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2015ANNUALREPORT

Promoting Sustainable Wealth







Rice Harvesting In Butaleja District, Eastern Uganda. UDBL Finances Organised Farmers groups involved in primary production.

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CORPORATE PROFILE

WHO WE ARE

Uganda Development Bank Limited (UDBL) is a wholly owned government Development Finance Institution (DFI) mandated to finance enterprises in key growth sectors of the economy. The Bank has been in existence since 1972. UDBL re-positioned itself as a key partner to the Government of Uganda in delivering its National Development Plan (NDP). In order to deliver this aspiration, the Bank focuses on the key growth sectors of the economy by financing development projects at attractive terms. The Bank offers short term, medium term and long term financing to Small & Medium Enterprises (SMEs) and large scale development projects in the various sectors.

As a development bank, our financing targets priority sectors of the economy that are in a position to create a lasting socio-economic impact on the economy of Uganda. The Bank's loan portfolio is spread across 4 major sectors namely:



- **Primary Sector** – comprises of forestry, mining and extractive and primary agriculture sub-sectors;
- **Secondary Sector** – comprises of agro-processing and manufacturing sub-sectors;
- **Tertiary Sector** – comprises of education, financial services, health and hotels, hospitality and tourism sub-sectors; and
- **Trade Services** – comprises of trade and commerce.

OUR VISION

To promote sustainable socio-economic development through innovative financial products and Services.

OUR MISSION

Profitably financing enterprises in key growth sectors.

OUR CORE VALUES

The Bank is committed to mutually beneficial relationships with its stakeholders premised on the following core values:

- 1 → **Commitment:** We are committed to growing and attaining sustainable value for all our stakeholders and we will hold ourselves accountable at all times. The need to exceed our stakeholders' expectations at all times will drive the manner in which we conduct our business.
- 2 → **Excellence:** We shall endeavor to excel in whatever we do and we shall always seek innovative customer focused products and services. We are committed to doing whatever we do excellently at all times in pursuit of results.
- 3 → **Integrity:** We will uphold the highest standards of ethics and integrity and endeavor to be transparent in all our actions at all times.

Our organization's culture supports our value system and achievement of the vision. This encompasses strategic thinking and guides our actions to embrace and drive change. We build a performance driven culture that supports teamwork across the organization.



An Inland Container Depo (ICD) with a 1.1 Km railway siding sponsored by Liberty Group to service the Namanve Industrial Park with financing from UDB. Upon completion the project will help decongest Kampala City.



Board of Directors Profiles



Dr. Samuel Sejjaaka (52)
Board Chairperson

Appointed: 2012

Qualifications

BCom (Makerere),
MSc (Financial Studies)
(Strathclyde),
PhD (Accounting and
Finance) (Makerere)



Mr. Charles Byaruhanga
(50)

Appointed: 2012

Qualifications

Bsc, Economics (Makerere)
MSc (Human Resource
Development (Manchester)



Dr. Stephen Robert
Isabaliija (39)

Appointed: 2012

Qualifications

Dip, Business Studies
(Nakawa)
BCom, Accounting
(Makerere),
MBA, Finance & Accounting
(Makerere)
PhD (Public Policy
(International Development)
(Southern University,
Louisiana)



Mr. Nimrod Waniale (64)

Appointed: 2015

Qualifications

Bsc, Econ (Makerere)
Masters in Banking & Finance
for Development (FinAfrica Foundation, Milan).



Mr. Henry Balwanyi Magino (55)

Chartered Secretary, ICOSA

Appointed: 2015

Qualifications

LLB (Makerere)
Pg.Dip (Law Development Center)



Mrs. Silvia Angey Ufoyuru (46)

Appointed: 2015

Qualifications

Dip. Business Studies (Makerere)
Dip. Computer Science (Makerere)
BBA, (Makerere)
Master of Arts, Economic Policy Management, (Makerere)



An irrigation channel on river Manafwa at a UDB financed rice growers' scheme in Butaleja.





Dr. Samuel Sejaaka
Chairman

Message from the Chairman

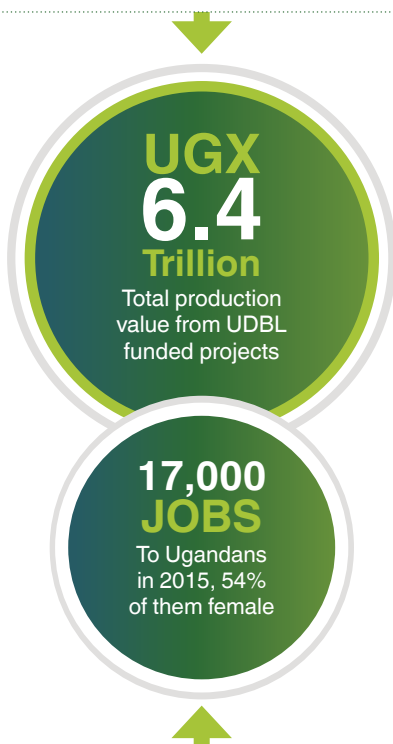
On behalf of the Board of Directors of Uganda Development Bank Limited, it is my pleasure to present the Annual Report which details the Bank's operational performance for the period January to December 2015.

Prior to delving into the results I would like to take the opportunity to inform you about some changes that took place in the UDB Board composition during the year.

The tenure of the previous Board expired on May 16th 2015. Following this, a new Board was constituted retaining three members from the previous Board and appointing three new members to the Board. The new Board has been expanded from a membership of five to six. While congratulating the new Board members upon their appointment, I would like to pay special tribute to the previous Board members for the excellent work done during the difficult period when the Bank was undergoing major structural transformation. I thank them for their resilience amidst daunting challenges.

Turning to the 2015 performance, despite the macro economic challenges the economy faced and the poor capitalization, the Bank continued to register significant progress in the implementation of its five year strategic plan (2013 – 2017) which among others initiatives saw UDB implement:

- A major corporate rebranding
- Proactive stakeholder engagement program
- Strengthening governance practices
- Risk management
- Launch of a Client Service Charter to enhance customer service





Daniel Kaggwa, Director Finance unveils the UDB Client Service Charter at an internal launch.

The Bank also hosted the annual CEO Forum for the Association of African Development Finance Institutions (AADFI).

Arising from all these initiatives, the Bank was recognised and awarded as the best performing Development Finance Institution (DFI) for 2014 and 2015 in Africa by the Association of Development Finance Institutions (AADFI).

In compliance with the statutory and industry requirements, the Bank has developed policies and procedures that have enhanced its operational efficiency. This enabled the Bank to be recognised at the 2015 Financial Reporting (FiRe) Awards where UDB won awards for:

- 1 • Outstanding Achievement in improving the quality of financial reporting
- 2 • Communication Award for outstanding achievement in communication and presentation of Annual report
- 3 • Second Runner-up Banking Services category for outstanding achievement in Financial Reporting



As we embark on the year 2016, it is our resolve to consolidate the above gains as we focus on mobilising resources to enhance the existing capital base of the Bank for the Bank to fully execute its mandate as a development Bank.

Despite the decision to write off some bad loans, the Bank still registered a reasonable level of profitability. This was a bold decision intended to lay a firm foundation for 2016 unencumbered by historical non-performing assets.

As a Board we are energized by these achievements that provide the momentum to leap-frog our performance in the subsequent years.

As we embark on the year 2016, it is our resolve to consolidate the above gains as we focus on mobilising resources to enhance the existing capital base of the Bank for the Bank to fully execute its mandate as a development Bank.

This will entail deepening the Bank's engagement with its key stakeholders.

Finally I would like to appreciate the great efforts put in by my fellow directors, management and staff in steering the Bank in the right direction amidst the existing hurdles.



Award-Winning Performance Deserves Recognition!

Rated Best Performing Development Finance Institution in 2014 & 2015
by Association of African Development Finance Institutions (AADFI)

Awarded for Enhancing the Quality of Financial Reporting
at the 2015 FiRe Awards



Three FiRe Awards:

- Communication Award for outstanding achievement in Communication and Presentation of the Annual Report,
- 2nd Runner-Up in Banking Services Category for Outstanding Achievement in Financial Reporting, and
- Certificate of Recognition for Outstanding Achievement in Improving the Quality of Financial Reporting.

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Rice Harvesting in Butaleja District, Eastern Uganda. UDBL Finances Organised Farmers groups involved in primary production.

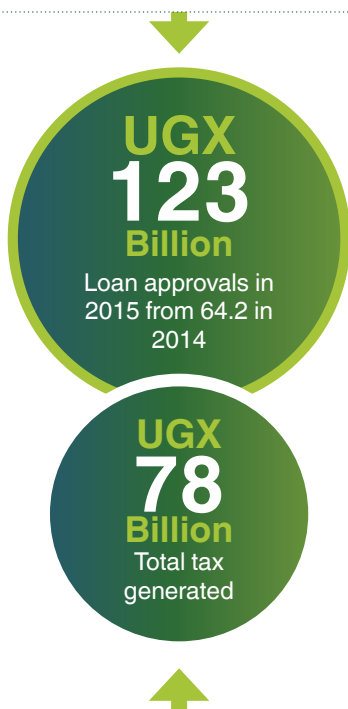




Patricia A. Ojangole
Chief Executive Officer

Message from the Chief Executive Officer

Uganda's economy is estimated to have expanded by 5.35% in 2015 despite challenges arising from the fast depreciation of the shilling, falling global commodity prices and high inflationary pressure experienced. Headline inflation increased to 9.3% by December 2015 and the exchange rate depreciated by nearly 20%.



Amidst the above, Uganda Development Bank Ltd experienced growth during the year 2015. The total assets of the Bank increased from Shillings 169.9bn in 2014 to shillings 205.6bn in 2015. Loans & advances increased from Shilling 108.9bn in 2014 to shilling 141.5bn in 2015. Loan approvals grew from shillings 64.2bn in 2014 to shilling 123.0bn in 2015, a growth of 91.6% over the period. However, as a result of the write off of old and bad loans during the year, the Bank's profitability was reduced from shilling 4.9bn in 2014 to shilling 1.9bn in 2015.

As at December 2015 and in line with its mandate, Uganda Development Bank Ltd through its lending activities contributed to the Country's development agenda through the creation and upholding of 17,000 jobs across all sectors while providing targeted advisory services to 15,000 farmers. Output generated from the Bank's funded projects in 2015 was worth UGX 6.46 trillion to the country's GDP while total tax revenue generated was UGX 78 billion. The above shows that the Bank continued to deliver growth; achieving good results both operationally and financially.



The above results would not have been achieved without the support of our loyal customers, our shareholder the Government of the Republic of Uganda and the guidance of our Board of Directors and the dedication and commitment of the entire team at Uganda Development Bank Ltd.

Looking forward, the Bank will leverage on the positive confidence it has received from the shareholder and wider stakeholders to create more socio economic impact in the economy. Enhanced and focused stakeholder management as well as relooking into our entire organization arrangement in order to deliver our mandate will be priority in 2016.

Executive Committee (EXCO)



Patricia Ojangole
Chief Executive Officer



Andrew Muluubya
Director Management Information Systems



Daniel Kaggwa
Director Finance



Dorothy Ochola
Bank Secretary



Mille Kasozi
Director HR & Administration



Patrick Oketa
Director Development Finance



Stephen Hamya
Chief Internal Auditor





Small holder farmers Oil Palm Nursery Bed in Kalangala (Ssese Islands, Lake Victoria).



CORPORATE GOVERNANCE

a. Governance Statement

The corporate governance statement sets out the framework adopted by the Board of Uganda Development Bank Limited (the Bank) and highlights the activities during the year.

In its approach to governance, the Bank embraces best practice principles against the backdrop that sound governance practices are fundamental to earning the trust of the Bank's stakeholders, sustaining the Bank's performance and preserving shareholder value.

The Bank's broad corporate governance approach is detailed in a policy for that purpose.



The board is committed to upholding the fundamental tenets of governance which include independence, social responsibility, discipline, transparency, accountability and fairness to all stakeholders.

As a member of the Association of Development Finance Institutions (AADFI), the Bank has embraced the Association of African Development Finance Institutions (AADFI) prudential standards and guidelines which inform a significant portion of the governance framework and practices of the Bank.

Against the above background, the Board is committed to upholding the fundamental tenets of governance which include independence, social responsibility, discipline, transparency, accountability and fairness to all stakeholders.

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

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

Codes and regulations



The Bank is incorporated under the Public Enterprise Reform and Divestiture Act and has reporting obligations to the Parastatal Monitoring Unit.

The Board delegates responsibility for compliance to management and monitors this through both the legal and the risk and compliance functions.

Oversight of compliance risk management is delegated to the Board Audit & Risk Committee.

On a quarterly basis, the Audit & Risk Committee receives reports on, among other things, the status of compliance with the risk management framework in the Bank and significant areas of non-compliance. All of these are subject to review by internal audit.

The impact of new and proposed legislation and regulations is assessed by management and material regulatory issues and legislative developments are escalated to the Risk Management Committee. The Bank is committed to social responsibility and sound environmental management in its lending and other activities.

Board of Directors

Board structure and composition, including independence classification

The Board of Directors is the Bank's highest decision making body and is ultimately responsible for governance. Directors are elected by the shareholders. The Board is constituted of only non-executive directors. As such, board decision making is sufficiently informed by independent perspectives.

Board composition and changes

Appointments

There is a formal process for the appointment of directors.

The appointment of Directors is governed by the Bank's articles of association. Directors are appointed by shareholders at the Annual General Meeting (AGM) and interim board appointments are allowed between AGMs. These appointments are then confirmed at the AGM following the appointments.

There were a number of changes to the Board of Directors including the departure of Mr. George Nyeko and Ms. Harriet Omoding and the appointment of Mr. Nimrod Waniale, Mr. Henry Balwanyi Magino and Mrs. Silvia Angey Ufoyuru as new members.

Succession planning

Board members are appointed for a 3 year term renewable once. Succession planning is a key focus of the appointing authority which ensures the retention of board members with considerable experience to ensure that appropriate levels of institutional knowledge are maintained.

Skills, knowledge, experience and attributes of Directors

The Board ensures that Directors possess the skills, knowledge and experience necessary to fulfil their duties.





UDB Board of Directors.

To ensure that the Directors bring a balanced mix of attributes to the Board, the qualifications of the Directors include:

- Finance and Accounting
- Corporate Law and Governance
- Economics
- Enterprise Development
- Human Resource Management
- Experience in the workings of Bi-Lateral and Multi-Lateral Financing Institutions
- Agri Business Development Financing
- Development Project management.

The appointing authority takes cognisance of the knowledge, skills and experience of prospective Directors, as well as other attributes considered necessary for the role. In addition, the need for demographic and gender representation is taken into consideration.

The directors' details are provided on pages 6 & 7.



On a quarterly basis, the Audit Committee receives reports on, among other things, the status of compliance risk management in the Company and significant areas of non-compliance.

Board Responsibilities

The key terms of reference in the Board's mandate, which define its responsibilities, include the following:

- Agree the Bank's objectives, strategies and plans for achieving those objectives;
- Approve all loans above UGX 500 Million and the write-off of all bad debts.
- Sanction the borrowing of any money and the obtaining of any credit including an overdraft;
- Review its mandate at least annually and approve recommended changes;
- Delegate to the Chief Executive Officer and persons holding executive office any of the powers, authorities and discretion vested in the directors, including the power of sub-delegation;
- Delegate similarly such powers, authorities and discretions to any committee;
- Determine the terms of reference and procedures of all board committees and review their reports;
- Consider and evaluate reports, submitted by members of the executive;
- Ensure that an effective risk management process exists and is maintained throughout the Bank;
- Review and monitor the performance of the Chief Executive and executive management;
- Establish and review annually and approve major changes to relevant policies;
- Ensure that an adequate budget and planning process exists, measure performance against budgets and plans and approve annual budgets for the Bank;
- Consider and approve the annual financial statements,

Strategy

The Board is responsible for the Bank's strategic direction. The Bank's business plan is reviewed and any updates presented by management annually and discussed and agreed with the Board.

The Board monitors performance against the financial objectives on an ongoing basis. Financial performance is monitored through quarterly reports from management, and the attendant risks are monitored by the relevant risk committees, and reviewed by the Board.

Delegation of authority

The Board retains effective control through a well-developed governance structure that provides the framework for delegation. Board committees facilitate the discharge of the Board's responsibilities by providing in-depth focus on specific areas of Board responsibility. The committees each have a mandate that is annually reviewed and approved by the Board.

The Board delegates authority to the Chief Executive Officer and Executive Committee to manage the business and affairs of the Bank. The Executive Committee assists the Chief Executive Officer in the execution of her mandate.



The Chief Executive Officer is tasked with the implementation of Board decisions

The Chief Executive Officer is tasked with the implementation of Board decisions and there is a clear flow of information between management and the Board, which facilitates both the qualitative and quantitative evaluation of the Bank's performance.

The executive committee is set out on page 18.

Board meetings

The Board meets once a quarter with an additional meeting annually to consider strategy. Ad hoc meetings are held when necessary. Directors are provided with comprehensive documentation at least four days prior to each of the scheduled meetings.



Board effectiveness and assessment

“
The Board's performance and that of its committees is assessed every two years against their respective mandates.”

The Board is committed to continued improvements to its effectiveness and performance. The Board's performance and that of its committees is assessed every two years against their respective mandates. The objective of these evaluations is to assist the Board and committees to constantly improve their effectiveness by addressing areas needing improvement and providing directors with the necessary training. The results of this assessment are then considered by the Board.

The last evaluation was conducted in 2014 and the Board assessed its performance and that of its committees in terms of structure, process and effectiveness. Individual questionnaires were completed, the results collated, and feedback discussed by the Board. The relevant action points from the assessments were noted for implementation. The performance of the Chairman, individual directors, the Chief Executive Officer and the Company Secretary were also assessed.



Education and induction

Ongoing Board education remains a focus. The Directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments, which could potentially impact the Bank and its operations.

This program is supplemented by external courses and onsite visits where relevant. On appointment, each new director receives an induction pack that includes all relevant governance information such as mandates, management structures, significant reports, important legislation and policies.

A formal induction by a corporate governance expert was conducted for the new board members in July 2015.

Board committees

Board committees operate in terms of mandates reviewed and approved by the Board on an annual basis. Each committee's mandate sets out the role, responsibilities, scope of authority, composition and procedures to be followed.

Board and committee record of attendance

The attendance of board meetings in 2015 is set out in the following table:

Name of Director	17- Jan	18- Mar	20- Mar	7- May ²	15- May	28- Jul	24- Aug	1- Dec
S Sejjaaka	✓	✓	✓	✓	✓	✓	✓	✓
C Byaruhanga	✓	A	A	✓	✓	✓	✓	✓
S. R Isabaliya	✓	✓	✓	A	A	✓	✓	✓
H Omoding	✓	✓	✓	✓	✓			
G Nyeko		✓		✓	✓			
S A Ufoyuru						✓	✓	✓
H. Magino						✓	✓	✓
N Waniala						✓	✓	✓

✓ Attendance; A = Apology;

Board Audit & Risk Committee

The committee is constituted in terms of the Board Charter and its main role is to review the Bank's financial position and make recommendations to the Board on all financial matters, risks, internal financial controls and fraud. In addition, it is required to provide independent and objective oversight of risk management within the Bank. This includes assessing the integrity and effectiveness of accounting, financial compliance and other control systems. To achieve risk management oversight, the committee reviews and assesses the integrity of risk control systems and ensures that risk policies and strategies are managed effectively and contribute to a culture of discipline and control. Assurance on the effectiveness of the risk management processes is provided to the committee through management reporting.

The committee has a constructive relationship with the Head of Internal Audit, who has access to committee members as required. The committee also ensures effective communication between the internal auditors, external auditors, the Board and management. Internal financial controls are in place to ensure the integrity of the Bank's qualitative and quantitative financial information, which is used by a variety of stakeholders. The Finance Director is ultimately responsible for implementing and maintaining internal financial controls. The committee considers reports from internal audit on any weaknesses in controls that have been identified, including financial controls, and considers corrective actions to be implemented by management to prevent such incidences recurring. This takes place on an ongoing basis. The audit committee has complied with its mandate in the year under review.

The attendance of Audit & Risk Committee meetings in 2015 is set out in the following table:

Name of Director	16-Feb	4-Mar	13-Mar	11-May	10-Aug	18-Aug	10-Nov
C Byaruhanga	✓	✓	✓	✓	✓	✓	✓
S. R Isabalija	✓	✓	✓	A			
G Nyeko	A	✓	✓	✓			
S A Uforyuru					✓	✓	✓
H. Magino					✓	✓	✓

✓ Attendance; A = Apology;

Board Credit Committee

The role of this committee is to ensure that effective frameworks for credit governance are in place in the Bank. This involves ensuring that the management credit risk committee and the credit function operate according to clearly defined mandates and delegated authority.

