institute of Corporate Governance of Uganda in conjunction with German International Corporation. Participants found the inputs of training very useful in their day to day working and for increase in efficiency & value addition.
- 2 local officers were sent on overseas training at Bank of Baroda APEX ACADEMY, Ahmedabad – India and Baroda Corporate Centre – Mumbai enabling them to enhance their working skill and knowledge in varied areas like Credit / Forex / Treasury and effective use of I T enabled systems and procedures in rendering effective and improved quality of service.

- Staff meetings are held on regular basis where in suggestions are sought / problems understood and solutions thereof are arrived at relating to staff grievances.
- Staff conclave is held on annual basis which is well attended by the staff along with their family members enabling further bonding among all the staff including their families.
- There is always an active participation of the staff in the Annual Inter-Bank Sports meet organized by the Uganda Institute of Banking and Financial Services. During the year 2014 two Gold medals were won by our staff in Athletics.

Mr. Mpalanyi Fred in action for 100 meters race at the Annual Bankers, Sports Gala 2014

Mr. Mpalanyi Fred receiving Gold Medals for 100 meters and 200 meters sprint during Bankers, Sports Gala 2014

Regulatory Compliance

The central Bank of the country – Bank of Uganda carries out off site analysis on quarterly basis followed by on site examination / inspection on annual basis. They conduct comprehensive inspection of the Bank and comment on all aspects of banking.

In the offsite analysis by Bank of Uganda the Bank has been rated SATISFACTORY cosecutively for all the four quarters in the year 2014 as also in the previous year 2013. As regards on site examination the ratings are based on CAMELS principle. The Regulators have awarded SATISFACTORY CAMELS rating to the Bank during the last on site examination carried out as on 30.11.2014.

Customer Centric Initiatives taken during 2014

- Expanding geographical reach of the Bank by opening our new off-site ATM at Lugazi, thus number of service outlets is increased to 35
- SMS alert system for ATM withdrawal and other debit / credit transactions has since been implemented. The system is very helpful in preventing frauds and keeps the customers updated.
- Fraud Risk Management System (FRMS) is operationalized, this will further improve the bank's risk mitigation mechanism.
- ASCROM systems for credit monitoring / asset classification has since been made live from September, 2014.
- We have already started e-collection of Taxes on behalf of Uganda Revenue Authority (URA) since 2011. Now we are under process of providing functionality of paying taxes to our customers through Internet Banking "Baroda Connect". The programme is under testing and is likely to be implemented during the current year.

Uganda Responsible Investment Awards 2014

Corporate Social Responsibility

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

During the year, the Bank made donations aggregating to Ugx.41.29 million for various social causes, major ones are listed below.

1. Two Oxygen Concentrator Machine donated to Bugolobi Health Centre.
2. Sight Saving Eye Camp conducted in conjunction with Lion's Club Jinja at our Jinja Branch.
3. Donation for Heart Surgery of Ugandan Children through Indian Association, Uganda
4. Sponsorship of Education of Late Andrew Onek's two Kids for their two Term Fees
5. Donation to Busoga University- Scholarship to five students
6. Donation to Rotary Club of Mukono for Rotary Hospital
7. Scholarship to Indigent Students through Indian Association, Uganda.
8. Donation to DIOCESE of Jinja for organizing health assembly ceremony.
9. Scholastic Material distributed to the students of Lugazi School.
10. Contributed and Participated in the "Run for Life" Marathon for the Cancer Patients.

Tree Plantation Drive at Source of Nile-Jinja in the august presence of H.E. Dr. AVS Ramesh Chandra, Indian High Commissioner to Uganda.

Sight Saving Eye Camp in conjunction with Lions Club, Jinja

Donation of Two Oxygen Concentrators to Bugolobi Medical Centre.

Blood Donation Camp inaugurated at the hands of Prof. Mutebile, Governor of Bank of Uganda

"Run For Life" Marathon for Cancer Patient.

Donation for Heart Surgery of Ugandan Children through Indian Association, Uganda

Scholastic Materials Distribution

PRODUCTS & SERVICES OFFERED BY THE BANK:

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

Products / Services Offered to Individuals (Retail Products).

An individual, trust, registered societies can open a Savings Bank Account to route salary, earnings and to save for future. A facility of Recurring Deposit is also available to enable an individual/trust/society etc. to save at regular interval 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 Festival Deposit Account (500 days and 700 days)
3. Baroda Flexi Recurring Deposit from 12 months to 36 months

Baroda Connect

Transaction based internet banking facility for anywhere/anytime banking

Retail Loan Products

4. Baroda education loan Scheme for financing children education

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

6. Baroda Housing loan for purchase of house / flat

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

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

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

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 and 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 avail of 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

umeme

NSSF
a better future.

URA
Uganda Revenue Authority
DEVELOPING UGANDA TOGETHER

NWSC

KCCA
KAMPALA CAPITAL CITY AUTHORITY
For a better City

CORPORATE GOVERNANCE

The corporate governance statement sets out the governance framework adopted by the Board of Bank of Baroda (Uganda) Limited (the "Company")

Bank of Baroda (Uganda) Limited is committed to adhere 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 in conformity with industry best practices.

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

The Company's governance framework enables the Board to fulfil its role of providing oversight and strategic counsel in balance with its responsibility to ensure compliance of the 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, the Company operates in a highly regulated environment and is committed to comply with legislation, regulations, and codes of best practices.

Complying with all applicable legislation, regulations, standards and codes is integral to the Company's culture. The Board delegates responsibility for compliance to management and monitors this through the compliance function. Oversight of compliance risk management is delegated to the Audit Committee, which annually reviews and approves the compliance plan. On a quarterly basis, the Audit Committee receives reports from the Compliance function on, among other things, the status of compliance risk management in the Company and significant areas of noncompliance. 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 Company 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 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

The Board currently consists of:

- Executive Directors 3
- Non-Executive Directors 2

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

Board composition and appointments (continued)

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, they have a prime role 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.

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.

Separation of roles and responsibilities

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

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

Committees of the Board

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

The Board has delegated authority to five principal Board Committees:

- Board Audit Committee
- Board Credit Committee
- Board Risk Committee
- Board Assets and Liabilities Committee
- Board Personnel and administration Committee

These committees meet at least on a quarterly basis or whenever there are urgent matters to attend to.
In addition, the Executive Committee, comprising the Managing Director and his Senior Management meet on a monthly basis. Its main function is to implement and monitor the Bank's strategy, operational plans and financial performance. It is also responsible for the assessment and control of risk.

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 safeguarding of assets against unauthorized use or disposition and 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 monitoting to ensure that levels of remuneration is appropriate. Information on the remuneration received and the dealings of the directors with the Bank are included in the annual report in note 8.

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 the shareholders. The Annual General Meeting (AGM) as well as the published annual report is used as an oppurtunity to communicate with the shareholders.

Share holding pattern as on 31st December 2014

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 2014

Sr.	SHAREHOLDER	NO. OF SHARES	%
1	BANK OF BARODA	1,999,998,750	80.00
2	CRANE BANK LIMITED	62,500,000	2.50
3	MR. SUDHIR RUPARELIA	62,527,250	2.50
4	NATIONAL SOCIAL SECURITY FUND	49,956,250	2.00
5	MRS MAHESHWARY PURUSHOTTAM MORAJARIA & PURUSHOTTAM MORJARIA	25,000,000	1.00
6	PARIAMENTARY PENSION SCHEME	19,372,236	0.77
7	BANK OF UGANDA STAFF RETIREMENT BENEFIT SCHEME AIG	15,975,187	0.64
8	EPACK INVESTMENT FUND LIMITED	15,937,500	0.63
9	DR. JOSEPH BYAMBARA BYAMUGISHA	15,625,000	0.62
10	NATIONAL SOCIAL SECURITY FUND-PINEBRIDGE	12,525,000	0.52

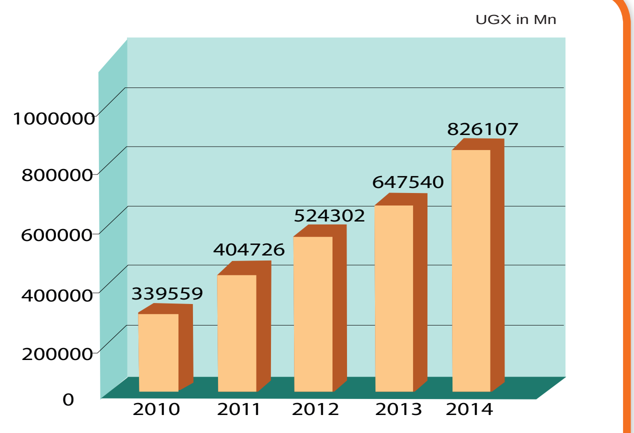
Financial for the last 5 years

	UGX Mn				
	2010	2011	2012	2013	2014
Capital	4,000	10,000	10,000	25,000	25,000
Reserves	66,463	94,637	124,912	137,667	
Deposits	271,702	404,725	524,302	647,540	826,107
Advances	150,063	293,241	347,490	435,560	524,358
Total Business	421,756	697,966	871,792	1,083,100	1,350,465
Investments	136,256	145,395	199,513	232,082	398,407
Net Profit	16,701	27,661	29,472	30,884	36,890
Adjusted Earnings per Share*	53	27	29	12	15
Dividend per share*	3.2	4	2	2	2.5**

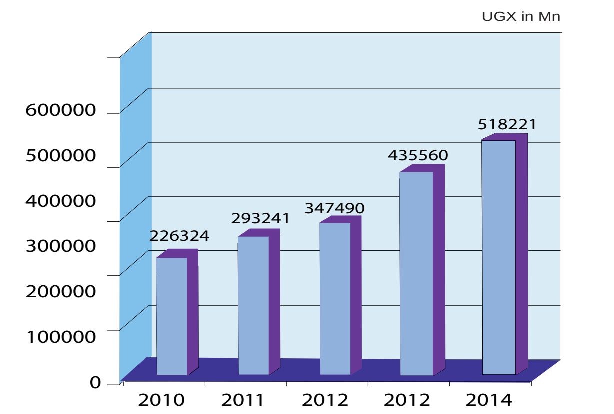
** For the year 2014 the Board of Directors have recommended dividend @ Ugx.2.50 per share.

