



2017 ANNUAL REPORT

Accelerating Socio-economic
Development through Sustainable
Financial Interventions

Key Priority Sectors and UDB Sector Interventions

AGRICULTURE



- Support initiatives for improved seed variety for key commodities.
- Expand access to low cost/affordable agricultural credits [affordable agricultural value chain financing].
- Facilitate farmers' access to inputs like pesticides, fertilizers and farm tools.
- Support construction of small scale irrigation schemes for sustainable use of water resources for irrigation, livestock & aquaculture.
- Launch the accreditation process for accessing climate change finance.
- Leverage on partnerships with agencies to support commercialization of critical agricultural inputs.
- Support acquisition and access of value chain facilities e.g. post-harvest handling and storage.

MANUFACTURING



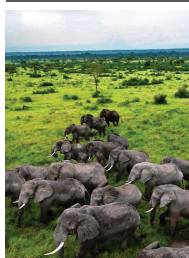
- Provide financial support towards promoting labour light manufacturing industries and, acquisition & transfer of appropriate technology.
- Develop structured collaborative arrangement with commercial banks in sourcing business for financing.
- Leverage the existence of Export Credit Guarantee Instruments that can guarantee payment for exports to especially volatile countries. The intervention has the potential to more than double the value of Uganda's current exports volume, while addressing the export risk exposures.
- Work with stakeholders to jointly address the needs of the sector.

INFRASTRUCTURE



- Support local content in the construction of major infrastructure projects.
- Support exploitation of the abundant renewable energy sources e.g. solar.
- Support the construction of small hydropower, through syndication and Public Private Partnerships (PPP) arrangement.
- Arrange funding for projects in the sector.

TOURISM



- Support private sector SMEs with support to develop projects in the sector.
- Work closely with Ministry of Tourism and other key stakeholders to identify and fund targeted Tourism projects in the country.

HUMAN CAPITAL DEVELOPMENT



- Support skills development and acquisition of tools for offering practical trainings.
- Support private sector in the construction of quality vocational and educational institutions in underserved areas.
- Collaborate with Research Institutions/ other stakeholders in the country in promoting the commercialization of Innovations/Technology Incubations and support SMEs development.
- Dedicated lending to SMEs.
- Incorporate environmental and social risk management in all projects.
- Focusing on green financing programs.
- Financing sustainable health care programs.



OUR MANDATE

To operate as Uganda's Development Finance Institution, particularly through interventions in priority sectors and in line with the government of Uganda's development priorities.

2017 PERFORMANCE HIGHLIGHTS

UDBL continues to play a meaningful role in contributing towards the transformation of Uganda's economic landscape while remaining financially sustainable.

36 TRANSACTIONS
APPROVED



Ushs 167.1 billion
(↑ 165%)

TOTAL FUNDING
DISBURSED



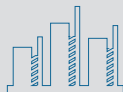
Ushs 95.3 billion
(↑ 65%)

APPROVED FOR THE
AGRICULTURE & AGRO-
PROCESSING SECTOR



Ushs 73.4 billion
(↑ 82%)

APPROVED FOR THE
MANUFACTURING SECTOR



Ushs 55.5 billion
(↑ 324%)

JOBS SUPPORTED



21,272
(↑ 9%)

TAX CONTRIBUTION



Ushs 204 billion
(↑ 64%)

NET PROFIT AFTER TAX



Ushs 8.3 billion
(↑ 29%)

TOTAL ASSETS



Ushs 297.5 billion
(↑ 31%)

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Definitions

Value of Output	This is the measure of total economic activity in the production of new goods and services in an accounting period for the UDB funded projects. It is a much broader measure of the economy than gross domestic product (GDP), which is limited mainly to final output (finished goods and services).
Tax contribution	Refers to the annual direct or indirect taxes paid by funded projects. These include corporation tax, PAYE, VAT (18%), customs taxes etc.
Foreign exchange earnings	Refers to the foreign currency generated by funded projects expressed in US dollars. The foreign currency generated includes earnings arising from export of goods and services
Jobs created and maintained	Refers to the total number of permanent and temporary workers employed by funded projects and are paid a wage or income.
Profit for the year (\$hs)	Annual income statement profit attributable to ordinary shareholders, minorities and preference shareholders
Earnings per share (\$hs)	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue
Return on average assets (%)	Earnings as a percentage of average total assets
Net interest margin (%)	Net interest income as a percentage of annual average total loans
Yield on Loans (%)	Total Interest Income as percentage of annual average total loans
Debt to Equity ratio (%)	Total Debt as a percentage of Total Equity
Net asset Impairment ratio (%)	Provision for credit losses per the income statement as a percentage of closing net loans and advances
Cost-to-income ratio (%)	Operating expenses, excluding provisions for credit losses, as a percentage of total income

Abbreviations and Acronyms

AADFI	Association of African Development Finance Institution
ADFIMI	Association of Development Finance Institution in Member Countries of the Islamic Development Bank
AFDB	African Development Bank
AGM	Annual General Meeting
BADEA	Arab Bank for Economic Development in Africa
BARC	Board Audit and Risk Committee
BCC	Board Credit Committee
BPGPC	Board Planning and General Purpose Committee
BSC	Balanced Score Card
CEO	Chief Executive Officer
DFI	Development Finance Institution
ERM	Enterprise Risk Management
EXCO	Executive Committee
EVP	Employee Value Proposition
GDP	Gross Domestic Product
GRI	Global Reporting Initiatives
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IFC	International Financial Consultancy
IFRS	International Finance Reporting Standards
NAADS	National Agricultural Advisory Services
NARO	National Agricultural Research Organisation
NDP	National Development Plan
NPA	National Planning Authority
PPP	Public Private Partnership
PSC	Private Sector Credit
SDG	Sustainable Development Goals
SMLDP	Senior Management Leadership Development Program
UBA	Uganda Bankers Association
UDBL	Uganda Development Bank Limited



Company Overview

UDB's strategy is focused on the need to maximize development impact in key priority sectors as spelt out in the National Development Plan of Uganda through channeling resources to address the sector specific constraints, achieving expected development outcomes, and ensuring the long-term sustainability of the Bank.

COMPANY OVERVIEW

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. UDBL has since re-positioned itself as a key partner to the Government of Uganda in delivering its National Development Plan (NDP) and in order to deliver this aspiration, focuses on the key growth sectors of the economy by financing development projects. 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.

VISION

Promoting sustainable socio-economic development through innovative financial products and services.

MISSION

Profitably financing enterprises in key growth sectors.

OUR VALUES

Our day-to-day activities and business conduct are guided by our values

INTEGRITY

+

COMMITMENT

+

EXCELLENCE

OUR STRATEGY



GROWING SHAREHOLDER VALUE



- Improve the quality of the Bank's portfolio sourcing cheap financing
- Grow the Asset Base
- Attain financial sustainability
- Cost Containment

FINANCING KEY GROWTH SECTORS



- Enhance socio-economic development
- Develop specialised products in key growth sectors
- Raise finance for key growth sectors

REBRANDING FOR MARKET GROWTH



- Repositioning the Bank as a leading DFI in the country
- Increase awareness of the Banks products and services
- Improve the Corporate Image

IMPROVING SERVICE DELIVERY



- Attract, develop, deploy and retain the right talent in the right position
- Increase customer satisfaction
- Acquire and implement a robust data and information systems

See page 10 for more information on our strategy

OUR FUNDING MODEL

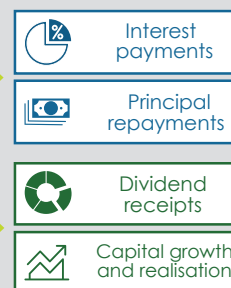
UDB IS FUNDED THROUGH:

Internal profits
Government of Uganda Capital Contribution
Borrowing from development partners

We use these to provide funding to development projects in the form of loans and equity investments

DEBT FUNDING

EQUITY FUNDING



Proceeds from this funding are used to repay borrowings, cover our costs and grow our balance sheet to re-invest in future development projects

Our Business Model



OUTPUTS

LOAN APPROVALS

CUMULATIVE VALUE APPROVED
FROM 2015 TO 2017

Ushs
353.2 bn

LOANS DISBURSED

DISBURSEMENTS FROM 2015 TO 2017

Ushs
209.7 bn

TRANSACTIONS APPROVED

NUMBER OF APPROVALS
FROM 2015 TO 2017

113

EMPLOYEES TRAINED

2017 TRAINING COST
AS A % OF STAFF COST

7.0%

FUNDING RAISED

VALUE OF FUNDING RAISED
FROM 2015 TO 2017

Ushs
159.5 bn

DEVELOPMENT OUTCOMES

PRODUCTION VALUE CREATED

PRODUCTION VALUE OF OUTPUT CREATED
FROM 2015 TO 2017

Ushs
20.9 tn

JOBS CREATED AND SAVED

DIRECT AND INDIRECT JOBS IMPACT
FROM 2015 TO 2017

JOBS CREATED	JOBS MAINTAINED	TOTAL
4,193	53,628	57,821

PRIORITY SECTORS SUPPORTED

CUMULATIVE SECTORAL DISTRIBUTION OF FUNDING
APPROVALS FROM 2015 TO 2017

40% Agriculture & Agro-processing	4% Human Capital
35% Manufacturing	8% Other
13% Infrastructure	

TAX CONTRIBUTIONS

TAX CONTRIBUTION FROM 2015 TO 2017

Ushs
407 bn

HUMAN CAPITAL DEVELOPMENT

NUMBER OF STUDENTS ENROLLED FROM
2015 TO 2017

ACCESS TO HEALTH
SERVICES

TOTAL NUMBER OF
STUDENTS

NEW STUDENTS
ENROLLED

TOTAL NUMBER OF PATIENTS
SERVED IN UDB FUNDED
PROJECTS

32,580 **770** **619,118**

2017 FINANCIAL OUTCOMES

2017 TOTAL ASSETS

CUMULATIVE NET PROFIT
AFTER TAX FROM 2015 TO 2017

Ushs
297.5 bn

Ushs
16.7 bn

Our Strategy

UDB's strategy is focused on the need to maximize development impact in key priority sectors as spelt out in the National Development Plan of Uganda through channeling resources to address the sector specific constraints, achieving expected development outcomes, and ensuring the long-term sustainability of the Bank.

Our 5 year strategy is delivered through annual business plans that are reviewed on a quarterly basis

with Senior Management and the Board. These reviews take into account changes in the operating environment and are guided by robust discussions by the Board and Senior Management. Details of the pillars of our strategy and how they address different aspects of our business model can be seen on page 7 of this report.

The Bank utilises the balanced scorecard methodology as a strategic measurement, alignment

and management tool. The Board has oversight and approves the annual score derived from the Balanced Scorecard. This, in turn, is used as a basis for performance-based remuneration.

The table below summarises the performance against the 2017 targets and the targeted deliverables for 2018 that will drive the anticipated development impact.

Selected key performance indicators				
	2018	2017 Performance		2016
	Target	Actual	Target	Actual
Funding raised	US\$ 67.4 mn	US\$ 37.7 mn	US\$ 29 mn	US\$ 26 mn
Gross loan portfolio	Ushs 300.90 bn	Ushs 242.60 bn	Ushs 206 bn	Ushs 183.4 bn
Loan approvals	Ushs 232.29 bn	Ushs 167.08 bn	Ushs 130 bn	Ushs 120 bn
Loans disbursed	Ushs 139.37	Ushs 95.27 bn	Ushs 88 bn	Ushs 57.7 bn
Cost to income ratio with impairment	65 %	61 %	65 %	64 %
Cost income ratio without impairment	45 %	48 %	52 %	47 %
Return on equity	4 %	5 %	3 %	4 %
Return on Assets	3 %	3 %	2 %	3 %
Customer Satisfaction score	80 %	72 %	85 %	62 %
Non-Performing Loan ratio	<10 %	15.4 %	15 %	19 %

UDB Strategic Focus for 2018

The year 2017 marked the end of the Bank's 2017 - 2013 Strategic Plan. The Bank has therefore developed a new 5 year strategic plan for the period 2022 - 2018. The strategies laid out in the new five year plan were informed by among other sector priority and constraints as outlined in NDP II and Vision 2040, recommendations from the Institutional Assessment Study undertaken by the International Financial Consultancy (IFC), a Market Gap Assessment Study undertaken by the Bank, Stakeholder views and lessons learnt from the previous 5 year plan.

The strategy maintains focus on social-economic development but with a renewed focus on driving financial and non-financial investments in the priority sectors of Agriculture and Agro-processing, Manufacturing, Tourism, Human Capital Development, Infrastructural Development, and Minerals, Oil & Gas.

Accordingly, UDB has refined its goals and strategic objectives to support its journey.

The Bank has also re-defined the Vision and Mission to reflect greater focus by the Bank on its development mandate as follows:

Re-defined Vision: "Preferred and trusted development finance services provider for socio-economic development".

Re-defined Mission: "Accelerating socio-economic development through sustainable financial interventions".

Below is an overview of the Bank's strategic focus for 2018.

Goals

Promote sustainable growth and remain a key player in social economic development

Enhance financial sustainability & funding to facilitate the execution of our mandate

Strengthen human capital and governance structures for sustainable performance

Strategic Objectives

- Grow quality loan book
- Improve customer satisfaction
- Enhance stakeholder engagement
- Enhance financing solutions to meet client needs consistent with NDP II sector priorities

- Reduce loan losses
- Increase profitability
- Improve shareholder value
- Grow the funding base

- Optimize operating efficiency
- Enhance employee engagement
- Improve compliance with policies, procedure and applicable laws
- Improve staff competencies and bench strength
- Undertake work culture change initiatives within the Bank

Focus Areas

Resource Mobilization

- Develop & implement plans for financial resource mobilization (Technical Support, Debt and Capital)
- Undertake the drive for credit rating & Climate Finance Accreditation
- Engage financial institutions/commercial banks to explore opportunities for co-financing
- Refine and implement stakeholder engagement plan

Growing Priority Sectors

- Address gaps in primary agriculture, agro-processing and tourism sectors (Expand access to low cost/affordable agricultural credits [affordable agricultural value chain financing.]
- Leverage strategic alliances to support and transform initially "un-bankable" ideas into it viable ones in target sectors
- Promote labor light manufacturing industries that majority use local inputs
- Roll-out specific sector-targeted products and provide financing to SMEs
- Align organizational structure for effective delivery of priorities

Tailoring Products to meet Client Needs

- Support incubation & innovation initiatives in nurturing SMEs & start-ups to harness technology adoption
- Explore the feasibility of venture capital funds
- Support initiatives for improved seed variety for key commodities
- Develop and implement financing models that include Apex lending & re-financing among others
- Pursue climate finance opportunities
- Establish business advisory services

Close human capital, governance & M&E gaps

- Improve employee engagement & relations
- Delineate sector expertise within the investment and credit underwriting teams
- Optimize staff productivity and enhance competencies and bench strength
- Promote adoption of best practices in corporate governance & organizational sustainability
- Enhance enterprise wide risk management
- Put in place a fully-fledged M&E function
- Develop and implement a development impact communication strategy

Key Performance Indicators

- Value of new funding mobilised
- Execution rate of stakeholder engagement plan
- Credit rating

- Loan growth rate
- Value of development loans approved
- Value of development loans disbursed
- Development outcomes

- Customer satisfaction score
- %age of new projects successfully implemented

- Employee engagement score
- Average corporate performance score
- Employee productivity rate
- Training plan execution rate
- Compliance and risk rating

Development Impact

- Increase contribution to the value of production in the economy
- Increase employment levels
- Enhance human capital and health i.e. student enrollment, Access to health services
- Increase foreign exchange earnings in the economy
- Increase tax contribution to the national tax revenue

Managing our Key Risks and Opportunities

Anticipating and responding to the Bank's risks and opportunities is a fundamental part of delivering on our mandate and ensuring that we remain sustainable. The Board is ultimately responsible for the effective management of risks and has adopted an enterprise-wide

risk management (ERM) framework and approach to managing risk exposures. This approach ensures that the Bank takes a holistic view of the risks inherent in its strategy and operations, and that the management of risks is embedded into the mainstream planning,

business and decision-making processes. The Board and management team continuously review the top risks to ensure an appropriate understanding of the Bank's operating environment.