The committee reports to the Board on credit portfolios, adequacy of provisions and status of non-performing loans and approves credit applications in the excess of UGX 500 million. The credit committee meets as and when required to consider credit applications falling within its ambit and has therefore complied with its mandate in the year under review.

The attendance of Credit committee meetings in 2015 is set out in the following table:

Name of Director	18-Feb	5-Mar	27-Apr	12-May	14-May	11-Aug	11-Nov	23-Nov	9-Dec	18-Dec
S. R Isabalija	✓	✓	✓			✓	✓	✓	✓	✓
H Omoding	✓	✓	✓		✓	✓	✓	✓		
G Nyeko										
C Byaruhanga	★	★			★	★				
H. Magino						✓	✓	✓	✓	✓
N Waniale						✓	✓	✓	✓	✓

✓ Attendance; A = Apology; ★ Co-opted

The Board Planning and General Purpose Committee

The main objective of this committee is to assist the board to oversee matters pertaining to the Bank's' human resource policies, overall compensation, succession planning, business plans and performance goals. In addition, the committee has oversight over finance matters, including budgeting.

The attendance of Planning & General Purpose Committee meetings in 2015 is set out in the following table:

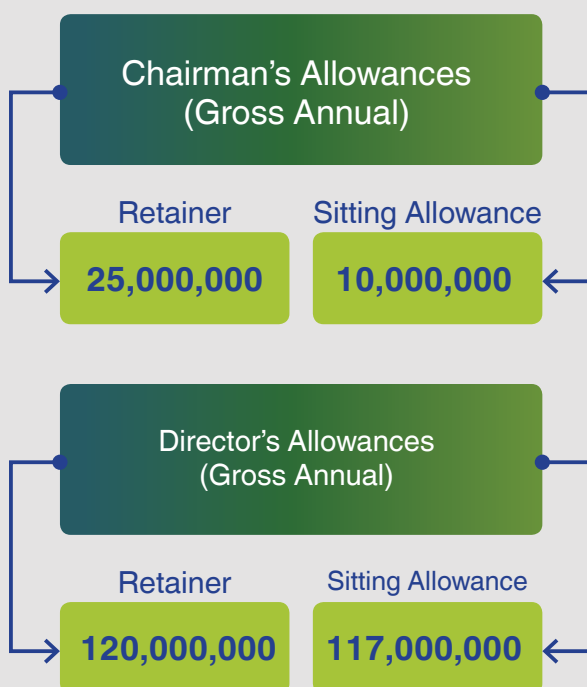
Name of Director	18-Feb	4-Mar	5-Mar	13-May	14-May	12-Aug	17-Nov	10-Dec	18-Dec
C Byaruhanga	✓	✓		✓	✓	✓	✓	✓	✓
S. R Isabalija	✓	✓	✓			✓	✓	✓	✓
H Omoding	✓	✓	✓	✓	✓				
G Nyeko	★	★	★	★	★				
S A Ufoyuru						✓	✓	✓	✓
H. Magino						★		★	★
N Waniale						✓	✓	✓	✓

✓ Attendance; A = Apology; ★ Co-opted

b. Directors remuneration

Particulars of Directors' Remuneration

The table below shows the breakdown of directors' emoluments in 2015:



c. Company Secretary

The role of the Company Secretary is to ensure the Board remains cognisant of its duties and responsibilities. In addition to guiding the Board on discharging its responsibilities, the Company Secretary keeps the Board abreast of relevant changes in legislation and governance best practices. The Company Secretary also oversees the induction of new directors as well as the ongoing education of directors. To enable the Board to function effectively, all Directors have full and timely access to information that may be relevant to the proper discharge of their duties. All Directors have access to the services of the secretary.

Relationship with Shareholders

Regular, pertinent communication with shareholders is part of the Bank's fundamental responsibility to create shareholder value and improve stakeholder relationships. Ongoing engagement is facilitated by the Chairman,

the Chief Executive Officer and the Company Secretary. In addition to the annual general meeting informal interaction with the Shareholders and Parastatal Monitoring Unit are welcomed. The Board proposes separate resolutions on each issue put forward to shareholders.

Internal Control Environment

The responsibility for the systems of internal financial and operational control rests with the Board and this has been delegated to the Audit and Risk Committee. The Bank's governance principles on ethical behaviour, legislative compliance and sound accounting practice lay the foundation for its internal control processes, while the enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.

The internal audit function conducts periodic reviews of key processes linked to the significant risk of the Bank to provide independent assurance to the Board and management on the effectiveness of the internal control system. Members of the Audit and Risk Committee review the work of Internal Audit and the Chief Internal Auditor has unlimited access to the Chairman of the committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention.



Oil Palm Factory In Kalangala. The factory buys from small holder out grower farmers.



Delivering oil palm to the mill in Kalangala (Ssesse Islands).



SOCIO-ECONOMIC IMPACT OF THE BANK'S FUNDED PROJECTS - 2015



Uganda Development Bank Limited approved financing for an additional 40 investment projects in 2015 with a focus on those that would have significant socio-economic developmental impact.



A Section of Oil Palm Plantations in Kalangala (Ssesse Island).

Sustainable socio-economic development is a core objective of the bank in promoting investments. We supported projects in different sectors that created sustainable development through export promotion, import substitution effect, SME sector development, projects that are environmentally friendly, created employment and increased the tax base. All this is done to improve our economy and the living conditions of the Ugandan people through better ways of revenue generation.

The bank is committed to protecting and safeguarding the environment through its financed projects. The Bank ensured that all the projects funded obtained environmental impact assessment reports to ensure that all likely impact to the environment was monitored.

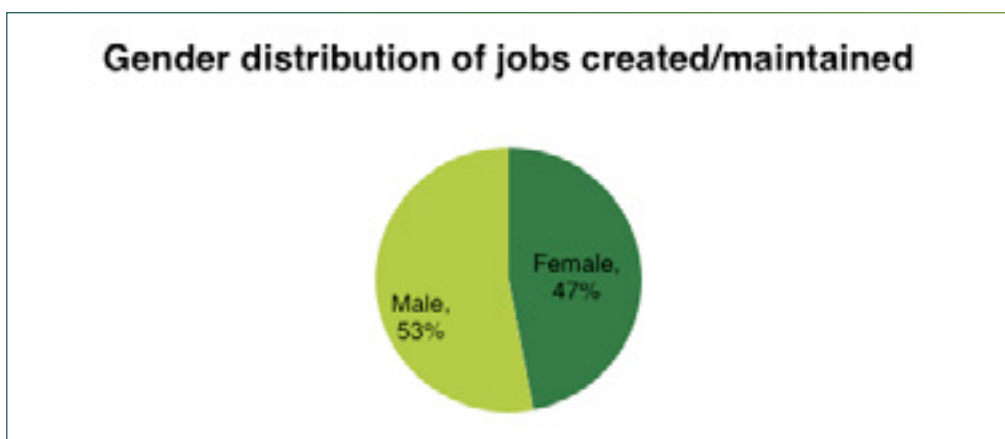
The greatest development impact created in 2015 was with respect to creation of employment, production of goods/services, foreign exchange earnings and students school enrolment. The sectors that experienced the greatest impact were agriculture, agro-processing, health and education.

The impact was also spread across in the various regions of the country namely; Northern, central, western and eastern.

Jobs created and maintained

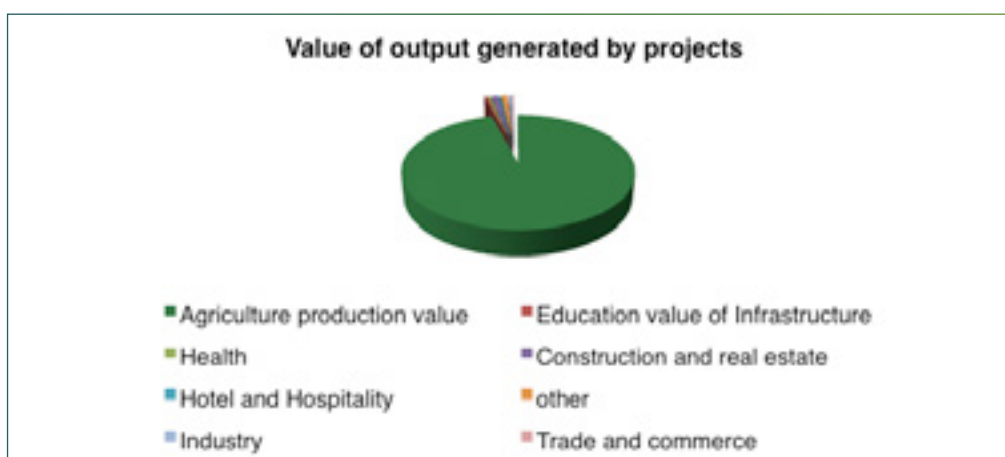
A total of 16,979 employment opportunities were either created and/or retained in projects funded by UDBL in 2015. For most projects funded, at least 5 in every 10 employees were female workers. The sectors where the greatest employment was created were agriculture, education and health.

The chart below shows the gender distribution of employment for UDBL funded projects



Value of goods/services produced

The production/output value generated by UDBL funded projects was estimated at UGX 6.461 trillion in 2015 with the Agriculture sector having the highest production value of UGX 6.2 trillion. UDBL's contribution to this production value is estimated at about UGX 66 billion with the biggest contribution of UGX 37.5 billion extended to the Agriculture sector.



The productivity of these agricultural workers has improved mainly because of agricultural and entrepreneurship training. UDBL entered into several Memoranda of Understanding with various development partners who provided technical support and assistance in the form of training and farm inputs to ensure the various farmers' projects were successfully executed.

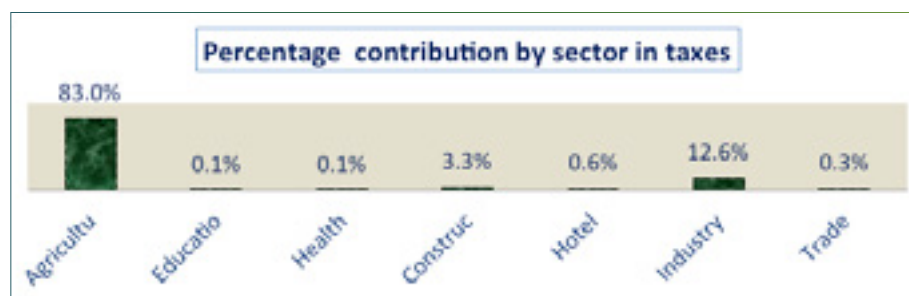
A number of farmers received training through farmer groups and also in the form of quality production inputs and capital which increased the yield.

Over 15,000 farmers have received advisory training from the Bank; mainly through groups of small-holder farmers.

The bank financed production inputs that included both seeds for farmers (e.g. cotton, ground nuts, simsim, rice, maize, bananas, etc.), livestock for both dairy products & meat, production equipment like tractors, mills, milk coolers, packaging equipment and several other inputs. A combination of the various projects funded has registered growth through agricultural advisory services offered to farmers and quality inputs.

UGX 78 billion in tax revenue contribution

The total amount of taxes paid by UDBL funded projects in 2015 was estimated at **UGX 78 billion** with the agriculture sector contributing 83% of this tax contribution followed by industry comprising of manufacturing, agro-processing and extractive industry at 13%.



Foreign exchange earnings

The estimated foreign exchange earnings from UDBL funded projects in 2015 was **UGX 26.5 billion** (USD 9 Million) and this was mainly from the health sector at 86.7%, followed by Hotels and Hospitality sector.

Foreign revenue contribution from UDBL funded projects

Sector	Revenue (USD)
Health	7,813,786
Hotel and hospitality	1,203,000
Total	9,016,786



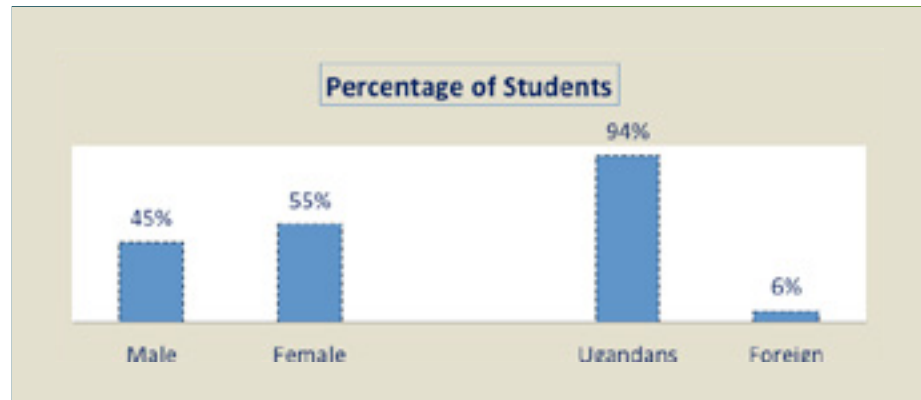
Student enrollment level

The education projects funded by UDBL had over **10,521** students enroll in 2015 and 55% of the registered students were male and 94% were Ugandan students while 6% were foreign students.



Pupils of Victorious Education Services, an education project financed by UDB.

Over 146,000 patients were treated in the health facilities funded by UDBL



Number of patients treated

Over 146,000 patients were treated in the health facilities funded by UDBL and 84.8% were Ugandans.



CT scanner for Case Medical Centre made possible with financing from UDB.

225 health professionals were employed and 50 of these were doctors.

Funding from UDBL has made it possible to purchase complex medical facilities such as MRI equipment. As a result, patients do not have to leave the country to seek advanced medical care.

Estimated number of doctors and nurses in UDB funded health facilities

Segment	Number	Percentage
Doctor	50	22%
Nurses	175	78%
Total	225	100%

Appropriate technology transfer into the country through Bank's financing worth 66.7bn

The value of machinery & equipment financed by the bank was UGX66.7 billion in 2015. This also boosted production and increased availability of quality products in the market.



Tractors for Western Uganda Cotton Company Ltd.

Other related benefits that directly or indirectly result from the projects financed and have had positive effect on the economy are highlighted below;

- Improved incomes & livelihoods to farmers and their families resulting from better agriculture production
- Increased uptake and usage of financial services like mobile money and SAACOs as farmers practice how to manage their agricultural finances in bid to have sustainable output.
- Market assurance through value chain financing of both the farmers and off-takers at competitive prices. Farmers are advised on which crops to plant during particular seasons in order to be assured of ready market before their produce gets spoilt.
- Some UDB funded projects have offered scholarships to needy students to help progress in their education.
- Facilities needed by community needed facilities like boreholes; schools have either been constructed or renovated. Boreholes constructed from these projects have played a big role in being a cheap source of clean water to the communities.
- Sharing knowledge on entrepreneurship skills offered by UDBL funded projects with other community members.
- Over 500 needy students received education scholarships in some schools to which UDBL extend loans.
- Improved facilities and infrastructure within the schools which has helped create more space and a better learning environment for the students.





Oil Palm Fresh Fruit Bunch in Kalangala (Ssesse Islands).



1.0 Macro-economic Environment

1.1 Global economic situation

The financial year 2015 marked the end of the Millennium Development Goals (MDGs), the first global development framework to end poverty. It also marked the start of a new global development agenda that includes Sustainable Development Goals (SDGs).

Global growth was estimated at 3.1% in 2015 and is projected to be 3.4% in 2016. The slow-down in China's economy had spillovers to other economies through trade channels, weak commodity prices and increasing volatility in the financial markets.

During the year 2015, the global economy was influenced by a number of factors, namely; weak commodity prices, low interest rates with increasingly divergent monetary policies and weak global trade.

Global Trade & Commodity Prices

Global Trade remained stagnant in 2015 due to the weaker-than-expected GDP growth and subdued import demand. Global trade and manufacturing activities remained weak in 2015 reflecting subdued global demand. Global oil prices declined markedly (closing at \$27/bbl in Dec'15) due to sustained increase in global oil production in excess of oil consumption and decline in prices of other commodities, especially agricultural & metals products.

The global economy experienced a general decline in commodity prices in 2015. Whereas oil prices experienced the most dramatic decline, prices of other commodities such as industrial and food products also weakened. Price Indices of commodity like metals, minerals, agricultural raw-materials showed general decline in 2015.

The continued decline in global oil prices presented challenges for emerging oil & gas sector across East Africa region, since it was likely to prompt investors in the sector to review their investment decisions. The sharp decline in oil prices since mid-2014 impacted negatively on the export proceeds of oil exporters; but provided support to oil importing countries like Uganda

The decline in global commodity prices impacted negatively on commodity exporting countries like Uganda. This also impacted negatively on Uganda's export proceeds & balance of payments.



The sharp decline in oil prices since mid 2014 impacted negatively on the export proceeds of oil exporters; but provided support to oil importing countries like Uganda.

3.1%

2015
Global growth
estimate

Global Financial markets

Global borrowing costs remained low during 2015, partly as a result of monetary stimulus in Euro Area. Quantitative Easing by European Central Bank and the speculation about US Fed tightening caused a broad appreciation of the dollar and resulted in some volatility in the global financial markets. The launch of the European Central Bank's Quantitative Easing program helped maintain low global financial costs.

Federal Reserve lifted the federal funds rate from the zero lower bound by 0.25% in Dec'15 and prospects of a gradual increase in policy interest rates in US remains high and further currency depreciation is expected for emerging markets in 2016.

Increase in capital outflows from emerging markets is expected with a rise in US rates. Borrowing costs are likely to rise in emerging markets and countries that have heavily contracted debt in US dollar. Weakened growth prospects and increase volatility of currencies of such countries are expected. Uganda is not an exception to these.

1.2 Regional Economy

Growth in the Sub-Saharan Africa was recorded at 4.50% in 2015. The main factors that contributed to this growth level included; expectation on the normalization of monetary policy in the US, global geopolitics, decline in commodity prices including oil prices and slowdown in emerging market economies like China.

Sub-Saharan economies are faced with fiscal vulnerabilities associated with expansionary fiscal policies given the need to finance infrastructure and other development spending. Whereas most Sub-Saharan countries including Uganda have kept public debt ratios relatively stable, continued high growth and favorable global financial market conditions have not been sufficient enough to prevent debt build up and financing difficulties in some countries. This is reflected in the high fiscal deficits driven by rising recurrent expenditures.

Selected Sub- Saharan African Economic Indicators; 2014-2016

Selected Economic Indicators for Sub-Saharan African Economies			
	2014	2015	2016-projected
Real GDP	4.98%	4.50%	5.10%
Inflation rate	6.32%	6.60%	7.02
Current A/C Balance/GDP	-3.31	-4.56	-4.14

Source: IMF World Economic Outlook database; 2015

Growth in the East African Region was supported by the falling global oil prices as it mitigated inflationary pressures.





The main drivers for Uganda's inflation were food prices and the pass through effect of exchange rate depreciation.

1.3 Uganda's Economy

Uganda's economy is estimated to have grown by 5.35% in 2015; which was above the 2014 growth rate of 4.7% and the Sub-Saharan growth rate of 5.0%. This growth was driven mainly by the industry and services sectors which grew by 5.5% and 5.7% respectively. Agriculture, forestry and fishing also improved.

Uganda's Trade Balance worsened from a trade deficit of US Dollar 191.3 million in January 2015 to US Dollar 276.4 million in December 2015. The terms of trade (TOT) index for the country also deteriorated from 143.4 in January 2015 to 138.6 in December 2015. The Uganda shillings depreciated against the US dollar from an average of 2,860.7 Ugx/ \$ in January 2015 to 3,362.5/\$ in December 2015, a depreciation of nearly 20%.

Headline Inflation increased from 1.3% in January 2015 to 9.3% in December 2015; while core inflation rose from 2.7% in January 2015 to 7.4% in December 2015. The main drivers for Uganda's inflation were food prices and the pass through effect of exchange rate depreciation.

The key financial sector indicators also registered positive growth rates. Total domestic credit in the economy increased from Uganda shillings 11,733.3 million in January 2015 to Uganda shillings 13,327.2 million in December 2015. Private sector credit increased from Uganda shillings 9,743.6 million to Uganda shillings 11,349.5 million during the same period.

The average commercial bank's lending interest rates for shilling loans increased from 21.69% in January 2015 to 24.59% in December 2015, while the rates for foreign currency loans declined marginally from 9.67% in January to 9.42% in December 2015. The overall Non Performing Loan ratio for the Banking Industry increased from 4.3% in quarter one of 2015 to 5.3% in December 2015.

Looking forward, the global economy will continue to be dominated by development in China & crude oil prices. Most countries in sub-Saharan Africa will see a gradual pick-up in growth, but with lower commodity prices & higher borrowing costs.



Impact of Global and Regional Economic Environment on Uganda and UDB

The decline in global commodity prices negatively impacted commodity exporting countries like Uganda specifically Uganda's export proceeds & balance of trade. The Bank's clients operating in the export sector (coffee, cotton, tea, etc.) were equally affected. There were delays in loan repayments by some clients and this impacted the Bank's portfolio quality.