Growth at a glance

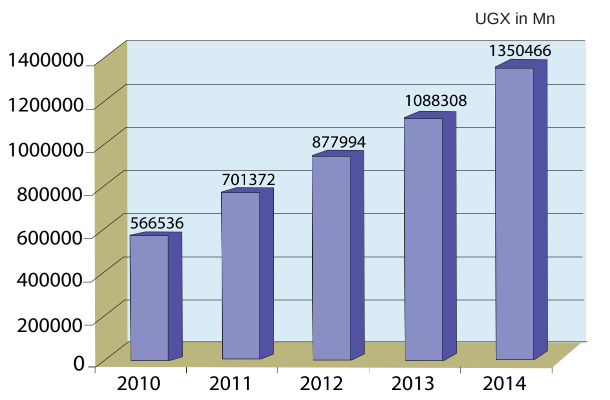
Deposits



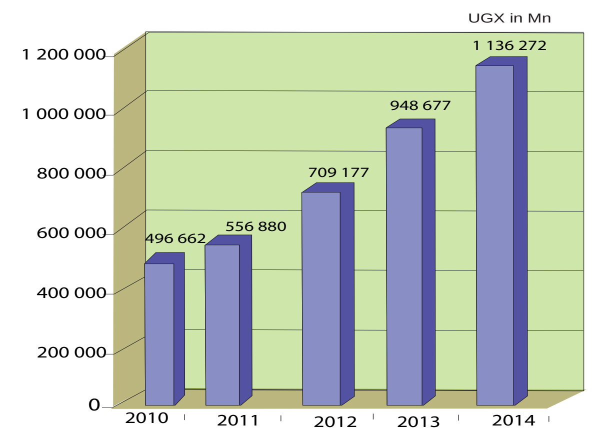
Net Advances



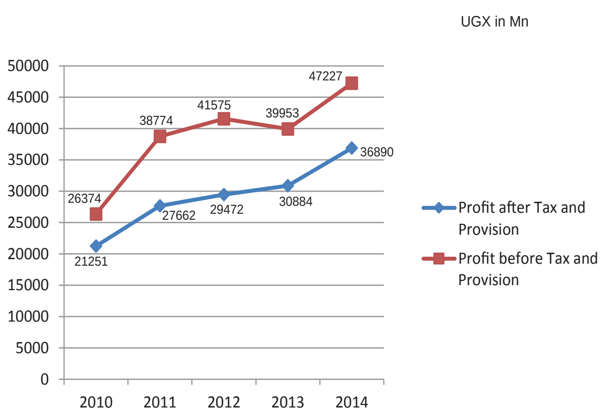
Total Business



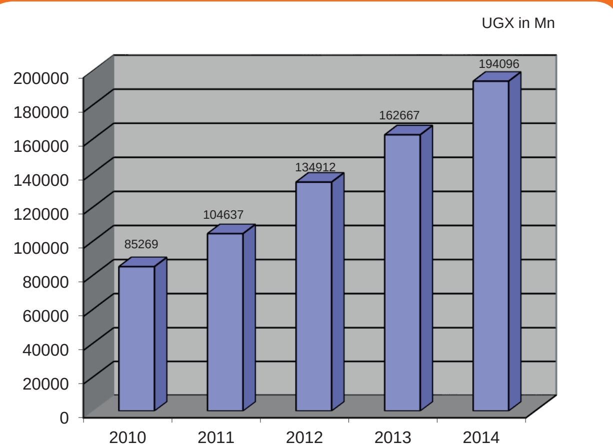
Balance Sheet Size



Profit



Shareholders Equity



Subsidiary

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

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

Income Statement (Ugx '000)

Particulars	31.12.2014	31.12.2013
Operating Income	170,050.00	115,460.00
Operating Expenses	53,971.00	30,555.00
Profit before Tax	116,079.00	84,905.00
Tax Expense	34,683.00	25,748.00
Profit after Tax	81,396.00	59,157.00

Statement of Financial Position (Ugx '000)

Particulars	31.12.2014	31.12.2013
Assets		
Property & Equipment	3,285.00	3,908.00
Trade & Other Receivables	288,335.00	259,897.00
Cash & Cash Equivalent	168,897.00	190,522.00
Total Assets	**460,517.00**	**454,309.00**
Liabilities		
Trade & Other Payables	22,533.00	101,868.00
Deferred Tax Liabilities	-	-
Total Liabilities	**22,533.00**	**101,868.00**
Shareholder's Equity		
Ordinary Share Capital	40,000	40,000.00
Accumulated Reserves	397,984.00	312,441.00
Total Shareholder's Equity	**437,984.00**	**352,441.00**
Total Equity & Liabilities	**460,517**	**454,309.00**

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Dhizaala Moses*	: Board Chairman
Mr. Birbal Singh Dhaka**	: Managing Director
Dr. W. Rama Makuza*	: Board Chairman (Resigned on 09 Jan 2015)
Mr. Rakesh Kumar Bansal**	: Non-Executive Director (Resigned on 01 Feb 2014)
Mr. S.S. Mundra**	: Non-Executive Director (Resigned on 30 Jul 2014)
Mr. N.N Bhalerao**	Non-Executive Director (Appointed on 19 June 2014 and resigned on 31 Dec 2014)
Mr. O.P. Khatkar**	: Executive Director (Appointed on 19 Sep 2014)
Mr. V.L. Rao**	: Executive Director (Appointed on 19 Dec 2014)
Mr. Rogers Matama*	: Non-Executive Director (Appointed on 6 Mar 2015)
* Ugandan ** Indian	

CHIEF OFFICERS

Mr. Birbal Singh Dhaka	: Managing Director
Mr. O.P. Khatkar	: Executive Director and Asst. General Manager (Credit & Dev.)
Mr. K.R. Meena	: Internal Auditor
Mr. V.L Rao	: Executive Director
Mr. Anwar Malik	: Financial Controller
Mr. Mahesh Arora	: Senior Manager IT
Mr. Obong S.	: Compliance Officer
Mr. Prithiwijit Gosh	: Manager Treasury

BOARD CREDIT COMMITTEE

Mr. Rogers Matama	: Chairman
Mr. Birbal Singh Dhaka	: Managing Director
Mr. O.P. Khatkar	: Executive Director
Mr. V.L Rao	: Executive Director

BOARD AUDIT COMMITTEE

Mr. Dhizaala Moses	: Chairman
Mr. Rogers Matama	: Non-Executive Director

BOARD RISK MANAGEMENT COMMITTEE

Mr. Rogers Matama	: Chairman
Mr. Birbal Singh Dhaka	: Managing Director
Mr. O.P. Khatkar	: Executive Director
Mr. V.L Rao	: Executive Director

BOARD ASSET AND LIABILITIES COMMITTEE

Mr. Rogers Matama	: Chairman
Mr. Birbal Singh Dhaka	: Managing Director
Mr. O.P. Khatkar	: Executive Director
Mr. V.L Rao	: Executive Director

BOARD PERSONNEL AND ADMINISTRATION COMMITTEE

Mr. Rogers Matama	: Chairman
Mr. Birbal Singh Dhaka	: Managing Director
Mr. O.P. Khatkar	: Executive Director
Mr. V.L Rao	: Executive Director

Corporate Information (Continued)

REGISTERED OFFICE	: Plot 18, Kampala Road, : P.O Box 7197 : Kampala, Uganda
COMPANY SECRETARY	: Mr. R.S. Goyal : Kampala
INDEPENDENT AUDITOR	: PKF Uganda : Certified Public Accountants : P.O. Box 24544, Kampala
PRINCIPAL LEGAL ADVISORS	: Kateera & Kagumire Advocates & Solictors : 10th Floor, Tall Crested Tower : P.O Box 7026 Kampala, Uganda
PRINCIPAL CORRESPONDENT BANKS	: Bank of Baroda : Mumbai Main Office, : Vostro A/c Cell, : 2nd Floor, Mumbai Samachar Marg, Mumbai - 400023 : Standard Chartered Bank : 3, Madison Avenue : New York, United States of America
PARENT	: Bank of Baroda : Baroda Corporate Center : C26, G-Block, Bandra- Kurla Complex : Bandra East, Mumbai - 400 051
SUBSIDIARY	: Baroda Capital Markets (U) Limited : P.O Box 7197 : Kampala, Uganda.

DIRECTORS' REPORT

The directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2014, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the bank is to provide commerical banking services.

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

KEY FINANCIAL HIGHLIGHTS AS ON 31 DECEMBER 2014

- Deposits increased by 27.58% in 2014 to Ush. 826,107 Mn. from Ush. 647,540 Mn. in 2013
- Advances net of impairment provisions increased by 18.98% in 2014 to Ushs.518,221 Mn from Ush.435,560 Mn in 2013
- Total Business (Deposits + Advances) increased by 24.09% in 2014 to Ush. 1,350,466 Mn. from Ush. 1,088,308, Mn in 2013
- Balance sheet size increased by 19.78 % in 2014 to Ush.1,135,852 Mn from Ush.948,267 Mn in 2013.
- Total income increased by 24.77% to Ush.135,038 Mn in 2014 from Ush.108,228 in 2013.
- Net Profit after Tax increased by 19.41% in 2014 to Ush. 36,808 Mn from Ush.30,825 Mn in 2013.
- Gross NPA as a percentage of total advances is at 1.36% in 2014 decreased from 1.91% in 2013.
- Capital Adequacy Ratio as at 31st December 2014 was 31.92%.
- Return on Assets was 3.24% as at 31st December 2014.
- Return on shareholders' worth was 19.00% as at 31st December 2014.

SHARE CAPITAL

The authorised, issued and fully paid share capital of the Bank was Shs 25 Billion (2013: Shs 25 Billion) representing 2,500 million shares (2013: 2,500 million) of Shs 10 each.

DIVIDENDS

The board of directors propose a final dividend of Shs 2.50 per share (2013: Shs 2.00 per share) amounting to a total of Shs 6,250,000,000 (2013: Shs 5,000,000,000).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The 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'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.

The bank has policies in place to ensure that banking services are availed to customers with performance and credit history

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 15.

In accordance with the company's Articles of Association, no director is due for retirement by rotation

CAPITAL ADEQUACY

Bank of Baroda (Uganda) Limited (the Bank) monitors the adequacy of its capital using ratios established by Bank of Uganda with reference to computations from International Convergence of Capital Measurement and Capital Standards (Committee on Banking Regulations and Supervisory Practice, Basle, 1998). These ratios measure capital adequacy by comparing the Bank's eligible capital with total risk-adjusted assets plus risk-adjusted off balance sheet items as may be determined by Bank of Uganda by statutory instrument.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied. e.g. notes, coins and other cash assets, balances held with Bank of Uganda including securities issued by the Government of Uganda and securities held under the Bank of Uganda have a zero risk weighting, which means that no capital is required to support the holding of these assets. Loans and Advances, Property and equipment 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 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, general provisions and non-dealing investments.

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

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

OPERATING AND REGULATORY ENVIRONMENTS

The year opened with US$/Ushs 2,525 in the month of January 2014. The Uganda shilling appreciated to a high of US$/Ushs. 2,780 in December 2014 and closed at around US$/Ushs. 2,775 by end of December 2014.

The bank complied with the minimum core capital and total capital requirements, which are 30.24% and 31.92% as against regulatory requirement of 8% 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 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. The audited annual financial statements do not carry any qualification from the statutory auditors

HUMAN RESOURCE MANAGEMENT

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

INFORMATION TECHNOLOGY

With effect from 25th February 2008 the bank has installed Banking Software (Finacle) which was developed by Infosys Technologies Limited. All the branches of the bank are inter-connected using Finacle System. We continue to deploy technology for use in Banking. The Bank has implemented transaction based internet banking "Baroda Connect" in June 2010. The Bank has launched its web-site 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 (NWSC) 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 ATM withdrawals and other debit and credit transactions has also been implemented during year ended 2014. Continued focus on leveraging technology has resulted in process efficiencies and enhanced customer convenience.

BRANCH EXPANSION / ALTERNATE DELIVERY CHANNEL

During the year 2014, the Bank has opened off-site ATM at Lugazi attached with our Jinja branch. With the opening of Lugazi ATM, the number of off-site ATMs have become 4

INDEPENDENT AUDITOR

M/s. PKF Uganda, Certified Public Accountants, Uganda were appointed during the year as Statutory Auditors of the Bank in accordance with Section 170 (1) of the Companies Act, 2012 and were duly approved by Bank of Uganda in accordance with Section 62 (1) of the Financial Institutions Act 2004. Being eligible for reappointment we recommend reappointment of M/s. PKF Uganda, Certified Public Accountants as the Statutory Auditors for the year 2015

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 26th day of March, 2015

BY ORDER OF THE BOARD

COMPANY SECRETARY KAMPALA

26/03/2015

STATEMENT OF DIRECTORS' RESPOSBILITIES

The Companies Act, 2012 requires the directors to prepare consolidated financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

The directors accept responsibility for the preparation and fair presentation of consolidated financial statement that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

ii. Selecting and applying appropriate accounting policies;

iii. Making accounting estimates and judgements that are reasonable in the circumstances;

The Directors are of the opinion that the consolidated financial statements give a true and fair view of the financial position of the group and of the bank as at 31 December 2014 and of the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Uganda Companies Act, 2012.