Key Risks	Risk Mitigants
Strategic Risk – The possibility that unforeseen opportunities or threats may render UDB strategy ineffective or uncompetitive or that events or circumstances may occur which could hinder the ability of UDB to implement its strategy and successfully deliver on its mandate	- Quarterly reviews of performance vis-à-vis targets - Corrective action taken to address shortcomings noted - Annual Board and Senior Management strategy sessions
Credit Risk – risk of default on obligations	- Well-defined credit risk management policy and an approved delegation of authority in place for approval of credit transactions. - Periodic management credit committee meetings are held to ensure that appropriate intervention strategies are in place to monitor the risk.
Operational Risk - The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events	- Periodic review of key risk indicators - Periodic risk and control self-assessments
Liquidity Risk - Risk of inadequate capital/funding levels to sustain the business and execute our strategic growth	- Continuous review of alternative sources of funding - Strategy, annual business plan and five-year financial forecast reviewed annually and approved by the Board - Treasury strategy and risk framework implemented
Market Risk - Risk of an uncertain and volatile macroeconomic Environment	- Continuous analysis of the market to assess impact of changes on the business
Compliance Risk – non-compliance to laws and regulations	- Internal controls reviewed on a regular basis - Dedicated compliance and legal functions - Project-specific reviews for each of the deals we finance - Compliance monitoring process is in place
Reputational Risk – Failure to prevent and respond to reputational risk events impacting on UDB's goodwill and reputation	- Implementation of brand, communication and marketing strategies

Our Operational Structure

In 2017, the Bank had 5 departments, each headed by a Director and 4 units each headed by a Manager all reporting directly to the Chief Executive Officer (CEO).

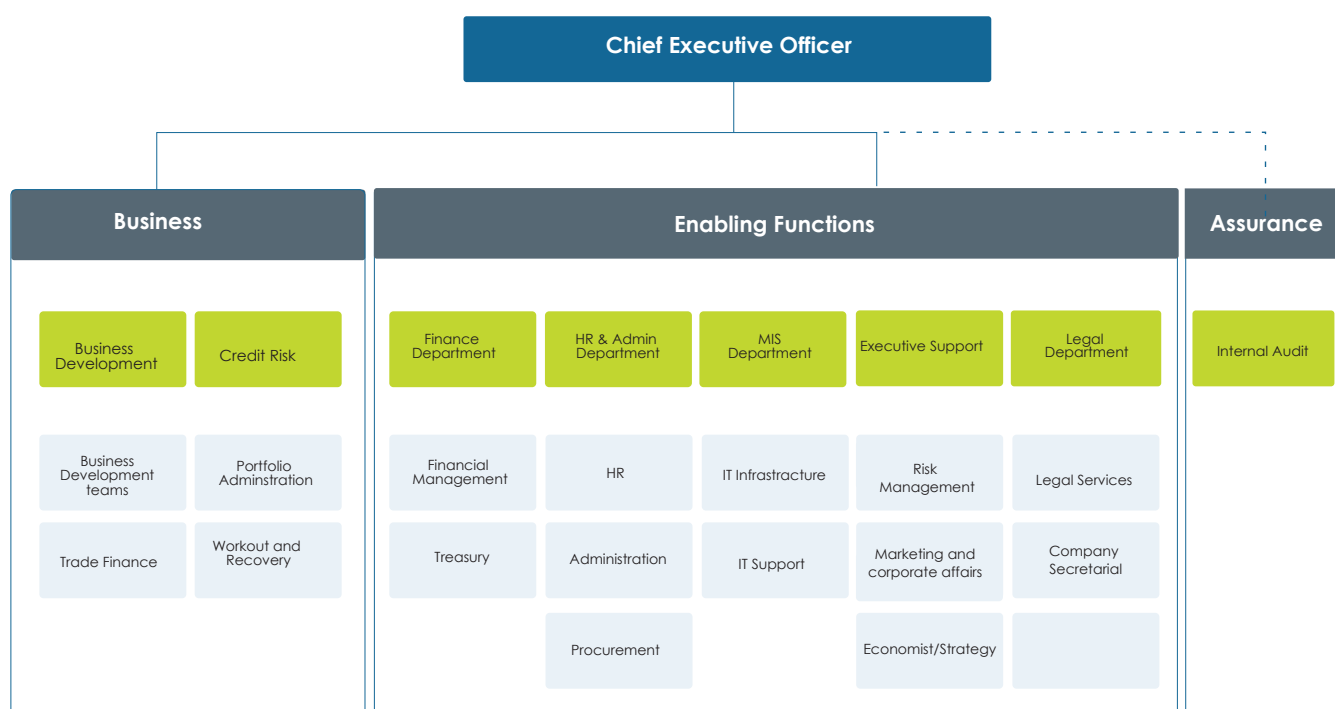
One of the departments comprising of a business development unit and a credit risk unit is directly involved in transactions, focusing on all priority sectors and performing due-diligence on businesses applying for funding.

The business development unit comprises of individuals focusing on the priority sectors as outlined in the NDP II.

The business function is supported by enabling functions that provided support in terms of the legal aspects of transactions, Credit Risk Management and Strategy formulation; finance and funding, corporate affairs, procurement and

human resource and administration, IT, with the internal audit function reporting administratively to the CEO but functionally to the Board of Directors.

The operational structure has however been changed to align it with the new strategic plan for 2022 - 2018. The new structure will take effect on 1st January 2018.



Engaging with our Stakeholders

Stakeholder dialogue is important for the effective execution of the Bank's mandate. The Bank maintains an open dialogue with its stakeholders in all its activities and believes that dialogue and the development of strategic partnerships are fundamental sources of information and are also important for responsible corporate governance.

Engagement with our stakeholders is necessary for the good functioning of our business on a daily basis as much as in the long term. By establishing regular contact with our stakeholders, we develop insights into key trends and issues in society, business and the public sector. We can advance our cause and develop trust by enhancing UDB's visibility and credibility.

We can help find better solutions with greater synergy of interests. Below is our stakeholder map indicating which stakeholders we engage with and what we engage on.

Stakeholders	How we engage	What we engage on	Stakeholders' contribution to value creation
Government	Formal meetings; Policy discussions; Conferences; Onsite visits; Agreement inspections	The bank's developmental role; long-term sustainability; financial performance and Shareholder expectations	Provides the link to ensure alignment of UDB with National Development Priorities.
Employees	Staff engagements at numerous level; training and development needs analysis; results presentations; performance reviews; internal communication and staff surveys	Strategy, financial performance; people development and training, code of conduct	To enhance employees' engagement and commitment as their efforts contribute to our success.
Customers	Customer surveys; customer meetings and marketing communication activities	Customer's needs (financial and non-financial support); implementation support (non- funding support) perceptions and expectations; Development impact	Their business provides the basis for our continued growth We endeavor to understand our customers' needs and enhance our development impact
Development Partners	Formal meetings, workshops, website, reports	Funding opportunities, financial performance, future prospects and organisational sustainability	Provide financial resources required to sustain and grow the business
Suppliers	One-on-one meetings and presentations Bid invitations	Contract and service agreements and performance.	Suppliers provide the valued expertise, products and services required to maintain our business and facilitate growth
Community	Project implementation; community surveys; marketing communication activities and website.	Investment in social-economic development; access to basic services and local labour opportunities.	They are ultimately a key beneficiary of our services and they provide a deeper understanding of our social responsibility expectations, including job creation and environmental impact
Media	Media briefings; press conferences and releases and print media	Key strategic initiatives; project information; operational and financial performances	Raise public awareness of our strategy, products and services as well as our operational results.

SEVERAL STAKEHOLDER ENGAGEMENT ACTIVITIES TOOK PLACE DURING THE YEAR AND NOTABLE ONES ARE AS FOLLOWS:



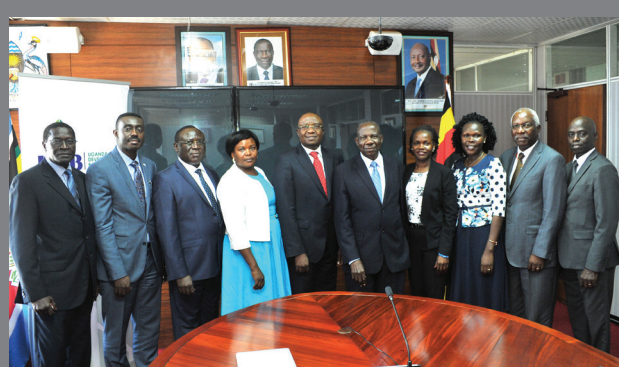
UDB organized the Islamic banking industry workshop with a view to enlighten key stakeholders on the essentials of Islamic Banking and how it differed from conventional banking. The workshop was officiated by Mrs. Justine Bagyenda, the Executive Director, Supervision Bank of Uganda.



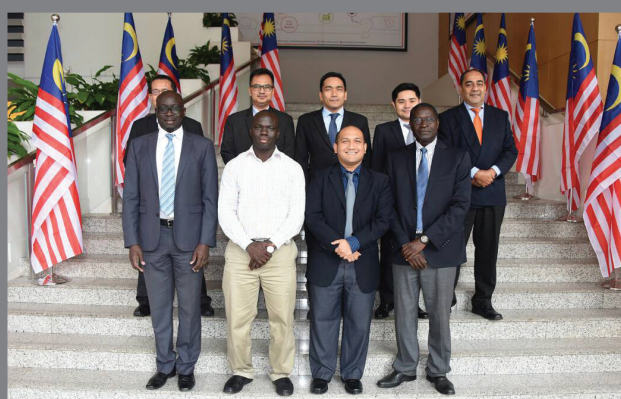
The Bank held a customer engagement forum in March 2017 during which several customers were awarded for outstanding achievements made.



The president Islamic Development Bank Mr. Bandar M. H. Hajjar and the CEO of the Bank shake hands after signing the US \$ 10m financing agreements for Uganda's SME's. The signing of the agreements was done in Jeddah, Saudi Arabia.



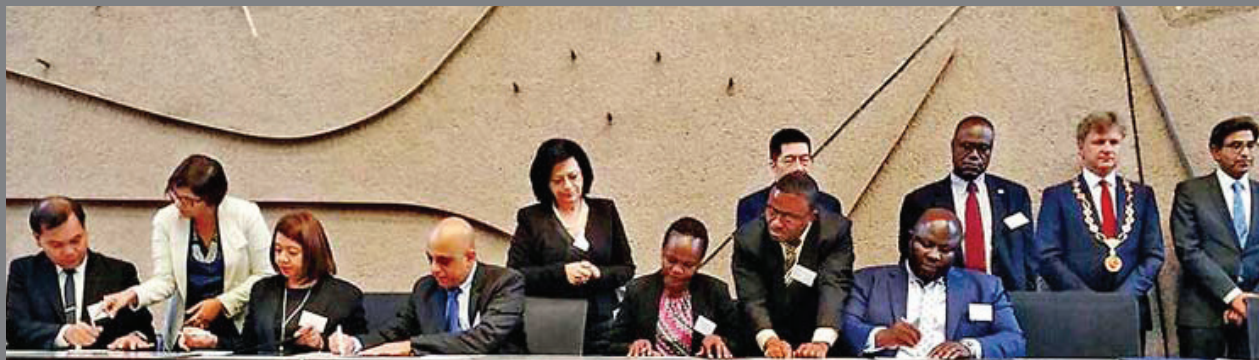
UDB held its annual general meeting (AGM) for the year ending 31st December 2016 on 11th April 2017 in the Ministry of Finance Board Room. During the AGM, the shareholder was appraised of the Bank's performance for the period as well as its outlook for the subsequent year.



UDB team comprising of the Director Finance , Business Development Manager and a Board Member during a benchmarking visit with SME Bank of Malaysia



L-R: The regional Technical Advisor UNCDF Dr. Dmitry Pozhidaev , the Board Chairman UDB Dr. Samuel Seijaaka, and fellow Board member Mrs. Silvia Angey Ufuyuru during the stakeholder engagement strategy meeting held at Golden Tulip Hotel Kampala in October 2017. The Bank during the development of its 5 year strategic plan engaged all key stakeholders to get feedback on the proposed strategic direction it was taking.



Uganda Development Bank together with a high-level delegation led by the Honourable State Minister of Finance, Dr. Ajedra Gabriel attended the Global Sustainable Finance Conference 2017 in Karlsruhe, Germany. The Minister and his delegation visited the City Hall of Karlsruhe where they witnessed the signing of Karlsruhe Resolution for Sustainable Banking and Finance. It was signed, among others, by Mr. Arshad Rab, CEO, EoSD, Mr. Joseph Amihere, Secretary General AADFI and Mrs. Patricia Adongo Ojangole, CEO of Uganda Development Bank Ltd. The Lord Mayor of Karlsruhe, Frank Mentrup also signed the resolution as a witness.

The resolution stresses the important role of the financial services industry in achieving the aspirations of Agenda 2030 such as, among others, financing and investing in the implementation of the SDGs and COP21 projects in their respective countries, calling on governments and regulators to create policy frameworks that promote investments in innovation that will contribute in creating a green, inclusive and sustainable economy and calling for a collective global action to ensure a level-playing field for all financial sector players.

The crafting of the "Karlsruhe Resolution" was a joint undertaking of the European Organization for Sustainable

Development (EoSD), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the Association of African Development Finance Institutions (AADFI) and the City of Karlsruhe.

Uganda Development Bank Limited, through its involvement in the Global Sustainable Finance programs is committed to supporting the country achieve economic growth in an inclusive and sustainable manner.

Through engagements with the EoSD as strategic partners, the Bank has identified and agreed on a number of areas and initiatives of strategic importance to Uganda.



Mr Ladislao Ategeka, former Director Development Finance at UDB, handing over a gift to one of the moderators during the 7th National Competitiveness Forum sponsored by UDB. This forum was organised by the Competitiveness and Investment Climate Strategy (CICS) Secretariat that drives the National Competitiveness Agenda.



UDB sponsored Makerere University's College of Agriculture and Environmental Science's Agricultural Exhibition.



Governance

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company



The Bank's performance is a testament to the Bank's persistent efforts of achieving financial sustainability which remains pivotal to its ongoing ability to deliver its mandate of socio-economic transformation.

Chairman's statement

Performance overview

Despite the challenging economic times, the Bank continued to support the Government of Uganda's programs by growing its assets by 31 % to Ushs 297.47 billion in 2017. This was primarily driven by the additional funding secured by the Bank of Ushs 135.9 billion from both Government of Uganda and development Partners. The Bank also registered a profit after tax in 2017 of Ushs 8.31 billion, up from Ushs 6.45 billion in 2016. This performance is a testament to the Bank's persistent efforts of achieving financial sustainability which is pivotal to socio-economic transformation.

