



Member of Uganda Securities Exchange
Regulated by the Capital Markets Authority

**BANK OF BARODA (UGANDA) LIMITED
RESEARCH NOTE**

No 1.04

HISTORY

- Bank of Baroda (Uganda) Limited (BOBU) is a wholly owned subsidiary of Bank of Baroda-India (BBI) a leading bank in India with over 2750 branches in 17 countries and a balance sheet of approx. USD 14 Billion as at March 2002. BBI has been in operation for 94 years in India and 49 years in East Africa where BBI opened its first overseas branches in Mombasa and Kampala in 1953.
- The Group commenced operations in Uganda on 18 December 1953 initially as an overseas branch of BBI. On 1 Nov 1969, BOBU was duly incorporated in Uganda.
- In 1972, BOBU acquired the banking business of Bank of India Uganda Limited and under the provision of the Companies Act; the GoU acquired a 49% shareholding leaving BBI with a 51% shareholding.
- In 1999, under the provision of the Public Enterprises Reform and Divesture Statute, 1993, the GoU divested its 49% shareholding, which then reverted the 100% ownership of BOBU to BBI.

THE BUSINESS

- Main business is the accepting of deposits from the public and advancing loans and overdrafts to customers on a sustainable basis.
- BOBU has two branches in Kampala (the Main branch on Kampala Road and the Railway Station branch) and one each in Jinja, Mbale, Iganga and Mbarara.
- Bank products include loans (i.e. trade, industry and personal), overdrafts, letter of guarantee and credit, demand and time deposits. BARODACASH is the latest product launched in 2000 and is a cost free ATM situated at the Kampala Main branch, which dispenses cash and accepts deposits.

COMPLIANCE / CAPITAL ADEQUACY RATIO

- The Bank has complied with all the material requirements of the Financial Institutions Statute, 1993 and has met the capital and shareholders requirements envisaged in the proposed amended Financial Institutions Bill, 2001.
- Bank of Uganda (BoU) Regulations stipulate that Banks maintain a minimum Core Capital of 8% and Total Capital of 12% of Risk Adjusted Assets plus off Balance Sheet items.
- In 2002, BOBU surpassed these requirements to post 32.9% (24.9% in 2001) and 43.8% (29.3% in 2001) respectively for both core and total capital respectively.
- The Bank increased the ordinary capital to UGX- 4 Billion to comply with the minimum capital requirements that took effect from January 2003.

| FORECAST | | | | |
|------------------------------|--------|-------|--------|--------|
| | 2001* | 2002 | 2003 | 2004F |
| Diluted Earnings per Share | 111.00 | 89.81 | 140.85 | 180.00 |
| Diluted Dividend per Share | 50.00 | 60.00 | 60.00 | 60.00 |
| Price Earnings Ratio | 6.44 | 7.96 | 5.32 | 4.44 |
| Dividend Yield % | 6.99 | 8.39 | 8.00 | 7.50 |
| Price to book | - | 1.77 | 1.56 | 1.58 |
| Net Asset Value per Share | 293 | 404 | 480 | 505 |
| Closing Share Price (Actual) | - | 715 | 750 | 800 |

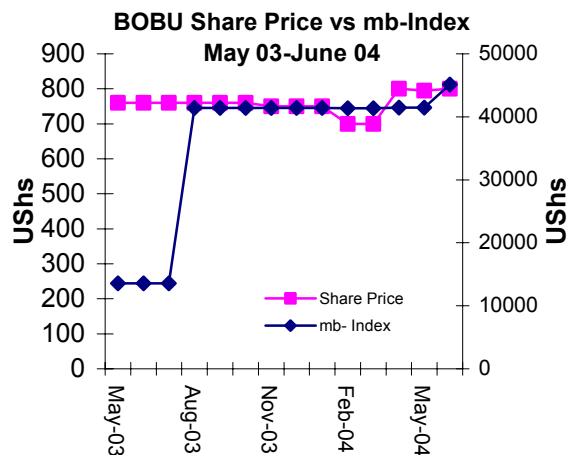
*Trailing ratios.