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

Approved by the board of directors on 26/ 03/ 2015 signed on its behalf by:

Mr. Dhizaala S. Moses - Chairman

Mr. B.S Dhaka - Managing Director

Mr. O.P. Khatkar - Executive Director

INDEPENDENT AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying consolidated financial statements of Bank of Baroda (Uganda) Limited and its subsidiary ,set out on pages 22 to 72 which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act, 2012, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an independent opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion the accompanying financial statements in all material aspects give a true and fair view of the state of the bank's financial position as at 31 December 2014 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Uganda Companies Act, 2012 and the Financial Institutions Act 2004.

Report on other legal requirements

As required by the Companies Act 2012, (Section 170) 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 our audit;

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

iii The consolidated statement of financial position and consolidated statement of profit and loss and other comprehensive income are in agreement with the books of account.

PKF Uganda

Certified Public Accountants
Kampala

26/03/2015

REF: CO/B040/069/15

CONSOLIDATED AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Group		Company	
		2014	2013	2014	2013
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
Interest income	5	119,967,849	95,036,709	119,967,849	95,036,709
Interest expense	6	(62,006,983)	(47,276,931)	(62,006,983)	(47,276,931)
Net interest income		57,960,866	47,759,778	57,960,866	47,759,778
Non interest income/other income	7	15,239,918	13,306,253	15,069,869	13,190,792
Non interest expenses	8	(25,973,397)	(21,112,555)	(25,919,427)	(21,082,000)
Profit before impairement on loans and advances		47,227,387	39,953,476	47,111,309	39,868,570
Impairment losses on loans and advances		(929,619)	994,834	(929,619)	994,834
Profit before tax		46,297,768	40,948,310	46,181,690	40,863,404
Tax	10	(9,408,006)	(10,064,585)	(9,373,323)	(10,038,837)
Profit for the year		36,889,762	30,883,725	36,808,367	30,824,567
Other comprehensive income:					
Items that may be reclassified sub-sequently to profit or loss:					
Available for sale financial assets:					
- (Losses)/gains arising during the year	12	(658,087)	2,673,322	(664,012)	2,666,943
- Deferred tax relating to items that may be reclassified		197,426	(801,997)	199,204	(800,083)
Other comprehensive income (net of tax)		(460,661)	1,871,325	(464,808)	1,866,860
Total comprehensive income for the year		36,429,101	32,755,050	36,343,558	32,691,427
Dividend					
Proposed final dividend for the year	28	6,250,000	5,000,000	6,250,000	5,000,000
Earnings per share for profit attributable to the equity holders of the bank during the year (expressed In Shs per share)					
Basic and diluted	32	14.76	12.35	14.76	12.35

The notes on pages 27 to 72 form an integral part of these financial statements.
Report of the independent auditor - page 21.

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

		Group		Company	
		2014	2013	2014	2013
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
ASSETS					
Cash and balances with Bank Of Uganda	11	78,635,496	43,764,359	78,466,598	43,573,837
Other financial assets	12	509,157,320	450,607,019	509,157,320	450,607,019
Loans and advances to customers (net)	13	518,221,157	435,559,917	518,221,157	435,559,917
Amounts due from overseas branches of parent company	14	16,602,940	4,343,471	16,602,940	4,343,471
Other assets	15	2,900,629	2,547,175	2,615,889	2,291,973
Current tax receivable		-	551,139	-	555,875
Investment in subsidiary	16	-	-	40,000	40,000
Deferred income tax	17	656,453	266,519	653,531	261,842
Intangible assets	18	20,792	-	20,792	-
Property and equipment	19	10,077,293	11,036,994	10,074,008	11,033,086
Total assets		1,136,272,080	948,676,593	1,135,852,235	948,267,020
LIABILITIES					
Other financial liabilities	20	53,844,298	101,363,797	53,844,298	101,363,797
Customer deposits	21	826,107,370	647,540,368	826,107,370	647,540,364
Deposits and balances due to other financial institutions	22	6,734,241	572,392	6,734,241	572,392
Amounts due to overseas branches of parent bank	14	324,794	8,528	324,794	8,528
Other liabilities	23	53,567,249	35,320,757	53,544,713	35,223,626
Current tax payable		244,226	-	244,897	-
Retirement benefit obligation	24	1,353,892	1,203,842	1,353,892	1,203,842
Total liabilities		942,176,070	786,009,684	942,154,205	785,912,549
CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS					
Share capital	25	25,000,000	25,000,000	25,000,000	25,000,000
Reserves		9,952,351	9,090,621	9,952,351	9,090,621
Proposed dividend	28	6,250,000	5,000,000	6,250,000	5,000,000
Retained income		152,893,659	123,576,288	152,495,679	123,263,850
Total Shareholders Equity		194,096,010	162,666,909	193,698,030	162,354,471
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1,136,272,080	948,676,593	1,135,852,235	948,267,020

The financial statements on pages 22 to 72 were approved for issue by the Board of Directors on 26/03/2015 and signed on its behalf by:

Mr. Dhizaala S. Moses - Chairman

Mr. B.S Dhaka - Managing Director

Mr. O.P Khatkar - Executive Director

The notes on pages 18 to 63 form an integral part of these financial statements.
Report of the independent auditor - page 21.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Ordinary Share capital	Regulatory general credit reserve	Revaluation reserve	Fair value assets avaliable-for-sale	Proposed dividend	Retained Earnings	Total
Group		**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Year ended 31 December 2013	**Notes**							
At start of year		10,000,000	3,474,891	5,018,397	-	5,000,000	111,418,571	134,911,859
Changes in equity:								
Total comprehensive income for the year		-	-	-	1,871,325	-	30,883,725	32,755,050
Transfer to investment fluctuation reserves		-	-	-	(1,871,325)	-	1,871,325	-
Transfer to regulatory reserves	26	-	772,977	-		-	(772,977)	-
Transfer of excess depreciation on revaluation	27	-	-	(250,920)	-	-	250,920	-
Deferred tax on excess depreciation	27	-	-	75,276	-	-	(75,276)	-
		10,000,000	4,247,868	4,842,753	-	5,000,000	143,576,288	167,666,909
Dividends paid	28	-	-	-	-	(5,000,000)	-	(5,000,000)
Dividends proposed		-	-	-	-	5,000,000	(5,000,000)	-
Issue of bonus shares		15,000,000	-	-	-	-	(15,000,000)	-
At end of year		25,000,000	4,247,868	4,842,753	-	5,000,000	123,576,288	162,666,909
Year ended 31 December 2014								
At start of year		25,000,000	4,247,868	4,842,753	-	5,000,000	123,576,288	162,666,909
Changes in equity:								
Total comprehensive income for the year:		-	-	-	(460,661)	-	36,889,762	36,429,101
Transfer to investment fluctuation reserves		-	-	-	460,661	-	(460,661)	-
Transfer to regulatory reserves	26	-	1,031,226	-	-	-	(1,031,226)	-
Transfer of excess depreciation on revaluation	27	-	-	(242,138)	-	-	242,138	-
Deferred tax on excess depreciation	27	-	-	72,641	-	-	(72,641)	-
		25,000,000	5,279,094	4,673,257	-	5,000,000	159,143,659	199,096,010
Dividends paid	28	-	-	-	-	(5,000,000)	-	(5,000,000)
Dividends proposed		-	-	-	-	6,250,000	(6,250,000)	-
At end of year		25,000,000	5,279,094	4,673,257	-	6,250,000	152,893,659	194,096,010

The notes on pages 22 to 72 form an integral part of these financial statements.

Report of the independent auditor - page 21.

COMPANY STATEMENT OF CHANGES IN EQUITY

		Ordinary Share capital	Regulatory general credit reserve	Revaluation reserve	Fair value assets avaliable-for-sale	Proposed dividend	Retained Earnings	Total
Company		**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Year ended 31 December 2013	**Notes**							
At start of year		10,000,000	3,474,891	5,018,397	-	5,000,000	111,169,756	134,663,044
Changes in equity:								
Total comprehensive income for the year:		-	-	-	1,866,860	-	30,824,567	32,691,427
Transfer to investment fluctuation reserves		-	-	-	(1,866,860)	-	1,866,860	-
Transfer to regulatory reserves	26	-	772,977	-	-	-	(772,977)	-
Transfer of excess depreciation on revaluation	27	-	-	(250,920)	-	-	250,920	-
Deferred tax on excess depreciation	27	-	-	75,276	-	-	(75,276)	-
		10,000,000	4,247,868	4,842,753	-	5,000,000	143,263,850	167,354,471
Dividends paid		-	-	-	-	(5,000,000)	-	(5,000,000)
Dividends proposed	28	-	-	-	-	5,000,000	(5,000,000)	-
Issue of bonus shares		15,000,000	-	-	-	-	(15,000,000)	-
At end of year		25,000,000	4,247,868	4,842,753	-	5,000,000	123,263,850	162,354,471
Year ended 31 December 2014								
At start of year		25,000,000	4,247,868	4,842,753	-	5,000,000	123,263,850	162,354,471
Changes in equity:								
Total comprehensive income for the year:		-	-	-	(464,808)	-	36,808,367	36,343,559
Transfer to investment fluctuation reserves		-	-	-	464,808	-	(464,808)	-
Transfer to regulatory reserves	26	-	1,031,226	-	-	-	(1,031,226)	-
Transfer of excess depreciation on revaluation	27	-	-	(242,138)	-	-	242,138	-
Deferred tax on excess depreciation	27	-	-	72,641	-	-	(72,641)	-
		25,000,000	5,279,094	4,673,257	-	5,000,000	158,745,679	198,698,030
Dividends paid		-	-	-	-	(5,000,000)	-	(5,000,000)
Dividends proposed	28	-	-	-	-	6,250,000	(6,250,000)	-
At end of year		25,000,000	5,279,094	4,673,257	-	6,250,000	152,495,679	193,698,030

The notes on pages 22 to 72 form an integral part of these financial statements.

Report of the independent auditor - page 21

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

		Group		Company	
		2014	2013	2014	2013
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
Cash flows from operating activities					
Cash generated from operations		49,107,052	8,613,144	49,088,564	8,661,527
Income tax paid		(8,805,150)	(10,459,234)	(8,765,036)	(10,437,704)
Net cash from/(used in) operating activities		40,301,902	(1,846,090)	40,323,527	(1,776,177)
Cash flows from investing activities					
Cash paid for purchase of property and equipment	19	(406,577)	(538,539)	(406,577)	(538,539)
Cash paid for purchase of intangible assets	18	(31,188)	-	(31,188)	-
Proceeds from sale of property and equipment		7,000	18,030	7,000	18,030
Net cash used in investing activities		(430,765)	(520,509)	(430,766)	(520,509)
Cash flows from financing activities					
Dividend paid		(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Net cash used in financing activities		(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Increase/(decrease) in cash and cash equivalents		34,871,137	(7,366,599)	34,892,761	(7,296,686)
Movement in cash and cash equivalents					
At start of year		43,764,359	51,130,958	43,573,837	50,870,523
Increase/(decrease) in cash and cash equivalents		34,871,137	(7,366,599)	34,892,761	(7,296,686)
At end of year	**11**	**78,635,496**	**43,764,359**	**78,466,598**	**43,573,837**

The notes on pages 22 to 72 form an integral part of these financial statements.

Report of the independent auditor - page 21.

NOTES: SIGNIFICANT ACCOUNTING POLICIES

1. General Information

Bank of Baroda (Uganda) Limited (the Bank) is incorporated in Uganda under the Companies Act as a limited liability company, and is domiciled in Uganda. 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).

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated 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 consolidated financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

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

Going concern

The financial performance of the group is set out in the report of the directors and in the consolidated statement of profit or loss and the other comprehensive income. The financial position of the group is set out in the consolidated statement of financial position. Disclosures in respect to capital management are set out in note 4 (e).

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

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Going concern (continued)

These consolidated financial statements comply with the requirements of the Companies Act, 2012. The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

2.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the group

The following new and revised Standards and Interpretations have been adopted in the current year.