Governance

The Board and management are committed to good governance principles and practices to ensure our fiduciary responsibilities are met. During the year, Mr. John Byaruhanga joined the Board while Mr. Charles Byaruhanga retired. Mr. John Byaruhanga joins the Board with over 17 years' experience in Economic Development Policy Analysis and Public Sector Management. In the same year, the Board approved a new Board charter which emphasizes

the enhancement of the roles and responsibilities of the Board and its Committees.

Outlook

The Bank has developed a 5-year strategy for 2018 to 2022 which will focus on promoting sustainable business growth through tailored financial products to key priority sectors as outlined in the Second National Development Plan (NDP II).

Appreciation

I take this opportunity to thank my colleagues for their invaluable contribution to the Bank during my tenure. The Bank is in a much better financial state than when we took charge. On behalf of the Board, I congratulate the Staff of UDB for the outstanding results.

Our gratitude is also extended to our stakeholders for the invaluable guidance and support provided in executing our development mandate.



Prof Samuel Seijaaka, PhD, CPA
CHAIRMAN

The Board



Prof. Samuel Seijaaka, PhD
Board Chairperson
(Independent Non- Executive Director)

PhD (Accounting and Finance), Makerere; MSc (Financial Studies), Strathclyde; B.Com, Makerere; CPA
Age: 54

Appointed: 2012
Directorship in other institutions:- Board Member, UAP Old Mutual Life Insurance Limited; Board Chairman, UAP Old Mutual Financial Services Limited; and Chairman, Rexba Limited.



Mr. Nimrod Waniale
Independent Non-Executive Director

Masters in Banking & Finance for Development (Fin. Africa Foundation, Milan); Bsc, Econ (Makerere)
Age: 66

Appointed: 2015
Directorship in other institutions:- Board Chairman, Uganda Export Promotion Board (UEPB), since October 2016.

Committees
Board Credit Committee
Board Strategy and Planning Committee



Mr. Henry Balwanyi Magino
Independent Non-Executive Director

Chartered Secretary, ICOSA; LLB (Makerere); Pg. Dip (Law Development Center); Member of the Institute of Chartered Secretaries & Administrators- ICOSA of London UK-ACIS
Age: 55

Appointed: 2015
Roles currently held:- Head Legal & Company Secretary, National Housing and Construction Company Limited.

Committees
Chairperson, Board Audit and Risk Committee
Board Credit Committee



Ms. Silvia Angey Ufoyuru
Independent Non-Executive Director

Master of Arts, Economic Policy Management, (Makerere); Bachelor of Business Administration, (Makerere); Dip. Computer Science (Makerere); Dip. Business Studies (Makerere)
Age: 49

Appointed: 2015
Directorship in other institutions:- Board Member - Agency for Accelerated Regional Development (AFARD) 2016; Founder Member and Board of Trustees – Jonam Youth Development Initiative; and Ex-Official Member of the Uganda African Peer Review Mechanism (APRM) National Governing Council.

Committees

Chairperson, Board Strategy and Planning Committee
Board Audit and Risk Committee



Dr. Stephen Robert Isabalija,
PhD Independent Non-Executive Director

PhD (Public Policy International Development) (Southern University, Louisiana); MBA, Finance & Accounting (Makerere); B.Com, Accounting (Makerere); Dip. Business Studies (Nakawa)
Age: 41

Appointed: 2012
Directorship in other institutions:- formerly a Board Chairman, Uganda Rural Electrification Agency, Board Member, Uganda Energy Credit Capitalisation Company

Committees

Chairperson, Board Credit Committee
Board Strategy and Planning Committee



Mr. John Ira Kirungi Byaruhanga
Non Independent/Non-Executive Director

Masters of Public Administration (Economic Policy Management), Columbia University; Bsc. Economics, Makerere University
Age: 46

Appointed: 2017
Roles currently held: Ag. Commissioner, Financial Services Department, Ministry of Finance, Planning and Economic Development.

Committees

Board Strategy and Planning Committee
Board Audit and Risk Committee

“
**Uganda is
poised for
economic
growth in 2018,
with projected
GDP growth of
5 % boosted
by public
investments in
infrastructure.**
”

Patricia Ojangole (Mrs.)

Statement from the CEO

Overview of the operating environment

The fiscal year 2017 witnessed the global economy expand at 3.7 % against the projected growth rate of 3.6 %. Amidst a number of challenges, the domestic economy was estimated to have expanded by 3.9 % below the target growth of 5 % with domestic inflation remaining stable within the policy target of 5 %.

Key business highlights

In view of the operating environment, the Bank continued to deliver on the key strategic initiatives it set out at the start of 2017. The Bank's overall priority in 2017 was to grow a quality loan book of Ushs 206 billion from Ushs 183 billion in 2016. However, this was exceeded by 18 % and the Bank instead closed its loan book at Ushs 242.6 billion primarily due to;

- Growth in Funding – during the year, the Bank secured new lines of credit totaling USD 26 million from the Arab Bank for Africa Economic Development and from the Islamic Development Bank (IDB). These lines of credit were pivotal in supplementing existing funding for on lending to our customers.
- Increase in Capitalization – the Bank received additional capitalization of Ushs 39.59 billion from the Government of Uganda which was significantly more than the Ushs 3.5 billion received in 2016. This provided the much needed liquidity by the Bank amidst

growing demand for medium to long term financing.

- Growth in Disbursements – as a result of the achievement of the two initiatives above, and complemented by a 31.3 % improvements in collections through the year from Ushs 44.79 billion (2016) to Ushs 58.81 billion (2017), the Bank was in position to disburse Ushs 95.72 billion in 2017 up from Ushs 57.2 billion in 2016.
- Non-Performing Loans – the bank worked tirelessly to improve the quality of its loan book with the NPL ratio closing at 15 % as at 31 December 2017 down from 19 % in 2016. The Bank also recovered Ushs 1.12 billion of previously written off loans.

Besides the above, the Bank also made the following accomplishments:

- Institutional Development Program – this program, sponsored by Ministry of Finance and the Kuwait Fund was completed during the year. The program

undertaken by The International Financial Consulting Group gave rise to a number of valuable recommendations that will see the birth of a refocused UDB in 2018 and beyond;

- The Bank completed the development of its new 5 year Strategic Plan running from 2018 to 2022 as the previous plan came to an end in December 2017. The new plan will see the Bank fulfill its new purpose of being the preferred and trusted partner to the Government of Uganda in achieving Socio-economic development.

Creating additionality in the economy

In promoting inclusive growth in the country, the Bank supported a number of small and medium sized enterprises (SMEs) in various sectors with additional financing of Ushs 97.5 billion in 2017. As a result of the Bank's interventions, a number of development outcomes were realized in 2017. Using the three

root core development indicators, namely jobs, gender and taxes, the development outcomes were as follows:

- Jobs created/maintained – the Bank's operations created 5,254 jobs and maintained 16,018 jobs in 2017;
- Gender distribution – 49 % of the jobs created/maintained were taken up by females while the rest of the jobs (51 %) were taken up by males;
- Tax contribution – the total contribution to government tax revenue by the various companies supported by the Bank was Ushs 205.7 billion.

The Bank also developed a development impact monitoring and evaluation framework to be implemented from 2018, which will in part form the basis of credit decisions going forward. Projects will be financed largely on the basis of the additionality and development impact that they will create within the key priority sectors.

Financial Performance overview

The Bank's post-tax profit for the year rose from Ushs 6.45 billion in 2016 to Ushs 8.31 billion in 2017, a growth of 29 %. This was a result of growth in the loan book by 33 % from Ushs 168.80 billion in 2016 to Ushs 224.29 billion in 2017, which contributed towards a 24 % increase in interest income to Ushs 21.99 billion from Ushs 17.76

billion in 2016. In addition there was a reduction in the impairment for loans and advances by 6 % in 2017.

The UDB statement of financial position continued to strengthen with a 31 % growth in the asset base to Ushs 297.47 billion in 2017 compared to Ushs 226.43 billion in 2016. This was mainly driven by a more than 300 % increase in Government of Uganda capital contributions from Ushs 12.42 billion in 2016 to Ushs 52.01 billion in 2017. The Bank also secured new lines of credit in 2017 worth USD 26 Million, or approximately Ushs 93.6 Billion and these were partially drawn down in 2017 towards financing the growth in the loan book.

As the Government of Uganda gradually capitalises the Bank, the Bank will continue to leverage its capital and reserves to source for affordable funding to support its activities.

Looking Ahead

Uganda is poised for economic growth in 2018, with projected GDP growth of 5 % boosted by public investments in infrastructure, growth in private sector credit and improvement in agricultural production. The Bank will take advantage of the prevailing conditions in 2018 and refocus its energies towards the following:

1. Tailor products to meet client needs – in order to address market gaps in the priority sectors, the Bank intends to roll out new products that will help meet client

needs such as venture capital, equity financing and establishing business advisory services;

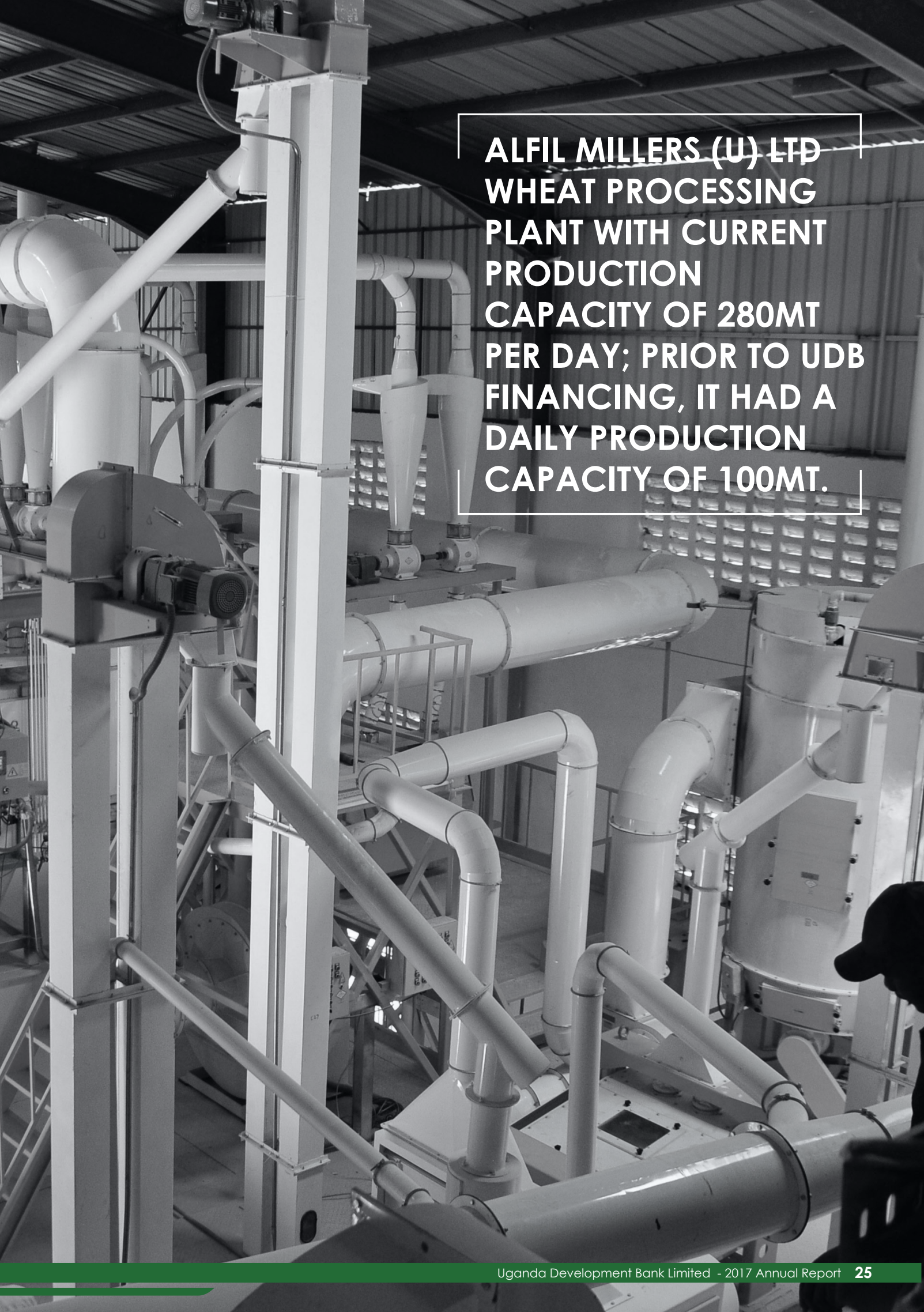
2. Resource mobilization – the Bank purposes to mobilize new funding totaling Ushs. 162 billion and channel the same to existing investment opportunities within its sectors of focus.
3. Close human capital, governance and monitoring and evaluation gaps – in order for the Bank to achieve the above, this will call for among others, re-alignment of the current structure to enable the Bank effectively deliver on its priorities, delineating sector specific expertise both in investment and credit underwriting teams and above all, monitoring and communicating its development impact.

Gratitude

As I conclude, I wish to convey my gratitude to our shareholders, the Minister of Finance, Planning and Economic Development and the Minister of State for Privatization and Investment for their unwavering support; the Board of Directors for their stewardship and challenging the Bank to always do more; our various customers for the trust bestowed upon us and the team at UDB for diligently upholding the value of commitment without which the Bank would not report the above results. I wish all stakeholders a successful 2018.



Patricia Ojangole (Mrs.)