The strong dollar weakened the value of the Uganda shilling with adverse foreign exchange risk effect on UDBL clients whose revenues/cash inflows did not match the currencies of loan repayments. This resulted into restructuring of some client facilities to suit their cash flow pattern.

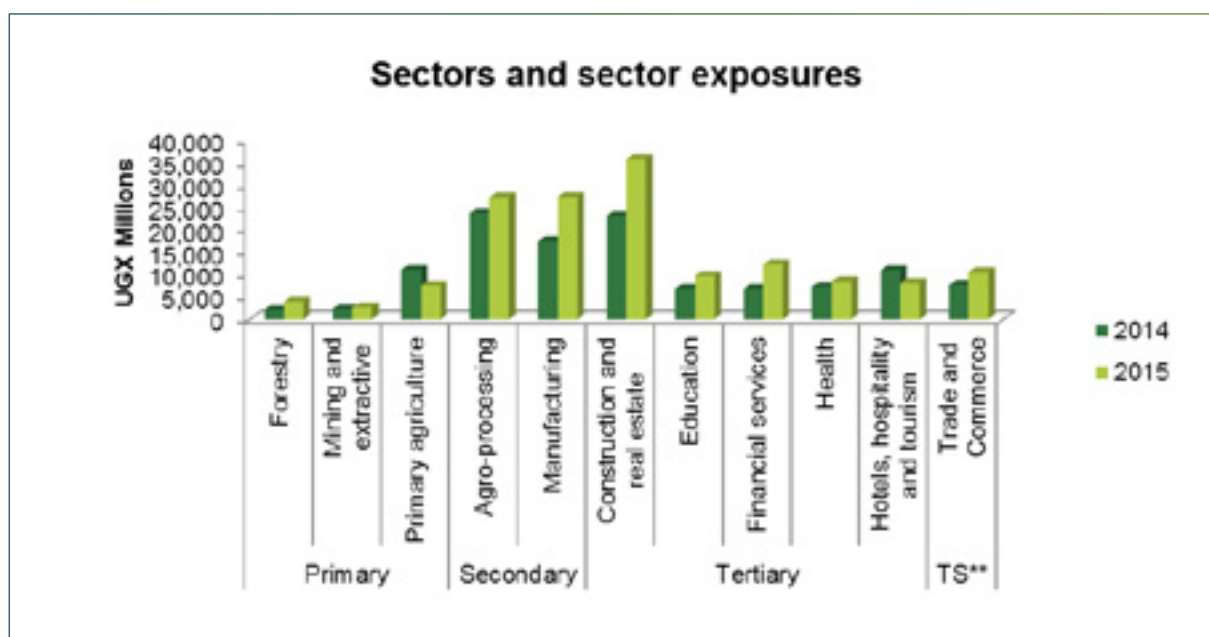
OVERVIEW OF OPERATIONS

Key Sectors Financed

As a development bank, our financing targets priority sectors of the economy that are in a position to create a lasting socio-economic impact on the economy of Uganda. The Bank's loan portfolio is spread across 4 major sectors namely:

- **Primary Sector** – comprises of forestry, mining and extractive and primary agriculture sub-sectors;
- **Secondary Sector** – comprises of agro-processing and manufacturing sub-sectors;
- **Tertiary Sector** – comprises of education, financial services, health and hotels, hospitality and tourism sub-sectors; and
- **Trade Services** – comprises of trade and commerce.

The sector exposures as at 31 December 2015 and 2014 were as below:



(TS*** - Trade services)



To date, the Bank has invested in 73 projects in the primary agriculture and agro-processing sectors since 2010 providing financing of up to UGX 54 billion with an outstanding exposure of UGX 34.7 billion

Below is a brief on the key sectors financed:

Agriculture and agro-processing

Agriculture is a key sector in the development of a nation and a major economic activity in terms of population participation in the country. Agriculture is expected to contribute to the cost of economic transformation to the nation through offering employment opportunities, increasing export revenue contribution and food sustainability to the Ugandan people. The key challenges faced include the informal nature of the sector and the uncontrollable environment that causes variations in production.

To date, the Bank has invested in 73 projects in the primary agriculture and agro-processing sectors since 2010 providing financing of up to UGX 54 billion with an outstanding exposure of UGX 34.7 billion as at 31 December 2015. The Bank deliberately invested in the primary agriculture and agro-processing sectors since they have a greater effect on the economy due to the fact that the sectors employ the bulk of the Ugandan population and contribute towards export revenues.



UGX
75
Billion

*Money invested
by the Bank
in 18 projects
since 2010*

Construction and real estate

The Bank has invested in 18 projects providing financing of up to UGX 75 billion since 2010. The substantial investment in this sector is largely in the development of infrastructure that supports trade, commerce and transport. During the year, the Bank invested heavily in the redevelopment of the Natete Taxi/Bus to shore up the huge traffic inflow from Western Uganda into the City. The Bank also invested significantly in Liberty ICD in Namanve industrial area with 2,500m² of storage space, railway siding and customs scanning and clearing equipment. This is expected to increase storage space, enable trade facilitation and decongest the city by enabling clearance of goods outside Nakawa URA offices.

Key initiatives in 2015

The major focus of the Development Finance Department in the year 2015 was to grow the Bank's loan book by financing enterprises in the key sectors of the economy. Thus all the initiatives in the department were aimed at growing the Banks' loan book while at the same time focusing on maximizing the socio-economic impact created by the projects financed.

Some of the key initiatives undertaken during the year to achieve business growth objective included:

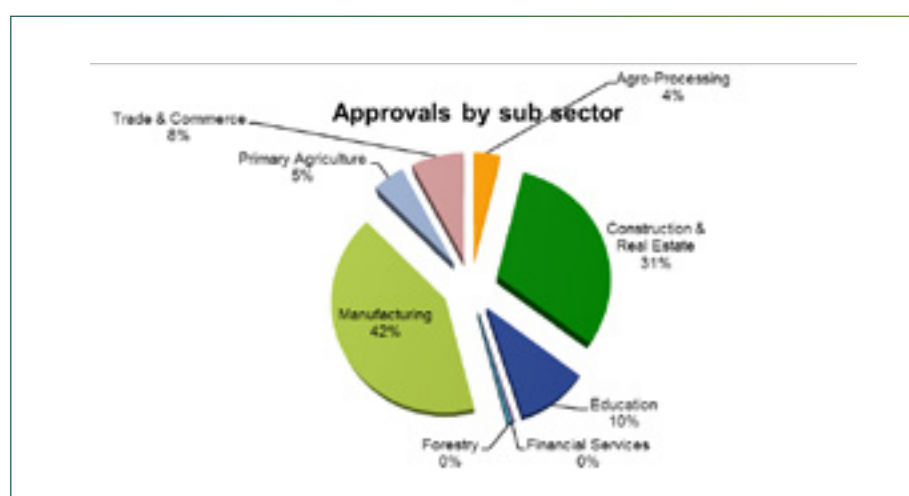
- a. The Bank's key strategic focus in FY 2015 was largely on sourcing projects in sectors with significant socio economic impact in terms of job creation, employment of women and youth, poverty alleviation as well as improvement of social amenities. This was done while ensuring that the banks investments were spread equitably across the vast geographical area of Uganda.
- b. There was a deliberate effort at the same time to focus the Bank's energies on sourcing and funding projects in the areas of primary agriculture, forestry, extractive industries, agro-processing & value addition, manufacturing sector, education sector, health sector, tourism promotion and hospitality in line with mandate of the Bank. This was to keep the synergies between the primary sectors of the economy that are responsible for production, the secondary sector that processes the produce and the tertiary sectors that provides support to those two key sector groups in the national production value chain.
- c. During the year, a drive was initiated to grow the Trade Finance portfolio significantly with focus on structured commodity finance. This was because Trade and commerce are a key source of income and employment and underscore many long-term projects that the Bank undertakes. The bank supported this sector through a range of on balance sheet and off balance sheet products including but not limited to working capital, structured trade and commodity finance, letters of credit facilities, guarantee facilities and invoice discounting among others. The total on balance sheet investment in this sector stood at UGX 9.8 billion at the end of 2015 representing 7% of the total loan book.
- d. The Bank also undertook deliberate measures to improve customer relationship management in 2015.
- e. The Bank committed through its customer service charter to adhere to the 21 days turnaround time with respect to loan processing. To this end, the Business Development Officers were tasked to work with customers through file building and at pre-feasibility stages of projects. This was to ensure customers properly document applications right from the start before a loan is listed on the Bank's pipeline in order to reduce the turnaround time.

Overview of 2015 performance

a. Approvals

During 2015, the Bank continued its efforts to finance the strategic sectors in the economy and a total of 40 loans were approved, totaling to UGX 123 billion against the target of UGX 96 billion and compared to UGX 64.2 billion in 2014.

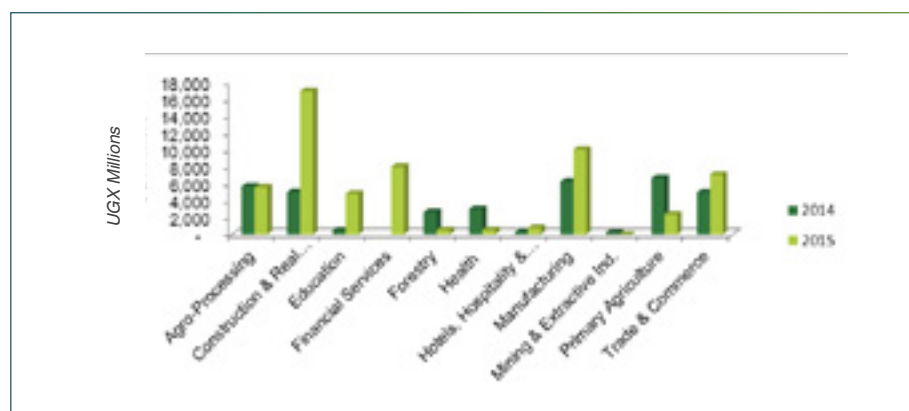
Approvals by sub-sector were as below:



b. Disbursements

Disbursements were made of UGX 56.71 billion in 2015 compared to UGX 35 billion 2014 representing a 62% growth in disbursements in 2015.

Disbursements per sector compared to the previous period are as below:



The overall pipeline conversion rate in 2015 was 55%, 10% above the projected conversion rate of 50%.

Development case studies – projects financed in 2015

1. Loreal Logistics Limited:



The Bank also invested significantly in Liberty ICD in Namanve industrial area with 2,500m² of storage space, railway siding and customs scanning and clearing equipment.

Incorporated in 2010, Loreal Logistics Limited specializes in logistics management where they operate a private custom bonded warehouse measuring 2,500m² in Banda Kampala and haulage business with 7 trucks handling food items and non-food items for Uganda and DRC traders. The project currently employs 35 permanent staff and 40 casual laborers.

UDBL partnered with Loreal to develop an Inland Container Depot (ICD) on 25.3 acres which will be the largest in the country. It will handle freight from train and trucks for goods destined for the country and those in transit and will be the second ICD with a railway siding as presently there is only one railway siding at the Railway Goods shed.

The planned investment is USD 14.5 Million but will be developed in three phases starting with warehouses, office space, weigh bridge and handling equipment

When completed, the project will create 200 jobs directly, decongest the industrial city centre and provide efficiency in revenue collections.

2. Busega Business Centre Ltd

Before commencement of work



Busega Business Centre Ltd (BBCL) runs a Public Transport Terminal (Motor vehicle Park for taxis, buses and trucks) at Natete. The complex is composed of shops, lodging facilities for travellers, public toilets and restaurants.

Through funding from UDB, the Public Transport Terminal is being upgraded by tarmacking the whole perimeter (carpet area), creating adequate drainage systems and setting up modern transport terminal systems that will support the increasing influx of taxis that are being channelled by Kampala City Council Authority (KCCA) to use the facility.

The terminal is expected to reduce traffic in the central business district as per MoU with Kampala City Authority.

Ongoing works



3. Nightingale School of Nursing



“

Incorporated in June 2006, Nightingale School of Nursing – (“NSON”) is the only private tertiary nursing institution located in Apac District. The institution carries out Nursing and Midwifery training which is vital in the preparation of a functional midwife at all levels of their performance.

Due to an increase in student enrollment, the school embarked on an expansion drive with funding from UDBL by developing a new campus with a classroom, laboratory block and student hostel that can accommodate up to 1,000 students. Enrollment has since increased from 460 students to 740 with a 35 staff compliment.

Once the new school is fully operational, the enrollment is expected to increase to 1,000 skilled health workers under training which will ultimately improve health care delivery to the northern region and support wider outreach programmes.

4. Kalangala Oil Palm Growers Trust



The Oil Palm project in Kalangala is a Government initiated and led project through the Vegetable Oil Development Project (VODP). The project is a joint venture between Willmar Group of Malaysia, Josovina Commodities of Singapore and Bidco Oil Refineries of Kenya, each a leader in their field. The project is the largest single foreign direct investment in Uganda with the estimated investment being over USD 150 million. This project is considered to be one of the most promising agro industrial projects in Uganda.

Kalangala Oil Palm Growers Trust ("KOPGT") is a farmer organization set up and mandated by the Government of Uganda to manage the oil palm development in Kalangala district. It is the leading and only primary producer of palm oil, fresh fruit bunches (FFBs) in Uganda located in Kalangala. The organization currently has over 1,610 small holder farmers with a total of 3,863 hectares under oil palm cultivation.



UDBL partnered with KOPGT to support 500 farmers to open new fields while maintain existing ones. The financing from the Bank will is expected to help increase productivity of the crop.

5. Kibinge Coffee Farmers Coop Society Ltd



Kibinge Coffee farmers' cooperative society (KCFCS) is located in Bukomasimbi district and was founded in 1995 with a common objective of boosting coffee production and sourcing competitive markets for the coffee.

Currently the association has over 1,000 farmers spread out in Masaka and Bukomasimbi districts. KCFCS has its own saving and credit bank plus a farm input supply shop. It has won several awards internationally due to the quality of coffee exported and is fair trade certified. It has an export license with strong off take agreements from international renowned buyers of coffee e.g. 32 cup of Belgium, Sucafina of Sweden and Daarnhouwer & Co. of Netherlands.

KCFCS currently employs 21 permanent staff and about 100 more on casual basis during coffee harvest seasons.

UDBL through KCFCS financed 500 farmers directly to boost primary coffee production. The project is expected to increase productivity at farm level, increase exports that shall earn foreign exchange to the country, create jobs and above all increase house hold income of the farmers.

6. Viva Academy Ltd (VAL)



VAL was established in 2013 as a private limited liability company. The company has set up an ultra-modern secondary school in Mwiri, Wairaka Town Council in Jinja District, primarily targeting both local and regional students and offering holistic education based on the Ugandan national curriculum, but also imparting extra-curricular life skills and morals. The school's target is the mid to high income class citizens in the local and regional market.

The first phase of VAL project development was completed with funding from UDBL and the existing amenities can accommodate least 450 students.

Once completed, the school will directly employ about 60 staff on a permanent basis and dozens of casual and support staff. Spin-off economic benefits will be realized by the local business community especially suppliers of foodstuffs, stationery and other supplies for a projected student population of close to 1,000 by the 3rd year and 1,300 by the 5th year in addition to foreign exchange earnings from the international students.

7. Nice House of Plastics Ltd



Nice House of Plastics (“NHOP”) was founded in 1970 as Ship toothbrush factory. Over the years, NHOP has expanded to include a wide range of products utilizing injection, blow and extrusion molding technologies.

It is one of the leading plastics manufacturing companies in the country enjoying a monopoly in ball point pens and tooth brushes. They also take the lead in producing crates and non-crate items. It employs 260 staff.

NHOP is currently operating in five locations (known as ships), four of which are at the Bugolobi plant and the 5th a recycling plant on Hoima road. The Bugolobi plant measures 4,433m². While it has become imperative to expand and add more machinery plus storage space, the current infrastructure is fully developed and can no longer accommodate future expansion.

UDBL is facilitating the expansion of the project by financing the construction of factory warehouses at Namanve Industrial Park and the acquisition of an injection molding machinery.

The new plant with the latest technology will produce new plastics products for the local and regional market and is expected to increase the volume of exports to earn more foreign exchange and an additional 107 jobs will be created in addition to existing staff employed.

8. Hakitengya Cocoa Farmers Association - Bundibugyo



Hakitengya Cocoa Farmers' Association is based in Bundibugyo district. The region is the leading producer of cocoa in Uganda. Through the Association UDBL financed 400 farmer members to boost cocoa production. The Association has a running contract to produce and sale cocoa to Esco (U) Ltd to a tune of 2300MT annually. The funding was utilized in harvesting, weeding and post-harvest handling activities and build drying racks to be used by the group members to improve cocoa quality and quantity needed by Esco as per contract terms.

The project is expected to increase cocoa quality and quantity, increase income at farm level, increase export revenues and create jobs.



Financial Highlights for 2015

Financial Statistics	2015	2014	2013	2012	2011
	Ushs million	Ushs million Restated	Ushs millions	Ushs millions	Ushs millions
Statement of Comprehensive Income					
Gross Interest on loans	16,339,342	11,220,751	11,978,079	10,562,833	8,309,995
Net Interest and fee Income	16,203,415	11,179,559	11,090,048	11,945,356	9,694,202
Net impairment loss on financial assets	(4,572,925)	(2,737,214)	(3,188,390)	(7,943,506)	(2,178,034)
Written off Loans	(6,871,441)	-	-	-	-
Non-Interest Income	2,437,813	5,052,875	2,548,703	7,993,751	8,711,328
Operating expenses	(5,237,379)	(9,764,661)	(9,741,355)	(6,759,901)	(5,784,694)
Profit before income tax	(11,750,209)	(6,861,464)	622,339	5,182,188	10,442,802
Profit for the year	1,911,186	4,868,633	515,657	3,674,187	3,674,195
Statement of Financial Position					
Loans and advances (Net)	141,547,988	108,888,434	96,744,236	66,565,242	58,059,314
Total assets	205,557,443	169,972,552	146,898,107	135,520,722	127,058,697
Total liabilities	64,008,583	43,333,165	41,343,738	35,577,007	31,473,167
Total equity	141,548,860	126,606,101	105,554,369	99,943,715	95,585,530
Statement of cash flow					
Cash flow used in operating activities	(41,735,815)	(7,847,147)	(29,260,245)	(9,323,930)	3,396,979
Net cash used in investing activities	6,716,212	(9,565,349)	10,914,028	4,496,660	9,191,851
Net cash generated from financing activities	17,293,438	17,293,438	10,790,311	4,567,472	(2,534,634)
Financial Ratios					
Basic and Diluted Earnings Per Share	22.99	65.03	7.56	53.88	84.95
Net interest income margin	12%	10%	11%	14%	23%
Cost income ratio	43%	47%	69%	38%	39%
Return on assets	1%	3%	0%	3%	6%
Net asset impairment ratio	7.9%	8.8%	8.6%	25.0%	20.5%
Debt equity ratio	38%	28%	28%	28%	25%

Financial Performance Overview

The Bank's results for 2015 were impacted by the fluctuation in the Uganda Shilling which saw a rise from UGX 2,780: US\$ 1 at the beginning of the year to UGX 3,380: US\$ 1 at the end of the year, increase in core inflation during the year up to 7.6%, and general slowdown in the economic activities due to the presidential elections that were due to take place in February 2016.

The Bank's performance in 2015 was as follows:

Net Interest and Fee Income

Net Interest & Fee Income increased by UGX 5.31 billion (45.54%) in 2015 compared to 2014. Interest and similar income grew by UGX 5.12 billion (45.62%), majorly attributed to the 29% growth in the loan book (UGX 34.25Bn) in 2015 and 531% increase in penalty interest on loans in arrears that was charged for a period of 12 months in 2015 compared to 5 months in 2014.



Net Foreign exchange gains

The Bank benefited from the depreciation of the Uganda Shilling from UGX 2,780: US\$1 at the beginning of the year to UGX 3,380: US\$1 at year-end recording UGX 5.96 billion in foreign exchange revaluation profits (2014: UGX 4.59 billion). This was largely driven by the Bank's dollar asset net open position.



**Increase in
recoveries of
written off loans**



**Loans and advances
growth compared to
a growth of UGX 13.5
billion (12.84%) in 2014**

Other income

The Bank generated additional UGX 372 million in other income in 2015 which was 14% above that generated in 2014. The additional income was on account of depreciation in the Uganda shilling which contributed to an increase in rental income that is charged in dollars. There was also a 94% increase in recoveries of written off loans to UGX 578 million.

Net Impairment Loss and write off of loans and advances

The Bank's net impairment charges increased by 67% in 2015 to UGX 4.57 billion due to deterioration in the quality of the book as a result of the tough economic challenges faced by our clients. In addition, the Board approved a write off of UGX 6.87 billion in 2015 in line with the Bank's write off policy. The Bank will continue to pursue recovery of all written off loans.