Unless otherwise disclosed, their adoption has had no material impact on the amounts reported in these consolidated financial statements:

- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities clarifying the meaning of current legal enforceable right of set off and simultaneous realisation and settlement.
- Amendments to IAS 39 in respect of Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IAS 36 in respect of recoverable amount disclosures for non financial assets.

(b) New standards and interpretations that are not yet effective and have not been early adopted

At the date of authorisation of these consolidated financial statements the following standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective for the year presented:

- IFRS 9 in respect of Financial Instruments which will be effective for the accounting periods beginning on or after 1 January 2018.
- Amendments to IAS 16 and IAS 38 in respect of Clarification of Acceptable Methods of Depreciation and Amortisation which will be effective for accounting periods beginning on or after 1 January 2016.
- Annual improvements to IFRS's which will be effective for accounting periods beginning on or after 1 July 2014 as follows:
- IFRS 2 - Definition of vesting conditions
- IFRS 8 - Aggregation of operating segments and reconciliation of total reportable segment assets to entity's assets
- IFRS 13 - Carrying of short term receivables and payables at invoiced amounts
- IAS 16 and IAS 38 - Proportionate restatement of depreciation/amortisation accumulated on revaluation - IAS 24 - Management fee paid to a management entity
- IAS 40 - Application of IAS 40 vs. IFRS 3 on acquisition of investment property

2. Summary of significant accounting policies (Continued)

2.3 Key sources of estimation uncertainty

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

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

- **Impairment of loans and advances** - the company reviews their portfolio of loans and advances on an quaterly basis. In determining whether loans and advances are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cashflows expected.

- **Useful lives of property and equipment** - Management reviews the useful lives and residual values of the items of property and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

- **Fair value measurement and valuation process** - In estimating the fair value of an asset or a liability, the group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the group makes use of financial models or engages third party qualified values to perform the valuation and provide inputs to the model.

2.4 Interest income and expense

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

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

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

2.5 Investment in subsidiary/consolidation

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies. Control is achieved when the company; has power over the trustee; is exposed or has right to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

2. Summary of significant accounting policies (Continued)

2.5 Investment in subsidiary/consolidation (Continued)

The group also assesses the existence of control where it does not have a majority of the voting rights power but is able to govern the financial and operating policies of a subsidiary. Control may arise in certain circumstances such as where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, where potential voting rights are held by the company and rights from other contractual arrangements etc.

When the company has assessed and has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The company 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 controls listed above.

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition and up to the effective date of disposal as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Intra-group balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary adjustments are made to financial statements of the subsidiaries to bring their accounting policies into line with the groups accounting policy.

2.6 Translation of foreign currencies

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Ugandan Shillings (Shs), which is the Bank'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; nonmonetary 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.

2. Summary of significant accounting policies (Continued)

2.6 Translation of foreign currencies (Continued)

(ii) Transactions and balances (continued)

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

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

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

2.7 Fees and commission income and expense

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

2.8 Sale and repurchase agreements

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

2.9 Financial assets and liabilities

2.9.1 **Financial assets**

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

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

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

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

2. Summary of significant accounting policies (Continued)

2.9 Financial assets and liabilities (Continued)

2.9.1 Financial assets (continued)

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

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- The application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- The financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- The financial assets consist of debt host and an embedded derivatives that must be separated.

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

(b) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

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

2. Summary of significant accounting policies (Continued)

2.9 Financial assets and liabilities (Continued)

2.9.1 Financial assets (continued)

(c) Held-to-maturity

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

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

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

(d) Available-for-sale

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

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

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

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

2.9.2 **Financial liabilities**

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

2. Summary of significant accounting policies (Continued)

2.9 Financial assets and liabilities (Continued)

2.9.3 **Measurement**

(a) Fair value measurement

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

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

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

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

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have

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

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

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

(b) Amortised cost measurement

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

2. Summary of significant accounting policies (Continued)

2.9 Financial assets and liabilities (Continued)

2.9.4 Derecognition

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

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

2.9.5 Offsetting

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

2.9.6 Classes of financial instruments

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

Category		*Class (as determined by the Bank)*		*Subclasses*
Financial assets	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities	
			Equity securities	
			Derivatives – non-hedging	
		Financial assets designated at fair value through profit or loss	Debt securities	
			Equity securities	
			Loans and advances to banks	
			customers	
	Loans and receivables	Loans and advances to banks		
		Loans and advances to customers	Loans to individuals (retail)	Overdrafts
				Credit cards
				Term loans
				Mortgages
			Loans to corporate entities	Large corporate
				Customers
				SMEs
		Investment securities - debt instruments		Others
				Listed
	Held-to-maturity Investments	Investment securities - debt instruments		Unlisted
				Listed
		instruments		Listed
	Available-forsale financial assets	instruments		Listed
		Investment securities - equity securities		Listed
				Unlisted
	Financial liabilities at armortised cost	Deposits from banks		
		Deposits from customers	Retail customers	
			Large corporate customers	
			SMEs	
Off-balance sheet financial Instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

2. Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

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

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

(d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) The disappearance of an active market for that financial asset because of financial difficulties; or

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

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

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

2. Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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

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

In addition to the measurement of impairment losses on loans and advances in accordance with the International

Financial Reporting Standards as set out above, the Bank is also required by the Financial Institutions Act (FIA)

2004 to establish provisions for losses on loans and advances as follows;

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

   a) Substandard assets being facilities in arrears between 91 and 180 days – 20%;

   b) Doubtful assets being facilities in arrears between 181 days and 1 year – 50%;

   c) Loss assets being facilities in arrears between over 1 year – 100%; and

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

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

(a) Assets carried at fair value

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

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

2. Summary of significant accounting policies (Continued)

2.11 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Property and equipmeny 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 alue over its estimated usefull life using the following annual rates;

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

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

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

2.12 Intangible assets

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

`2.13 Impairment of non-financial assets

Assets that have an indefinite useful life 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.

2.14 Income tax

(a) Current income tax

The tax expense for the period 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.

2. Summary of significant accounting policies (Continued)

2.14 Income tax (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

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

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

2.15 Accounting for leases

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

(i) With the Bank as lessee

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(ii) With the Bank 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 categorized as unearned finance income. Lease income is categorized over the term of the lease using the net investment method (before income tax), which reflects a constant periodic rate of return.

2.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the Cash Reserve Requirement held with the Central Bank.

2.17 Employee benefits/post employment benefits

A majority of the bank`s employees are eligible for annual leave and long service awards. The bank also contributes for its employees to the National Social Security Fund (NSSF). Provisions for annual leave and long service rewards and contributions to NSSF are charged to the income statement as incurred. Any differences between the charge to income and NSSF contributions payable is recorded in the balance sheet under other payables, while separate provisions are made for leave pay and 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 up to the estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is categorized as an expense accrual.

2. Summary of significant accounting policies (Continued)

2.18 Borrowings

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

2.19 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the categorized amounts and there is an intention to settle on a net basis, or categorise the asset and settle the liability simultaneously.

2.20 Dividends payable

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

2.21 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

3. Critical accounting estimates and judgements in applying accounting policies

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank 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 judgements 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 management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements 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. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. Critical accounting estimates and judgements in applying accounting policies (Continued)

(b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

(c) Held-to-maturity investments

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost. If all held-to-maturity investments were to be so reclassified, the carrying value would reduce by nil (2012: decrease by nil), with a corresponding entry in the fair value reserve in shareholders' equity.

(d) Income taxes

The Bank is subject to income taxes in Uganda. Significant judgment is required in determining the Bank's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank 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.

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 cooperation 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 nonderivative 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; and
- The probability of default by the borrower/client on their contractual obligations;
- 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. Management assesses 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 by the management. The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

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 assesment 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 alloocated 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 mitigants, 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
- Review and assessment of credit risk - 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 management 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 units are 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:
- 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 (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.

Maximum exposure to credit risk before collateral

	2014	**2013**
	Shs'000	**Shs'000**
Placements with other banks	110,750,000	218,525,000
Government & other securities:		
- Held to maturity	27,775,583	29,287,338
- Available for sale	370,631,738	202,794,681
Amounts due from other group companies	16,602,940	4,343,471
Loans and advances to customers (net)	518,221,157	435,559,917
Other assets	2,615,889	2,291,973
Credit exposure relating to off-balance sheet items:		
- Acceptances and letters of credit	48,436,613	21,031,217
- Guarantees and performance	72,005,271	80,837,838
- Commitments to lend	15,605,216	11,856,332
	1,182,644,406	**1,006,527,767**

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

As shown above, 55.32% of the total maximum exposure of the bank is derived from loans and advances to banks and customers (2013: 54.57%). 33.68% represents investments in debt securities (2013: 23.05%).

Loans and advances to customers, other than to major corporate and to individuals borrowing less than Shs 10 million is secured by collateral in the form of charges over land and building, plant and machinery or corporate guarantees

4. Financial Risk Management (Continued)

(a) Credit risk (Continued)

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

- 97.94% of the loans and advances portfolio are neither past due nor impaired
- 98.31% of the loans are backed by collaterals
- 99.80% of the investments in debt securities are government securities.
- The bank exercises stringent control over granting of new loans

	2014	2013
Loans and advances are categorized as follows:	Shs'000	Shs'000
Neither past due nor impaired	513,540,304	430,735,946
Past due but not impaired	3,669,704	1,605,137
Impaired	7,148,482	8,426,547
Gross advances	524,358,490	440,767,630
Less: allowance for impairment (Note 13)	(6,137,332)	(5,207,713)
	518,221,158	435,559,917
No other financial assets are either past due or impaired.		
Loans and advances are categorized as follows:		
Loans and advances neither past due nor impaired		
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank:		
	2014	**2013**
	Shs'000	**Shs'000**
Standard	513,540,304	430,735,946
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:		
	2014	**2013**
	Shs'000	**Shs'000**
Past due up to 30 days	730,255	488,310
Past due 31 – 60 days	690,337	659,980
Past due 61 – 90 days	2,249,112	456,847
Total	**3,669,704**	**1,605,137**

Notes (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:			
		2014	**2013**
Individually assessed impaired loans and advances		**Shs'000**	**Shs'000**
Loans			
-Corporate		487,644	1,673,593
-Retail		3,638,210	3,443,149
		4,125,854	5,116,742
Overdrafts			
-Corporate		753,742	931,156
-Retail		2,268,886	2,378,648
		3,022,628	3,309,804
Total impaired loans and advances		**7,148,482**	**8,426,547**
Concentration of risk			
Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:			
	Loans and advances	**Customer deposits**	**Credit commit-ments**
At 31 December 2014	**%**	**%**	**%**
Manufacturing	23.63	3.75	22.41
Wholesale and retail trade	14.75	6.58	18.95
Transport and communications	0.47	2.24	-
Building and construction	18.46	2.60	6.71
Agricultural	20.63	4.07	32.49
Individuals	0.98	80.76	-
Other	21.08	-	19.44
Gross	100.00	100.00	100.00
At 31 December 2013			
Manufacturing	21.03	3.93	13.65
Wholesale and retail trade	10.91	4.62	21.92
Transport and communications	1.06	0.23	-
Building and construction	20.13	2.34	0.83
Agricultural	20.02	3.48	27.18
Individuals	1.38	85.40	-
Other	25.47	-	36.42
Gross	100.00	100.00	100.00

4. Financial Risk Management (Continued)

(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 contigencies. 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 certainity.