**ALFIL MILLERS (U) LTD
WHEAT PROCESSING
PLANT WITH CURRENT
PRODUCTION
CAPACITY OF 280MT
PER DAY; PRIOR TO UDB
FINANCING, IT HAD A
DAILY PRODUCTION
CAPACITY OF 100MT.**



Mrs. Patricia Ojangole
Chief Executive Officer

Finalist, M.Phil in Development Finance, University of Stellenbosch Business School, Masters in Business Administration from ESAMI, B.Com Makerere University, FCCA, CPA, Member of the Institute of Internal Auditors (IIA)
Age: 40



Mr. Denis Ochieng
Director Finance

MSc. Financial Risk Management, Glasgow Caledonian University; Bcom(Accounting), Makerere University; CPA, FCCA,
Age: 44



Mr. Joshua Allan Mwesiga
Director Human Resources and Administration

MSc. Human Resources Management from the Herriot Watt University- UK; B.Sc. (Social Sciences) Makerere University; Graduate Diploma in Modern Management & Administration from the Cambridge International College-UK; Graduate of the Senior Leadership Development Program of the Strathmore Business School; Certified Senior HR Professional (SHRM-SCP), Member of the Society of Human Resources Management (SHRM)-USA and the HR Managers' Association of Uganda (HRMAU).
Age: 40

Executive Committee (EXCO)



Mr. Mahamoud Andama
Acting Director
Development Finance

MA (International Economics and Trade); Bachelor of Business Administration, Makerere University; Member of the Association of Chartered Certified Accounts
 Age: 35



Mr. Andrew Muluubya
Director Management
& Information Systems

MSc in Strategic IT Management from the University of Derby, England; Certified IT Architect (CITA); Member of International Association of Software Architects (IASA)
 Age: 40



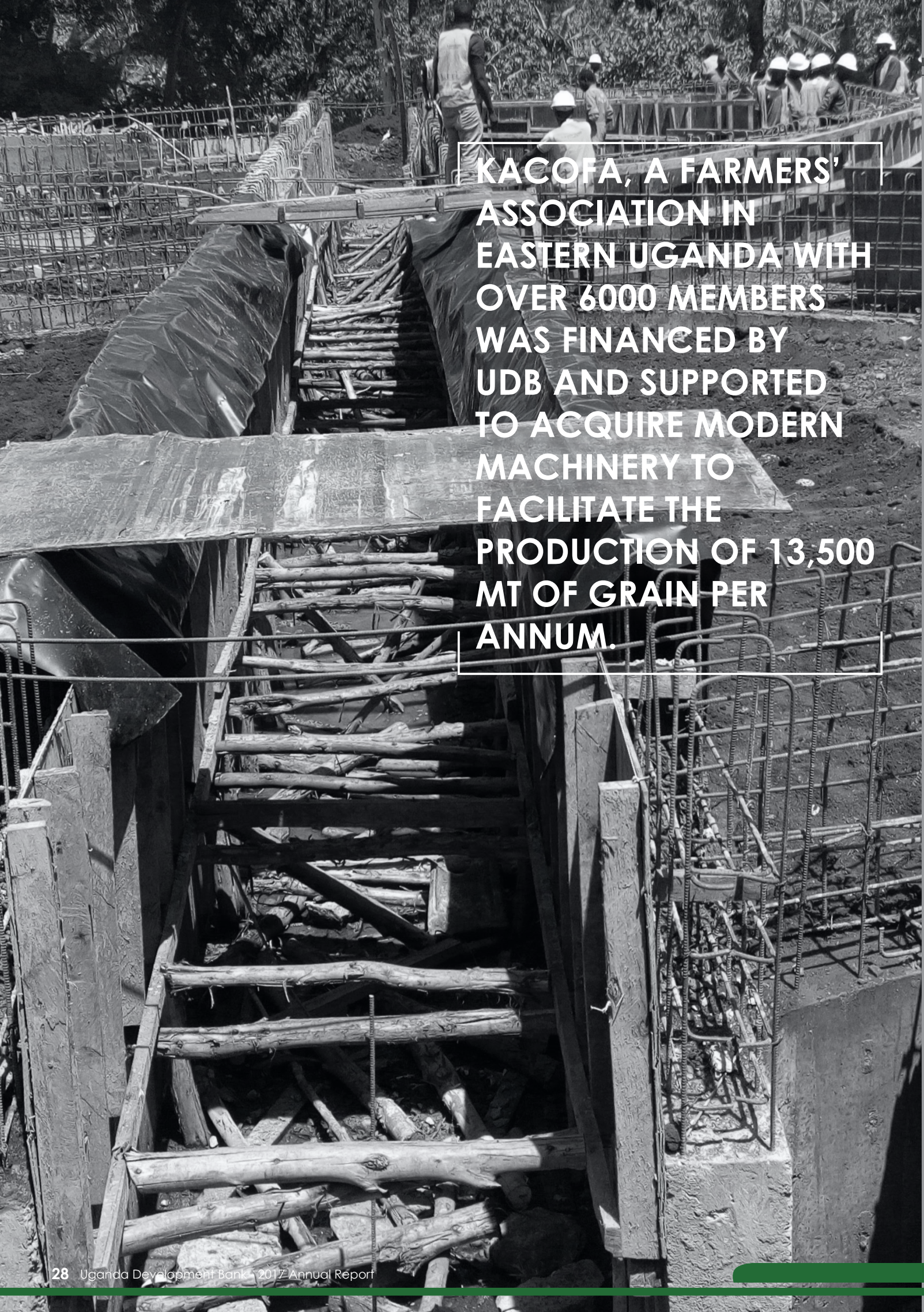
Mr. Stephen Hamya
Chief Internal Auditor

B.Com (Accounting) Makerere University Business School; Graduate of the Senior Leadership Development Program of the Strathmore Business School; FCCA; CPA; Member of the Institute of Internal Auditors (IIA); Associate member of the Association of Certified Fraud Examiners (ACFE)
 Age: 35



Mr. Elewa Apamaku
Acting Head Legal and
Company Secretary

Bachelor of Law, Makerere University; Post graduate Diploma in Legal Practice, Law Development Centre; Member of the Uganda Law Society and East African Law Society.
 Age: 37



KACOFA, A FARMERS' ASSOCIATION IN EASTERN UGANDA WITH OVER 6000 MEMBERS WAS FINANCED BY UDB AND SUPPORTED TO ACQUIRE MODERN MACHINERY TO FACILITATE THE PRODUCTION OF 13,500 MT OF GRAIN PER ANNUM.

COMMITTED TO GOOD CORPORATE GOVERNANCE

Overview

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. Corporate governance is therefore about what the board of a company does and how it sets the values of the company. It is to be distinguished from the day to day operational management of the company by full-time executives."- UK Corporate Governance Code.

In pursuit of achieving this standard set forth in the aforementioned Code, the Board, Management and Staff of Uganda Development Bank Limited are committed to ensure that the Bank's operations and processes are governed by clearly defined principles of good corporate governance to ensure proper governance, transparency and accountability to its stakeholders through the existence of effective systems of self-regulation.

The Board strives to practice good governance principles and embed the same conduct and practices within all levels of the Bank's staff component to ensure efficient delivery of its services within principles enshrined in good corporate governance.

The Board embraces relevant best practices both local and international and 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.

Board and the Directors

Composition of Board of Directors

The Board guides the Strategy of the Bank and has the ultimate responsibility for its performance. The Bank has a broad-based Board of Directors. The Board functions as a full Board and through various Committees constituted to oversee specific operational areas.

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 size of the Board is determined by the Memorandum and Articles of Association, which currently permits 7 members, 6 being non-executive directors. As at 31 December 2017, the Board had 6 non-executive directors.

The Board is comprised of highly committed persons with good expertise and wealth of skills and experience required to provide the necessary overall strategic guidance to the Bank and ensure that no individual Director has unfettered powers of decision-making. The roles of the Chairman of the Board and that of the Chief Executive Officer are clearly defined and separated, thereby ensuring a clear division of responsibilities at the Bank.

The Board of Directors is collectively responsible for the long term success of the Bank. Its role is essentially threefold - to provide strategic leadership, to monitor Management performance and to ensure that the Bank provides its stakeholders with a balanced and understandable assessment of the Bank's current

position and prospects. As such, Board decision making is sufficiently informed by independent perspectives.

Directors have complete access to senior management through the Chairperson, CEO or Company Secretary at any time. In addition to regular presentations by senior management at Board meetings, directors may seek briefings from senior management on specific matters.

Appointments

The process of identification of suitable candidates to fill vacancies on the Board and to reappoint Directors upon termination of their term of office is conducted by the appointing authority.

In choosing directors, the appointing authority seeks individuals who are of very high integrity with a passion for the sectors in which the Bank is involved.

The appointment of Directors is governed by the Bank's Articles of Association. Directors are appointed by Shareholder at the Annual General Meeting (AGM) and interim Board appointments are allowed between AGMs. These appointments are then confirmed at the AGM.

Induction and training

All new Directors participate in a formal induction process coordinated by the Company Secretary. The induction process includes updates on the strategic, financial, operational and risk management policies and processes, governance framework, values and key developments in the

Bank as well as the environment in which the Bank operates.

On a periodic basis, the Chairman and Company Secretary review Directors' training needs, in conjunction with individual Directors and match those needs with appropriate external seminars, courses and onsite visits as applicable.

Board Succession Planning

Succession planning is a key focus of the appointing authority which on an on-going basis, considers the composition of the Board and its committees to ensure continued effectiveness and retention of Board members with considerable experience. This ensures that appropriate levels of institutional knowledge are maintained.

As part of the Board's responsibility to ensure that effective management is in place to implement the

Bank's strategy, management succession planning is an on-going consideration.

Board Meetings and attendance

The Board meets at least 4 times in a year and holds a strategy session at least once a year. Special board meetings are held where necessary. During the period ended 31 December 2017, the Board met 12 times and in addition, a Board strategy session was held over 2 days during the year. Refer to details below for Board attendance during the period.

To enable the Board effectively discharge its responsibilities, it maintains a scheduled forward programme of meetings and a rolling agenda. There is sufficient flexibility in the programme for specific items to be added to any particular agenda. To facilitate efficient decision-making, the Management

team and other senior executives may be invited to attend part of the meetings to ensure effective interactions with the Board while third party professionals may be in attendance on a need-to basis.

Changes to the Board

In line with our normal practice, all non-executive directors serve one 3 year term only renewable once. Mr. Charles Byaruhanga served a two 3 year term and resigned his position with effect from 15 May 2017 and was replaced by Mr. John Byaruhanga who was appointed with effect from May 2017.

The Board Charter

The Board has a charter which sets out the guidelines for the Directors of the Bank in the performance of their functions and responsibilities. It, in particular, provides a governance

BOARD STRUCTURE AND COMPOSITION

	UDB BOARD	BOARD CREDIT COMMITTEE	BOARD PLANNING AND GENERAL PURPOSE COMMITTEE	BOARD AUDIT AND RISK COMMITTEE
	Responsible for the performance of the Bank while retaining full and effective control	Considers credit transactions mandated to it by the Board	Develops compensation policies, resourcing plans and performance goals	Monitors the adequacy of financial controls and reporting, internal control environment and Risk Management
	↓	↓	↓	↓
Committee membership and number of meetings attended				
Number of meetings	12	13	6	5
Non-executive directors				
Samuel Seijaaka (Chairperson)	12			
Nimrod Waniala	11	13	6	4
Stephen R. Isabaliija	10	11**	4	
Henry Balwanyi Magino	11	12		5**
Silvia Angey Uforyu	11		5**	
John Byaruhanga (Appointed on 1 June 2017)	5			1
Charles Byaruhanga (Retired on 16 May 2017)	6			2**

**Chairperson of respective committee

framework through which the Board can properly conduct its affairs and monitor the operations of the Bank to ensure the fulfillment of its mandate. The Charter was revised in December 2017 in order to take into account changing circumstances and feedback received from Institutional Study done by International Financial Consulting (IFC). The emphasis on the revision of the Charter was to enhance the roles and responsibilities of the Board and its committees.

Board Committees

The Board has 3 committees to assist it in discharging its authority. These include the Board Planning and General Purpose Committee, Board Credit Committee and the Board Audit and Risk Committee. All Board Committees operate under Board approved terms of reference which are periodically reviewed to keep abreast of developments in corporate governance. The Chairperson of each Board Committee is a non-executive director and members of each committee are appointed by the Board Chairperson. At a Board meeting following each committee meeting, the Board receives a report on the deliberations, conclusions and recommendations. The reports of the 3 Board Committees appear on pages 32 to 34 to this report.

Strategy

The Board has overall responsibility for the Bank's strategic direction. In executing this role, the Board appreciates that strategy, risk, performance and sustainability are inseparable and give effect to this by:

- Contributing to and approving the strategy;
- Ensuring that the strategy will result in sustainable outcomes;
- Satisfying itself that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by Management; and
- Identifying key performance and risk areas.

The Bank's strategic and annual business plans are annually presented to the Board by Management for deliberation and approval.

The Board monitors performance of the Bank against the non-financial and 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 delegates certain functions to its Board Committees but without abdicating its own responsibilities.

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

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 26 and 27.

Board Remuneration

The Board Planning and General Purpose Committee plays an advisory role on the remuneration of staff and non-executive directors. The directors are remunerated for the meetings they attend. The Directors are paid fees, comprising an annual retainer and sitting allowances which are recommended to the shareholders at the Annual General Meeting (AGM) for approval. No performance-based remuneration is paid to directors. During the period ended 31 December 2017 the Directors were remunerated as per the table below:

	2017	2016
	Ushs millions	
Directors emoluments	297	251

Conflict of interest

Board members have a fiduciary obligation under Section 198 (c) of

the Companies Act, 2012 – to act in the best interests of the company that they serve. Board members must act in good faith in the interests of the company as a whole and this shall include—

- a) treating all shareholders equally;
- b) avoiding conflicts of interest;
- c) declaring any conflicts of interest;
- d) not making personal profits at the company's expense; and
- e) not accepting benefits that will compromise him or her from third parties.

At every meeting involving Board members, directors and executive management, members are required to disclose any potential conflicts and if required, to withdraw from the proceedings. Declarations of conflict are also made to the Company Secretary as and when necessary. The declarations are made at each Board meeting and at meetings of the Board committees responsible for considering transactions.

Board effectiveness and assessment

The Board operates in terms of a Charter that defines its duties, responsibilities and powers. The Charter is reviewed periodically. The evaluation of the performance of the Board as a whole is conducted annually by means of a self-evaluation process. An evaluation of the Chairman is conducted by the other Directors and the evaluation of the performance of individual Directors is conducted on a bilateral basis between the Chairman and each Director.

The last evaluation was conducted in 2016 and the Board assessed its performance and that of its committees in terms of structure, process and effectiveness.

Codes and Regulations

As a Bank regulated and monitored under the Public Enterprise Reform and Divestiture Act, Uganda Development Bank Limited has reporting obligations to the Parastatal Monitoring Unit (PMU) and is committed to complying with legislation, regulations and codes of best practice.

Complying with all applicable legislation, regulations, standards and codes is integral to the Bank's culture.

The Bank has a corporate governance culture designed to foster compliance and best practice within the organization in line with international corporate governance trends (including the Companies Act, 2012 and the Financial Institutions Act, 2004 among others).

The Bank is therefore committed to complying with legislation, regulations and best practice codes with the ultimate objective of fostering transparency, disclosure, accountability and probity in its transactions.

Whilst the Bank continues to nurture a strong culture of governance and responsibility for risk management, it is constantly monitoring its practices to ensure that they are best fit for it and serve to enhance business and community objectives.

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

Shareholders' Responsibilities

Shareholders are mandated to appoint the Board of Directors and external Auditors. They therefore hold the Board of Directors responsible and accountable for effective corporate governance.

BOARD COMMITTEE REPORTS

All members of the Board Committees are non-executive directors. The Bank's Board structure is reflected in page 28.

A. Board Credit Committee Report

The Board Credit Committee (BCC) comprises of three independent Non-Executive Directors, Dr. Stephen Robert Isabalija was appointed Chairperson of the BCC with effect from May 2012. The CEO and Director Development Finance attend BCC meetings as permanent invitees. The Board is satisfied that the collective skills of the members of the BCC are appropriate, relative to the size and circumstances of the Bank.

The role of this Committee is to ensure that effective frameworks for credit risk governance are in place in the Bank. This involves ensuring that the Management Credit and Risk Committee (MRCC) 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 the status of non-performing loans. It also approves credit applications in the excess of Ushs 0.5 billion. The BCC meets as and when required to consider credit applications falling within its ambit and has therefore complied with its mandate.

During the year, the BCC contributed significantly to the overall funding approvals of Ushs 164.4 billion approved by the Committee in 28 transactions. Details of these and other transactions are provided in the sustainability section of this report.

The BCC also approved the new credit policies of the Bank that will be implemented effective 1 January 2018. Among the changes in the policy was the change in approval limits of the Committee from Ushs 0.5 billion to Ushs 1.5 billion per gross exposure.

Following the revisions of the Board Charter, the Committee was also added additional responsibility of monitoring the development impact of the Bank's interventions in the priority sectors.