Operating expenses

Total operating expenses increased by UGX 1.99 billion (20.33%) on account of costs incurred in the launch of the new Brand of the Bank in February 2015 and costs associated with hosting the AADFI 2015 Annual CEO Forum and Customer Service Forum in Kampala in a bid to enhance stakeholder engagement. Personnel expenses also increased by UGX 0.62 Billion (11%) due to increase in salaries in 2015 as approved by the Board.

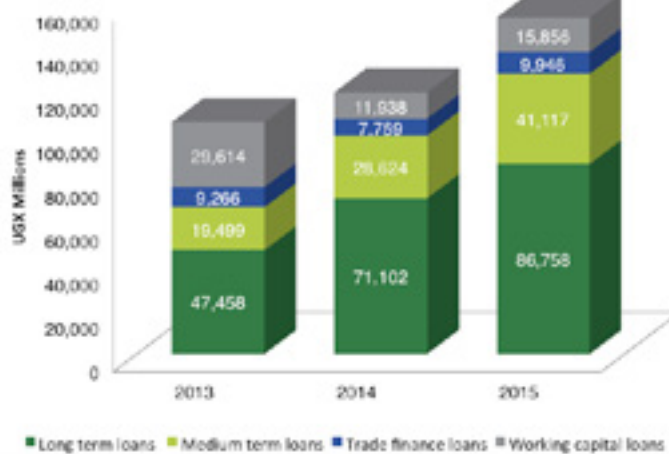
Financial Position Overview

A strong balance sheet is essential to fund the long term growth of the asset portfolio and ensure financial sustainability. The capital injection by the Government of Uganda therefore aims at increasing the capital base to fund growth while ensuring we remain below the prudential debt/equity ratio limit of 200%.

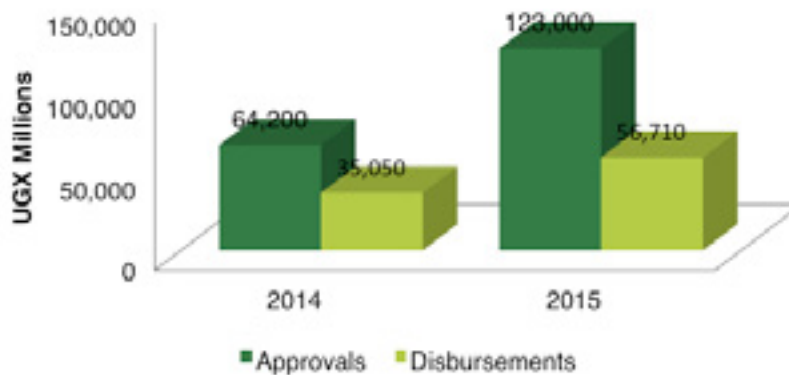
In the year, the Bank's balance sheet grew by 21% (UGX 36 billion) aided by the capital contribution and support from our Development Partners.

Loans and Advances

Loans and advances grew by UGX 34.25 billion (28.68%) in 2015 compared to a growth of UGX 13.5 billion (12.84%) in 2014. UGX 56.71 billion was made in disbursements in 2015 compared to UGX 35 billion in 2014 representing a 62% growth in disbursements.



Loan approvals and disbursements



Cash and cash equivalents and held to maturity deposits

Cash and cash equivalents and held to maturity investments decreased by UGX 2.57 billion (55.48%) and UGX 6.98 billion (40.94%) respectively by close of 2015 due to increased loan disbursements during the year

Other Assets

Other assets increased by UGX 11.63 Billion (315%) in 2015 due to loan disbursement made using the Bank's funds, pending reimbursements from the Bank's development partners i.e. Kuwait and BADEA.

Equity and Reserves

Equity and Reserves in 2015 grew by UGX 14.94 billion (11.80%) as a result of capitalization of the Kuwait Loan obtained by the Government of Uganda. At the time of capitalisation, the loan stood at UGX 13.03 billion.

Amounts due to Bank of Uganda

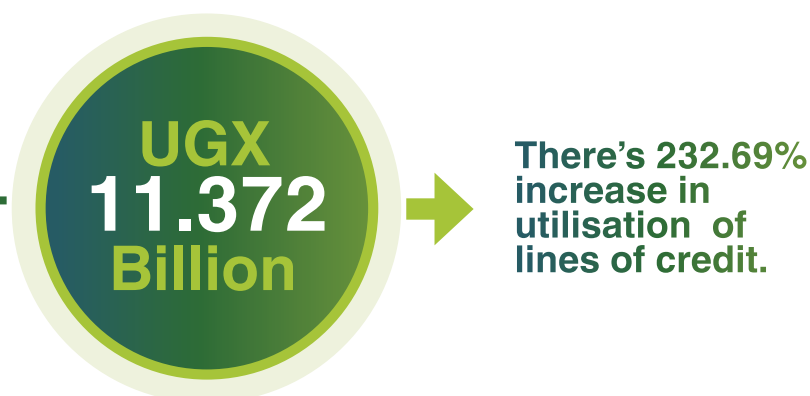
Drawdowns from the Agricultural Credit Facility managed by Bank of Uganda increased by UGX 3.34 billion in 2015 compared to UGX 1.69 billion growth in 2014. This contributed to the growth in the loan book mentioned above.

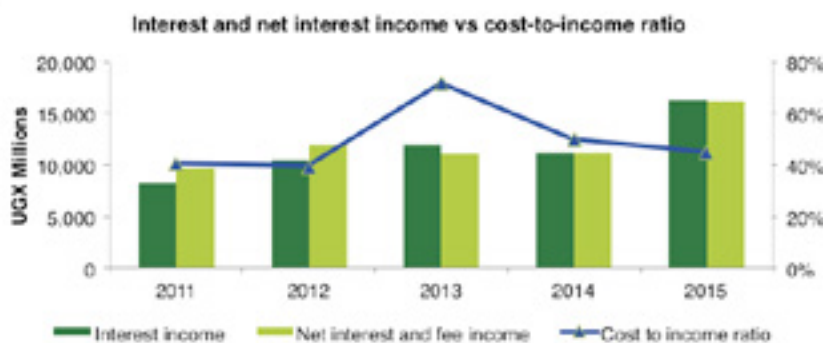
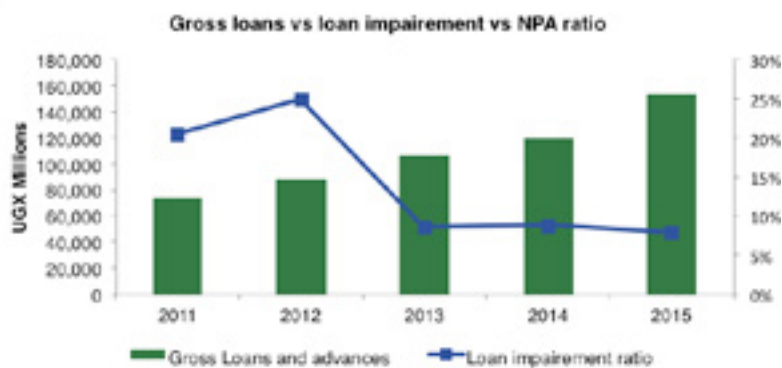
Borrowings

Borrowings comprising of lines of credit from Development Partners increased by UGX 11.372 Billion in 2015 representing a 232.69% growth in 2015 compared to 3% growth in 2014 of UGX 135 million. The line of credit from Arab Bank of Economic Development in Africa (BADEA) was fully utilized in 2015 to finance the growth of the loan book with a UGX 10.30 billion draw done during the year.

Kuwait Special Fund

The Fund grew by UGX 4.71 Billion (17.71%) due to the depreciation of the Uganda Shilling against the US Dollar as well as the reflows from the projects funded by this fund.







A wheel loader at work at the Kalangala Oil farm Project.



Risk management and compliance



This risk governance structure allows for timely response to risk issues that have a significant impact to the overall risk profile of the Bank.

Risk Management framework

To contribute to its long-term financial sustainability, the Bank positively embraced risk management by identifying and treating risk and compliance related matters that arise in the course of its business. This was achieved through the adoption of risk management practices, which include compliance with internal policies and procedures among others. The Bank's risk culture is growing and follows enterprise-wide risk management best practices, which align strategy, policies, people, processes, technology and business intelligence in order to evaluate, manage and optimize the opportunities, threats and uncertainties.

The Bank's Enterprise-wide Risk Management Framework (ERMF) places emphasis on accountability, responsibility, independence, reporting, communications and transparency; through monitoring key risk categories that are managed, measured and reported on periodically through the governance structure.

Risk Governance

The safety and soundness of financial institutions rely on the effectiveness of risk oversight and control functions.

Risk Governance is important in ensuring proper management of risks faced by the Bank. The tone is set at the top; and for that reason the Banks Board of Directors has the ultimate responsibility for risk management. To ensure effectiveness in the process, the Board of Directors delegated its risk related responsibilities to the Board Audit & Risk Committee and the Board Credit Committee in respect to Credit Risk matters.

The governance structure of the Bank is aligned to the Enterprise Risk Management framework adopted by the Bank. This has involvement at all levels from the Board; who set the tone through to management; who supervise and manage implementation of strategy to the individual staff; who are involved in the day to day activities of the Bank, which in itself is the implementation of the set strategic initiatives.

The Board Audit & Risk Committee meet on a quarterly basis to get updates from management on the risk management



environment of the Bank, while at management level, the Risk Management Committee meets on a monthly basis. This risk governance structure allows for timely response to risk issues that have a significant impact to the overall risk profile of the Bank. The issues are discussed to ensure action plans in place are adequate to control or manage such risks to acceptable levels. The significant and material risk issues are normally escalated to the Board of Directors through the Board Audit & Risk Committee.

In an effort by Management and the Board of Directors to manage the key risks the Bank faces i.e. Credit and Liquidity risk, the Bank has an Asset and Liability Committee which oversees liquidity, market and financial performance risks; the Management Risk & Credit Committee which oversees the credit and business risks, while the Executive Committee provides the overall oversight to all risks in the Bank at management level.

Risk Appetite & Tolerance

Risk appetite is the maximum amount of risk the Bank is willing to accept in the normal course of business and in pursuit of its strategic objectives. Losses may still arise during the normal course of business even where risks are taken within “appetite”. However, such losses would be adequately covered by expected earnings through provisioning. Risk tolerance measures the amount of risk that the Bank is willing to sustain for short periods of time. It emphasizes the “downside” of the risk distribution, and the Bank’s capacity to survive unexpected losses. The Bank also considers the upside of risk, i.e. where taking on some risks may result in high returns for the Bank. The Bank however ensures it takes on calculated risk. Operating within risk tolerances provides assurance that the Bank remains within its risk appetite.

Considering the bank’s approach towards risk management, appetites and tolerance levels have been set and agreed on at all levels of the bank. The bank also employs a forward looking approach of identifying emerging risks in an effort to proactively put in place safety nets.

Losses may still arise during the normal course of business even where risks are taken within “appetite”.

Managing our risks and opportunities

The Bank is cognizant that there are risks inherent in its operations and therefore continuously controls and monitors the following key risks.

Credit Risk

The Bank's core business is lending. Credit risk arises through non-performance by a counter party for credit facilities utilized. Such facilities include loans and advances, including the advancement of securities and contracts to support customer obligations such as letters of credit and performance guarantees. The bank has put in place adequate resources, expertise and controls to ensure proper management of credit risk.



Credit risk is managed by means of a governance structure with well-defined mandates and delegated authority, coupled with a properly guided credit assessment process in evaluation of new and existing facilities under the respective key growth sectors the bank focuses on.

Liquidity Risk

Without sufficient liquidity, the Bank is not able to achieve its strategic objectives that are geared towards meeting its mandate in financing enterprises in key growth sectors. This risk would arise if the bank does not have sufficient funds or marketable assets available to fulfill its current or future cash flow obligations at the least possible cost. The insufficiency of funds could stem from counterparties who provide the Bank with funding withdrawing or not rolling over that funding or a general disruption in the asset markets. This would therefore, present serious repercussions on the Bank's reputation. In an effort to manage this risk on an ongoing basis, there is a Treasury Unit that ensures that all necessary provisions are in place to ensure that all payment obligations can be met under both normal and stressed conditions without incurring unbearable costs.



The bank currently maintains a sound balance sheet and depends on sovereign support from the Government of Uganda

The Bank's Asset and Liability Committee (ALCO) monitors the liquidity position of the Bank through the set appetites on a monthly basis. Any breaches or negative signals are flagged up to the Board level for action if dimmed necessary depending on the gravity of its implication to the Bank.

The bank currently maintains a sound balance sheet and depends on sovereign support from the Government of Uganda through engagements with other strategic partners.

Foreign exchange risk

This is the potential loss due to change in value of the bank's assets or liabilities resulting from exchange rate fluctuations. The Bank maintains a UGX balance sheet and yet transacts with its clients in both local and foreign currency depending on the clients need and ability. This therefore creates situations of possible mismatches between the funding currency and loan currency. Therefore any adverse movement in foreign exchange can diminish or increase the value of the foreign currency and cause a loss to the bank.

The foreign exchange gap or net open position is monitored under the asset and liability committee of the Bank to ensure it is within acceptable limits.

Operational Risk

This is another risk intrinsic to the Bank and it is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk occurs in all day-to-day Bank activities at all levels, hence an Operational Risk Management policy is in place and articulates the framework within which risk identification, assessment, management, monitoring and reporting is done. This strengthens and streamlines the governance and management of Operational Risks in all business and support functions in the Bank. To facilitate this process, the Bank has deployed tools such; Risk and Controls Self-Assessment, that help identify and assess operational risks that could affect the achievement of the strategic objectives. Key Risk Indicators are used to manage the trend of risks on an ongoing basis, support risk profiling and above all raise red flags of potential risks and breakdown of controls.



The Loss Event Reporting is a tool used to capture operational risk events as per the Basel II operational risk event types. Being cognizant of the ever changing risk environment these tools are regularly updated.

Strategic Risk

This is the risk of adverse outcomes resulting from a weak competitive position or from a choice of strategy, target market, products, activities or structures. The Bank develops its business plan on an annual basis at the corporate level and the same is cascaded to the various business and support departments. Initiatives that support the set corporate and departmental strategic objectives are developed. In an effort to appraise its performance towards achieving set strategic objectives, management runs strategy reviews on a quarterly basis so as to timely address any shortcomings. .

Compliance Risk Management

This is the risk of legal sanctions, financial loss or loss of reputation that the Bank may suffer as a result of its failure to comply with all laws, regulations, codes of conduct and standards of good practice applicable to its operations. The bank has mapped out the entire legal framework applicable to its business and ensures that there is continuous monitoring of compliance to the internal policies and procedures and all statutory requirements.

In an effort to align its self with international best practices and standards, the Bank through its Management and the Board of Directors joined the Association of African Development Finance Institutions (AADFI) and Uganda Bankers Association (UBA). To this end, the Bank is subjected to annual assessments on its adherence to the AADFI

Prudential Standards and Guidelines Rating Systems, which covers Governance, Financial and Operational standards.

The Bank's approach to managing compliance risk is proactive and the risk management unit therefore supports business in complying with current and emerging statutory developments, including money laundering and terrorist financing control.

The Bank develops its business plan on an annual basis at the corporate level



“

The Internal audit's primary objective is to provide assurance to the Committee on the adequacy and effectiveness of the risk management framework and the quality of controls in the Bank's operational activities.

Internal Assurance

To ensure compliance with set internal controls, the Bank's internal audit function operates under a mandate from the Board Audit & Risk Committee. The Internal audit's primary objective is to provide assurance to the Committee on the adequacy and effectiveness of the risk management framework and the quality of controls in the Bank's operational activities. It assists the executive management team in meeting their business objectives by examining the Bank's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks.

The internal audit function adopted a risk based audit approach. Significant control weaknesses and agreed management actions including overdue issues are reported to the Executive Committee on a monthly basis and the Board Audit & Risk Committee on a quarterly basis. These issues are tracked to ensure that agreed actions are implemented.



UDB Staff at the previous team building event.



Human Capital

At 31 December 2015 the Bank's total headcount stood at 51 employees compared to 52 at the end of 2014. Female employees constituted 41% of the head count (2014: 42%) while the male employees constituted 59% (2014: 58%).



Staff take a boat-ride during the 2015 Team Building

In the context of the current competition in the banking environment, a high performance and values-led work force is critical. We encourage open and honest communication in decision making. Employment issues, economic and other factors affecting the Bank's performance are regularly shared with our employees.

The Bank provides to its employees structured ways through which they make their thoughts, feelings, concerns and recommendations on various issues known. These include among others regular staff meetings that are held at least quarterly and the annual employee satisfaction surveys. The employee satisfaction survey is an important avenue through which staff voice their concerns to management thus contributing collectively and positively towards the strategic planning process in the Bank. Through the employee satisfaction survey, appropriate development of remedial initiatives to concerns raised is done. This helps enhance staff engagement, retention, productivity as well as Bank business performance and growth.



Staff relax during boat cruise in Murchison Falls National Park.



We endeavor to identify and develop our talented employees to ensure availability of high caliber individuals

In addition, the bank has a dedicated staff representative who is a focal point between management and staff in ensuring that staff concerns are adequately addressed. The Bank has made strides in ensuring that important information is shared with all staff in a structured and consistent manner through the Corporate Communications Department.

Employee Development

The development of our employees is essential to the future strength of our business. We endeavor to identify and develop our talented employees to ensure availability of high caliber individuals with the values, skills and experience for current and future senior management positions while at the same time helping them achieve their career aspirations and also support the Bank's talent requirements.

We continued to implement our training calendar for all employees throughout the year to provide functional and technical knowledge as well as soft skills, management and build leadership capability. In addition, Continuous Professional Development (CPD) workshops/ courses were undertaken during the year for those that had CPD requirements to comply with.

The Bank also conducted a balance score card cascading training for all its employees to enhance strategic alignment of all business units and employee performance to the Bank's overall strategy.

Employee Engagement

In an effort to keep its employees engaged and productive, the Bank held a team building event for all its staff in September 2015. The event was punctuated by a fine blend of team bonding events facilitated by an external coach. The objective of the event was to enhance team work, motivation and enhance informal employee communication among others. During the event, a six member team was selected to continue the staff engagement drive going forward. The team rolled out a number of initiatives towards realising this objective.

Employee Reward and Recognition

Since our employees are integral to achieving our strategic objectives, we strive to keep them engaged, motivated and appreciated and endeavor to attract and retain high-calibre, high-performing individuals.

We endeavor to remunerate and reward our employees fairly, equitably and consistently on individual performance. Over and above the normal statutory benefits such as leave, staff benefits provided include provident fund, medical health insurance, low interest rate loans, and wellness programs such as membership to health clubs. We realize that healthy staff make motivated and productive employees.

In 2016, we will further enhance our rewards and recognition policy to enhance our retention and recognition platforms.



UDB Staff in a previous team building event. Annual Team Building activities build stronger ties and enhance bonding, team work and communication among staff.



The objective of the event was to enhance team work, motivation and enhance informal employee communication among others.



Skilling the next wave of Business Leaders through Quality Internship at Uganda Development Bank Limited

As a responsible corporate citizen, Uganda Development Bank regularly provides internship opportunities to students from tertiary institutions to provide an opportunity for them to blend theory with practice. This is intended to sharpen their technical skills to enable them become skilled business managers and leaders tomorrow.

The objective of this apprenticeship program is to train and skill future leaders from some of Uganda's main institutions of higher learning as part of its corporate social obligations.

The internships last about three months. The Bank takes continuing students usually in their second year of study. The selection of successful students is based on their performance.

Below are some of the most recent interns that trained with Uganda Development Bank in 2014/5.



Mark Nyombi



*Annah Asimwe -
Makerere University
Business School*



Jerry Musoke



*Jacob Alai Achar -
Makerere University
Business School*



*Natasha Kamikazi
Ngozi - Uganda Martyrs
University, Nkozi*



*Trevor Sseguya
Muwonge - Uganda
Martyrs University, Nkozi*

“
The Bank takes
continuing
students usually
in their second
year of study.”

INFORMATION TECHNOLOGY



UDB MIS Team.



With these initiatives the Bank is now better equipped to process loan applications

The year (2015) was characterized by concentration on maximizing return on invested technologies. This involved revisiting the core banking system to ensure residual inefficiencies such as several data entry points were eliminated to cut down on unnecessary delays during work flow processes.

Efforts were also made to widen the Bank's reach (footprint) by providing an opportunity to customers to remotely reach UDB in the course of their interactions with the Bank. With these initiatives the Bank is now better equipped to process loan applications, review proposals and advise customers without them having to walk into the Bank in a shorter time frame as well as enable Bank officials to have real-time information available for financial decision-making.