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 bank`s financial assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

4. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

	Upto 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
At 31 December 2014	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets						
Cash and balances with Bank of Uganda	78,466,598	-	-	-	-	78,466,598
Other financial assets	84,521,983	118,835,600	240,527,425	65,272,312	-	509,157,320
Loans and advances to customers	28,287,631	44,034,889	80,958,604	176,217,420	188,722,614	518,221,158
Investment in subsidiary	-	-	-	-	40,000	40,000
Other assets	-	-	2,615,889	-	-	2,615,889
Amounts due from overseas branches of parent bank	16,602,940	-	-	-	-	16,602,940
Intangible assets	-	-	-	-	20,792	20,792
Property and equipment	-	-	-	-	10,074,007	10,074,007
Deferred tax	-	-	-	-	653,531	653,531
Total assets (expected maturity dates)	207,879,152	162,870,489	324,101,918	241,489,732	199,510,944	1,135,852,235
Liabilities and shareholders` equity						
Customer deposits	85,151,785	132,437,256	473,620,591	14,133,101	120,764,637	826,107,370
Other financial liabilities	53,844,298	-	-	-	-	53,844,298
Amounts due to overseas branches of parent bank	324,794	-	-	-	-	324,794
Deposits and balances due to banking institutions	6,734,241	-	-	-	-	6,734,241
Other liabilities	3,404,972	5,322,403	44,045,438	771,900	-	53,544,713
Retirement benefit obligations		-	-	-	1,353,892	1,353,892
Current tax payable	244,897	-	-	-	-	244,897
Capital and reserves	-	-	-	-	193,698,030	193,698,030
Total liabilities and equity (contractual maturity dates)	**149,704,987**	**137,759,659**	**517,666,029**	**14,905,001**	**315,816,559**	**1,135,852,235**
On balance sheet liquidity gap	**58,174,165**	**25,110,830**	**(193,564,111)**	**226,584,731**	**(116,305,615)**	**-**
Off balance sheet						
Acceptance guarantees, letters of credit	40,657,199	32,721,729	46,878,835	184,121	-	120,441,884
Credit commitments	15,605,216	-	-	-	-	15,605,216
Total off balance sheet	56,262,415	32,721,729	46,878,835	184,121	-	136,047,100
Net liquidity gap	**1,911,750**	**(7,610,899)**	**(240,442,946)**	**226,400,610**	**(116,305,615)**	**(136,047,100)**

Notes (Continued)

4. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

	Upto 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
At 31 December 2013	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets						
Cash and balances with Bank of Uganda	43,573,837	-	-	-	-	43,573,837
Other financial assets	169,585,400	59,237,500	175,252,884	46,531,235	-	450,607,019
Loans and advances to customers	25,203,863	35,429,325	64,728,633	161,641,072	148,557,024	435,559,917
Investment in subsidiary	-	-	-	-	40,000	40,000
Other assets	2,210,926	81,047	-	-	-	2,291,973
Amounts due from overseas branches of parent bank	4,343,471	-	-	-	-	4,343,471
Property and equipment	-	-	-	-	11,033,086	11,033,086
Current tax receivable	-	-	-	-	555,875	555,875
Deferred tax	-	-	-	-	261,842	261,842
Total assets (expected maturity dates)	**244,917,497**	**94,747,872**	**239,981,517**	**208,172,307**	**160,447,827**	**948,267,020**
Liabilities and shareholders` equity						
Customer deposits	59,287,374	115,693,942	294,888,133	67,951,925	109,718,990	647,540,364
Other financial liabilities	92,223,300	-	-	9,140,497	-	101,363,797
Amounts due to overseas branches of parent bank	8,528	-	-	-	-	8,528
Deposits and balances due to banking institutions	572,392	-	-	-	-	572,392
Other liabilities	3,299,044	5,913,614	22,219,847	3,791,121	-	35,223,626
Retirement benefit obligations	-	-	-	-	1,203,842	1,203,842
Capital and reserves	-	-	-	-	162,354,471	162,354,471
Total liabilities and equity (contractual maturity dates)	**155,390,638**	**121,607,556**	**317,107,980**	**80,883,543**	**273,277,303**	**948,267,020**
On balance sheet liquidity gap	**89,526,859**	**(26,859,684)**	**(77,126,463)**	**127,288,764**	**(112,829,476)**	**-**
Off balance sheet						
Acceptance guarantees, letters of credit	12,777,072	17,104,911	57,401,572	14,585,500	-	101,869,055
Credit commitments	11,856,332	-	-	-	-	11,856,332
Total off balance sheet	24,633,404	17,104,911	57,401,572	14,585,500	-	113,725,387
Net liquidity gap	**64,893,455**	**(43,964,595)**	**(134,528,035)**	**112,703,264**	**(112,829,476)**	**(113,725,387)**

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 (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) 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 occuring 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. 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 after 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 reporting to the Board of Directors.

VaR summary for 2014 and 2013:

- Bank VaR by risk type

	Average Shs`000	High Shs`000	Low Shs`000
12 Months ending 31 December 2014			
Foreign exchange risk	1,625,950	1,675,883	1,550,540
Interest rate risk	1,847,326	1,922,317	1,689,989
	3,473,276	3,598,200	3,240,529
12 Months ending 31 December 2013			
Foreign exchange risk	1,381,850	1,432,535	1,305,306
Interest rate risk	716,020	764,936	642,725
	2,097,870	2,197,471	1,948,031

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk

- **Value at Risk (Continued)**

- Non trading portfolio VaR by risk type

		Average	High	Low
		Shs`000	Shs`000	Shs`000
12 Months ending 31 December 2014				
Foreign exchange risk		1,625,950	1,675,884	1,550,540
Interest rate risk		1,847,326	1,922,317	1,689,989
		3,473,276	3,598,200	3,240,529
12 Months ending 31 December 2013				
Foreign exchange risk		1,381,850	1,432,535	1,305,306
Interest rate risk		716,020	764,936	642,725
		2,097,870	2,197,471	1,948,031

- **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 bank 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 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 strenghtened against each currency, the effect would have been the opposite.

	USD	EURO	GBP	Other currencies
Year ended 31 December 2013				
Effect on profit and equity : decrease	(774,368)	(107,698)	(14,972)	(92,770)
Year ended 31 December 2014				
Effect on profit and equity : decrease	(1,043,326)	(12,733)	(3,647)	(206,473)

(ii) Currency Risk

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

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk

(ii) Currency risk (Continued)

	EURO	USD	GBP	USH	Others	Total
At 31 December 2014	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets						
Cash and balances with Bank of Uganda	713,132	2,362,583	37,177	75,341,370	12,336	78,466,598
Other financial assets	-	83,250,000	6,102,000	419,805,320	-	509,157,320
Loans and advances to customers	-	236,922,784	-	281,298,373	-	518,221,157
Investment in subsidiary	-	-	-	40,000	-	40,000
Other assets	-	287,596	-	2,328,293	-	2,615,889
Amounts due from overseas branches of parent bank	3,258,922	12,962,409	349,862	-	31,747	16,602,940
Intangible assets	-	-	-	20,792	-	20,792
Property and equipment	-	-	-	10,074,008	-	10,074,008
Deferred tax	-	-	-	653,531	-	653,531
Total Assets	3,972,054	335,785,372	6,489,039	789,561,687	44,083	1,135,852,235
Liabilities and shareholders` equity						
Customer deposits	4,667,783	317,832,561	6,324,273	497,233,757	48,996	826,107,370
Other financial liabilities	16,764	-	85,104	53,742,430	-	53,844,298
Amounts due to overseas branches of parent bank	-	-	-	-	324,794	324,794
Deposits and balances due to banking institutions	-	6,734,241	-		-	6,734,241
Other liabilities	26,970	7,515,426	86,579	45,855,252	60,486	53,544,713
Retirement benefit obligations	-	-	-	1,353,892	-	1,353,892
Current tax payable	-	-	-	244,897	-	244,897
Capital and reserves	-	-	-	193,698,030	-	193,698,030
Total liabilities and shareholders' equity	4,711,517	332,082,228	6,495,956	792,128,258	434,276	1,135,852,235
Net on Balance sheet position	(739,463)	3,703,144	(6,917)	(2,566,571)	(390,193)	-
Off balance sheet						
Acceptance guarantees, letters of credit	17,712,174	74,468,290	-	25,612,567	2,648,853	120,441,884
Credit commitments	-	-	-	15,605,216	-	15,605,216
Net off Balance sheet position	17,712,174	74,468,290	-	41,217,783	2,648,853	136,047,100
Overall position	**16,972,711**	**78,171,434**	**(6,917)**	**38,651,212**	**2,258,660**	**136,047,100**
At 31 December 2013						
Total Assets	927,313	241,115,498	6,113,843	699,988,205	122,161	948,267,020
Total Liabilities	1,025,221	240,411,525	6,100,232	700,534,358	195,684	948,267,020
Net on Balance sheet position	(97,908)	703,973	13,611	(546,153)	(73,523)	-
Net off Balance sheet position	262,229	74,844,182	29,775	35,475,396	3,113,804	113,725,386
Overall position	**164,321**	**75,548,155**	**43,386**	**34,929,243**	**3,040,281**	**113,725,386**

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(ii) Currency risk (Continued)

Exchange rates used for conversion of foreign items were:

	Group		Company	
	2014	**2013**	**2014**	**2013**
US Dollar	2775	2525	2775	2525
GBP	4320	4162	4320	4162
Euro	3374	3483	3374	3483
INR	44	41	44	41
KShs	31	29	31	29

(iii) Interest rate risk

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 optmizing 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 aderve impact of interest rate changes.

The table summarises the exposure to interest rate risk at the balance sheet date. 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

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(iii) Interest rate risk (Continued)

At 31 December 2014	Upto 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with Bank of Uganda	-	-	-	-	-	78,466,598	78,466,598
Other financial assets	84,521,983	118,835,600	240,527,425	65,272,312	-	-	509,157,320
Loans and advances to customers	28,287,630	44,034,889	80,958,604	176,217,420	188,722,614	-	518,221,157
Investment in subsidiary	-	-	-	-	-	40,000	40,000
Other assets	-	-	-	-	-	2,615,889	2,615,889
Amounts due from overseas branches of parent bank	16,602,940	-	-	-	-	-	16,602,940
Intangible assets	-	-	-	-	-	20,792	20,792
Property and equipment	-	-	-	-	-	10,074,008	10,074,008
Deferred tax	-	-	-	-	-	653,531	653,531
Total assets	**129,412,553**	**162,870,489**	**321,486,029**	**241,489,732**	**188,722,614**	**91,870,818**	**1,135,852,235**
Liabilities and shareholders` equity							
Customer deposits	85,151,785	132,437,256	473,620,591	14,133,101	120,764,637	-	826,107,370
Other financial liabilities	53,844,298	-	-	-	-	-	53,844,298
Amounts due to overseas branches of parent bank	324,794	-	-	-	-	-	324,794
Deposits and balances due to banking institutions	6,734,241	-	-	-	-	-	6,734,241
Other liabilities	-	-	-	-	-	53,544,713	53,544,713
Retirement benefit obligations	-	-	-	-	-	1,353,892	1,353,892
Current tax payable	-	-	-	-	-	244,897	244,897
Capital and reserves	-	-	-	-	-	193,698,030	193,698,030
Total liabilities and shareholders' equity	**146,055,118**	**132,437,256**	**473,620,591**	**14,133,101**	**120,764,637**	**248,841,532**	**1,135,852,235**
Interest sensitivity gap as at 31 December 2014	**(16,642,565)**	**30,433,233**	**(152,134,562)**	**227,356,631**	**67,957,977**	**(156,970,714)**	**-**
At 31 December 2013							
Total Assets	199,132,734	94,666,825	239,981,517	208,172,307	148,557,024	57,756,613	948,267,020
Total Liabilities and equity	152,091,594	115,693,942	294,888,133	77,092,422	109,718,990	198,781,939	948,267,020
Interest sensitivity gap as at 31 December 2013	**47,041,140**	**(21,027,117)**	**(54,906,616)**	**131,079,885**	**38,838,034**	**(141,025,326)**	**-**

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 banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Management is of the view that the mismatch does not subject the bank to severe liquidity risks because maturities for all government securities and balances with overseas banks 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:

	2014			
	Shs	US $	GB£	Euro
	%	%	%	%
Government securities	13.14	-	-	-
Other financial assets	11.00	2.61	-	-
Customer deposits	5.94	-	-	-
	2013			
	Shs	US $	GBP £	Euro
	%	%	%	%
Government securities	11.46	-	-	-
Other financial assets	11.68	2.55	-	-
Customer deposits	6.01	-	-	-

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.