B. Board Planning and General Purpose Committee Report

The Board Planning and General Purpose Committee (BPGPC) comprises three independent Non-Executive Directors. Mrs. Silvia Angey Ufoyuru was appointed Chairperson of the BPGPC with effect from May 2015. The CEO and Director Human Resource and Administration attend BPGPC meetings as permanent invitees. The Board is satisfied that the collective skills of the members of the BPGPC are appropriate, relative to the size and circumstances of the Bank.

As defined in its Charter, this Committee's specific responsibilities include but are not limited to:

- Assisting the Board to oversee matters pertaining to the Bank's human resource policies;
- Assisting the Board in determining the broad policy for executive and Senior Management remuneration, and oversee the Bank's remuneration philosophy;
- Ensuring that the right caliber of Management is recruited and retained;
- Assisting the Board in the setting of performance-related incentive schemes, performance criteria and measurements;
- Assisting the Board in reviewing the CEO's performance against set management and performance criteria and recommending guaranteed and performance-based individual remuneration and other long-term award allocations to the CEO, Company Secretary and Senior Management, among others;

During the year, the committee's oversight role included the following:

- An evaluation of the Bank's, Executive and Staff performance. On the basis of the achieved performance, the committee recommended the payment of applicable incentives for the year under review.
- The Committee considered a report on the Bank's succession plan and approved the plan for key leadership roles including that of the CEO.
- The Committee considered a revised set of Human Resource policies which were approved for immediate implementation
- The Committee also considered a new organisational structure to be implemented effective 1st January 2018. The structure was revised to enable the Bank further align itself to its development mandate.

As part of the revisions in the Board Charter, the Committee was renamed to Board Strategy and Planning Committee. The Committee was given additional responsibility of strategy development and monitoring.

C. Board Audit and Risk Committee Report

The Board Audit and Risk Committee (BARC) comprises of three independent Non-Executive Directors, one of whom acts as Chairperson. The Chairman of the Board is not a member of the BARC. Mr. Henry Magino Balwanyi was appointed the Chairman of the Committee after the lapse of the term of the then Chair, Mr. Charles Victor Byaruhanga in May 2017. The CEO, Head of Internal Audit, Director Finance and Manager Risk attend BARC meetings as permanent invitees.

The BARC assists the Board in fulfilling its oversight responsibilities, in particular with regard to the evaluation of the adequacy and efficiency of accounting policies, internal controls, risk management and financial reporting processes. In addition, the BAC assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

Responsibilities, Composition and Functions of the Committee

The Committee's roles and responsibilities are as per the approved Board Charter. The Committee therefore reports that it has adopted appropriate formal terms of reference as approved by the Board, and is satisfied that it has discharged its responsibilities as expected.

The Committee has carried out its functions through attendance at BARC meetings and discussions with Executive Management, Internal Audit and external advisers where appropriate.

The BAC meets at least four times per annum, with authority to convene additional meetings as circumstances require.

To execute its key functions and discharge its responsibilities as spelt out in its terms of reference during the period under review, the Committee:

- Assisted the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems, risk management and auditing processes applied within the Bank

in the day-to-day management of its business

- Facilitated and promoted communication between the Board, management, the external auditors and Internal Audit department on matters which are the responsibility of the Committee.
- Noted the appointment of Ernst & Young (EY) as external auditors of the Bank acting on behalf of the Auditor General and who in the opinion of the Committee are independent of the Bank.

Internal Control

The BAC monitored the effectiveness of the UDB's internal controls and compliance with the Enterprise-wide Risk Management Framework (ERMF). The emphasis on risk governance is based on three lines of defense and the BARC uses the regular reports received from the three lines of defense (process owners and department heads, Risk and Compliance departments, management, and the Internal Audit department) to evaluate the effectiveness of the internal controls. No findings have come to the attention of the Committee to indicate that any material breakdown in internal controls has occurred during the financial year under review. The Committee is of the opinion that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the Annual Financial Statements, that accountability for assets and liabilities is maintained, and that this is based on sound accounting policies which are supported by reasonable and prudent judgements and estimates. The BARC has obtained assurance that the internal controls of the Bank have been effective in all material aspects throughout the year under review.

This assurance is based on the information and explanations given by management regarding various processes and initiatives aimed at improving the internal control environment and the integrity of information, discussions with internal audit, and with the independent external auditors, on the results of their audits.

External Auditors

The Bank's external auditors are Ernst & Young. The committee has satisfied itself that the external auditors, were independent of the Bank which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by The International Auditing and Assurance Standards Board. Assurance was sought and provided by the external auditors that their claim to independence was supported and demonstrated by internal governance processes within their firm.

The Banks External Auditors are appointed by the Office of the Auditor General. The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and audit fees for the financial year ended 31 December 2017.

The Committee:

- Approved the external auditors' annual plan and related scope of work.
- Monitored the effectiveness of the external auditors in terms of their skills, independence, execution of the audit plan, reporting and overall performance.

Financial Statements

The Committee reviewed the financial statements of the Bank and was satisfied that they complied all material respects with IFRS and the requirements of the Companies Act, 2012. During the period under review the Committee:

- Reviewed and discussed the audited Annual Financial Statements with the external auditors, the Chief Executive Officer and the Director Finance
- Reviewed the external auditors' report and management's response to it.
- Reviewed any significant adjustments resulting from external audit queries and accepted unadjusted audit differences.
- Reviewed areas of significant judgements and estimates in the Annual Financial Statements.
- Received and considered reports from the internal auditors.

Expertise and Experience of the Finance Function. The Committee has considered, and has satisfied itself of the overall appropriateness of the expertise and adequacy of resources of the Bank's finance function and the experience of the senior members of management responsible for the financial function.

Going Concern

The Committee concurs that the adoption of the going concern assumption in the preparation of the Annual Financial Statements is appropriate and sound.

Risk Management

The Board has assigned oversight of the Bank's risk management function to BARC.

The Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk and information technology risks as they relate to financial reporting. The BARC is satisfied that appropriate and effective risk management processes are in place.

Internal Audit

The Internal Audit department has a functional reporting line to the Committee Chairperson and an operational reporting line to the CEO. The BARC, with respect to its evaluation of the adequacy and effectiveness of internal controls, receives reports from Internal Audit on a quarterly basis, assesses the effectiveness of the internal audit function, and reviews and approves the Internal Audit department's Audit Plan.

The BARC is responsible for ensuring that the Internal Audit function is independent and has the necessary resources, standing and authority within the Bank to enable it to discharge its duties. The Internal Audit function's Annual Audit Plan was approved by the BARC. The Committee monitored and challenged, where appropriate, the action taken by management with regard to adverse Internal Audit findings.

The Committee has overseen a process by which Internal Audit has performed audits according to a risk-based audit plan where the effectiveness of the risk

management and internal controls were evaluated. These evaluations were the main input considered by the Board in reporting on the effectiveness of internal controls.

The Committee is satisfied with the independence and effectiveness of the internal audit function.

In conclusion the Committee is satisfied that it has complied in all material respects with its legal, regulatory and other responsibilities.

Company secretary

The Company Secretary plays a pivotal role in the corporate governance of the Bank. The Company Secretary is responsible to the Board for, inter alia, acting as a central source of information and advice to the Board on matters of ethics, adherence to good corporate governance principles, and compliance with procedures and applicable statutes and regulations. The Company Secretary assists the Board as a whole and its members individually, with guidance as to how their duties, responsibilities and powers should be adequately discharged and exercised in the best interests of the Bank.

The Company Secretary is not a director of the Bank and acts independently from the Board. In line with good governance practice, the appointment and removal of the Company Secretary is a matter for the Board.

The Company Secretary fulfils a dual role in that he is also the General Counsel of the Bank.

ENVIRONMENTAL AND SOCIAL RISK GOVERNANCE

We recognise that sustainable socio-economic development is integrally connected to the sustainability of the environment and society.

As UDB, we are committed to investing in activities that enhance environmental protection measures, in compliance with the Ugandan environmental laws and international best practices, and that avoid negative environmental and social impact on communities.

Accordingly, the Bank developed an Environmental and Social Management Framework to be used

for screening of projects submitted for funding. The framework integrates E&S risk management into UDB's business processes. It will help the Bank to avoid transactions that may have significant environmental and social risks by conducting environmental and social due diligence prior to loan disbursement. It will also help the Bank to identify and manage E&S risks of the Bank's portfolio.

RISK MANAGEMENT AND COMPLIANCE

Overview

Over the course of 2017, The Bank embarked on defining the strategic road map for the next five years from 2018 with emphasis on alignment of the road map to the Second National Development Plan (NDP II).

Significant effort went into assessing the key success factors, key risks that may impact the achievement of the strategic objectives and their respective mitigants. Structural, processes as well as policies and procedures were revised to give the Bank an enabling platform to deliver on the commitments made in the 2018 – 2022 strategic plan. Among the changes made to the policies and procedures is the Enterprise Risk Management Framework which now comprises of Environmental and Social Risk Management (ESRM). The ESRM aims to create sustainable development and responsible financing.

The risk environment in 2017 remained relatively stable amidst the geo-political disruptions within the East African region which were expected to have an impact on the lending decisions of the Bank as well as distortion of the payment patterns for already existing projects and businesses.

The stability of the risk environment coupled with an earnest drive to improve the quality of the loan book, saw the Bank reduce the Non-Performing Loans (NPL) ratio from 19 % in 2017 to 15.4 % as at 31 December 2017. In 2018, the Bank will work towards reducing the NPL ratio to 10 % or below.

Capitalization of the Bank remains a critical factor in growing the balance sheet size which can then be leveraged on to raise more funds

from funding agencies across the globe. This will have an impact on the socio-economic outcomes the Bank and Government desire to see.

The market risk factors such as interest rate and foreign exchange movements had no adverse effects on the Banks returns in 2017 due to the prudence exhibited in its hedging options. The Bank continues to exercise a high level of risk management awareness and prudence as it looks to be regulated for good governance practices and oversight. The Bank was also scored as A+ rated by AADFI and regulation will even make it stronger in years to come.

Risk Management framework

The Bank is exposed to various risks that arise from its operations in the financial services space. Some of these risks are; Credit, Foreign Exchange, Operational, Liquidity and Compliance risks among others. In the financial services industry managing of associated risks is an integral part of business and if not attended to can be disastrous to the Bank and the industry at large. Identification and treatment of risk and compliance related matters that arise are a continuous process that the Bank follows in its day to day operations.

Risk Governance is an enabler to good risk management and for that reason the Bank's Board of Directors has the ultimate responsibilities for the establishment and oversight of the Bank's Enterprise Risk Management framework. The framework articulates the risk management process followed in the Bank and there it's responsibility set out 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.

The key risks are managed at various committees such as; the Asset and Liability Committee which oversees liquidity, market and financial performance risks; the Management Risk & Credit Committee which oversees the credit and business risks, the Risk Management Committee that assesses and reports to the Executive Committee and the Board of Directors through Board Audit & Risk Committee that assesses the adequacy of the management of risks that the Bank faces, while the Executive Committee provides the overall oversight to all risks in the Bank at management level.

The Internal and External auditors give management and the board assurance that the risk management policies and procedures including enterprise risk management framework are adequate, complied with and the information provided is accurate.

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 keys risks:-

Credit Risk

This is the risk of financial loss to the Bank arising from non-performance by a counter party to a financial instrument due to failure to meet its contractual obligation. Such financial instruments include loans and advances, including the advancement of securities and contracts to support customer obligations such as letters of credit

and performance guarantees. In recent times there has been an increase to the extent of exposure to credit risk due to lax in credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of counterparties across the Banking industry.

Uganda Development Bank understands that the effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of executing and fulfilling its mandate. This credit risk exposure is managed through a rigorous credit assessment process, pre and post sanction adherence to covenants with counterparties, adoption of other lending mechanisms like Apex lending and co-financing to improve on its credit risk and thereby reduce its impairment rate.

UDB has in place a Supervision and Monitoring Unit which provides relevant information to management to make its experienced judgments about the quality of the loan portfolio and provide the foundation upon which Credit Risk loan loss or provisioning methodology is built. The same information is used by management to monitor the condition of the loan portfolio and aging categorization of each individual exposure.

Market Risks

Market risk is the risk of financial loss resulting from movements in market prices. Market risk is rated based upon, but not limited to, an assessment of the sensitivity of the

UDB ENTERPRISE RISK MANAGEMENT FRAMEWORK



financial institutions earnings or the economic value of its capital to adverse changes in interest rates and foreign exchange rates. The nature and complexity of interest rate risk exposure arising from non-trading positions held by the Bank can exacerbate market risk if not mitigated.

Uganda Development Bank uses a combination of hedging practices and local market scenarios to illustrate the effect of market risk factors on its earnings and capital; this has made the Bank able to minimize earning and capital erosion. The Bank has maintained its net open position in the 0.4% - 7.9% range throughout 2017.

Foreign Currency Risk

Foreign currency risk is a financial risk that exists to the Bank due to an exposure arising majorly from currency mismatches between the Bank's asset currencies and the liability currencies. Most of UDB's lines of credit are denominated in foreign currency and any asset funded by these lines of credit in the base currency immediately poses a currency risk exposure to the Bank. The Bank's base currency is the Uganda shilling.

Indicatively, transaction risk is often hedged selectively or strategically to preserve cash flows and earnings, depending on UDB's treasury view on the future movements of the currencies in respect to our lines of credit.

Translation, or balance sheet, risk is hedged very infrequently and non-systematically, often to avoid the impact of possible abrupt currency shocks on net assets. The Bank uses a currency exposure sensitivity model to identify the degree of exposure it faces in regard of, the currency movements, typically USD/Ushs movements as reflected from the currency market. The Bank maintains a cap of 20 % for its Net Open position which is lower than the Central Bank Cap of 25 % and will endeavor to maintain its drive in holding its financial assets in local currency as much as possible to mitigate currency exposures.

Funding 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'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.