Source: mbea Research Department

Note: Past performance is not necessarily an indicator of future performance

LISTING

- BOBU was listed on the Uganda Securities Exchange (USE) on 14th November 2002.
- Authorised, Issued and fully paid up capital is 40 Million shares with a nominal value of UShs 100 each.
- Shares issued to the public were 8 Million at the price of UGX 600 each. As at 30 June 2004, the price was UShs 800, which is an appreciation of 33% over the issue price.
- BOBU shareholding is now held by Bank of Baroda-India (80%) and by the general public and institutional investors (20%).
- The Offer was successful and was 16% oversubscribed.
- BOBU has begun to gain on the mb-Index after the recent price increase to Shs 800 after the 2003 Financials were declared in April 2004.



Source : mbea Research Department

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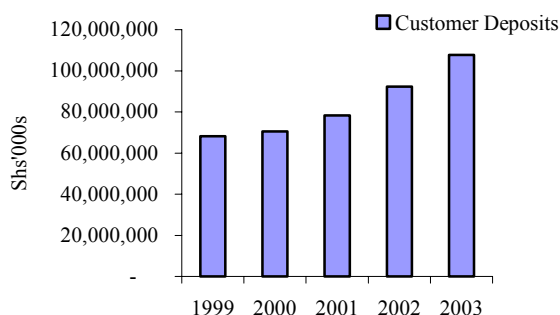
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COMPETITION

- Liberalised in the late 1980's, the financial sector is still largely underdeveloped.
- Currently there are 15 commercial banks.
- Source of funding for lending activities are mainly deposits from customers. Principally corporate, retail and institutional funds.
- As of December 2003, in terms of Total Assets and Customer Deposits, BOBU lay 6th behind Stanbic Bank Standard Chartered Bank, Barclays Bank and CERUDEB.
- BOBU was however 3rd in terms of Return on Average Assets (ROA) (6.48%) after Barclays Bank (7.41) and Nile Bank (7.02%).
- BOBU posted a competitive Return on Equity (ROE) of 48%- Standard Chartered Bank (72.46%) and Stanbic (62.58%).

Customer Deposits



Source: Bank of Baroda (U) Limited Annual Reports

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MANAGEMENT AND STAFF

- There are 150 permanent staff and 16 expatriates from the parent company BBI.
- A management fee payable to BBI for services rendered to BOBU was effected in January 2002 at USD 150,000 per quarter. This is expected to be maintained in the near future.

TOP 5 BOBU SHAREHOLDERS (as at 30 June 2004)

40,000,000 shares are listed at the USE

| Name of Shareholder | No. of Shares | % |
|-------------------------------|---------------|-------|
| Bank of Baroda-India | 31,997,060 | 79.99 |
| National Social Security Fund | 2,676,700 | 6.69 |
| *UCEC Pension Scheme | 500,000 | 1.25 |
| Byamugisha Joseph Byambara | 250,000 | 0.63 |
| Shri Sthanakvasi Jain Sangh | 200,000 | 0.50 |

*Uganda Communications Employees Contributory Pension Scheme

Source: Livingstone Registrars

Sources:

MBEA Market Reports, BATU Company Prospectus and Annual Reports,

"Remember Share Prices may go up or down"

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OUTLOOK AND RECOMMENDATION

- An improvement is widely expected in the larger macro financial/economic picture, which should lead to greater loan growth thus boosting the quality of the Bank's loan book in 2004 and going forward.
- This 2004 performance is expected to improve and we project PBT for 2004F to be in the region of UGX 10.00 billion. PAT would therefore range around UGX 7.00 billion.
- The bank continues to maintain an impressive NIL level of net NPA, which has prevailed over the last three years. Gross NPA is below 1%.
- The BOBU share has matched or briefly outperformed the mb-Index in its close to two years in trading at the USE, signalling significant price appreciation since initial listing date.
- Returns for 2003 were attractive:
 - Return on Equity was 42.82% (2002 - 36.40%)
 - Return on Assets was 6.04% (2002 - 5.01%)
- The advantage of continued good margins on lending, current sound management and the continued ability of leverage off its parent group continue to make BOBU an attractive investment.
- We forecast 2004F to be a year of stronger earnings growth and BOBU remains well positioned to take advantage of future opportunities, which should ensure a steady profit growth pattern.
- Long-term investors seeking continued earnings growth coupled with attractive shareholder returns would do well to invest.