(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.

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 yearic 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 is 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 risks inherent in its trading and non-trading positions

(d) Fair values of financial assets and liabilities

The Directors estimate the fair values of the Bank's 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 balance sheet date.

The directors consider that there is no material difference between the fair value and carrying value of the banks' financial assets and liabilities where fair value details have not been presented, except as explained above.

(e) Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- To comply with the capital requirements set by Bank of Uganda;
- To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.

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 quaterly basis.

Bank of Uganda requires each bank to: (a) hold the minimum level of regulatory capital of Shs 25 Billion as at 31 December 2014; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

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

- Tier 1 capital (core capital): share capital, share premium, 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, deficiencies in provisions for losses, other deductions determined by BOU are deducted in arriving at tier 1 capital

- Tier 2 capital (Supplementary capital): Revaluation reserves, collective impairment allowance, subordinated debt and hybrid capital instruments.

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

The table below summarizes the composition of regulatory capital and the ratios of the Bank at 31 December:

Core Capital (Tier 1)	**2014**	**2013**
	Shs'000	**Shs'000**
Permanent shareholders' equity	25,000,000	25,000,000
Retained income	152,495,679	123,263,850
Investment in subsidiary	(40,000)	(40,000)
Deferred income tax	(653,531)	(261,842)
Intangible assets	(20,792)	-
Unrealised foreign exchange gain	(1,535)	(469)
Total Tier 1 Capital	176,779,821	147,961,539
Supplementary Capital (Tier 2)		
Unencumbered general provisions for losses	5,182,213	4,247,868
Revaluation reserve	4,673,257	4,842,753
Total Tier 2 Capital	9,855,470	9 ,090,621
Total Capital (Tier 1+Tier 2)	**1 86,635,291**	**157,052,160**

The risk–weighted assets are measured by means of hierarchy of five risk weights classified according o the nature of and reflecting an estimate of credit, market and market risks associated with each asset and counter-party, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential losses.

4. Financial Risk Management (Continued)

(e) Capital Management (Continued)

The table below summarises the composition of the risk weighted assets of the Bank:

Year ended 31 December 2014	Balance sheet	Risk weight	Risk weighted amounts
Assets			
Notes, coins & other cash assets	8,769,061	0%	-
Balances with Bank of Uganda	69,697,537	0%	-
Placement with Bank of Uganda	27,500,000	0%	-
Due from commercial banks in Uganda	30,525,000	20%	6,105,000
Due from foreign banking institutions outside Uganda	25,006,747	100%	25,006,747
Due from foreign related banking institutions outside Uganda	44,321,193	20%	8,864,239
Government securities	398,407,320	0%	-
Loans and advances to customers (Excluding loans secured by 100% cash margin)	480,719,615	100%	480,719,615
Outstanding balance fully secured by FDR/SDR	37,501,542	0%	-
Investment in subsidiary	40,000	0%	-
Property and equipment	10,074,008	100%	10,074,008
Intangible assets	20,792	0%	-
Deferred income tax	653,531	0%	-
Other assets	2,615,889	100%	2,615,889
Sub total	1,135,852,235		533,385,498
Off-balance sheet items			
Contigents secured by cash collateral	18,115,793	0%	-
Direct credit substitutes (guarantees and acceptances)	22,460,884	100%	22,460,884
Direct credit substitutes (multilateral banks)	4,371,025	100%	4,371,025
Transaction related (performance bonds and standbys)	16,546,278	50%	8,273,139
Documentary Credits (trade related and self liquidating)	41,463,807	20%	8,292,761
Other Commitments (unused formal facilities)	15,605,216	50%	7,802,608
Sub total	118,563,003		51,200,417
Total risk-weighted assets			**584,585,915**
		2014	**2013**
		Shs'000	**Shs'000**
On balance sheet		533,385,498	446,649,244
Off Balance sheet		51,200,417	40,088,210
Total risk-weighted assets		584,585,915	486,737,454
Tier 1 Capital		176,779,821	147,961,539
Total Capital (Tier 1+Tier 2)		186,635,291	157,052,160
Capital Ratio			
Tier 1 (BOU Minimum - 8%)		30.24%	30.40%
Tier 1 + Tier 2 (BOU Minimum - 12%)		31.92%	32.27%

4. Financial Risk Management (Continued)

(e) Capital Management (Continued)

	Year ended 31 December 2013	Balance sheet	Risk weight	Risk weighted amounts
	Assets			
	Notes, coins & other cash assets	8,183,175	0%	-
	Balances with Bank of Uganda	35,390,662	0%	-
	Placement with Bank of Uganda	142,300,000	0%	-
	Due from commercial banks in Uganda	40,875,000	20%	8,175,000
	Due from foreign banking institutions outside Uganda	12,735,124	100%	12,735,124
	Due from foreign related banking institutions outside Uganda	26,958,347	20%	5,391,669
	Government securities	232,082,019	0%	-
	Loans and advances to customers (Excluding loans secured by 100% cash margin)	406,466,517	100%	406,466,517
	Outstanding balance fully secured by FDR/SDR	29,093,400	0%	-
	Investment in subsidiary	40,000	0%	-
	Property and equipment	11,033,085	100%	11,033,085
	Intangible assets	-	0%	-
	Deferred income tax	261,842	0%	-
	Other assets	2,847,849	100%	2,847,849
	Sub total	**948,267,020**		**446,649,244**
	Off-balance sheet items			
	Contigents secured by cash collateral	14,397,011	0%	-
	Direct credit substitutes (guarantees and acceptances)	15,970,897	100%	15,970,897
	Direct credit substitutes (multilateral banks)	40,507,614	20%	8,101,523
	Transaction related (performance bonds and standbys)	12,963,058	50%	6,481,529
	Documentary Credits (trade related and self liquidating)	18,030,475	20%	3,606,095
	Other Commitments (unused formal facilities)	11,856,332	50%	5,928,166
	Sub total	**113,725,387**		**40,088,210**
	Total risk-weighted assets			**486,737,454**
			2013	**2012**
			Shs'000	**Shs'000**
	On balance sheet		446,649,244	384,083,993
	Off Balance sheet		40,088,210	32,989,960
	Total risk-weighted assets		486,737,454	417,073,953
	Tier 1 Capital		147,961,539	115,097,394
	Total Capital (Tier 1+Tier 2)		**157,052,160**	**123,590,682**
	Capital Ratio			
	Tier 1 (BOU Minimum - 8%)		30.40%	27.60%
	Tier 1 + Tier 2 (BOU Minimum - 12%)		32.27%	29.63%

Notes (Continued)

		Group		Company	
		2014	2013	2014	2013
5.	Interest income	Shs'000	Shs'000	Shs'000	Shs'000
	Income from treasury bills	36,019,133	13,871,109	36,019,133	13,871,109
	Income from treasury bonds	336,179	7,720,537	336,179	7,720,537
	Income earned from placements, corporate bonds and repos	10,271,441	11,722,869	10,271,441	11,722,869
	Income from loans and advances	73,341,096	61,722,194	73,341,096	61,722,194
		119,967,849	**95,036,709**	**119,967,849**	**95,036,709**
6.	Interest expense				
	Demand deposits	59,507	24,897	59,507	24,897
	Savings accounts	1,465,380	1,477,054	1,465,380	1,477,054
	Time deposits	55,823,640	41,805,779	55,823,640	41,805,779
	Others	4,658,456	3,969,201	4,658,456	3,969,201
		62,006,983	**47,276,931**	**62,006,983**	**47,276,931**
7.	Non interest income/other income				
	Profit on sale of property and equipment	4,472	11,346	4,472	11,346
	Fees and commision income	12,982,489	10,614,974	12,982,489	10,614,974
	Gains arising from dealing in foreign currencies	1,575,151	2,199,165	1,575,151	2,199,165
	Profit on sale of investments	507,757	365,307	507,757	365,307
	Other income	170,049	115,461	-	-
		15,239,918	**13,306,253**	**15,069,869**	**13,190,792**
8.	Non interest expense				
	Employee benefits expense (Note 9)	9,625,473	8,362,435	9,607,575	8,362,435
	Advertising	194,314	203,340	194,314	203,340
	Auditor's remuneration				
	- current year	111,976	100,822	110,519	100,822
	Depreciation, amortization and impairments	1,374,146	1,590,401	1,373,523	1,589,612
	Repairs and maintainance	394,299	551,149	394,299	551,149
	Directors' emoluments as excutives	124,403	227,994	124,403	227,994
	Administration and management fees	3,507,585	3,334,648	3,507,585	3,334,648
	Consulting and professional fees	272,444	381,978	272,444	381,978
	General expenses	5,865,662	5,401,002	5,831,670	5,371,236
	Bad debts written off	4,503,095	958,786	4,503,095	958,786
		25,973,397	**21,112,555**	**25,919,427**	**21,082,000**
9.	Employee Benefits Expense				
	Salaries and wages	8,292,989	7,187,889	8,275,091	7,187,889
	Other benefits	386,363	429,460	386,363	429,460
	Post- employment benefits	946,121	745,086	946,121	745,086
		9,625,473	**8,362,435**	**9,607,575**	**8,362,435**

		Group		Company	
		2014	2013	2014	2013
10.	**Income tax expense**	Shs'000	Shs'000	Shs'000	Shs'000
	Current income tax	3,850,681	5,516,333	3,815,975	5,490,847
	Deferred income tax - (credit)/charge (Note 17)	(192,508)	150,736	(192,485)	150,750
	WHT as final tax	5,749,833	4,300,622	5,749,833	4,300,622
	Income tax- prior period recognised in current year	-	96,894	-	96,618
		9,408,006	**10,064,585**	**9,373,323**	**10,038,837**

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

	Group		Company	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax	46,297,768	40,948,310	46,181,690	40,863,404
Tax calculated at domestic rates applicable in Uganda - 30% (2013 - 30%)	13,889,330	12,284,493	13,854,507	12,259,021
Tax effect of:				
- WHT as final tax	5,749,833	4,300,622	5,749,833	4,300,622
- Income not subject to tax	(10,302,290)	(7,494,876)	(10,302,149)	(7,494,876)
- Fines and penalties	-	96,894	-	96,618
- Expenses not deductible for tax purposes	71,132	877,452	71,132	877,452
Tax	**9,408,006**	**10,064,585**	**9,373,323**	**10,038,837**

11. Cash and balances with the Central Bank

	Group 2014	Group 2013	Company 2014	Company 2013
Cash in hand	8,937,959	8,183,175	8,769,061	8,183,175
Balances with Bank of Uganda	69,697,537	35,581,184	69,697,537	35,390,662
	78,635,496	**43,764,359**	**78,466,598**	**43,573,837**

The carrying amounts of the group's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2014	2013	2014	2013
Uganda Shilling	75,133,523	37,911,859	75,133,523	37,911,859
Kenya Shilling	12,337	12,038	12,337	12,038
US Dollar	3,212,247	5,329,224	3,212,247	5,329,224
Euro	71,313	101,380	71,313	101,380
Great Britain Pound	37,178	219,337	37,178	219,337
	78,466,598	**43,573,837**	**78,466,598**	**43,573,837**

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. As at 31 December 2014, the mandatory deposits were 8% of total deposits (2013: 8% of total deposits).