Moving forward the Bank plans to consolidate the gains made towards technology leveraging while embarking on tightening the security of all its systems, especially as it plans to make more of its IT systems available to its customer through the internet.



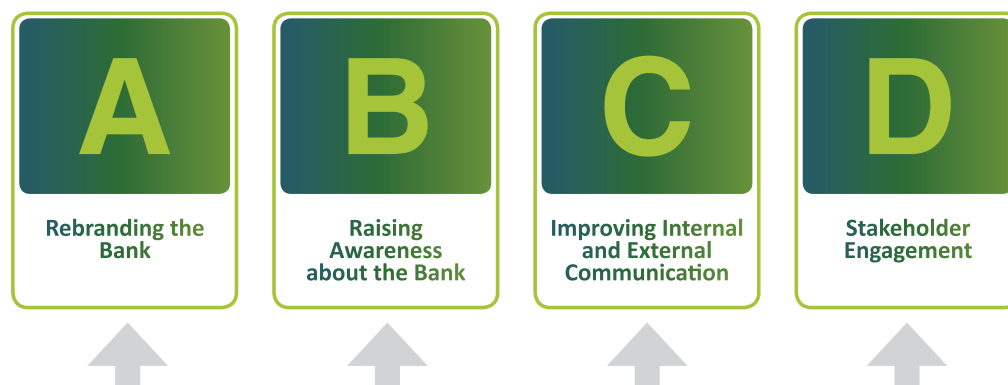


Delivering Oil Palm in Kalangala.



CORPORATE AFFAIRS AND MARKETING OVERVIEW

During 2015 the Bank's Marketing & Corporate Communications activities focused on:



CORPORATE REBRANDING

Corporate rebranding of UDB was one of the key initiatives in the Bank's 5-year strategic plan 2013-2017. The rebrand goes beyond adoption of a new universal symbol (logo). The initiative was and continues to provide a springboard for the Bank to address critical issues of quality customer service delivery whilst aiming to exceed the expectations of the Bank's diverse stakeholders

At the beginning of 2015, Uganda Development Bank Limited (UDB) re-branded itself with an objective of re-positioning the Bank in the credit market, increasing its brand visibility and raising its corporate profile.

Launching the New Corporate Brand

After a protracted process of about 15 months that involved extensive surveys (perception survey and brand testing) among the Bank's key stakeholders in the country, the Bank successfully launched its new corporate brand at a high profile function attended by UDB's key stakeholders who comprised customers, development partners, shareholders, government, board of directors and staff amongst others.



Rt Hon. Dr. Ruhakana Rugunda, Prime Minister of Uganda (right) and UDB Board Chairman Dr. Seijaaka (left) unveil UDB's new corporate identity at Sheraton Hotel, Kampala.

The colourful launch was presided over by The Prime Minister, Rt. Hon. Dr. Ruhakana Rugunda on February 24th, 2015 who commended the Bank on the milestone and impressive turn around. He urged the Bank to use its new revitalized brand to positively transform the Bank to enable it achieve its development mandate.

At the event, the Honorable Minister reiterated the Government of Uganda's commitment to re-capitalise the Bank to a tune of Ug Shs 500 Bn.

The corporate rebranding launch was split into three phases namely:

- **Internal Launch (on February 13th 2015) to Staff**
- **Media launch over breakfast**
- **External Launch on February 24th, 2015 at the Sheraton Kampala Hotel**



UDB Chairman Dr. Sejjaaka unveils the new UDB identity at an internal launch function.



UDB Rebranding Team

Rebranding Impact

The rebranding has enabled the Bank to reassert its role in the development finance arena. Some of the benefits the rebranding has provided include:

- A refreshed and more dynamic corporate brand
- Consistent application of the new brand guided by a corporate brand manual
- Enhanced UDB's corporate visibility through a focused and proactive engagement agenda
- Enhanced pride among the Bank's staff and customers
- Provided a platform for two way engagement with UDB's internal and external stakeholders
- Opportunity to launch customer focused products, services and initiatives
- Enhanced corporate reputation partly due to the positive coverage of UDB across various media platforms for the launch and recognition of the Bank's work in the country
- Reassurance that UDB means business

Post Launch Initiatives

Following the successful rebranding, UDB also focused efforts towards aggressive public relations initiatives aimed at enhancing positive perceptions about the Bank. During the year, strategic awareness building campaigns on various media platform were conducted by the Bank's executives around the country.

These included talk shows on various radios across all regions of the country coupled with television interviews and airing of a UDB documentary chronicling the development impact of the Bank in Uganda.



CHARITABLE GIVING

As part of initiatives to support the corporate brand, the Bank participated in various high profile initiatives and strategic engagement with stakeholders in the media and private sector. These included among others:

- Co-sponsorship of the 2015 Cancer Run in which UDB staff participated
- Sponsorship towards the refurbishment of Namugongo Martyrs Shrine and Charity Walk ahead of the Pope's visit to Uganda in November 2015



One of the kids to benefit from the Gift of Life and Rotary partnership recovering from surgery at the Uganda Heart Institute Mulago.

UDB IN NAMUGONGO MARTYRS SHRINE REFURBISHMENT CAMPAIGN



Vision Group CEO Robert Kabushenga receives a cheque from Uganda Development Bank Limited CEO Mrs. Patricia Ojangole towards a fundraising drive to refurbish Uganda Martyrs' Shrine at Namugongo in November 2015.

Uganda Development Bank Limited joined hands with The Vision Group and like-minded organisations to raise funds for the renovation of the historic Uganda Martyrs Shrine in Namugongo ahead of the historic visit of Pope Francis.

The Bank contributed Ug Shs 5Mn (Five Million) with its staff participating in a Charity Walk flagged off from the Kololo Independence Grounds on October 31st, 2015.

Handing over the Bank's contribution on October 30th, 2015, the CEO Mrs. Patricia Ojangole joined by staff members underscored the importance the Bank attaches to supporting deserving community initiatives in line with its corporate values.

Vision Group CEO, Mr. Robert Kabushenga cheerfully received UDB's contribution and hailed the Bank's generosity and business partnership with Vision Group in enhancing society welfare and promotion of investment and tourism in Uganda.



Some of the participants at the 2015 Cancer Run.

UDB SUPPORTS 2015 CANCER RUN: FUNDS RAISED TO SUPPORT NSAMBYA CANCER WARD

Uganda Development Bank was one of the corporate organisations that participated in a fund raising drive in support of the Cancer Ward at the Nsambya Hospital in Kampala.

About 15 Bank staff were among the thousands who participated in a marathon to support Rotary Uganda. The funds contributed for each participant went to a noble cause of building the Cancer Ward at Nsambya Hospital.

The Cancer Run, an initiative of the Rotary Clubs has become a popular annual activity on the local calendar dubbed “Rotary Cancer Run.”



IMPROVING INTERNAL AND EXTERNAL COMMUNICATION

During 2015 the Bank commenced the implementation of its Communication Policy and strategy. The Policy was aimed at aligning the Bank's communication with internal and external stakeholders.

This resulted in the following positive impacts among others:

- Defining roles and responsibilities for various team members when communicating
- Development of UDB Corporate Brand Manual and guidelines in the use of its identity
- Enhancement of the Bank's website www.udbl.co.ug complete with new branding
- Redesign of the Bank's stationery and branded communications collateral
- Rebranding the Bank premises in line with the new corporate identity and colours
- Redesign of the Bank's staff newsletter and award winning 2014 Annual Report



Staff jubilates at the internal launch of the new Corporate Identity.

EXCELLENCE IN FINANCIAL REPORTING - 2015 FiRe AWARDS



Receiving the 2015 Excellence in Financial Reporting Award on November 19th, 2015 at Serena Conference Centre.

Uganda Development Bank Limited won three awards at the prestigious Financial Reporting (FiRe) Awards for 2015 on November 19th 2015.

The Bank was recognized for outstanding achievement in improving the Quality of Financial Reporting at a colourful evening graced by a cross section of leaders in the financial world at the Kampala Serena Conference Centre.

Uganda Development Bank won awards for:

- 2015 Communication Award for outstanding achievement in Communication and Presentation of the Annual Report
- 2nd Runner-Up Banking Services Category for Out Standing Achievement in Financial Reporting
- Certificate of Recognition for Outstanding Achievement in Improving the Quality of Financial Reporting

The competitive and popular Annual Awards are organized annually by the Certified Public Accountants (CPA Uganda) and hosted jointly with the Capital Markets Authority and Uganda Securities Exchange.

The latest victory under scored a winning streak by the Bank which was voted Best Performing Development Finance Institution (DFI) for 2014 by the Association of African Development Finance Institutions (AADFI).

The recognition by independent third parties was another feather in the hat for Uganda Development Bank, in its drive to achieve its vision of Promoting Sustainable Socio-economic Development Through Innovative Financial Products and Services.



STAKEHOLDER ENGAGEMENT



Hon. Matia Kasaija handing over a plaque to a Bank customer for exemplary performance during 2015 at the Customer Engagement Forum.



Hon. Matia Kasaija and Dr. Victoria Sekitoleeko admire products UDB customers' products at a UDB Customer Engagement Forum.

As the Bank focuses its efforts to building a strong UDB brand, it was imperative to strengthen relationships with key stakeholders. Consequently, during 2015 the Bank embarked on the process of developing a strategic and proactive frame-work for engaging its key stakeholders. The Stakeholder Engagement Framework will guide the Bank on how to strategically engage and relate with its key stakeholder in a planned and sustainable manner to ensure informed stakeholder support for its business operations.

A team to guide the Bank's stakeholder engagement plan was appointed during 2015 to develop the Bank's Stakeholder Engagement Framework.

The following had so far been accomplished by the end of 2015:

- Stakeholder Identification
- Stakeholder Analysis, Classification and Mapping

UDB HOSTS AADFI 2015 CEO FORUM

Uganda Development Bank hosted this year's Annual AADFI Forum for CEOs in African Development Banking and Finance Institutions at the Speke Resort & Conference Centre, Munyonyo, from the 11th-13th November 2015.

The bilingual forum held in English and French attracted over 100 delegates from across Africa and throughout the world. The forum targeted CEOs, their deputies and Senior Management Staff in National and Sub-regional DFIs (Development Financial Institutions). The theme of the forum was

“STRENGTHENING AFRICAN DFIs WITH APPROPRIATE STANDARDS AND GUIDELINES: 5TH PEER REVIEW & RATING OF AADFI MEMBER INSTITUTIONS”

A press conference was held at the Uganda Development Bank Head Office at Rwenzori Towers attended by over 20 journalists from

the Print and electronic media. The Press conference was led by Ms. Patricia Ojangole, CEO UDB, Mr Patrick Dlamini, Chairman ADDFI & CEO DBSA and his committee.

The Official Opening Ceremony of the Forum took place on Thursday 12 November, 2015 and was presided over by Hon. Matia Kasaija, Uganda's Minister of Finance, Planning & Economic Development.

Presentations were made by representatives from TIB Development Bank Limited, Tanzania, Liberian Bank for Development & Investment (LBDI), EADB, Afreximbank and the World Bank.

The Annual CEO forum was co-sponsored by the Speke Resort Munyonyo, NC Bank, PTA Bank, Citibank DFCU Bank and the Ministry of Finance planning and Economic Development.



(L-R) Ms. Patricia Ojangole, CEO UDB, Mr. Patrick Dlamini, Chairman AADFI & CEO DBSA joined by some members of the AADFI Committee at the Press Conference.



(2nd left) Mr. Patrick K. Dlamini, The AADFI Chairman and CEO of DBSA, Hon. Matia Kasija, Minister of Finance planning and Economic Development and Ms. Patricia Ojangole, CEO Uganda Development Bank pose for a picture with delegates from across Africa and the rest of the world during The Association of African Development Finance Institutions (AADFI) CEO Forum 2015.



Coffee seedlings for Kibinge Coffee Farmers Cooperative Society, a UDB funded project.



REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rwenzori Towers
Plot No. 6 Nakasero Road
1st Floor, Wing B3
P. O. Box 7210
Kampala, Uganda

DIRECTORS

The directors who held office during the year and to the date of this report were:

Name	Designation
Dr. Samuel Sejjaaka	Chairperson
Mr. George W Nyeko	Director (Resigned 16 May 2015)
Mr. Charles Byaruhanga	Director
Dr. Stephen. R. Isabalija	Director
Ms. Harriet Omoding	Director (Resigned 16 May 2015)
Mr. Nimrod Waniale	Director (Appointed 16 May 2015)
Mrs. Silvia Angey Ufoyuru	Director (Appointed 16 May 2015)
Mr. Henry Balwanyi Magino	Director (Appointed 16 May 2015)

SECRETARY

Ms. Dorothy Ochola
Uganda Development Bank Limited
Rwenzori Towers
Plot No. 6 Nakasero Road
1st Floor, Wing B3
P. O. Box 7210
Kampala, Uganda

BANKERS

DFCU Bank Limited
Plot 2, Jinja Road
P. O. Box 70
Kampala, Uganda

Citibank Uganda Limited
Plot 4, Ternan Avenue, Nakasero
P. O. Box 7505
Kampala, Uganda

**Standard Chartered Bank
Uganda Limited**

5 Speke Road
P. O. Box 7111
Kampala, Uganda

Bank of Africa

Plot 45, Jinja Road
P. O. Box 2750
Kampala, Uganda

NC BANK Uganda Limited

1st Floor, Rwenzori Towers, Nakasero
P. O. Box 28707
Kampala, Uganda

AUDITORS

Auditor General

Government of Uganda
P. O. Box 7083
Kampala, Uganda

DELEGATED AUDITORS

Ernst & Young

18 Clement Hill Road
Shimoni Office Village
P. O. Box 7215
Kampala

LEGAL ADVISORS

J.B. Byamugisha Advocates

4 Nile Avenue
P. O. Box 9400
Kampala, Uganda

Kateera and Kagumire

10th Floor, Tall Tower, Crested
Towers
P. O. Box 7026
Kampala, Uganda

Nangwala, Rezida and Co. Advocates

Office Park Suite B5, 2nd Floor,
Plot 7-9 Buganda Road
P. O. Box 10304
Kampala, Uganda

Ligomarc Advocates

5th Floor, Western Wing, Social
Security House,
4 Jinja Road
P. O. Box 8230
Kampala, Uganda

**Kalenge, Bwanika, Ssawa & Company
Advocates**

Plot 15A Clement Hill Road
P. O. Box 8352
Kampala, Uganda

BNB Advocates

Plot 6/8 Nakasero Lane, off
Kyagwe Road
P. O. Box 12386
Kampala, Uganda

ENSafrica Advocates

Plot 6, Nakasero Road
P. O. Box 24665
Kampala, Uganda

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FAX: +256 - 41 - 4345674
Email: info@oag.go.ug
Website: www.oag.go.ug



OFFICE OF
THE AUDITOR GENERAL
APOLLO KAGWA ROAD,
PLOT 2C,
P.O. Box 7083,
KAMPALA.

VISION: "To be an effective and efficient Supreme Audit Institution (SAI) in promoting effective public accountability"

MISSION: "To Audit and report to Parliament and thereby make an effective contribution to improving public accountability and value for Money Spent"

IN ANY CORRESPONDENCE ON
THIS SUBJECT PLEASE QUOTE NO **DCG.48/354/02/15**

30th March, 2016

The Rt. Hon. Speaker of Parliament
Parliament of Uganda
Kampala

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA
DEVELOPMENT BANK LIMITED FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER
2015**

In accordance with Article 163 (4) of the Constitution, I forward herewith audited financial statements of Uganda Development Bank Limited for the financial year ended 31st December 2015 together with my report and opinion thereon.

A handwritten signature in blue ink, appearing to read 'John F. S. Muwanga'.

John F. S. Muwanga
AUDITOR GENERAL

- c.c. The Hon. Minister of State for Finance- Privatization Unit
- " The Permanent Secretary/Secretary to the Treasury
Ministry of Finance, Planning & Economic Development
- " The Chairperson, Board of Directors (UDBL)
- " The Chief Executive Officer, Uganda Development Bank
- " M/s Ernst & Young
Certified Public Accountants
Kampala

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA DEVELOPMENT BANK LIMITED
FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER 2015

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of Uganda Development Bank Limited for the financial year ended 31st December 2015, set out on pages 9 to 59. The financial statements comprise of the statement of comprehensive income, statement of financial position, statement of changes in equity, the statement of cash flows for the year then ended and summary of the significant accounting policies and other explanatory information.

Directors' Responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012 and the Financial Institutions Act (2004) and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Part "A" of this report sets out my opinion on the financial statements. Part "B" which forms an integral part of this report represents in detail all the significant audit findings made during the audit which have been brought to the attention of management and will form part of my Annual Report to Parliament.

PART "A"

Opinion

In my opinion, the financial statements present fairly, in all material aspects, the financial position of Uganda Development Bank Limited as at 31st December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been prepared in accordance with the requirements of the Companies Act of Uganda, 2012.

Report on Other Legal Requirements

As required by the Companies Act of Uganda I report to you, based on my audit that:

- (i) I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of our audit.
- (ii) In my opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
- (iii) The statement of financial position and statement of comprehensive income are in agreement with the books of account.



John F. S. Muwanga

AUDITOR GENERAL

KAMPALA

30th March, 2016

The directors submit their report together with the audited financial statements of Uganda Development Bank Limited (“the Bank” or “the Company”) for the year ended 31 December 2015, which disclose the state of affairs of the Bank.

1. INCORPORATION

The Bank was incorporated under the Companies Act of Uganda on 31 March 2000.

2. PRINCIPAL ACTIVITIES

The principal activities of the Bank are to profitably promote and finance viable economic development in Uganda by providing finance in the form of short, medium and long term secured loans and acquiring shares in viable businesses.

3. RESULTS

The results for the year are summarised below:

	2015	2014
		Restated
	Ushs ‘000	Ushs ‘000
Profit before tax	2,777,996	6,945,219
Income tax expense	(866,810)	(2,051,459)
Profit for the year	<u>1,911,186</u>	<u>4,893,760</u>

4. RESERVES

The reserves of the Bank are set out on page 11.

5. DIVIDENDS

The directors do not recommend the payment of a dividend in respect for the year ended 31 December 2015 (2014: Nil).

6. DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

7. RISK

Risk is an integral part of the banking business and Uganda Development Bank Limited aims at the delivery of superior shareholder value by achieving an appropriate trade-off between risk and returns. The Bank is exposed to various risks, including credit risk, market risk and operational risk. Our risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring.

i. Credit Risk

Credit risk is the risk that a borrower is unable to meet financial obligations to the lender. Uganda Development Bank Limited measures, monitors and manages credit risk for each borrower and also at the portfolio level. The Bank has a standardised credit approval process, which includes a well-established procedure of comprehensive credit appraisal and rating.

ii. Market Risk

Market risk is the risk of loss resulting from changes in interest rates, foreign currency exchange rates and commodity prices. The Bank's exposure to market risk is a function of its asset and liability management activities. The objective of market risk management is to minimise the impact of losses due to market risks on earnings and equity capital. Market risk policies include Asset-Liability Management (ALM) policies.

iii. Operational Risk

Operational risk can result from a variety of factors, including failure to obtain proper internal authorisations, improperly documented transactions, inadequate training and employee errors. We mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining key back-up procedures and undertaking regular contingency planning.

Detailed risk management disclosures are presented in the notes to the financial statements.

8. THE AADFI PRUDENTIAL STANDARDS, GUIDELINES AND RATINGS SYSTEM

Uganda Development Bank Limited is a member of the Association of African Development Finance Institutions (AADFI), a union of development banks in Africa whose main activities are the provision of information and training in the techniques of banking and finance as well as development policy advice to African bankers and finance officers.

In 2014, the Bank participated in a peer review of African Development Finance Institutions based on wide ranging criteria including governance standards, financial prudential standards and operational standards. The Bank obtained a score of 80% representing a "High" performance level (a score of 60% is deemed to be average). The directors are committed to continuous improvement in the Bank's rating.

9. AUDITORS

In accordance with Article 163 of the Constitution of the Republic of Uganda, Section 17 of the Public Enterprises Reform and Divestiture Act, Cap.98 and Sections 13 (1) (a), 17 and 23 of the National Audit Act, 2008,

the financial statements of the company shall be audited once every year by the Auditor General. Section 23 of National Audit Act, 2008 permits the Auditor General to appoint private auditors to carry out such audit on his/her behalf. For the year ended 31 December 2015, Ernst & Young were appointed to act on behalf of the Auditor General.

10. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on
..... **15 March**2016.

By order of the Board,



.....
Company Secretary

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

The directors are ultimately responsible for the internal control of the Bank. The directors delegate responsibility for internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the company's assets. Appropriate accounting policies supported by reasonable and prudent judgements and estimates, are applied on a consistent basis and using the going concern basis. These systems and internal controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The directors accept responsibility for the year's financial statements, which have been prepared using accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda, 2012. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

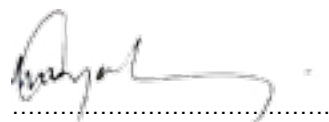
The directors have assessed the company's ability to continue as a going concern, and are of the view that the company will remain a going concern for at least twelve months from the date of this statement.