Recommendation- Buy

Bank of Baroda (U) Limited

Financial Review

| Balance Sheet | 2003 | 2002 UGX '000 | 2001 UGX '000 |
|----------------------------------------------------|--------------------|--------------------|--------------------|
| ASSETS | | | |
| Cash & Bank with BoU | 8,780,688 | 9,162,265 | 10,647,629 |
| Government Securities | 70,629,585 | 60,128,986 | 35,666,016 |
| Balances due from other banking institutions | 15,597,017 | 2,680,586 | 2,247 |
| Due from overseas branches of parent | 8,562,288 | 18,799,029 | 19,965,740 |
| Loans & Advances to Customers (net) | 25,057,304 | 17,512,990 | 22,897,425 |
| Other Investments | | | |
| Property & Equipment | 6,357,562 | 5,854,316 | 3,548,420 |
| Tax recoverable/Advance tax paid | 976 | 751 | 107,670 |
| Interest receivable and other assets | 886,351 | 3,468,289 | 2,999,013 |
| Intangible Non-current assets | - | - | 5,253 |
| Total Assets | 135,889,771 | 117,607,212 | 95,839,413 |
| LIABILITIES | | | |
| Customer Deposits | 106,724,590 | 92,219,859 | 78,327,391 |
| Deposits due to banking Institutions | 3,500,359 | 2,246,159 | 2,149,477 |
| Amounts due to overseas branches of parent company | 820,002 | 1,959,313 | |
| Deferred tax liability | 907,387 | 673,182 | 297,303 |
| Interest payable and other liabilities | 3,799,897 | 3,571,542 | 2,672,317 |
| Tax Payable | 116,336 | 20,101 | - |
| Retired Benefit Obligations | 837,609 | 745,558 | 668,254 |
| Total Liabilities | 116,706,180 | 101,435,714 | 84,114,743 |
| Shareholders' Funds | | | |
| Share Capital | 4,000,000 | 4,000,000 | 4,000,000 |
| Retained Profits | 9,402,064 | 5,975,749 | 4,648,845 |
| Short Term Loan from Bank of Baroda | - | - | 9,333 |
| Proposed Dividend | 2,400,000 | 2,400,000 | 2,000,000 |
| Revaluation Reserves | 3,381,527 | 3,795,749 | 1,066,492 |
| Total Shareholders' Funds | 19,160,478 | 16,171,498 | 11,724,670 |
| Total Liabilities & Shareholders Funds | 135,889,771 | 117,607,212 | 95,839,413 |
| Income Statement | | 2002 | 2001 |
| INCOME | | | |
| Interest on Loans & Advances to customers | 3,949,829 | 2,983,078 | 4,385,727 |
| Investment in Securities | 10,234,219 | 5,971,915 | 4,934,722 |
| Other | 85,930 | 286,798 | 1,188,684 |
| Gains from Foreign Currency dealings | 633,145 | 1,203,234 | 1,050,710 |
| Fees & Commission | 3,101,149 | 2,776,212 | 2,875,739 |
| Other Operating Income | 1,249,692 | 2,216,439 | 1,015,879 |
| Dividend Income | - | - | 210,000 |
| Total Income | 19,253,964 | 15,437,676 | 15,661,461 |
| EXPENDITURE | | | |
| Interest on Deposits | (4,101,281) | (2,802,729) | (3,102,868) |
| Non Interest Expense | (7,018,548) | (6,721,332) | (5,262,956) |
| Bad and Doubtful Debts Expenditure | 80,217 | (27,196) | (1,717,434) |
| Total Expenditure | 11,039,612 | 9,551,257 | 10,083,258 |
| Profit Before Tax | 8,214,352 | 5,886,419 | 5,578,203 |
| Income Tax | (2,580,433) | (2,294,192) | (1,120,180) |
| Profit after Taxation | 5,633,919 | 3,592,227 | 4,458,023 |

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