		Group		Company	
		2014	2013	2014	2013
12.	Other financial assets	Shs'000	Shs'000	Shs'000	Shs'000
	Available-for-sale				
	- Treasury bills for 91 days	268,026,125	141,013,004	268,026,125	141,013,004
	- Treasury bonds after 91 days	99,039,021	59,120,520	99,039,021	59,120,520
	- Corporate bonds	769,622	1,060,713	769,622	1,060,713
	- Interest receivable	2,796,970	1,600,444	2,796,970	1,600,444
		370,631,738	**202,794,681**	**370,631,738**	**202,794,681**
	Held to Maturity				
	- Treasury bills for 91 days	1,233,900	1,868,600	1,233,900	1,868,600
	- Treasury bills between 92 days to 1 year	-	8,000,000	-	8,000,000
	- Treasury bonds after 1 year	26,541,683	19,418,738	26,541,683	19,418,738
		27,775,583	**29,287,338**	**27,775,583**	**29,287,338**
Due from other financial institutions					
	- Placements with other financial institutions	110,750,000	218,525,000	110,750,000	218,525,000
	Total other financial assets	**509,157,320**	**450,607,019**	**509,157,320**	**450,607,019**
	Broken into;				
	- Available-for-sale	370,631,738	202,794,681	370,631,738	202,794,681
	- Held to maturity	27,775,583	29,287,338	27,775,583	29,287,338
	- Due from other financial institutions	110,750,000	218,525,000	110,750,000	218,525,000
		509,157,320	**450,607,019**	**509,157,320**	**450,607,019**

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

		Group		Company	
		2014	2013	2014	2013
		Shs'000	Shs'000	Shs'000	Shs'000
	At start of year	202,794,681	149,630,341	202,794,681	149,630,341
	Addition/(deduction) - net	167,308,600	50,985,355	167,308,600	50,985,355
	Interest receivable	1,192,468	(487,958)	1,192,468	(487,958)
	Net (loss)/gain in fair value of available-for-sale securities	(664,012)	2,666,943	(664,012)	2,666,943
		370,631,737	**202,794,681**	**370,631,737**	**202,794,681**

The weighted average effective interest rate on treasury bonds as at 2014 was 13.54% (2013: 11.84%) and on treasury bills was 12.74% (2013: 11.07%).
The weighted average effective interest rate on local placements as at 2014 was 11.00% (2013: 11.68%) and on foreign placements was 2.61% (2013: 2.55%).
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.
There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2014 and 2013, as all the financial assets were disposed of at their redemption date.

Notes (Continued)

		Group		Company	
		2014	2013	2014	2013
13.	**Loans and advances to customers**	Shs'000	Shs'000	Shs'000	Shs'000
	Overdrafts	277,239,448	231,745,749	277,239,448	231,745,749
	Demand and term loans	246,636,501	208,485,678	246,636,501	208,485,678
	Personal loans	482,540	536,204	482,540	536,204
	Gross loans and advances	524,358,489	440,767,631	524,358,489	440,767,631
	Less: Provision for impairment	(6,137,332)	(5,207,714)	(6,137,332)	(5,207,714)
		518,221,157	**435,559,917**	**518,221,157**	**435,559,917**
	Movements in provisions for impairment of loans and advances are as follows:				
	At start of year	5,207,714	6,202,548	5,207,714	6,202,548
	Additional provision in the year	2,224,729	-	2,224,729	-
	Recoveries/upgradation	(125,925)	(35,220)	(125,925)	(35,220)
	Write offs during the year	(1,169,186)	(959,614)	(1,169,186)	(959,614)
	At end of year	**6,137,332**	**5,207,714**	**6,137,332**	**5,207,714**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2014 was Shs 7,148.48 Million (2013: Shs 8,426.55 Million) on which provision of Shs. 6,137.33 Million (2013: Shs. 5,207.71 Million).

Advances to customers include loans to employees of Shs 483 Million (2013: Shs. 536 Million). The weighted average effective interest rate on local currency loans and advances to customers as at 2014 was 18.84% (2013: 17.67%) and 8.07% (2013: 7.44%) for foreign currency loans and advances.

		2014	2013	2014	2013
14.	**Deposits due to/(from) overseas branches of parent company**	Shs'000	Shs'000	Shs'000	Shs'000
	Bank of Baroda, London - GBP	349,863	114,487	349,863	114,487
	Bank of Baroda, Nairobi - Kshs	31,747	110,124	31,747	110,124
	Bank of Baroda, Mumbai - INR	(324,794)	(8,528)	(324,794)	(8,528)
	Bank of Baroda, Brussels - Euro	3,258,923	404,725	3,258,923	404,725
	Bank of Baroda, New York - US Dollar	12,962,407	3,714,135	12,962,407	3,714,135
		16,278,146	**4,334,943**	**16,278,146**	**4,334,943**
	Classified as;				
	Current assets	16,602,940	4,343,471	16,602,940	4,343,471
	Current liabilities	(324,794)	(8,528)	(324,794)	(8,528)
		16,278,146	**4,334,943**	**16,278,146**	**4,334,943**

The weighted average effective interest rate on deposits due to overseas branches of parent company as at 2014 was 0.78% (2013: 1.13%).

14. Deposits due to/(from) overseas branches of parent company (Continued)

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

			Group		Company	
			2014	**2013**	**2014**	**2013**
	Kenya Shilling		31,747	110,124	31,747	110,124
	US Dollar		12,962,407	3,714,135	12,962,407	3,714,135
	Euro		3,258,923	404,725	3,258,923	404,725
	Indian Rupees		(324,794)	(8,528)	(324,794)	(8,528)
	Great Britain Pound		349,863	114,487	349,863	114,487
			16,278,146	**4,334,943**	**16,278,146**	**4,334,943**
			Group		**Company**	
			2014	**2013**	**2014**	**2013**
15.	**Other assets**		**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
	Clearing account		198,655	257,369	198,655	257,369
	Stationery account		-	14,727	-	14,727
	Others		2,701,974	2,275,079	2,417,234	2,019,877
			2,900,629	**2,547,175**	**2,615,889**	**2,291,973**
16.	**Investment in subsidiary**					
	The composition of the group is as follows:					
				Holding		**Company**
		Country of	**2014**	**2013**	**2014**	**2013**
	Subsidiary	**incorporation**	**%**	**%**	**Shs'000**	**Shs'000**
	Baroda Capital Markets Limited	Uganda	100	100	**40,000**	**40,000**
17.	**Deferred tax**					
	Deferred income tax is calculated using the enacted income tax rate of 30% (2013: 30%). The movement on the deferred income tax account is as follows:					
			Group		**Company**	
			2014	**2013**	**2014**	**2013**
			Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
	At start of year		(266,519)	(1,219,252)	(261,842)	(1,212,675)
	Statement of profit or loss - (credit)/charge		(192,508)	226,012	(192,485)	150,750
	Statement of other comprehensive income -	credit/(charge)	(197,426)	726,721	(199,204)	800,083
	At end of year		**(656,453)**	**(266,519)**	**(653,531)**	**(261,842)**

Notes (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 are attributable to the following items:

Group	**At start of year**	**Credited to profit or loss**	**Credited to other comprehensive income**	**At end of year**
Year ended 31 December 2014	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Deferred income tax liabilities				
Property and equipment				
- accelerated tax depreciation	506,286	(1,586)	-	504,699
- revaluation	1,707,247	(72,641)	-	1,634,606
	2,213,533	(74,228)	-	2,139,305
Deferred income tax assets				
Provisions	(2,178,543)	(118,280)	-	(2,296,823)
Other financial assets carried at fair value	(301,509)	-	(197,426)	(498,935)
	(2,480,051)	(118,280)	(197,426)	(2,795,758)
Net deferred income tax asset	**(266,519)**	**(192,508)**	**(197,426)**	**(656,453)**
Company	**At start of year**	**Credited to profit or loss**	**Credited to other comprehensive income**	**At end of year**
Year ended 31 December 2014	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Deferred income tax liabilities				
Property and equipment				
- accelerated tax depreciation	505,825	(1,563)	-	504,262
- revaluation	1,707,247	(72,641)	-	1,634,606
	2,213,072	(74,204)	-	2,138,868
Deferred income tax assets				
Provisions	(2,178,543)	(118,280)	-	(2,296,823)
Other financial assets carried at fair value	(296,371)	-	(199,204)	(495,574)
	(2,474,914)	(118,280)	(199,204)	(2,792,398)
Net deferred income tax asset	**(261,842)**	**(192,485)**	**(199,204)**	**(653,530)**

			Group		Company	
18.	**Intangible assets**		**2014**	**2013**	**2014**	**2013**
	Cost					
	At start of year		53,286	53,286	53,286	53,286
	Additions		31,188	-	31,188	-
	At end of year		84,474	53,286	84,474	53,286
	Amortisation					
	At start of year		53,286	53,286	53,286	53,286
	Charge fo the year		10,396	-	10,396	-
	At end of year		63,682	53,286	63,682	53,286
	Net book value		**20,792**	**-**	**20,792**	**-**
19.	**Property and Equipment**					
	Group					
		Buildings	**Fixtures and fittings**	**Motor Vehicles**	**IT Equipment**	**Total**
	Year ended 31 December 2014	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
	Opening net book amount	6,817,246	3,166,295	309,000	744,453	11,036,994
	Additions	13,038	126,988	-	266,551	406,577
	Disposals (net)	-	(2,528)	-	-	(2,528)
	Depreciation charge	(560,041)	(411,345)	(61,800)	(330,564)	(1,363,750)
	Closing net book amount	**6,270,243**	**2,879,410**	**247,200**	**680,440**	**10,077,293**
	At 31 December 2014					
	Cost or valuation	11,200,817	6,421,116	1,039,780	3,852,393	22,514,107
	Accumulated depreciation	(4,930,574)	(3,541,706)	(792,580)	(3,171,953)	(12,436,814)
	Net book Value	**6,270,243**	**2,879,410**	**247,200**	**680,440**	**10,077,293**
	Year ended 31 December 2013					
	Opening net book amount	7,376,634	3,341,458	388,654	988,793	12,095,539
	Additions	-	280,949	-	257,590	538,539
	Disposals (net)	-	(4,280)	(2,404)	-	(6,684)
	Depreciation charge	(559,388)	(451,832)	(77,250)	(501,930)	(1,590,401)
	Closing net book amount	**6,817,246**	**3,166,295**	**309,000**	**744,453**	**11,036,994**
	At 31 December 2013					
	Cost or valuation	11,187,780	6,296,656	1,039,780	3,585,842	22,110,058
	Accumulated depreciation	(4,370,534)	(3,130,361)	(730,780)	(2,841,389)	(11,073,064)
	Net book Value	**6,817,246**	**3,166,295**	**309,000**	**744,453**	**11,036,994**

19. Property and Equipment (Continued)

	Company					
		Buildings	Fixtures and fittings	Motor Vehicles	IT Equipment	Total
	Year ended 31 December 2014	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
	Opening net book amount	6,817,246	3,163,034	309,000	743,806	11,033,086
	Additions	13,038	126,988	-	266,551	406,577
	Disposals (net)	-	(2,528)	-	-	(2,528)
	Depreciation charge	(560,041)	(410,937)	(61,800)	(330,349)	(1,363,127)
	Closing net book amount	**6,270,243**	**2,876,557**	**247,200**	**680,008**	**10,074,008**
	At 31 December 2014					
	Cost	11,200,817	6,380,201	1,039,780	3,848,059	22,468,858
	Accumulated depreciation	(4,930,574)	(3,503,644)	(792,580)	(3,168,051)	(12,394,850)
	Net book Value	6,270,243	2,876,557	247,200	680,008	10,074,008
	Year ended 31 December 2013					
	Opening net book amount	7,376,634	3,337,731	388,654	987,823	12,090,842
	Additions	-	280,949	-	257,590	538,539
	Disposals (net)	-	(4,280)	(2,404)	-	(6,684)
	Depreciation charge	(559,388)	(451,366)	(77,250)	(501,607)	(1,589,612)
	Closing net book amount	6,817,246	3,163,034	309,000	743,806	11,033,086
	At 31 December 2013					
	Cost	11,187,780	6,289,953	1,039,780	3,581,508	22,099,021
	Accumulated depreciation	(4,370,534)	(3,126,919)	(730,780)	(2,837,702)	(11,065,935)
	Net book Value	**6,817,246**	**3,163,034**	**309,000**	**743,806**	**11,033,086**

			Group		Company	
			2014	**2013**	**2014**	**2013**
20.	**Other financial liabilities**		**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
	At fair value through profit or loss					
	- Bank loan		45,000,000	92,223,300	45,000,000	92,223,300
	Held at amortised cost					
	- Other bank borrowings		8,844,298	9,140,497	8,844,298	9,140,497
			53,844,298	**101,363,797**	**53,844,298**	**101,363,797**

The weighted average effective rate of interest on foreign bank borrowings as at 2014 was 0.45% (2013: 0.41%). The weighted average effective rate of interest on local bank borrowings as at 2014 was 9.84% (2013: 17.74%).