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

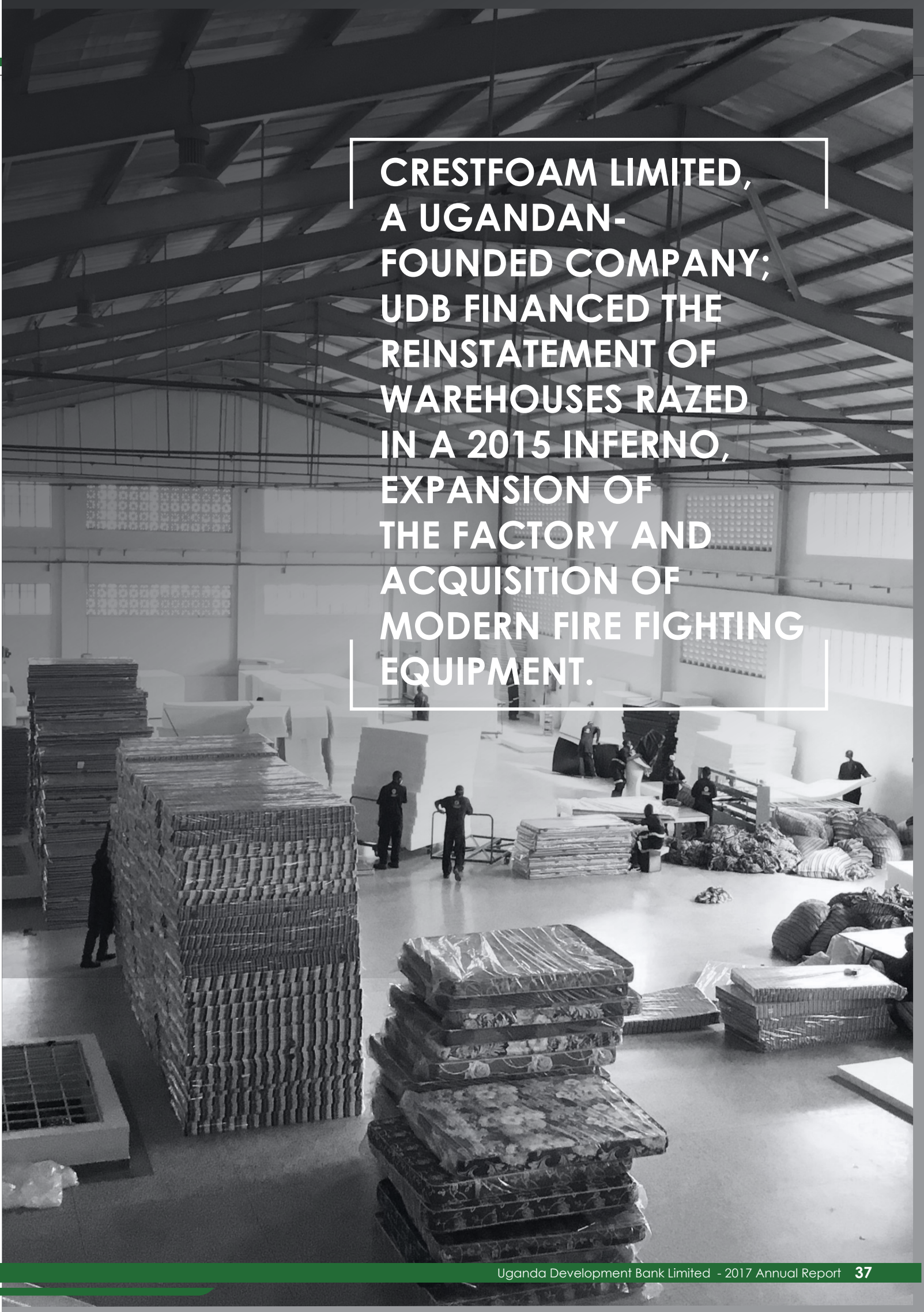
This is the risk of adverse outcomes resulting from a weak competitive position or from a choice of strategy, target market, products, activities or structures. The Bank develops its business plan on an annual basis at the corporate level and the same is cascaded to the various business and support departments. 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 or regulatory sanctions, financial loss or loss of reputation that the Bank may suffer as a result of its failure to comply with all laws, regulations, code of conduct and standards of good practice applicable to its operations. Much the Bank does not operate under any regulatory regime, it has to comply with all relevant laws of the land and there is a process in the Bank that allows for 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 decided to become a member to Association of African Development Finance Institutions (AADFI). 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.



**CRESTFOAM LIMITED,
A UGANDAN-
FOUNDED COMPANY;
UDB FINANCED THE
REINSTATEMENT OF
WAREHOUSES RAZED
IN A 2015 INFERNO,
EXPANSION OF
THE FACTORY AND
ACQUISITION OF
MODERN FIRE FIGHTING
EQUIPMENT.**



Report on the Operating Environment

1.1 Developments in the world economy and global financial markets

Global economic activity continued to firm up and world output growth was estimated to have grown at 3.7% in 2017, which was 0.1 % faster than projected. The pick-up in growth was broad based with notable upside surprises in Europe and Asia. Growth in the Sub-Saharan Africa (SSA) was estimated at 2.6 % in 2017 and projected at 3.4 % in 2018.

The global financial market sentiments remained strong and market volatility indicators remained low during 2017.

The U.S Federal Reserve raised short-term interest rates to 1.25 - 1.50 % in September 2017 and in most other Advanced Economies, the monetary policy stance remained broadly unchanged. In Emerging markets and Developing Economies, financial conditions were generally supportive of pick-up in economic activity.

Capital flows to emerging markets and developing economies remained resilient in 2017, recovering after a sharp decline in 2015 and 2016.

1.2 Developments in the regional economic environment.

Real GDP growth in Sub-Saharan Africa was estimated at 2.6 % in 2017 and projected at 3.4 % in 2018. According to a report by the African Development Bank, East African region was the fastest growing region with a real GDP growth rate of 5.3 %, followed by North Africa at 3.0 %.

However, the region was faced with threats of effects of drought, volatile elections, low commodity prices and declining tax collection.

Below are selected EAC community growth indicators

	Real GDP growth %		Inflation %	
	Actual	Projected	Actual	Projected
Country	2017	2018	2017	2018
Burundi	2.0	2.0	10.9	5.1
Kenya	5.0	6.1	6.4	5.1
Rwanda	4.9	5.2	4.8	5.0
S. Sudan	(6.1)	5.1	100.7	50
Tanzania	6.8	7.2	4.0	5.1
Uganda	3.9	5.0	4.4	5.0

*Source: World Bank & country database: 2018

1.3 Developments in the domestic economy

Uganda's Real GDP growth slowed to 4.0 % in 2017, below the projected growth rate of 5.0% mainly on account of bad weather that affected production in agricultural sector. During the year 2017, headline inflation declined from 5.9 % to 5.7 % due to the decline in food inflation that declined from 14.5 % in January to -0.7 % in December 2017.

The exchange rate depreciated from end of period average of 3,588.50 shillings per dollar to 3,635.1 on account of increased imports against exports, elevated uncertainty in the political environment both locally and in neighboring Kenya. The depreciation of the shillings against the US Dollar did not create major impact on export earnings as it should have as there was dismal growth in export earnings. The trade balance worsened from negative USD 105.6 million in January to -143.2 million in December 2017; as imports of goods rose from USD 370.9 million to USD 494.8 million against a slower growth in exports of goods from USD 265.4 million to USD 291.6 million during the same period.

1.4 Developments in the Banking Industry in Uganda

The Central Bank Rate declined from 12% in January to 9.5% in December 2017; however, this led to a sluggish decline in the weighted average lending rate (WAR) for shillings denominated loans from 22.3 % in January to 21.4% in December 2017. The interest rates on the foreign exchange denominated loans declined from 8.59 % to 7.87 % during the same period.

Lending rates in Uganda, averaging 21.42%, remained relatively high compared to the other East African Community states i.e. Kenya at a WAR of 14 % and Tanzania at a WAR of 15%, yet, indicators show that

Ugandan banks have the lowest bank profitability in the region due to high transaction costs.

The asset quality of the Industry improved with the ratio of Non-Performing Loans to gross loans, decreasing from 10.5 % in December 2016 to 7.24 % in September 2017. The total capital adequacy ratio of the banking system increased from 19.8 % to 23.8 % of its risk weighted assets.

Growth in Private Sector Credit (PSC) remained weak despite the monetary policy easing. Average annual growth in PSC stood at 5.8 % in 2017, down from 6.0 % in 2016. Demand for credit (as proxied by loan applications) continued to be robust while supply of credit (proxied by loan approvals) remained subdued.

The significant disparity between value of loan applications and approvals is in part a reflection of a raft of supply-side constraints to growth in PSC. The Implication of Uganda's high interest rates continue to impact negatively on the growth in private sector credit. The high level of NPL ratio in the sector may increase the level of credit risk, hence may

lead to increased lending interest rates by banks.

1.5 Outlook and implications

Looking ahead, Global growth forecasts for 2018 and 2019 have been revised upward by 0.2 % to 3.9 %. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S tax policy changes expected to stimulate economic activity. Emerging economies and Developing Asia will grow at 6.5 % over 2018-2019.

Increased global growth will lead to increased demand for various commodities, including primary commodities in a trade regime with limited protectionism policy. The implication of the improvement in commodity prices is that this is anticipated to improve export earnings & trade balance of most commodity exporters like Uganda. UDB will therefore place focus on financing of production & export of selected commodities. On monetary policy, this is projected to be moderately accommodative in the U.S, given weaker projected demand and lower inflation. The

U.S policy interest rate is projected to rise by 75 basis points in 2018 and 2019. The Euro area monetary policy is expected to remain negative in 2018. Overall, the global financial conditions are expected to remain accommodative. The implication of the rise in Federal interest rate is that it may lead to increased borrowing rates for countries like Kuwait, Saudi Arabia, UAE and others. This is likely to increase interest cost for new borrowings by Uganda Development Bank; borrowing costs for countries whose debts are denominated in US Dollars are likely to increase. Uganda is not an exception to this.

Lastly, the anticipated depreciation in the Uganda shillings as a result of weakening of the current account balance is likely to raise the input cost for projects in the country, especially projects that rely on imported inputs. The rising inflation rates might heighten the cost of doing business in the country & increases input costs with a deteriorating effect on the balance sheets of most businesses. UDB will seek to intervene in areas that have the potential to double the value of Uganda's current export volumes.

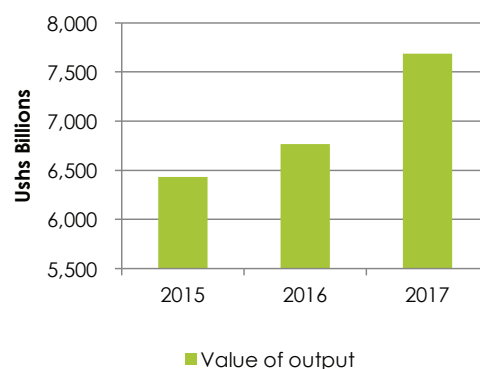
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Sustainability Report

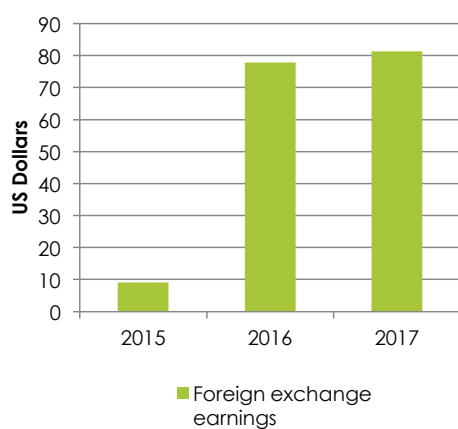
This report focuses on material sustainability areas that affect the long-term success of our business and that relate to any significant impacts we have on the economy, environment or communities in which we operate. It also focuses on issues that are important to our key stakeholders.

Key Sustainability Highlights

Value of output of UDB supported projects



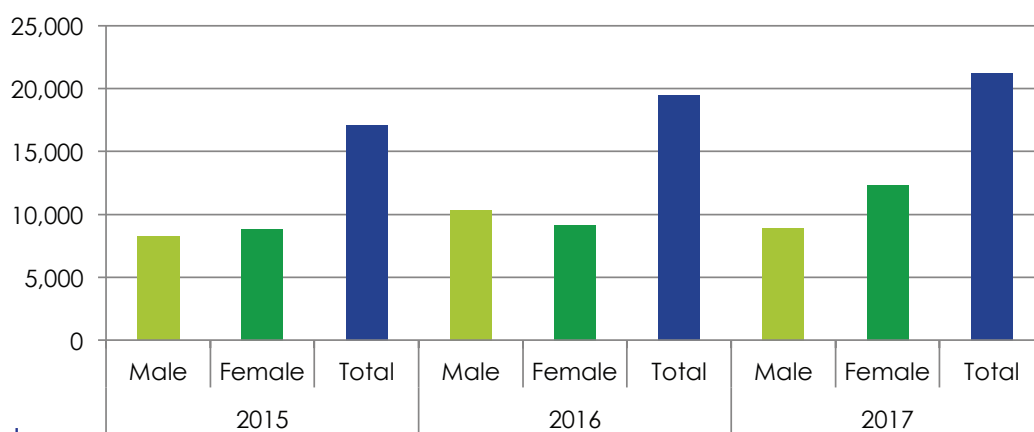
Foreign exchange earnings



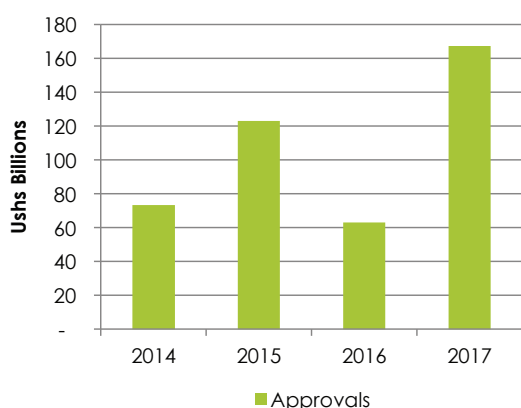
Tax Contributions of UDB supported projects



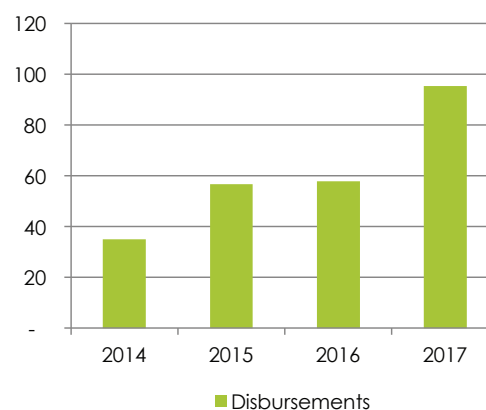
Jobs supported by UDB funded projects



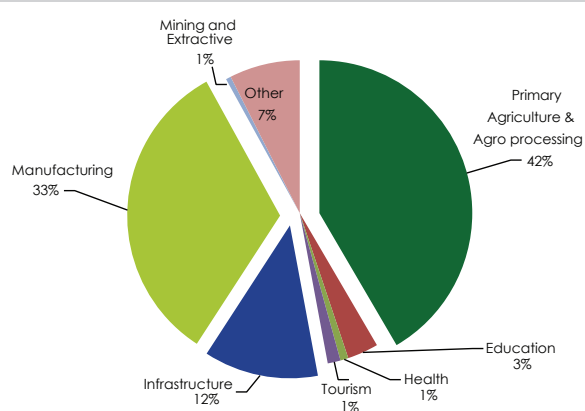
Approvals



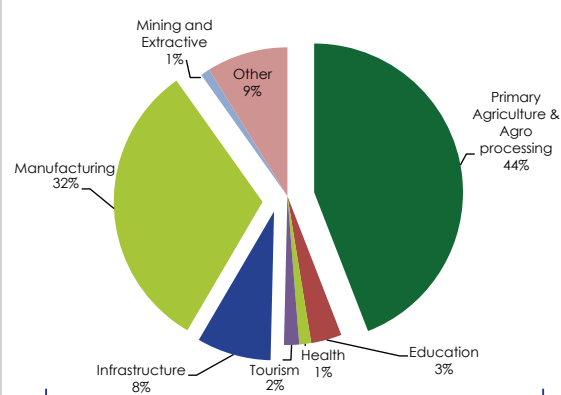
Disbursements



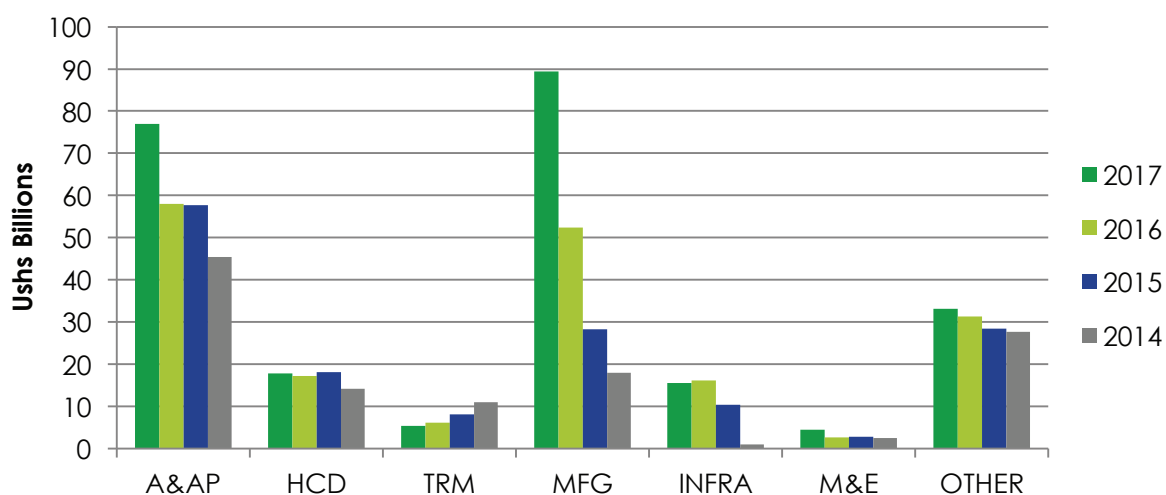
Sectoral distribution of Approvals



Sectoral distribution of Disbursements



Sectoral Exposures



A&AP: Agriculture & Agro-processing; HCD: Human Capital Development; TRM: Tourism; MFG: Manufacturing; INFRA: Infrastructure; M&E: Minerals and Extractives; OTHER: Sectors where the Bank is withdrawing its investment.