The financial statements were approved by the Board of Directors on

...**15 March**... 2016 and signed on its behalf by:



Chairperson



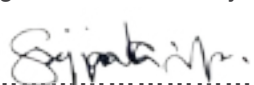
Director

	Note	2015	2014
			Restated*
		Ushs '000	Ushs '000
Interest and similar income	7	16,339,342	11,220,751
Interest expense and similar charges	8	<u>(135,927)</u>	<u>(41,192)</u>
Net interest income		16,203,415	11,179,559
Fee and commission income		763,271	751,247
Fee and commission expense		<u>(668)</u>	<u>(273,801)</u>
Net interest and fee income		16,966,018	11,657,005
Net foreign exchange gains	9	5,963,366	4,593,413
Fair value gains on investment property	21	-	525,208
Other income	10	3,043,187	2,671,468
Net impairment loss on loans and advances	19 (e)	(4,572,925)	(2,737,214)
Written off loans	19 (f)	<u>(6,871,441)</u>	<u>-</u>
Operating income after impairment losses		14,528,205	16,709,880
Personnel expenses	11	(6,043,446)	(5,427,868)
Depreciation and amortisation	22, 23	(469,384)	(629,262)
Other operating expenses	12	<u>(5,237,379)</u>	<u>(3,707,531)</u>
Profit before income tax	13	2,777,996	6,945,219
Income tax expense	15	<u>(866,810)</u>	<u>(2,076,586)</u>
Profit for the year		1,911,186	4,868,633
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Net revaluation gain on property and equipment	22	-	271,000
Related tax	28	<u>-</u>	<u>(81,300)</u>
Total other comprehensive income		<u>-</u>	<u>189,700</u>
Total comprehensive income net of tax		<u>1,911,186</u>	<u>5,058,333</u>
Basic/diluted earnings per share	14	<u>22.99</u>	<u>65.03</u>

*Certain amounts shown here do not correspond to the 2014 financial statements and reflect adjustments made, refer to Note 32.

			As at 1 January	
	Note	2015	2014	2014
			Restated*	Restated*
		Ushs '000	Ushs '000	Ushs '000
ASSETS				
Cash and cash equivalents	16	2,064,720	4,637,577	4,756,635
Held to maturity investments	17	10,067,871	17,047,782	8,717,831
Equity investments at fair value	18	209,926	260,294	365,360
Loans and advances	19	141,547,988	108,888,434	96,744,236
Staff loans and advances	20	2,121,021	1,640,497	1,319,460
Current income tax asset	15	1,408,463	752,348	610,672
Investment property	21	29,100,000	29,100,000	28,500,000
Property and equipment	22	2,966,891	2,867,336	2,865,060
Intangible assets	23	748,871	1,054,111	328,010
Other assets	24	15,321,692	3,690,887	2,682,683
Total assets		205,557,443	169,939,266	146,889,947
EQUITY AND LIABILITIES				
Capital and reserves				
Issued capital	30	83,123,443	74,866,655	68,192,660
Revaluation reserve		294,700	294,700	105,000
GOU capital contribution	31	20,749,144	15,974,359	9,399,847
Retained earnings		37,381,573	35,470,387	30,601,754
Total equity		141,548,860	126,606,101	108,299,261
Liabilities				
Amounts due to Bank of Uganda	25	11,391,197	8,062,303	6,373,556
Borrowings	26	16,260,506	4,887,605	4,751,859
Kuwait Special Fund	27	26,619,105	21,905,728	19,685,288
Deferred income tax liability	28	5,506,301	5,258,175	4,076,167
Other liabilities	29	4,231,474	3,219,354	3,703,816
		64,008,583	43,333,165	38,590,686
Total equity and liabilities		205,557,443	169,939,266	146,898,947

The financial statements were approved for issue by the Board of Directors on.....15 March.....2016 and signed on its behalf by:


.....

Chairperson


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Company Secretary


.....

Director


.....

Chief Executive Officer

*Certain amounts shown here do not correspond to the 2014 financial statements and reflect adjustments made. Refer to Note 32.

	Note	Share capital	GOU capital contribution	Revaluation Reserve	Retained earnings	Total
		Ushs'000	Ushs'000	Ushs '000	Ushs'000	Ushs'000
At 1 January 2014 (as previously stated)		68,192,660	6,673,995	105,000	30,582,714	105,554,369
Prior year adjustment	32	-	2,725,852	-	19,040	2,744,892
At 1 January 2014 (restated)		68,192,660	9,399,847	105,000	30,601,754	108,299,261
<i>Profit for the year</i>		-	-	-	4,868,633	4,868,633
<i>Other comprehensive income</i>		-	-	189,700	-	189,700
Total comprehensive income for the year		-	-	189,700	4,868,633	5,058,333
Contributions by equity holders						
GoU capital contribution (restated)	31, 32	-	13,248,507	-	-	13,248,507
Issue of shares (restated)	31, 32	6,673,995	(6,673,995)	-	-	-
Balance at 31 December 2014 (restated)		74,866,655	15,974,359	294,700	35,470,387	126,606,101
At 1 January 2015		74,866,655	15,974,359	294,700	35,470,387	126,606,101
Total comprehensive income for the year		-	-	-	1,911,186	1,911,186
Contributions by equity holders						
GoU capital contribution	31	-	13,031,573	-	-	13,031,573
Issue of shares	31	8,256,788	(8,256,788)	-	-	-
Balance at 31 December 2015		83,123,443	20,749,144	294,700	37,381,573	141,548,860

		2015	2014
			Restated*
OPERATING ACTIVITIES	Note	Ushs '000	Ushs '000
Profit before taxation:		2,777,996	6,945,219
Adjustments for:			
Depreciation	22	162,343	224,101
Amortisation of intangible assets	23	307,041	408,485
Write off of fixed assets		-	8,644
Revaluation losses on property and equipment		-	62,000
Fair value loss on equity investments	18	50,368	105,066
Changes in fair value of investment properties		-	(525,208)
		3,297,748	7,228,307
Increase in loans and advances		(32,659,554)	(12,144,198)
Increase in other assets		(11,630,805)	(1,008,204)
Increase/(decrease) in other liabilities		1,012,119	(484,463)
Increase in staff loans and advances		(480,524)	(321,037)
Cash used in operations		(40,461,016)	(6,729,595)
Income tax paid	15	(1,274,799)	(1,117,552)
Net cash flows used in operating activities		(41,735,815)	(7,847,147)
INVESTING ACTIVITIES			
Acquisition of property and equipment	22	(261,898)	(100,812)
Acquisition of intangible assets	23	(1,801)	(1,134,586)
Movement in held to maturity investments		6,979,911	(8,329,951)
Net cash flows generated from/(used in) investing activities		6,716,212	(9,565,349)
FINANCING ACTIVITIES			
Increase in amounts due to Bank of Uganda	25	3,328,894	1,688,747
Increase in amounts due to the Kuwait Fund	27	4,713,377	2,220,440
Increase in borrowed funds		11,372,902	135,744
Increase in contributions from the Government of Uganda	31	4,774,785	6,574,512
Increase in share capital	30	8,256,788	6,673,995
Net cash flows from financing activities		32,446,746	17,293,438
Decrease in cash and cash equivalents		(2,572,857)	(119,058)
Cash and cash equivalents at 1 January		4,637,577	4,756,635
Cash and cash equivalents at 31 December	16	2,064,720	4,637,577

1. REPORTING ENTITY

Uganda Development Bank Limited (the “Bank”) is a company domiciled in Uganda. The address of the Bank’s registered office is:

Uganda Development Bank Limited
Rwenzori Towers
Plot No. 6 Nakasero Road
1st Floor, Wing B
P. O. Box 7210
Kampala, Uganda

The Bank is primarily involved in development financing.

2. BASIS OF PREPARATION

a. Basis of accounting and statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and the requirements of the Companies Act, 2012 of Uganda.

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

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position that are measured at fair value:

- Equity investments at fair value through profit or loss.
- Investment property.

c. Functional and presentation currency

The financial statements are presented in Uganda Shillings (Ushs), which is the Bank’s functional currency. All financial information presented in Uganda shillings has been rounded to the nearest thousand (Ushs’000) except where otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

The following are the principal accounting policies used in preparation of these financial statements. The policies have been applied consistently to all periods presented and are set out below.

a. Foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate as the end of the year.

Non-monetary assets and liabilities that are measured in foreign currency are translated to the functional currency at the spot exchange rate at the date that the value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss.

b. Revenue recognition

i. Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense presented in profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities calculated on an effective interest basis.

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

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

ii. Fees and commission income

Fees and commission income and expense that are integral to the effective interest on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income including account servicing fees and syndication fees are recognised as the related services are performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other fees and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

iii. Other income

Other income includes gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

iv. Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in other income.

c. Income tax expense

Income tax expense comprises current income tax and deferred income tax. Current income tax and deferred income tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

i. Current income tax

Current income tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

ii. Deferred income tax

Deferred income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred income tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- Temporary differences arising on the initial recognition of goodwill.

Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current income tax assets and liabilities on a net basis or their income tax assets and liabilities will be realised simultaneously.

A deferred income tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised.

Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

d. Financial assets and financial liabilities

i. Initial recognition

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise.

Financial assets held by the Bank include balances with Bank of Uganda, loans and advances, investments in government securities, and balances with banks.

The Bank initially recognises loans and advances, debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

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

ii. Classification

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

- Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.
- Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Available for sale assets are recognised on the date they are transferred to the Bank.

Loans and advances and amounts due from banks are recognised when cash is advanced to borrowers. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

Financial liabilities: The Bank classifies its financial liabilities other than guarantees and loan commitments as measured at amortised cost or fair value through profit and loss.

iii. Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows 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 such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised In other comprehensive income is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria.

An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

iv. 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 amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

v. Amortised cost measurement

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

vi. 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 a 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. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price - i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

vii. Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the

Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of de recognition to the reporting date using the original effective interest rate of the existing financial asset. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible.

e. Cash and cash equivalents

Cash and cash equivalents include notes and cash on hand, deposits held at call with banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

f. Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances to customers and staff are classified as loans and receivables.

Loans and advances to customers and staff are classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Bank chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognised immediately in profit or loss.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

g. Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available for sale.

i. Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original
- principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

ii. Fair value through profit or loss

The Bank designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss.

iii. Available for sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

h. Property and equipment

i. Recognition and measurement

Property and equipment are stated at cost or revalued amounts, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within “other income” in profit or loss.

After recognition as an asset, land and buildings are carried at their revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Property and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within ‘other operating income’ in profit or loss.

ii. Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is recognised in profit or loss on a straight line basis over the estimated useful life of each part of an item of property and equipment. The rates of depreciation used are based on the following estimated useful lives:

Buildings	50 years
Motor vehicles	5 years
Fixtures, fittings and equipment	8 years
Computers	4 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

i. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods and services or for administrative purposes.

Investment property is measured at cost at initial recognition and subsequently at fair value with any change therein recognised in profit or loss as part of other revenue.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

j. Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The core-banking system acquired in the prior year has a useful life of five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

k. Share capital

Ordinary share are classified as “share capital” in equity and are measured at the fair value of the consideration receivable, net of transaction costs, without subsequent re-measurement. Any premium received over and above the par value of the shares is classified as “share premium” in equity. Contributions received from the Government of Uganda and for which no shares have been allotted are classified as Government of Uganda capital contributions pending allotment of shares.

l. Employee benefits

i. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

ii. Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iii. Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

m. Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off statement of financial position transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

n. Earnings per share

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

o. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank. The adoption of the standards or interpretations is described below:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements 2010-2012 Cycle
 - IFRS 2 Share-based Payment
 - IFRS 3 Business Combinations
 - IFRS 8 Operating Segments
 - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
 - IAS 24 Related Party Disclosures
- Annual Improvements 2011-2013 Cycle
 - IFRS 3 Business Combinations
 - IFRS 13 Fair Value Measurement
 - IAS 40 Investment Property

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing is of standards and interpretations issued, which the company reasonably expects to be applicable at a future date. The company intends to adopt those standards

when they become effective. The company expects that adoption of these standards, amendments and interpretations in most cases may not have any significant impact on the company's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the company is still assessing the possible impact.

- **IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Bank plans to adopt and apply the new standard on the required effective date. During 2015, the Bank has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Bank in the future. Overall, the Bank expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Bank expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

- **IFRS 15 Revenue from contracts with customers**

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank plans to adopt and apply the new standard on the required effective date using the full retrospective method. During 2015, the Bank performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Bank is considering the clarifications issued by the IASB in

an exposure draft in July 2015 and will monitor any further developments. The Bank is still assessing the impact the new standard will have on its revenue.

The standards issued but not yet effective which the Bank does not expect to have an impact on the financial statements are listed below:

- IAS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements 2012-2014 Cycle
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
 - IFRS 7 Financial Instruments: Disclosures
 - IAS 19 Employee Benefits
 - IAS 34 Interim Financial Reporting
 - Amendments to IAS 1 Disclosure Initiative
 - Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception.

4. FINANCIAL RISK MANAGEMENT

The Bank has exposure to various risks from its use of financial instruments including; credit, liquidity and market risk.

The Bank's board of directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Banks' Audit and Governance Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation

to the risks faced by the Bank. The Audit Committee is assisted in these functions by internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

a. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loan and advances to customers. For risk management reporting purposes, the Bank considers all elements of credit risk exposure such as individual obligator default risk and sector risk.

In the normal course of its business, the Bank incurs credit risk from counterparties, loans and advances to customers.

The credit risk exposure is, however, managed through constant monitoring of the status of financial institutions where deposits are maintained. As a policy, the Bank places its deposits with strong local banks.

Impaired loans and advances

Impaired loans and advances are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio taking to account prudential guidelines of International Financial Reporting Standards (IFRS). The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred on a collective basis.

The detailed disclosures relating to credit risk have been included in note 19 (loans and advances).

The Bank's maximum exposure to credit risk is represented by the following balances:

	2015	2014
	Ushs '000	Ushs '000
Bank balances (Note 16)	2,064,720	4,637,577
Held to maturity investments	10,067,871	17,047,782
Loans and advances to customers (Note 19)	153,678,505	119,424,942
Staff loans and advances (Note 20)	4,499,547	3,175,739
Other assets (Note 24)	<u>13,006,913</u>	<u>955,621</u>
	<u>183,317,556</u>	<u>145,241,661</u>

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2015 and 31 December 2014 without taking into account any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

b. Market risks

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

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

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

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

i. Interest rate risk

The Bank is exposed to various risks associated with the effect of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. Management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes.

The interest rate risks sensitivity analysis is based on the following assumptions:

- Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments;
- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognised at their fair value;
- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.
- The currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The base currency in which the Bank's business is transacted is Uganda Shillings.

The Bank is exposed to various risks associated with the effects of fluctuations of the levels of prevailing market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table below are the bank's interest bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The bank does not bear an interest rate risk on off statement of financial position items.

	Up to 1yr	1 to 3yrs	3 to 5yrs	Over 5yrs	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
31 December 2015					
Assets					
Held to maturity investments	10,067,871	-	-	-	10,067,871
Loans and advances	15,170,157	53,177,014	31,269,480	41,931,337	141,547,988
Staff loans and advances	122,999	1,150,061	-	847,961	2,121,021
Total assets	25,361,027	54,327,075	31,269,480	42,779,298	153,736,880
Liabilities					
Borrowings	1,236,283	1,964,335	2,062,088	10,997,800	16,260,506
Total liabilities and equity	1,236,283	1,964,335	2,062,088	10,997,800	16,260,506
Interest sensitivity gap	24,124,744	52,362,740	29,207,392	31,781,498	137,476,374
31 December 2014 (as restated)					
Total assets	67,257,169	16,858,970	19,221,288	24,239,286	127,576,713
Total liabilities and equity	-	733,141	1,661,786	2,492,678	4,887,605
Interest sensitivity gap	67,257,169	17,592,111	20,883,074	26,731,964	132,464,318

ii. Currency risk

The Bank's functional currency is the Uganda Shilling (Ushs) and funding, income and expenses are largely denominated in this currency. As a result it is exposed to foreign exchange risks arising from various currencies primarily the US Dollar. Foreign exchange risk largely arises from recognised financial assets and certain liabilities. Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in the relevant foreign currencies. Foreign exchange exposure is reviewed on a regular basis by management.

The bank's currency position is as follows:

	Uganda shillings					Euro					KES					GBP					Total				
	Ushs '000	US Dollars	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
31 December 2015																									
Assets																									
Cash and cash equivalents	944,538	872,988			212,439					1,513					33,242										2,064,720
Held to maturity investments	-	10,067,871			-					-					-										10,067,871
Staff loans and advances	2,121,021	-			-					-					-										2,121,021
Other assets	12,726,110	2,381,250			-					-					-										15,107,360
Loans and advances	79,905,967	61,642,021			-					-					-										141,547,988
Total assets	95,697,636	74,964,130			212,439					1,513					33,242										170,908,960
Liabilities and equity																									
Amounts due to Bank of Uganda	11,391,197	-			-					-					-										11,391,197
Other liabilities	4,095,400	136,074			-					-					-										4,231,474
Borrowings	-	16,260,506			-					-					-										16,260,506
Kuwait special fund	-	26,619,105			-					-					-										26,619,105
Total liabilities and equity	15,486,597	43,015,685			-					-					-										58,502,282
Net currency position	80,211,039	31,948,445			212,439					1,513					33,242										112,406,678
31 December 2014 (as restated)																									
Total assets	71,556,227	64,172,169			175,297					1,368					116										135,905,177
Total liabilities	10,404,086	27,670,903			-					-					-										38,074,989
Net currency position	61,152,141	36,501,266			175,297					1,368					116										97,830,188

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

iii. Equity price risk

The Bank's equity shares are susceptible to market price risk arising from uncertainties about future values of the investment stock prices. The Bank manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Bank's senior management on a regular basis. The Bank's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to equity securities at fair value was Ushs 210 million. A decrease of 10% in the share prices could have the following impact on the statement of comprehensive income:

2015		
	Change	Effect on
	Year-end share price	profit before tax
		Ushs'000
KENGEN	+10%	67,200
Uganda Clays Ltd	+10%	4,167
The New Vision Ltd	+10%	168,347
KENGEN	-10%	(67,200)
Uganda Clays Ltd	-10%	(4,167)
The New Vision Ltd	-10%	(168,347)

c. Liquidity risk

Liquidity risk arises in the general funding of the bank's activities and in the management of positions. 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 financial institutions 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. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the bank and its exposure to changes in interest and exchange rates. The bank maintains adequate resources to meet its obligations.

	Up to 1 month	1-3months	3-6months	6- 12months	1-3yrs	3-5yrs	Over 5yrs	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
31 December 2015								
Assets								
Cash and cash equivalents	2,064,720	-	-	-	-	-	-	2,064,720
Held to maturity investments	10,067,871	-	-	-	-	-	-	10,067,871
Loans and advances	5,479,003	62,949	3,058,151	6,570,055	53,177,013	31,269,480	41,931,337	141,547,988
Staff loans and advances	50,808	22,736	22,411	27,044	1,150,061	-	847,961	2,121,021
Other assets	4,261,634	6,197,558	1,549,389	-	3,098,779	-	-	15,107,360
Total assets	21,924,036	6,283,243	4,629,951	6,597,099	57,425,853	31,269,480	42,779,298	170,908,960
Liabilities and equity								
Amounts due to Bank of Uganda	-	-	-	-	-	-	11,391,197	11,391,197
Other liabilities	83,396	1,555,529	-	518,510	-	-	2,074,039	4,231,474
Borrowings	5,359	615,462	-	615,462	1,964,335	2,062,088	10,997,800	16,260,506
Kuwait special fund	-	-	-	-	-	-	26,619,105	26,619,105
Total liabilities and equity	88,755	2,170,991	-	1,133,972	1,964,335	2,062,088	51,082,141	58,502,282
Net liquidity gap	21,835,281	4,112,252	4,629,951	5,463,127	55,461,518	29,207,392	(8,302,843)	112,406,678
31 December 2014 (as restated)								
Total assets	24,084,066	11,405,085	3,267,159	3,471,388	15,068,546	35,009,526	43,599,407	135,905,177
Total liabilities and equity	894,401	387,036	92,964,46	433,210	731,350	441,515	35,094,513	38,074,989
Net liquidity gap	23,189,665	11,018,049	3,174,195	3,038,178	14,337,196	34,568,011	8,504,894	97,830,188

5. USE OF ESTIMATES AND JUDGEMENTS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is set out below in relation to the impairment of financial instruments and in the following notes:

Note 3 (c) – recognition of deferred tax assets: availability of future taxable profits against which carry-forward losses can be used.