		Group			Company
		2014	2013	2014	2013
21.	Customer deposits	Shs'000	Shs'000	Shs'000	Shs'000
	Current and demand deposits	126,814,315	129,445,191	126,814,315	129,445,187
	Savings deposits	110,572,992	90,026,305	110,572,992	90,026,305
	Time deposits	588,720,063	428,068,872	588,720,063	428,068,872
		826,107,370	**647,540,368**	**826,107,370**	**647,540,364**
	Analysis of customer deposits by maturity:				
	- Payable within 90 days	217,589,041	174,981,320	217,589,041	174,981,316
	- Payable after 90 days and within one year	473,620,591	294,888,133	473,620,591	294,888,133
	- Payable after one year	134,897,738	177,670,915	134,897,738	177,670,915
		826,107,370	**647,540,368**	**826,107,370**	**647,540,364**
	The weighted average effective interest rate on interest bearing current and savings deposits as on 2014 was 0.67% (2013: 0.79%) and 11.21% (2013: 11.23%) on time deposits.				
			Group		Company
		2014	2013	2014	2013
22.	Deposits and balances due to other financial institutions	Shs'000	Shs'000	Shs'000	Shs'000
	Due to foreign banking Institutions	6,734,241	572,392	6,734,241	572,392
23.	Other liabilities				
	Unearned interest	15,534,957	8,140,528	15,534,957	8,140,528
	Interest payable	31,845,388	23,461,541	31,845,388	23,461,541
	Bills payable	174,623	137,374	174,623	137,374
	Uncleared effects (net)	309,940	1,125,075	309,940	1,125,075
	Others	5,702,341	2,456,239	5,679,805	2,359,108
		53,567,249	**35,320,757**	**53,544,713**	**35,223,626**
24.	Retirement benefit obligations				
	Provision for gratuity	1,353,892	1,203,842	1,353,892	1,203,842
	Movements for the year:				
	At start of year	1,203,842	1,454,888	1,203,842	1,454,888
	Additional provision made during the year	231,834	238,360	231,833	238,360
	Benefits paid	(81,783)	(489,406)	(81,783)	(489,406)
	At end of year	**1,353,892**	**1,203,842**	**1,353,892**	**1,203,842**

The retirement benefit obligations comprise of gratuity and social security. The gratuity 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**				
	Group and Company				
			Number of ordinary shares (`000)	**Par value of ordinary shares**	**Total Shs'000**
	At 1 January 2013		1,000,000	10	10,000,000
	Issue of shares		1,500,000	10	15,000,000
	At 31 December 2013		2,500,000	10	25,000,000
	Issue of shares		-		-
	At 31 December 2014		**2,500,000**		**25,000,000**
	The total authorised number of ordinary shares is 2,500 million (2013: 2,500 million) with a par value of Shs 10 per share. All issued shares are fully paid.				

		Group		Company	
		2014	**2013**	**2014**	**2013**
26.	**Regulatory general credit risk reserve**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
	At start of year	4,247,868	3,474,891	4,247,868	3,474,891
	Transfer from retained earnings	1,031,226	772,977	1,031,226	772,977
	At end of year	**5,279,094**	**4,247,868**	**5,279,094**	**4,247,868**
	The regulatory reserve represents an appropriation from retained earnings to comply with Bank of Uganda's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognized in accordance with the Bank's accounting policy. The reserve is non-distributable.				

		Group		Company	
		2014	**2013**	**2014**	**2013**
27.	**Revalution reserve**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
	At start of year	4,842,753	5,018,397	4,842,753	5,018,397
	Transfer of excess depreciation on revaluation	(242,138)	(250,920)	(242,138)	(250,920)
	Deferred tax on transfer of excess depreciation	72,641	75,276	72,641	75,276
	At end of year	**4,673,257**	**4,842,753**	**4,673,257**	**4,842,753**

Revalution reserves are created based on valuations by professional independent valuers. Excess depreciation counted on revaluations are transferred from capital to revenue reserves, net of deferred tax on a year to year basis. The reserve is non- distributable.

28. Dividend payable

The proposed dividend for the year 2014 is Shs. 6,250,000,000 (2013: Shs. 5,000,000,000). The dividend is at 25% of paid up share capital of Shs 25,000,000,000 (2013: 20% of paid up share capital of Shs. 25,000,000,000)
The payment of dividend is subject to withholding tax at 15% or the rates specified under the applicable double taxation agreements.

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.

		Group		Company	
		2014	2013	2014	2013
		Shs'000	Shs'000	Shs'000	Shs'000
	Contigent liabiities				
	Acceptances and letters of credit	48,436,613	21,031,217	48,436,613	21,031,217
	Guarantees and performance bonds	72,005,271	80,837,838	72,005,271	80,837,838
		120,441,884	101,869,055	120,441,884	101,869,055
	Commitments				
	Undrawn formal stand-by facilities, credit lines and other commitments to lend	15,605,216	11,856,332	15,605,216	11,856,332
	Outstanding capital commitments as at 31 December 2014 were Nil (2013: Shs 65 Million).				
	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.				
	Contigent liabilities are secured by both cash and property collaterals.				
	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.				

30. Cash generated from operations

	Group		Company	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before taxation	46,297,768	40,948,310	46,181,690	40,863,404
Adjustments for:				
Depreciation and amortisation	1,374,146	1,590,401	1,373,523	1,589,612
Profit on sale of assets	(4,472)	(11,346)	(4,472)	(11,346)
Movement in impaired loans and advances	929,619	(994,834)	929,619	(994,834)
Movement in retirement benefits liabilities	150,050	(251,046)	150,050	(251,046)
Fair value (loss)/gain- available for sale financial assets	(658,087)	2,673,321	(664,012)	2,666,942
Changes in working capital				
- Loans and advances to customers	(83,590,858)	(87,075,171)	(83,590,858)	(87,075,171)
- Loans to/(from) group companies	(11,943,203)	(2,958,944)	(11,943,203)	(2,958,944)
- Financial assets	(58,550,301)	(157,880,928)	(58,550,301)	(157,880,928)
- Financial liabilities	(47,519,499)	86,422,940	(47,519,499)	86,422,940
- Other assets	(353,455)	585,527	(323,916)	634,793
- Deposits and balances due/(from) other financial institutions	6,161,849	302,289	6,161,849	302,289
- Customer deposits	178,567,006	123,238,796	178,567,006	123,238,795
- Other liabilities	18,246,490	2,023,829	18,321,087	2,115,021
	49,107,052	**8,613,144**	**49,088,564**	**8,661,527**

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. The relevant balances at the end of the year and income/ expense thereon are shown below:

		2014	2013
	(a) Amounts due from overseas branches of parent company (Note 14)	**Shs'000**	**Shs'000**
	Bank of Baroda, Mumbai - INR	324,794	8,528
	(b) Amounts due to overseas branches of parent company (Note 14)		
	Bank of Baroda, London - GBP	349,863	114,487
	Bank of Baroda, Nairobi - Kshs	31,747	110,124
	Bank of Baroda, Brussels - Euro	3,258,923	404,725
	Bank of Baroda, New York - US Dollar	12,962,407	3,714,135
		16,602,940	**4,343,471**
	(c) Key management compensation		
	Salaries and other short-term employment benefits	156,174	84,140
	(d) Directors' remuneration and benefits		
	Directors' remuneration and benefits	124,403	227,994
	Fees for services as a director	6,400	6,200

32. Earnings per share

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

		2014	2013
	Profit attributable to equity holders of the Bank (Shs`000)	36,889,762	30,883,725
	Weighted average number of ordinary shares in issue (`000)	2,500,000	2,500,000
	Basic earnings per share (Shs)	14.76	12.35
	Diluted earnings per share (Shs)	14.76	12.35

There were no potentially dilutive shares outstanding at 31 December 2014 or 2013. Diluted earnings per share are therefore the same as basic earnings per share.

Notes (Continued)

33. Operating segments

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

34. Assets pledged as security

As at the reporting date, the bank pledged treasury bills of 91days amounting to Shs 1,233 million (2013: Shs. 1,868.6 million) with Bank of Uganda.

35. 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.

36. Events after the reporting period

The management of the 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 bank for the year.

37. Presentation currency

The financial statements are presented in thousands of Uganda Shillings rounded off to the nearest thousands(shs 000).

Proxy Form

Bank of Baroda (U) 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 45th Annual General Meeting of the Company, to be held on the 19th June 2015 and at every adjournment thereof

As witness my / out hand(s) this.............................day of..................................2015.

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 (U) Ltd.

ADMISSION FORM

The Shareholder or his / her proxy must produce this admission form in order to obtain admission to the 45th 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...

Bank organised Sight Saving Eye Camp in conjuction with Lions Club Jinja

Serving you since 1953

KAMPALA MAIN BRANCH
P.O.Box 7197
18,Kampala Road, Kampala
Tel: 0414-233680 (Gen)

KANSANGA BRANCH
P.O.Box 31294, Plot No.70/378
Gaba Road, Kansanga, Kampala
Tel: 0414-269641

JINJA BRANCH
P.O.Box 1102,
16A/B, Iganga Road, Jinja.
Tel : 0434-120478

MBARARA BRANCH
P.O.BOX 1517
11, Masaka Road, Mbarara
Tel: 04854-21330

RAILWAY STATION BRANCH
P.O.Box 7266
Plot 6 Esso corner, Kampala
Tel: 0414-255248 (Gen)

KAWEMPE BRANCH
P.O.Box 7820, Plot No. 35/36,
Shree Hari Complex, Kawempe
Kampala, Tel: 0414-568740

IGANGA BRANCH
P.O.Box 61
84A &84B, Main Street, Iganga
Tel: 0424-242400

KABALE BRANCH
Plot No. 94, P.O.Box 1137,
Kabale (Uganda)
Tel: 0486-422087

OVINO MARKET BRANCH
Tirupati Owino Market Mall
P.O.Box 7239
Plot No. 22, Block 12 Kisenyi
Kampala
Tel: 0414-256183

KOLOLO BRANCH
Plot No. 31, Kira Road
Kampala
Tel: 0414-532227

MBALE BRANCH
P.O.Box 917,Baroda House,
3, Pallisa Road,Mbale.
Tel: 0454-432817

ENTEBBE BRANCH
Plot 24, Gowers's Road.
P B No 723 Entebbe Uganda
Tel: 0414-323155

INDUSTRIAL AREA, KAMPALA BRANCH
P.O.Box 73446
Clock Tower, Kampala
Plot 37,39,41 & 43 Kibira
Road, Kampala
Tel: 0414-237545

MUKONO BRANCH
P.O.Box 122
Plot 59-67, Jinja Road, Mukono
Tel: 0414-291990

LIRA BRANCH
P.O.Box 266
Plot 2, Aputi Road, Lira
Tel: 0473-420033

Offsite ATM's at: OASIS MALL, KAMPALA, MAZIMA MALL IN KABALAGALA , LUGAZI CIRCLE AND NJERU INDUSTRIAL AREA JINJA

HEAD OFFICE

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Regulated by Bank of Uganda