Sustainability Report

Uganda Development Bank (UDB) is a development finance institution, wholly owned by the Government of Uganda, with a mandate to promote sustainable socio-economic development through its financial products and services. It seeks to promote social and economic development by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects in Uganda.

In broad terms, UDB has a renewed vision of being the "Preferred and trusted development finance services provider for socio-economic development". More specific to its value proposition is its mission to "Accelerating socio-economic development through sustainable financial interventions" by providing access to affordable and long term financing and other tailored financial solutions to address priority sector constraints.

In fulfilling its mandate, UDB is guided by the Second National Development Plan (NDP II), applicable Ugandan laws and regulations, agreements with Development Partners, Association of African Development Finance Institutions (AADFI) prudential guidelines and local policies. The Bank also subscribes to the goals and targets of the United Nation's "Transforming our World: the 2030 Agenda for Sustainable Development". The priorities and sectors that the Bank finances are aligned to those of the Second National Development Plan (NDP II).

This report focuses on material sustainability areas that affect the long-term success of our business and that relate to any significant impacts we have on the economy, environment or communities in which we operate. It also focuses on issues that are important to our key stakeholders.

We have included a selection of case studies and a view of our estimated development impact to give the reader a sense of what we are seeking to achieve through our investments.

As a state-owned enterprise, it is important that the activities of the organisation are closely aligned to support key national imperatives. In this report we reflect on our contribution to the National Development Plan as well as the United Nations' recently adopted 17 Sustainable Development Goals (SDGs).

The following reports supplement this Sustainability Review:

- Our business model and strategy
- Corporate governance report
- Financial Sustainability report

MANAGEMENT APPROACH TO SUSTAINABILITY GOVERNANCE

The various governance bodies within UDB are responsible for ensuring that sustainability has the priority it deserves across the Bank. Sustainability considerations are embedded in each of the various Board committees as demonstrated by their mandates. UDB applies sound corporate governance structures and processes, which the Board considers pivotal to delivering sustainable growth in the interests of all stakeholders. The Bank's values and Code of Ethics underpin its governance structures and processes, committing the organisation to high standards of business integrity and ethics in all its activities. Governance structures and processes are reviewed regularly, and adapted to accommodate internal developments and reflect international best practice. For details on Corporate Governance, refer to page 18 to 36 of this annual report.

SUSTAINABILITY FRAMEWORK

The Bank uses various benchmarks and international frameworks such as the Global Reporting Initiatives (GRI) G4 guidelines for reporting purposes in addition to internal policies and procedures. The issues raised by our internal and external stakeholders in our day-to-day interactions are also taken into account. Accordingly, our report reflects the contribution

the Bank makes towards financial, economic, social and environmental development arising from the projects financed by the Bank.

MANAGING SUSTAINABILITY RISK AT PROJECT LEVEL

We recognise that sustainable socio-economic development is integrally connected to the sustainability of the environment and society.

As UDB, we are committed to investing in activities that enhance environmental protection measures, in compliance with the Ugandan environmental laws and international best practices pertaining, that avoid negative environmental and social impact on communities.

Accordingly, the Bank developed an Environmental and Social Management Framework to be used for screening of projects submitted for funding. The framework integrates E&S risk management into UDB's business processes. It will help the Bank to avoid transactions that may have significant environmental and social risks by conducting environmental and social economic due diligence prior to loan disbursement. It will also help the Bank to identify and manage E&S risks of the Bank's portfolio.

SOCIO-ECONOMIC DEVELOPMENT IMPACT CREATED

The Bank recognizes that Development Banks worldwide play a pivotal role in the development of countries. A Development Bank is able to contribute to the investments required to stimulate socio-economic development in the country. In spurring economic development, the Bank has made investments in the agriculture and agro processing sectors, hotel and tourism, education, health and manufacturing sectors among others. Below is an over view of our interventions in the key priority sectors and impact created.

I) SUPPORTING THE PRIMARY AGRICULTURE AND AGRO-PROCESSING SECTOR

Overview

Agriculture has been and remains central to Uganda's economic growth and poverty reduction. It is a major source of raw materials for the manufacturing sector, a market for non-agricultural output and a source of surplus for investment. Agriculture continues to be the largest employer of Uganda's labor force employing approximately 70 % across the whole value chain of agriculture. The sector has the potential to transform the economy of Uganda in general and that of specific sectors such as manufacturing and services.

Funding Activity

During the year, the Bank's approved funding increased by 82 % in 2017 to Ushs 73.4 billion from Ushs 40.4 billion in 2016. Ushs 47.8 billion was disbursed in 2017 compared to Ushs 19.5 billion in 2016. Total funding approved from 2014 to 2017 totaled Ushs 177 billion out of which Ushs 108 billion had been disbursed as at 31 December 2017.

UDB continues to support projects in agriculture across the value chain from primary production (inputs, post-harvest handling and land opening among others) to value addition. To this end, UDB enjoys designated lines of credit at concessional terms for this sector. The Bank of Uganda Agricultural Credit Facility (ACF) and the Kuwait Fund continue to be a major support in UDB's agricultural initiatives.

The Bank has made use of both the Apex and Group lending model, which has allowed thousands of small holder farmers across the country to enjoy modest but nonetheless critical credit that they would not have access to in conventional commercially oriented financial institutions. Under this model a lumpsum is granted to an intermediary financial institution or organised farmer group/society for onward lending to individual members or clients. The on-lent amounts can be as low as Ushs 2 million for an individual small farmer but may not exceed the Ushs equivalent of USD 25,000 per individual. This mode of lending leverages on the collective clout and competencies of the Apex body or Farmer group, which significantly de-risks transactions making them more attractive to the Bank.

Development outcomes

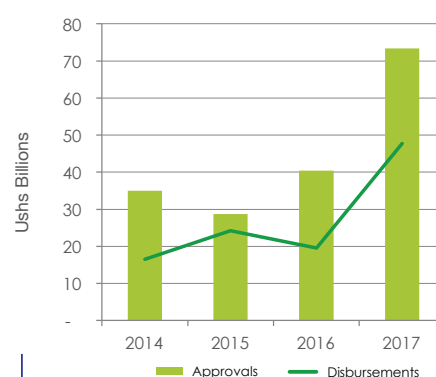
Interventions in this sector are expected to increase employment levels to 20,259 from 17,729 employees in 2017; value of output generated is expected to increase to Ushs 8.5 trillion with additional tax contributions of Ushs 208.2 billion to the economy.

Outlook

Our upcoming interventions in the value chain will focus on facilitating farmers' access to good quality inputs like pesticides, fertilizers through financing & collaboration with input dealers/ merchants/ agro-chemical manufacturers; supporting farmers access to improved seed variety and agro- chemicals; and undertake collaborative arrangement with research institutions and mandated agencies such as in UIRI, NARO, NAGRIC, NAADs and others to provide agricultural related solutions.

We are targeting Ushs 62.18 billion in investment in the value chain in 2018 financial year.

Primary agriculture and Agro-processing Funding Activity



2017 DEVELOPMENT OUTCOMES

VALUE OF OUTPUT

Ushs 7.23 tn

2016: Ushs 6.32 tn

TAX CONTRIBUTION

Ushs 177.1 bn

2016: Ushs 98.4 bn

JOBS CREATED

1,426

2016: 1,201

JOBS MAINTAINED

15,803

2016: 14,602

2017 FINANCIAL OUTCOMES

SIZE OF PORTFOLIO

Ushs 76.99 bn

2016: Ushs 57.99 bn

IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO

10%

2016: 10.9 %

Case Studies

ARISE AND SHINE MAIZE MILLERS

The anticipated benefits arising from UDB funding will include increase in daily production capacity from 40 MT to 60 MT per day; increase in grain handling capacity from 400 MT to 3,000 MT silos; and construction of modern factory ware house.



Arise and Shine Maize Millers before UDB Funding

Notwithstanding this success, the company has in the past faced operational challenges arising out of high electricity power consumption and costs due to the use of traditional hummer mill equipment fabricated from Katwe, poor/ inadequate storage space for maize grain and poor sanitation.

Through a UDB financing facility, the company is currently overhauling the existing local grain handling system to modern low power consuming grain processing technology from M/s Cimbria, Denmark, a leading supplier of grain processing equipment worldwide. The equipment is expected to

process 60 MT per day from 40 MT per day. The equipment financed by UDB also includes 3,000 MT silos up from handling capacity of 400MT, pre-cleaner, drier, destoner and sorter, Weigh Bridge and construction of modern factory ware house.

The company currently employs 24 permanent staff and 14 additional jobs are to be created upon project completion. However, the projects staffing needs exceed 100 personnel during the peak season. The project is an intervention to post-harvest losses and will further enhance food security in the Country. The silos will be able to store grain with same quality for a long period of time.

Arise and Shine Millers also collaborates with farmer cooperatives in Kiryandongo district for the supply of maize grain namely Nyamahasa and Bweyale Area Cooperative Enterprises. Bweyale is currently producing 9,000MT per season from 1,150 registered members while Nyamahasa has 1,350 registered members producing over 10,000MT per season.



Arise and Shine Maize Millers after UDB Funding



Silos under construction to provide storage capacity of 5,000MT.

KAPCHORWA COMMERCIAL FARMERS ASSOCIATION (KACOFA)

Socio-economic impact to be created from financing KACOFA will include increase in household income for over 6,000 small holder farmers, creating over 10,000 indirect jobs along the value chain, and contribute 13,500 MT of grain per annum to support food security.

Kapchorwa Commercial Farmers Association Ltd (KACOFA) was incorporated in 2006 and grew to comprise of 6,000 small holder supplier farmers with 2,000 acre nucleus farm for sorghum and maize production. Between 2006 to 2012 the association was the most productive farmer organisation in Eastern Uganda for sorghum and barley which were mainly grown for the breweries and residually for food. It was the biggest producer of grain and major single supplier of barley and sorghum to Uganda Breweries Limited. KACOFA was supplying up to 90% of the locally sourced raw material demanded by Uganda Breweries Ltd.

In 2013, the nucleus farm of 2,000 acres and its smallholders' farms totaling over 8,000 acres of white

sorghum were attacked by the quelea bird that destroyed all the sorghum. KACOFA lost over 8,000 MT of white sorghum worth over Ushs 4 billion. The disaster left the association with a huge debt of Ushs 6 billion. The significant loss made the association incapable of servicing its debt and the association lost some of its assets to the financiers, hence ceasing operations in 2014. Production at farmer level slumped to zero since farmers could not get inputs, extension services or market for output.

Since the 2013 quelea birds disaster, KACOFA had failed to secure funding for a bail out to revive its business until 2017

when it approached UDB. Given the significant socio economic importance of the project to Sebei sub-region and Uganda as whole, UDB took the decision to intervene and UDB advanced KACOFA a loan of Ushs 9.2 billion. The loan was used to buy off the existing debt of Ushs 6 billion hence rescuing the assets seized by the lenders. The loan was also used to finance the purchase of modern mechanization equipment for primary production; installation and operationalization of previously acquired equipment and machinery; construction of silos with storage capacity of 5,000 MT; purchase of quality inputs for the small holder farmers and the nucleus farm; and provision of crop finance to the smallholder farmers for expansion of bulking capacity.

The project is expected to have significant socio-economic impact including increasing household income for over 6,000 small holder farmers, creating over 10,000 indirect jobs along the value chain, contribute 13,500 MT of grain per annum to support food security as well as tax contribution to the Government.

II) SUPPORTING THE MANUFACTURING SECTOR

Overview

The manufacturing sector is characterized by limited value addition with very few capital goods industries and very low utilization of manufacturing capacity. This is further manifested in the absence of manufactured products in the export basket. The Government is therefore keen on diversifying the country's manufacturing sector. Government aims to promote sustainable industrialization and appropriate technology transfer and development and increase the sectors contribution to GDP to 24.5% in 2020.

Funding activity

During the year, the Bank's approved funding increased by 324 % in 2017 to Ushs 55.5 billion from Ushs 13.2 billion in 2016. Ushs 37.9 billion was disbursed in 2017 compared to Ushs 23.6 billion in 2016 representing a 61 % increase. Total funding approved from 2014 to 2017 totaled Ushs 140 billion out of which Ushs 77.7 billion had been disbursed as at 31 December 2017.

Notable among the beneficiaries was Kakira Sugar works, which commissioned a new USD 7 million ethanol plant, Steel and Tube Industries who were supported with approximately Ushs10 billion in working capital and Quality Plastics Ltd, who benefited from USD 5 million in asset finance for new process machinery.

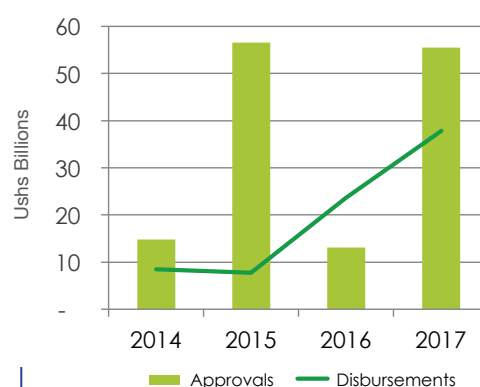
Development outcomes

The projects funded are expected to support 979 jobs in 2018 from 890 jobs in 2017; value of output is expected to increase to Ushs 59.27 billion from Ushs 53.9 billion and the sector is expected to contribute additional Ushs 18.2 billion in tax contribution.

Outlook

In 2018, the Bank has expectations of increasing funding to this sector with targeted new funding approvals of Ushs 62.17 billion. The Bank continue to seek to address key sector constraints such as the lack of competitively priced long term funding sources; stagnation of Uganda's export volumes by value; inadequate technical, production and management skills in industries and inadequate funding to promote commercialization of projects that have undergone successful incubation.