Note 3 (m) – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Impairment of loans and advances

Assets accounted for at amortised cost are evaluated for impairment on the basis described in note 3 (d).

The individual component of the total allowance for impairment applies to loans and advances evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired loan is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit function.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical method on historical loss rate experience. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Loss rates are regularly benchmarked against actual loss experience.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

6. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments.

a. Valuation models

The company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank's current valuation techniques include comparison with similar instruments for which market observable prices exist and other valuation

models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes.

b. Financial instruments measured at Fair value – fair value hierarchy

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

At 31 December 2015	Level 1	Level 2	Level 3	Total
	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000
Equity investments at fair value	209,926	-	-	209,926
Investment property	-	29,100,000	-	29,100,000
	209,926	29,100,000	-	29,309,926

At 31 December 2014	Level 1	Level 2	Level 3	Total
	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000
Equity investments at fair value	260,294	-	-	260,294
Investment property	-	29,100,000	-	29,100,000
	260,294	29,100,000	-	29,360,294

c. Accounting classifications and fair values

The table below sets out the carrying amounts of each class of assets and liabilities, and their fair values:

	31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Assets				
Financial assets				
Cash and cash equivalents	2,064,720	2,064,720	4,637,577	4,637,577
Held to maturity investments	10,067,871	10,067,871	17,047,782	17,047,782
Equity investments at fair value	209,926	209,926	260,294	260,294
Loans and advances	141,547,988	141,547,988	108,888,434	108,888,434
Staff loans and advances	2,121,021	2,121,021	1,640,497	1,640,497
Other assets	15,321,692	15,321,692	3,690,887	3,690,887
Total financial assets	171,333,218	171,333,218	136,165,471	136,165,471
Financial liabilities				
Amounts due to Bank of Uganda	11,391,197	11,391,197	8,062,303	8,062,303
Borrowings	16,260,506	16,260,506	4,887,605	4,887,605
Kuwait Special Fund	26,619,105	26,619,105	21,905,728	21,905,728
Other liabilities	4,231,474	4,231,474	3,219,353	3,219,353
Total financial liabilities	58,502,282	58,502,282	38,074,989	38,074,989

The carrying amounts of the above financial assets and liabilities approximate their fair values.

7. INTEREST AND SIMILAR INCOME

	2015	2014
	Ushs'000	Ushs'000
Interest on loans	11,880,693	10,400,239
Penalty fee income on loans	4,297,288	680,505
Interest on investments	656,249	690,089
Interest on staff loans	455,857	400,546
Gross interest	17,290,087	12,171,379
Less: Transfers to Kuwait fund (Note 27)		
Interest earned on loans disbursed out of the fund	(950,745)	(950,628)
Interest income	16,339,342	11,220,751

8. INTEREST EXPENSE AND SIMILAR CHARGES

	2015	2014
		Restated
	Ushs'000	Ushs'000
Interest expense	<u>135,927</u>	<u>41,192</u>
	<u>135,927</u>	<u>41,192</u>

9. NET FOREIGN EXCHANGE GAINS

	2015	2014
	Ushs'000	Ushs'000
Net realised foreign exchange gains	1,083,465	1,439,253
Net unrealised foreign exchange gains	<u>4,879,901</u>	<u>3,154,160</u>
	<u>5,963,366</u>	<u>4,593,413</u>

The unrealised component of exchange gains arises from translation of foreign denominated transactions and revaluation of US Dollar denominated assets and liabilities to Uganda Shillings as at year end.

Financial assets and liabilities denominated in foreign currencies are translated into Uganda Shillings using the rate ruling at the reporting date. The exchange rate for US Dollars to Uganda Shillings as at 31 December 2015 was 1 USD/ Ushs 3,429 (2014: 1 USD/ Ushs 2,780).

10. OTHER INCOME

	2015	2014
	Ushs'000	Ushs'000
Dividend income	2,822	102
Rental income	2,086,629	1,698,627
Agency fees	375,548	675,375
Other income	<u>578,188</u>	<u>297,364</u>
	<u>3,043,187</u>	<u>2,671,468</u>

11. PERSONNEL EXPENSES

	2015	2014
	Ushs'000	Ushs'000
Salaries	4,423,417	4,135,701
Service gratuity	278,437	249,204
NSSF contributions	436,398	406,240
Staff provident fund contributions	301,488	276,259
Staff welfare	392,084	281,366
Discount on staff loans marked to market	<u>211,622</u>	<u>79,098</u>
	<u>6,043,446</u>	<u>5,427,868</u>

12. OTHER OPERATING EXPENSES

	2015	2014
	Ushs'000	Restated Ushs'000
Administration expenses	3,439,613	2,186,828
Rent, utilities and maintenance costs	1,405,782	1,137,156
Directors' emoluments	252,398	244,316
Auditor's remuneration	<u>139,586</u>	<u>139,231</u>
	<u>5,237,379</u>	<u>3,707,531</u>

13. PROFIT BEFORE TAX

Profit before tax is stated after debiting/ (crediting):

	2015	2014
	Ushs'000	Ushs'000
Depreciation (Note 22)	162,343	224,101
Amortisation of intangible assets (Note 23)	307,041	408,485
Directors' emoluments	252,398	244,316
Auditors' remuneration	139,586	139,231
Net foreign exchange gains	5,963,366	4,593,413
Fair value gains on investment property	<u>-</u>	<u>(525,208)</u>

14. EARNINGS PER SHARE

	2015	2014
		Restated
Net profit attributable to ordinary equity holders of the Bank (Ushs 000's)	1,911,186	4,868,633
Weighted average number of ordinary shares in issue during the year (Ushs 000's)	<u>83,123,443</u>	<u>74,866,655</u>
Basic/ diluted earnings per share (Ushs)	<u>22.99</u>	<u>65.03</u>

15. TAXATION

	2015	2014
		Restated
	Ushs'000	Ushs'000
Current income tax:		
Corporation tax	-	995,172
Rental tax	625,989	-
Prior year over provision	(7,305)	(19,295)
Deferred income tax (Note 28)	<u>248,126</u>	<u>1,100,709</u>
	<u>866,810</u>	<u>2,076,586</u>

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

	2015	2014
		Restated
	Ushs'000	Ushs'000
Profit before income tax	<u>2,777,996</u>	<u>6,945,219</u>
Tax calculated at the statutory rate of 30% (2014: 30%)	833,399	2,083,566
Tax effect of:		
Income not subject to tax	-	81,654
Expenses not deductible for tax purposes	(585,273)	(69,339)
Income subjected to rental tax	625,989	-
Over provision in prior year current tax	<u>(7,305)</u>	<u>(19,295)</u>
Income tax expense	<u>866,810</u>	<u>2,076,586</u>

The movement in income tax payable/ (recoverable) is shown below:

	2015	2014	2013
		Restated	Restated
	Ushs'000	Ushs'000	Ushs'000
At 1 January	(752,348)	(610,672)	(348,966)
Charge for the year	625,989	995,172	592,135
Prior year over provision	(7,305)	(19,295)	-
Tax paid	(1,274,799)	(1,117,553)	(853,841)
At 31 December	<u>(1,408,463)</u>	<u>(752,348)</u>	<u>(610,672)</u>

16. CASH AND CASH EQUIVALENTS

	2015	2014
	Ushs'000	Ushs'000
Short term deposits with financial institutions	<u>2,064,720</u>	<u>4,637,577</u>
	<u>2,064,720</u>	<u>4,637,577</u>

For the purposes of the statement of cash flows, cash and cash equivalents is represented by the above balances.

17. HELD TO MATURITY INVESTMENTS

	2015	2014
	Ushs	Ushs
Time deposits	<u>10,067,871</u>	<u>17,047,782</u>

The weighted average effective interest rate was 10.43% for Uganda Shillings denominated investments (2014: 10.6%) and 3.82% for USD denominated investments (2014: 5.38%).

18. EQUITY INVESTMENTS AT FAIR VALUE

	Ordinary	Original	Fair value	Fair value
	Shares	Cost	2015	2014
		Ushs'000	Ushs'000	Ushs'000
KENGEN	6,431	1,948	1,556	1,743
Uganda Clays Limited	10,147,335	538,036	152,210	202,947
The New Vision Ltd	<u>92,674</u>	<u>18,535</u>	<u>56,160</u>	<u>55,604</u>
	10,246,440	558,519	209,926	260,294

Movement in number of shares

	At 1 January 2015		At 31 December 2015
	Opening Balance	Purchases /(Sales)	Closing Balance
KENGEN	6,431	-	6,431
Uganda Clays Limited	10,147,335	-	10,147,335
The New Vision Limited	<u>92,674</u>	<u>-</u>	<u>92,674</u>
	10,246,440	-	10,246,440

	At 1 January 2014		At 31 December 2014
	Opening Balance	Purchases /(Sales)	Closing Balance
KENGEN	6,431	-	6,431
Uganda Clays Limited	10,147,335	-	10,147,335
The New Vision Limited	<u>92,674</u>	<u>-</u>	<u>92,674</u>
	10,246,440	-	10,246,440

Movement in fair value

	Opening Balance Ushs'000	Fair value gain/(loss) Ushs'000	Closing Balance Ushs'000
KENGEN	1,743	(187)	1,556
Uganda Clays Ltd	202,947	(50,737)	152,210
The New Vision Ltd	<u>55,604</u>	<u>556</u>	<u>56,160</u>
	260,294	(50,368)	209,926

18. EQUITY INVESTMENTS AT FAIR VALUE (CONTINUED)

Movement in fair value

	Opening	Fair value	Closing
	Balance	gain/(loss)	Balance
	Ushs'000	Ushs'000	Ushs'000
KENGEN	2,555	(812)	1,743
Uganda Clays Ltd	304,420	(101,473)	202,947
The New Vision Ltd	58,385	(2,781)	55,604
	365,360	(105,066)	260,294

	2015	2014
	Ushs'000	Ushs'000
Movement in price per share	Closing	Closing
KENGEN	241.90	271.04
Uganda Clays Limited	15.00	20.00
The New Vision Ltd	606.00	600.00

The quoted investments are stated at fair value based on quoted market prices at the reporting date.

19. LOANS AND ADVANCES

(a) Products

	2015	2014
	Ushs'000	Ushs'000
Long term loans	86,758,083	71,102,322
Medium term loans	41,117,706	28,624,208
Trade finance loans	9,946,466	7,759,716
Working capital loans	15,856,250	11,938,696
Gross advances	153,678,505	119,424,942
Less:		
Individually assessed impairment losses	(6,223,695)	(5,274,800)
Collective impairment losses	(5,906,822)	(5,261,708)
	141,547,988	108,888,434

(b) The maturity analysis of loans and advances to customers is as follows:

	2015	2014
	Ushs'000	Ushs'000
Less than one year	15,170,157	49,314,085
1- 5 years	84,446,494	35,655,863
Over 5 years	41,931,337	23,918,486
	141,547,988	108,888,434

(c) Gross loans to customers by sector composition:

SECTOR	EXPOSURE			
	2015		2014	
PRIMARY SECTOR	Ushs'000	%	Ushs'000	%
Forestry	3,950,000	3%	2,090,000	2%
Mining and extractive	2,700,000	2%	2,400,000	2%
Primary agriculture	7,500,000	5%	11,040,000	9%
Primary sector- Total	14,150,000	9%	15,530,000	13%
SECONDARY SECTOR				
Agro-processing	27,228,505	18%	23,760,000	20%
Manufacturing	27,310,000	18%	17,455,962	15%
Secondary sector- Total	54,538,505	36%	41,215,962	35%
TERTIARY SECTOR				
Construction and real estate	35,850,000	23%	23,150,000	19%
Education	9,680,000	6%	6,780,000	6%
Financial services	12,340,000	8%	6,780,000	6%
Health	8,470,000	5%	7,310,000	6%
Hotels, hospitality and tourism	8,090,000	5%	10,940,191	9%
Tertiary services- Total	74,430,000	48%	54,960,191	46%
TRADE SERVICES				
Trade and Commerce	10,560,000	7%	7,718,789	6%
Grand Total	153,678,505	100%	119,424,942	100%

The weighted effective interest rate on loans at 31 December 2015 was 9% (2014: 8%) for USD and 12% for Ushs (2014: 13%).

(d) Movement in provision for impaired loans and advances

	2015	2014
	Ushs'000	Ushs'000
At 1 January	10,536,508	9,095,181
Additional provisions raised during the year	12,453,051	3,134,855
Recoveries and provisions no longer required	(1,429,952)	(685,248)
Written off during the year	(9,429,090)	(1,008,280)
At 31 December	12,130,517	10,536,508

(e) Net impairment loss on loans and advances

Additional provisions as above	12,453,051	3,134,855
Direct write offs through SOCI	(6,871,441)	-
Recoveries and provisions no longer required	(1,429,952)	(876,472)
Net provision for staff loans (Note 20c)	421,267	478,831
Profit and loss effect	4,572,925	2,737,214

	2015	2014
(f) Analysis of written off loans	Ushs'000	Ushs'000
Component earlier provided for individually	2,557,649	1,008,280
Component written off through statement of comprehensive income	6,871,441	-
	9,429,090	1,008,280

(g) Impairment and provisioning policies

The Bank assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counter party. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information.

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

Loans and advances are categorised into the following grades:

Status	Days in arrears		Loan category
	Term loans	Trade finance loans	
Normal:	0- 59	0- 30	Performing
Watch:	60- 179	30- 60	Performing
Substandard:	180- 269	60- 90	Non-performing
Doubtful:	270- 365	90- 180	Non-performing
Loss:	Over 365	Over 180	Non-performing

Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2015 or 2014. As an internal requirement, the forced value of the collateral security is over and above the amounts of loans and advances disbursed. The value of the banks collateral held was Ushs 224.95 billion as at 31 December 2015 (2014: Ushs 156.80 billion).

20. STAFF LOANS AND ADVANCES

(a) Staff loans and advances

	2015	2014
	Ushs'000	Ushs'000
Staff loans	4,499,547	3,175,739
Provision for impairment	(1,060,842)	(639,575)
Discount on staff loans marked to market	(1,317,684)	(895,667)
	<u>2,121,021</u>	<u>1,640,497</u>

(b) The maturity analysis of loans to employees is as follows:

	2014	2014
	Ushs'000	Ushs'000
Within three months	73,543	10,298
Between three and six months	22,411	19,940
Over six months	<u>2,025,067</u>	<u>1,610,259</u>
	<u>2,121,021</u>	<u>1,640,497</u>

The weighted effective interest rate on loans at 31 December 2015 was 8% (2014: 8%).

(c) Movement in provision for impaired staff loans and advances

	2015	2014
	Ushs'000	Ushs'000
At 1 January	639,575	351,968
Provision for loan impairment	421,267	478,831
Recoveries and provisions no longer required	-	(191,224)
As at 31 December	<u>1,060,842</u>	<u>639,575</u>

21. INVESTMENT PROPERTY

	2015	2014
	Ushs'000	Ushs'000
At 1 January	29,100,000	28,500,000
Transfers to/(from) property and equipment	-	74,792
Fair value gain on investment property	-	525,208
At 31 December	<u>29,100,000</u>	<u>29,100,000</u>

The fair value of the Bank's investment property, commercial towers, on Plot 22 Hannington Road, Kampala at 31 December 2014 was arrived at on the basis of a valuation carried out as at 31 December 2014 by East African Consulting Surveyors and Valuers-EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank. EACSV are members of the Uganda Institute of Professional Engineers, Land/Quantity Surveyors.

EACSV in a letter dated 17 February 2016, confirmed that the fair value within a scope of one calendar year would offer a negligible difference. Hence, no revaluation of the investment property has been done as at 31 December 2015.

22. PROPERTY AND EQUIPMENT

	Freehold		Furniture and fittings		Motor vehicles		Computers		Total
	Land	Buildings							
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
COST / VALUATION									
At 1 January 2014	1,420,000	950,000	1,388,049	528,946	1,303,725	5,590,720			
Additions	-	-	70,504	-	30,308	100,812			
Reclassification to investment property	-	-	(74,792)	-	-	(74,792)			
Write off	-	-	(833,177)	-	(958,164)	(1,791,341)			
Adjustment to match fixed assets register	-	-	(96,108)	-	(143,216)	(239,324)			
Revaluation (losses)/gains net of accumulated depreciation	(212,000)	402,000	-	-	-	190,000			
At 31 December 2014	1,208,000	1,352,000	454,476	528,946	232,653	3,776,075			
Additions	-	-	21,939	-	239,959	261,898			
At 31 December 2015	1,208,000	1,352,000	476,415	528,946	472,612	4,037,973			
DEPRECIATION									
At 1 January 2014	-	-	1,120,346	391,475	1,213,838	2,725,659			
Charge for the year	-	19,000	52,527	104,330	48,244	224,101			
Accumulated depreciation on revalued property and equipment	-	(19,000)	-	-	-	(19,000)			
Eliminated on write off	-	-	(833,177)	-	(958,082)	(1,791,259)			
Adjustment to match fixed assets register	-	-	(79,252)	(2,497)	(149,013)	(230,762)			
At 31 December 2014	-	-	260,444	493,308	154,987	908,739			
Charge for the year	-	27,040	51,817	31,976	51,510	162,343			
At 31 December 2015	-	27,040	312,261	525,284	206,497	1,071,082			
NET CARRYING AMOUNT AT 31 December 2015	1,208,000	1,324,960	164,154	3,662	266,115	2,966,891			
NET CARRYING AMOUNT AT 31 December 2014	1,208,000	1,352,000	194,032	35,638	77,666	2,867,336			

The valuation of the Bank's Land and Buildings was based on the open market value of the assets as at 31 December 2014. The revaluation was carried out by East African Consulting Surveyors and Valuers-EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank. Had the assets been carried under the cost model, the carrying amount of the freehold land would be Ushs 1,270 million (2014; Ushs 270 million) and that of the buildings, Ushs 931 million. The revaluation surplus on land and buildings has been recognised in other comprehensive income and is not available for distribution to the shareholders.

23. INTANGIBLE ASSETS

Cost	2015	2014
	Ushs'000	Ushs'000
At 1 January	1,573,363	1,090,672
Additions	1,801	1,134,586
Write off	-	(651,895)
At 31 December	<u>1,575,164</u>	<u>1,573,363</u>
Amortisation		
At 1 January	519,252	762,662
Amortisation for the year	307,041	408,485
Write off	-	(651,895)
At 31 December	<u>826,293</u>	<u>519,252</u>
Net carrying amount:		
At 31 December	<u>748,871</u>	<u>1,054,111</u>

24. OTHER ASSETS

	2015	2014
	Ushs'000	Ushs'000
Prepayments	214,332	126,363
Commitment fees and LCs cash collateral (Afriexim Bank)	917,614	680,608
Cash collateral for issued Letters of Credit (LCs)	1,182,833	1,928,295
Other debtors	11,689,229	21,901
Prepayment on staff loans marked to market	<u>1,317,684</u>	<u>933,720</u>
	<u>15,321,692</u>	<u>3,690,887</u>

The other debtors balance includes loan disbursements made using UDBL funds pending reimbursement by the different development partners as at 31 December 2015. These included BADEA receivable of Ushs 4.66 billion and Kuwait receivable of Ushs 6.98 billion.

25. AMOUNTS DUE TO BANK OF UGANDA

	2015	2014
	Ushs'000	Ushs'000
At 1 January	8,062,303	6,373,556
Drawn down during the year	3,875,083	2,386,317
Repayments during the year	(546,189)	(697,570)
	<u>3,328,894</u>	<u>1,688,747</u>
At 31 December	<u>11,391,197</u>	<u>8,062,303</u>

The Agriculture Credit Fund (ACF) is a scheme set up by Government of Uganda (GoU) for supporting agricultural expansion and modernisation in partnership with commercial banks and other qualifying financial institutions collectively referred to as Participating Financial Institutions (PFIs).

The Government through Bank of Uganda, refinances, at no interest, 50% of the loan amount offered to qualifying agricultural projects.

26. BORROWINGS

	2015	2014	2013
		Restated	Restated
	Ushs'000	Ushs'000	Ushs'000
Japan Bank for International Cooperation (JBIC)	1,825,893	2,477,064	3,162,337
Arab Bank for Economic Development in Africa (BADEA)	-	2,410,541	1,589,522
	<u>14,434,613</u>	<u>2,410,541</u>	<u>1,589,522</u>
	<u>16,260,506</u>	<u>4,887,605</u>	<u>4,751,859</u>

i) JBIC loan

	2015	2014
	Ushs'000	Ushs'000
Balance as at 1 January	2,477,064	3,162,337
Interest	22,441	13,346
Repayments during the year	(1,251,446)	(995,240)
Foreign exchange loss	<u>577,834</u>	<u>296,621</u>
Balance as at 31 December	<u>1,825,893</u>	<u>2,477,064</u>

This represents a US Dollars 2,500,000 loan agreement signed between the Bank and Japanese Bank for International Cooperation (JBIC). The loan carries interest at LIBOR plus 0.4375%. Interest payments are due on 15 March and 15 September following the date on which the loan is disbursed to the sub-borrower. Under the agreement, principal repayments were to commence on 15 September 2010 until 15 March 2017 at USD

179,000 per instalment. The loan is guaranteed by the Ministry of Finance, Planning and Economic Development.

The loan to the Bank was on lent to Phoenix Logistics in accordance with the terms of the agreement signed between the Bank and JBIC.

This loan is being serviced by the Government of Uganda and the Bank has not received repayments from Phoenix Logistics over the period and as such the loan facility is categorised as a non-performing loan.

ii) BADEA Loan

	2015	2014
	Ushs'000	Ushs'000
At 1 January	2,410,541	1,589,522
Drawn down during the year	10,295,206	933,708
Interest	135,927	41,192
Foreign exchange loss/gain	<u>1,592,939</u>	<u>(153,881)</u>
At 31 December	<u>14,434,613</u>	<u>2,410,541</u>

This represents a US Dollars 4,500,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to the Government of the Republic of Uganda. The entire proceeds of the loan were on lent to the Bank per a loan agreement dated 18th December 2009.

Interest is payable on the loan on the amount outstanding at a rate of 2.5% per annum. The loan is payable in 42 semi-annual instalments after a 4 year a grace period calculated from the first day of the month following the first draw down from the loan account.

As at 31 December 2015, USD 4,278,355 had been drawn from the loan account (2014: USD 1,275,524).

27. KUWAIT SPECIAL FUND

	2015	2014
	Ushs'000	Ushs'000
Balance as at 1 January	<u>21,905,728</u>	<u>19,685,288</u>
Agency costs	(375,548)	(675,375)
Interest on loans disbursed out of the fund	950,745	950,628
Amounts due to exchange rates	<u>4,138,180</u>	<u>1,945,187</u>
	<u>4,713,377</u>	<u>2,220,440</u>
Balance as at 31 December	<u>26,619,105</u>	<u>21,905,728</u>

This represents a grant of US Dollars 7 million to the Government of Uganda to be used in the creation of a Trust Fund in Uganda Development Bank Limited ("the Bank"). The

Bank is required to establish in its books a Special Account to which the Grant as well as income accruing as a result of the investment and utilisation of the grant is to be credited.

The purpose of the fund is to finance farming and lending to small and micro business activities for the production of food and provision of related support services, including, without being limited to, food processing, storage and marketing. The Bank has treated the grant as a liability as it represents funds managed in trust on behalf of the Government of Uganda.

28. DEFERRED INCOME TAX LIABILITY

Deferred income tax is calculated in full, on all temporary differences under the liability method using a principal tax rate of 30% (2014: 30%). The movement in the deferred income tax liability is detailed below:

	2015	2014
	Ushs'000	Ushs'000
At the start of the year	5,258,175	4,076,166
Charge to profit or loss	248,126	1,100,709
Charge to other comprehensive income	-	81,300
At the end of the year	<u>5,506,301</u>	<u>5,258,175</u>

Year ended 31 December 2015

	At 1 January	Charge/ (credit) to	At
	2015	profit or loss	2015
	Ushs'000	Ushs'000	Ushs'000
Deferred income tax liabilities			
Accelerated depreciation	154,600	34,292	188,892
Revaluation gains	126,300	-	126,300
Unrealised foreign exchange gain	946,248	1,463,970	2,410,218
Investment Properties	<u>6,522,938</u>	-	<u>6,522,938</u>
	<u>7,750,086</u>	<u>1,498,262</u>	<u>9,248,348</u>
Deferred income tax assets			
Provisions	(1,759,874)	(361,234)	(2,121,108)
Deferred income	(428,279)	(282,995)	(711,274)
Revaluation losses	(36,420)	-	(36,420)
Revaluation of equity investments	(89,468)	-	(89,468)
Tax losses	-	(710,907)	(710,907)
Other movements	<u>(177,870)</u>	<u>105,000</u>	<u>(72,870)</u>
	<u>(2,491,911)</u>	<u>(1,250,136)</u>	<u>(3,742,047)</u>
	<u>5,258,175</u>	<u>248,126</u>	<u>5,506,301</u>

Year ended 31 December 2014

	At 1 January 2014	Charge/ (credit) to profit or loss	Charge to other Comprehensive income	At 31 December 2014
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Deferred income tax liabilities				
Accelerated depreciation	75,244	79,356	-	154,600
Revaluation gains	45,000	-	81,300	126,300
Unrealised forex gain	-	946,248	-	946,248
Investment Properties	<u>6,365,377</u>	<u>157,561</u>	<u>-</u>	<u>6,522,938</u>
	<u>6,485,621</u>	<u>1,183,165</u>	<u>81,300</u>	<u>7,750,086</u>
Deferred income tax assets				
Provisions	(1,772,518)	12,644	-	(1,759,874)
Deferred income	(383,298)	(44,981)	-	(428,279)
Revaluation losses	(17,820)	(18,600)	-	(36,420)
Other movements	(177,870)	-	-	(177,870)
Revaluation of equity investments	<u>(57,948)</u>	<u>(31,520)</u>	<u>-</u>	<u>(89,468)</u>
	<u>(2,409,454)</u>	<u>(82,457)</u>	<u>-</u>	<u>(2,491,911)</u>
	<u>4,076,167</u>	<u>1,100,708</u>	<u>81,300</u>	<u>5,258,175</u>

29. OTHER LIABILITIES

	2015	2014
	Ushs'000	Ushs'000
Accrual and other liabilities	1,732,402	1,217,296
Deferred arrangement fees	2,370,911	1,558,474
Staff gratuity	79,664	150,333
Other creditors	48,497	259,689
Staff provident fund	<u>-</u>	<u>33,562</u>
	<u>4,231,474</u>	<u>3,219,354</u>

Staff gratuity

This represents outstanding/unpaid gratuity for employees on contract. The yearend accrual represents gratuity due to employees on contract at a rate of 20% (2014: 20%) of their annual gross salary.

Staff provident fund

This represents balances due to eligible employees. The fund management is currently outsourced to an external fund manager (Alexander Forbes Limited) and the Bank contributes 7% of the employees' monthly gross pay and the employees contribute 3%. Interest earned on investments by the fund is credited to members' accounts on a proportionate basis using the outstanding balance due to each member. Unlike in the prior year, all contributions for the month of December 2015 were remitted just before year end.

30. ISSUED CAPITAL

	2015	2014
		Restated
	Ushs'000	Ushs'000
At 1 January	74,866,655	68,192,660
Issue of shares	<u>8,256,788</u>	<u>6,673,995</u>
At 31 December	<u>83,123,443</u>	<u>74,866,655</u>

The bank's authorised share capital is Ushs 100 billion (2014: Ushs 100 billion) divided into 100 million shares of Ushs 1,000 each. As at 31 December 2015, the bank had issued 83,123,443 shares (2014: 74,866,655). All issued shares are fully paid up.

31. GOVERNMENT OF UGANDA CAPITAL CONTRIBUTION

	2015	2014	2013
		Restated	Restated
	Ushs'000	Ushs'000	Ushs'000
At 1 January	<u>15,974,359</u>	<u>9,399,847</u>	<u>1,683,998</u>
Contributions during the year	-	8,256,787	4,989,997
Transfers from Kuwait loan (Note 32)	13,031,573	4,991,720	2,725,852
Accumulated contributions converted to equity	<u>(8,256,788)</u>	<u>(6,673,995)</u>	-
	<u>4,774,785</u>	<u>6,574,512</u>	<u>7,715,849</u>
At 31 December	<u>20,749,144</u>	<u>15,974,359</u>	<u>9,399,847</u>

32. PRIOR YEAR ADJUSTMENTS

The following 2014 balances have been restated:

Statement of comprehensive income

		2014	2014	Adjustment
		Ushs '000	Ushs '000	Ushs '000
	Note	Restated	Previously stated	
Interest expense and similar charges	(a)	41,192	124,947	(83,755)
Fee and commission expense	(b)	273,801	-	273,801
Other operating expenses	(b)	3,707,531	3,981,332	(273,801)
Income tax expense	(c)	2,076,586	2,051,459	25,127

Statement of financial position

Liabilities				
Borrowings	(d)	4,887,605	12,716,132	(7,828,527)
Assets				
Current income tax assets	(c)	752,348	785,635	33,287
Capital and reserves				
Share capital	(e)	74,866,655	68,192,660	6,673,995
GOU capital contribution	(d),(e)	15,974,359	14,930,782	1,043,577

- a. The adjustment of Ushs 83.755 million relates to the reversal of interest expense on the Kuwait Fund for Arab Economic Development loan. The loan amounted to Kuwaiti Dinars 3,000,000 from the Kuwait Fund for Arab Economic Development to the Government of the Republic of Uganda. The entire proceeds of the loan were passed on to the Bank for the capitalisation of the Bank per a loan agreement dated 22 December 2010.

However, the amounts received were treated as a loan in the Bank's books until July 2014 when it was realised that the loan was being serviced by the Government of the Republic of Uganda. The Bank had however paid interest to the Kuwait Fund for Arab Economic Development amounting to Ushs 51 million. The entire amount was reimbursed by Government of Uganda through the Ministry of Finance, Planning and Economic Development on the 4th of December 2014.

- b. The adjustment of Ushs 273.801 million relates to the reclassification of facility utilisation and other fees on the Afrexim trade finance facility of USD 10 million from other operating expenses to the fees and commissions line.
- c. The adjustment relates to additional income tax charge on reversed accrued interest expense on Kuwait Fund for Arab Economic Development loan.

- d. The adjustment of Ushs 7.829 billion relates to reclassification of the Kuwait Fund for Arab Economic Development loan from borrowings to the Government of Uganda Capital Contribution.
- e. The adjustment of Ushs 6.674 billion relates to reclassification of allotted amounts from the Government of Uganda Capital Contribution to share capital to align the Bank's issued share capital to its annual returns and share certificates.

The following 2013 balances have been restated:

Statement of comprehensive income

		2013	2013	Adjustment
		Ushs '000	Ushs '000	Ushs '000
	Note	Restated	Previously stated	
Interest expense and similar charges	(f)	59,467	86,667	(27,200)
Income tax expense	(c)	114,842	106,682	8,160

Statement of financial position

Liabilities				
Borrowings	(g)	4,751,859	7,504,911	(2,753,052)
Assets				
Current income tax assets	(c)	610,672	618,832	8,160
Capital and reserves				
GOU capital contribution	(f),(g)	9,399,847	6,673,995	2,725,852
Retained earnings	(f)	30,601,754	30,582,714	19,040

- a. The adjustment of Ushs 27.200 million relates to the reversal of interest expense on the Kuwait Fund for Arab Economic Development loan as detailed in note (a) above.
- b. The adjustment of Ushs 2.753 billion relates to the reclassification of the Kuwait Fund for Arab Economic Development loan from Borrowings to the Government of Uganda Capital Contribution.

33. COMMITMENTS

To meet the financial needs of the customers, the Bank enters into various irrevocable commitments. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

	2015	2014
	Ushs'000	Ushs'000
Loans approved but not disbursed at year end	<u>49,130,092</u>	<u>41,316,911</u>

34. CONTINGENT LIABILITIES

	2015	2014
	Ushs'000	Ushs'000
Pending court cases:		
Two Ways Import and Export Ltd	100,000	2,583,000
Intra Commodities Ltd	141,673	-
Ivan Ssebowa	120,000	-
Jomayi Stones & Concrete Products Limited	1,070,000	-
Other pending court cases	<u>465,673</u>	<u>649,338</u>
	<u>1,897,346</u>	<u>3,232,338</u>
Letters of credit	5,104,339	4,125,473
Contingent liabilities	<u>7,001,685</u>	<u>7,357,811</u>

Possible legal awards against the Bank:

a. *Intra Commodities Ltd v Farm 2 Market Ltd and Uganda Development Bank Ltd HCCS No.11/2013*

The Plaintiff sued the Bank and Farm 2 Market Limited seeking recovery of Ushs 141,673,000 being the outstanding balance on the stock of maize purchased by the 1st Defendant (Farm 2 Market Ltd). The Plaintiff's claim against the Bank specifically is that the Bank committed itself to pay the balance due for the stock upon which the Plaintiff agreed to release 50% of the stock. The Plaintiff claims that it had agreed under the contract with the 1st Defendant that it would only release all the stock agreed upon after receiving the contract price but the 1st Defendant sought to take delivery of some of the stock and pay for that; following the Bank's commitment that the balance would be paid, the Plaintiff agreed to release part of the stock; that subsequently, the 1st Defendant did not take delivery of the other 50% stock and has caused loss to the Plaintiff. The Bank has a 50% chance of success in the matter. In the event that the Bank loses the case, it shall lose Ushs 141,673,000 being the outstanding amounts of the amount.

The outcome of this case cannot be determined at the moment and as such, no provision has been made in the financial statements.

b. *H.C.C.S. No. 176 of 2013 Ivan Ssebowa v UDBL*

The Plaintiff filed the suit seeking over Ushs 110,000,000/- in special damages for alleged wrongful termination of his employment with the Bank. On the basis of information so far provided on the matter, the directors are of the view that the Bank has plausible defence to the plaintiff claim. However, in the event of an adverse judgement, the Bank's estimated liability is Ushs 120,000,000.

The outcome of this case cannot be determined at the moment and as such, no provision has been made in the financial statements.

c. *Two Ways Import and Export Ltd and 2 others V UDBL H.C.C.S No.31/2013*

The plaintiffs filed the suit challenging the Bank's action to recall a facility granted by the Bank to the 1st Plaintiff and for declarations that the Plaintiffs were not indebted to the Bank.

The suit also challenges the attempt by the Bank to commence recovery proceedings against the 2nd and 3rd plaintiffs who were guarantors of the facility.

The Bank successfully applied for leave to file a counterclaim against the Plaintiff for the recovery of US\$ 582,669 being the outstanding loan amount together with interest thereon.

The Plaintiff's claim may be rejected by court judgement entered against the Plaintiffs for the payment of the outstanding loan amount. However, in the event of an adverse judgement, the Bank may be liable to pay a sum of up to Ushs 100,000,000 on account of the costs of the suit and of the counterclaim due to the Plaintiff and the Bank's lawyers.

The outcome of this case cannot be determined at the moment and as such, no provision has been made in the financial statements.

d. *H.C.C.S No. 517 of 2015 Jomayi Stones & Concrete Products Ltd v Uganda Development Bank Ltd*

The plaintiff filed this suit against the bank for, among others a declaration that the Bank is acting in contravention of the terms of the Mortgage Deed and the Loan Agreement, a permanent Injunction restraining the Bank and/or its agents from "prematurely" disposing of the Plaintiff's mortgage properties, general damages and costs of the suit. The plaintiff also applied for a temporary injunction restraining the Bank from disposing of its mortgaged properties.

The Bank counterclaimed for a Decree against the Plaintiff for payment of a sum of Ushs 989,518,591 being interest and costs of the suit. In the event that the suit is decided in favour of the Plaintiff, the Bank's exposure will be in the region of Ushs 1,070,000,000 on the account of the outstanding amount due, interest thereon, general damages and costs of the suit.

The outcome of this case cannot be determined at the moment and as such, no provision has been made in the financial statements.

Other pending litigations:

In the normal course of business, the Bank is subjected to other litigations other than the ones disclosed above. The directors are of the opinion that any outstanding litigation in this respect will not have a material effect on the financial position or results of the Bank. The aggregate contingent liability in respect of such other cases at year end is shown above.

Letters of credit and guarantees:

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods. Guarantees and letters of credit carry the same credit risk as loans.

35. CONTINGENT ASSETS

	2015	2014
	Ushs'000	Ushs'000
Legal awards in favour of the Bank	-	310,242
Possible legal awards in favour of the Bank	<u>7,435,058</u>	<u>2,882,380</u>
	<u>7,435,058</u>	<u>3,192,622</u>

In the normal course of business, the Bank pursues legal means to recover loans advanced to customers with past due obligations, as defined by its internal policies and procedures. Management has not recognised contingent assets in respect of these litigations as the possibility of recovery is not certain.

Possible legal awards in favour of the Bank:

a. H.C.C.S No. 203 of 2011, UDBL v Kalsons Agrovet Concerns Ltd & 3 others

The Bank filed the suit to recover the sums of approximately Ushs 1,300,000,000/- and US\$ 537,583 that remain outstanding from two facilities granted to the 1st Defendant on the strength of the proposal guarantees of 2nd, 3rd and 4th Defendants. The Bank has a plausible claim under the suit with a high chance of success.

However, in the event of an adverse judgement, the Bank may be condemned to pay costs to the Defendant's lawyers and legal fees of the Bank's lawyers which are currently estimated at Ushs 100,000,000/-.

b. HC.C.S No. 674 of 2015, B.M. Technical Services Ltd v Uganda Development Bank Ltd

The Plaintiff sued the bank for breach of contract, defamation, general damages, interest and costs of the suit. The Bank's case is that the Plaintiff defaulted on repayment of the loan which expired and as at 23rd October,

2015, the outstanding amount due to the bank was Ushs 492,914,869/-. In November, 2015, the parties entered into a written memorandum of understanding with the view of settlement of the case, with the result that the plaintiff pays the outstanding amount on the loan and that each party bears its costs. The parties are yet to sign a consent judgement.

c. HC.C.S No. 227 of 2015, Wavenets Communications Ltd v Uganda Development Bank

The Plaintiff seeks a rescission of the loan agreement, return of certificate of title, general damages, special damages of US\$ 122,000 and punitive damages all at an interest rate of 25% for breach of a contract. The Defendant filed a counter claim of US\$ 341,652.92 as outstanding amount on the facility, US\$ 82,000 as monies paid to the collateral manager and Ushs 313,969,347/- as monies paid for taxes. There is a high likelihood of successfully defending this claim due to the fact that the Plaintiff obtained a facility which was never closed. There is also a high likelihood of succeeding on recovering the amount due through the counter claim.

d. HC.C.S No. 559 of 2015, Kahunga Investments Ltd v Uganda Development Bank Ltd

The Plaintiff sued the Bank for breach of a facility agreement arising out of a loan extended by the Bank to the Plaintiff. By way of counter claim, the Bank filed a recovery of Ushs 870,982,342/- as the outstanding balance on the loan extended to the Plaintiff. The Bank's lawyers filed a written statement of Defence and counter claim on behalf of the Bank. The mediation process of the matter is to be fixed by the Plaintiff.

There is a high likelihood of successfully defending this claim and recovering the money due and owing due to the fact that the Plaintiffs have not made the requisite payments arising from the loan disbursed.

e. Uganda Development Bank Limited v Begumisa & Others, HCCS No. 171/2008.

The Plaintiffs seek to recover for US\$ 60,872 & Ushs 952,894,486/- against the guarantors of the loan advanced to Begumisa Enterprises Ltd. The Bank has already succeeded in the matter by obtaining judgement. Considering that the Bank has already obtained judgement.

Against the judgement debtor, we do not anticipate any loss. None the less, the outstanding sums on this account are US\$ 60,872 & Ushs 952,894,486.

36. ASSETS PLEDGED AS SECURITY

As at 31 December 2015, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

37. RELATED PARTY TRANSACTIONS

The Bank is controlled by the Government of Uganda which owns 100% of the share capital of the Bank. The main transaction between the Bank and the Government of Uganda relates to capital contributions.

In the normal course of business, the bank carries out various transactions with related parties. The relevant transactions with related parties are shown below:

	2015	2014	2013
		Restated	Restated
	Ushs'000	Ushs'000	Ushs'000
GoU capital contribution	-	8,256,787	4,989,997
Transfers from Kuwait loan (Note 32)	13,031,572	4,991,720	2,725,852
Issue of shares	8,256,788	6,673,995	-
Staff loans: interest earned	455,857	185,922	273,659
Staff loans: repayments	665,832	873,641	128,787
Staff loans: disbursements	1,965,312	1,452,457	199,833
Outstanding balances			
Staff loans	2,121,021	1,640,497	1,319,460

	2015	2014	2013
		Restated	Restated
	Ushs'000	Ushs'000	Ushs'000
Key management compensation			
Salaries	1,371,441	1,272,546	1,114,303
Short term employment benefits	<u>279,960</u>	<u>264,875</u>	<u>233,421</u>
	<u>1,651,401</u>	<u>1,537,421</u>	<u>1,347,724</u>
Directors' remuneration	<u>252,398</u>	<u>244,316</u>	<u>236,694</u>

Transfers from Kuwait loan relate to reclassification of Kuwait Fund for Arab Economic Development loan from Borrowings as detailed in note 32 above.



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