Manufacturing Sector Funding activity



2017 DEVELOPMENT OUTCOMES

VALUE OF OUTPUT

Ushs 53.89 bn

2016: Ushs 45 bn

TAX CONTRIBUTION

Ushs 16.53 bn

2016: Ushs 12.49 bn

JOBS CREATED

140

2016: 257

JOBS MAINTAINED

750

2016: 493

FOREIGN EARNINGS (USD)

USD 60.5 mn

2016: USD 56.2 mn

2017 FINANCIAL OUTCOMES

SIZE OF PORTFOLIO

Ushs 89.47 bn

2016: Ushs 52.33 bn

IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO

4.8%

2016: 5.6 %

Case Studies

CREST FOAM LIMITED

UDB provided financing to Crest Foam towards the restoration of the storage warehouses that were destroyed in the March 2015 inferno.



Notwithstanding the business success, Crest Foam has gone through a number of challenges. On 09 March 2015, fire gutted the foam factory in Ntinda Industrial Area resulting in death of 6 employees and approximately, a US\$ 2 million loss in assets.

UDB advanced a loan facility to the Company to construct warehouses that were destroyed in March 2015 inferno thereby providing additional space for work in progress/curing of foam blocks; conversion area dedicated to cutting, dressing and tailoring; storage of finished goods and procurement/installation of modern firefighting equipment.

Through UDB interventions, the Company is expected to maintain the existing 129 jobs, continue to contribute towards the tax revenues for Government, earn the country foreign exchange from export of mattresses to neighboring countries as well as support small business that act as agents of the company.

ALFILL MILLERS

Alfil Millers (U) Ltd is engaged in wheat processing and prior to UDB financing, it had a plant with daily production capacity of 100MT. UDB provided financing for an additional capacity of 180 MT.



The company produces a premium range of Wheat Flour, Bakery Flours, Bran and Animal feed products.

During 2017, the Bank financed the purchase of an additional mill for processing wheat with a capacity of 180 tons per day. This has brought the total installed capacity to 280MT per

day. The project is expected to create an additional 40 jobs and will also contribute towards the tax revenues of government through the increased production capacity, as well as earn the country foreign exchange through exportation of goods to neighbouring countries.



III) SUPPORTING HUMAN CAPITAL DEVELOPMENT

Over view

Under the NDPII, Human Capital Development is one of the key fundamentals that need to be strengthened to accelerate the country's transformation and harnessing of the demographic dividend. Key areas under this priority are education and health where key interventions have been identified to help drive growth in these areas.

In recognition of the fact that government is already heavily involved through other agencies in primary and secondary education through UPE and USE, the focus in education during the year was on tertiary institutions, particularly those with a vocational skills component. A gap was identified in the possession of appropriate skills on leaving formal education and UDB has undertaken to support efforts towards bridging this gap.

Funding activity

During the year, the Bank's approved funding increased by 8 % in 2017 to Ushs 6 billion from Ushs 5.5 billion in 2016. Ushs 2.1 billion was disbursed in 2017 compared to Ushs 0.84 billion in 2016. Total funding approved from 2014 to 2017 totaled Ushs 17.6 billion out of which Ushs 11.3 billion had been disbursed as at 31 December 2017.

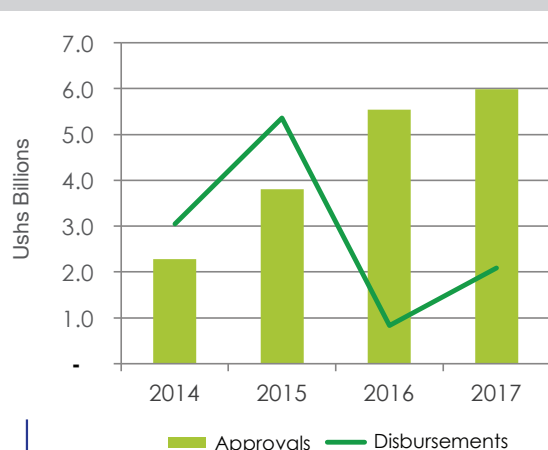
Development outcomes

The projects funded are expected to support 3,963 jobs in 2018; the sector is expected to contribute additional Ushs 7.2 billion in tax contribution; students enrolled are expected to increase to 22,932 from 11,291; and number of patients accessing medical services is expected to increase to 481,435.

Outlook

In 2018, the Bank has expectations of increasing funding to this sector with targeted new funding approvals of Ushs 45.86 billion. The Bank will continue to seek to address key sector constraints such as inadequate support to the Implementation of Skilling Uganda Strategy; Undeveloped educational infrastructure that impacts on the quality & access to educational services and Limited skills of Women & Youth that limits their active participation in gainful economic activities.

Human Capital Development Funding activity



2017 DEVELOPMENT OUTCOMES

EDUCATION

VALUE OF OUTPUT

Ushs 54.36 bn

2016: Ushs 53.75 bn

TAX CONTRIBUTION

Ushs 1.53 bn

2016: Ushs 1.5 bn

JOBS CREATED

57

2016: 337

JOBS MAINTAINED

956

2016: 619

NUMBER OF STUDENTS

11,291

2016: 10,768

HEALTH

VALUE OF OUTPUT

Ushs 201 bn

2016: Ushs 197.46 bn

TAX CONTRIBUTION

Ushs -

2016: Ushs 2.01 bn

JOBS CREATED

48

2016: 314

JOBS MAINTAINED

890

2016: 576

FOREIGN EARNINGS

USD 8.52 mn

2016: USD 8.41 mn

ACCESS TO HEALTH SERVICES

237,041

2016: 235,561

2017 FINANCIAL OUTCOMES

SIZE OF PORTFOLIO

Ushs 17.81 bn

2016: Ushs 17.12 bn

IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO -

10.2%

2016: 10.8 %

IV) SUPPORTING THE TOURISM SECTOR

Overview

Under the NDP II, tourism is one of the sectors identified with great growth potential yet to be exploited. The sector has been prioritized given the fact that the required investments for the sector are low relative to the potential returns and it needs to be enhanced by government and private sector. Tourism is fast replacing traditional crop exports as a key foreign exchange earner.

In this regard UDB has sought to support development of infrastructure especially in the main tourist belts of the country, namely regions bordering national parks or thoroughfares to main tourist attractions. The sector is growing and the Bank's intervention has been relatively modest in the last 3 years, at less than 5 % of the gross loan book. Efforts are being made to reverse that trend.

Funding activity

In 2018, the Bank's approved funding was Ushs 0.9 billion compared to Ushs 0.3 billion in 2016. Ushs 0.3 billion was disbursed in 2017 similar to that disbursed in 2016. Total funding approved from 2014 to 2017 totaled Ushs 5.8 billion out of which Ushs 4 billion had been disbursed as at 31 December 2017.

In this regard, in the year ended 2017, the Bank identified Kigambira Luxury Tented Camp in Lake Mburo National Reserve as a worthwhile intervention. The project received Ushs 880 million to develop an eco-friendly lodging facility on the fringes of the national park. It was noted that accommodation facilities are lacking in this region and the few there are prohibitively priced. The project has so far drawn Ushs 532 million and implementation is proceeding on schedule.

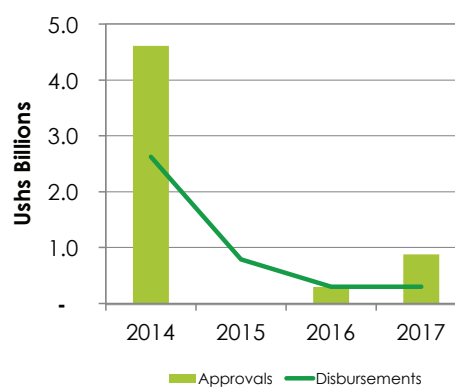
Development outcomes

Investment in this sector is expected to support 1,537 jobs, increase foreign exchange earned by the country and tax contributions to the country.

Outlook

In 2018, the Bank will significantly increase funding to this sector with targeted new funding approvals of Ushs 29.55 billion. The funding will go towards addressing key sector constraints of lack of professionalism and skills i.e. lack of practical skills by workers in tourism sector; poor tourism infrastructure i.e. inadequate transport infrastructure and poor transport facilities; and inadequate accommodation facilities.

Tourism Sector Funding Activity



2017 DEVELOPMENT OUTCOMES

VALUE OF OUTPUT

**Ushs
57.45 bn**

2016: Ushs 56.79 bn

TAX CONTRIBUTION

**Ushs
2.13 bn**

2016: Ushs 1.9 bn

JOBS CREATED

39

2016: 188

JOBS MAINTAINED

419

2016: 231

NUMBER OF TOURISTS

9,478

2016: 9,144

2017 FINANCIAL OUTCOMES

SIZE OF PORTFOLIO

**Ushs
5.34 bn**

2016: Ushs 6.07 bn

IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO

9.4%

2016: 8.6 %

V) SUPPORTING THE INFRASTRUCTURE SECTOR

Overview

Government is responsible for creating conducive economic environment through investing in infrastructure (i.e. transport, energy, ICT, water for production infrastructure; and oil and gas related infrastructure), promoting and regulating the business environment. Over the medium term, Uganda's focus is on enhancing competitiveness of the economy which requires lowering the cost of doing business and increasing productivity. Therefore infrastructure development in Uganda has been prioritized as a major source of growth for key priority sectors of the economy in form of creating an enabling environment as guided by NDP II.

Funding activity

The Bank approved funding of Ushs 31.3 billion in 2017. Total funding approved from 2014 to 2017 totaled Ushs 51.6 billion out of which Ushs 19.7 billion had been disbursed as at 31 December 2017.

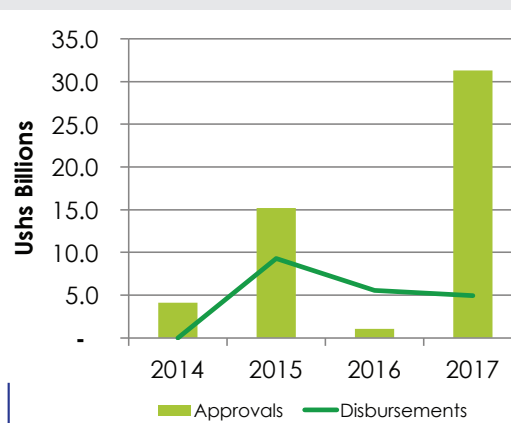
Development outcomes

Through the Bank's interventions in supporting local content, the investments in this sector are expected to create employment, increase tax contribution to government and overall contribute towards creating a conducive environment for doing business.

Outlook

The Bank in 2018 anticipates generating new funding approval of Ushs 16.4 billion towards addressing the lack of capacity in local companies to support local content in the Infrastructure development projects in the country; and limited power generation capacity in the country leading to high energy cost. Financial support will be given to local content in the construction of major infrastructure projects in the sector such as the Standard Gauge Railway (SGR). The Bank will also support the construction of small hydropower, through syndication as well as projects that focus on exploitation of abundant renewable energy sources.

Infrastructure sector funding activity



Case Studies

KIGAMBIRA LUXURY TENTED CAMP

The project is expected to earn at least USD 1.5 million in revenue during the loan term. More than 50 jobs have been instantly created during the construction phase with 40 openings to be created permanently upon project completion.



The company is currently setting up a luxurious tourist resort/camp within L. Mbuho National Park on a 15 years' concession from government (Uganda Wildlife Authority, UWA) to operate a hotel facility in the park on 5 acres alongside the lake. The project is estimated to cost Ushs 1.44 billion. UDB approved a facility to finance the construction of the hotel premises.

The sector is the highest foreign exchange earner of the economy and government has prioritised it

in NDPII as a sector that will push Uganda to middle income status. The project is expected to earn at least USD 1.5 million in revenue during the loan term. More than 50 jobs have been instantly created during the construction phase with 40 openings to be created permanently upon project completion. The project will also create market for service providers/suppliers of relevant goods and services. The hotel is also expected to contribute tax revenue of Ushs 2.89 billion over the five years.

The project will create market for food crops around the neighbouring community and create a multiplier effect for business in the district. There is also anticipated increase in the park's entrance fees, 20 % of which will be used to fund local community projects such as building clinics and schools for communities around the national park.

MUTI-TECH BUSINESS SCHOOL

The Bank provided funding to MBS to facilitate the completion of civil works and procure furniture and equipment for its Kampala campus. The school, with the aid of UDB funding, is providing much needed vocational skills to augment government efforts.

Multi-tech Business School (MBS), was incorporated in May 2002. It began as a business college best known for providing tuition for professional ac-



counting courses. It has since grown to a fully-fledged tertiary institution registered by the National Council of Higher Education, offering certificate, diploma and undergraduate degrees with a career and vocational bias. However it has maintained its business courses namely accountancy, procurement and ICT.

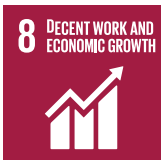
UDB advanced a loan facility to complete civil works and procure furniture and equipment for its Kampala campus. At the time of UDB's intervention the school was in need of additional classroom and laboratory space to accommodate a growing number of students. Civil works on 2 levels of classroom and administration space had stalled due to limited funding. The school was also in need of specialised equipment for radio and broadcast students, computers, furniture and sound address system among others.

The school has an enrolment of over 1,000 students across its three campuses in Kampala, Kakiri and Hoima. Plans were underway to transform the Kakiri campus into a vocational skills centre offering tailoring and nursing courses. The school, with the aid of UDB funding, is providing much needed vocational skills to augment government efforts.

UDBs role in supporting the Sustainable Development goals

The United Nations adopted 17 Sustainable Development Goals (SDGs) to shape a development agenda until 2030. The Bank has adopted the SDGs and it has identified five of these goals where its activities will have a direct impact. The Bank's activities are also linked to the objectives of the National Development Plan (NDP).

THE TABLE ILLUSTRATES UDB'S SECTOR FOCUS RELATIVE TO THE SDG OUTCOMES:

	SDG outcome	UDB Sector Focus
	End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	Agriculture and Agro-processing
	Ensure healthy lives and promote well-being for all at all ages.	Human Capital Development
	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	Human Capital Development
	Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.	Manufacturing, Agriculture and Agro-processing
	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation as well as biodiversity loss.	Agriculture –(Forestry)



Uganda Development Bank Inspires Development through Supporting Innovations and Start-up Enterprises.

Uganda Development Bank Limited (UDB), developed a medium term strategy for the Bank to reposition itself as a partner to the Government of Uganda in driving sustainable socio-economic development in the country. The plan was designed to address the growing demand for credit with specific emphasis on green fields. In order to achieve this, the Bank introduced an annual Innovation Award in partnership with Makerere University School of Public Health-Resilient Africa Network (RAN) dubbed the "UDB i-Growth Accelerator", an initiative that will foster innovation through the recognition, promotion, reward and acceleration of outstanding innovations.

i-Growth Accelerator is aimed at facilitating sustainable growth of the economy by supporting commercialization of local start-ups and stimulating a culture of innovation in Uganda.

More specifically, the UDB Innovation Awards (UIA) aim to:

- 1) Identify, recognize and accelerate outstanding innovative start-ups and support them to commercialization
- 2) To inspire, stimulate and create a culture of innovation and entrepreneurship by nurturing creativity from an early age.
- 3) To link successful ventures to investment opportunities that will support their scaling

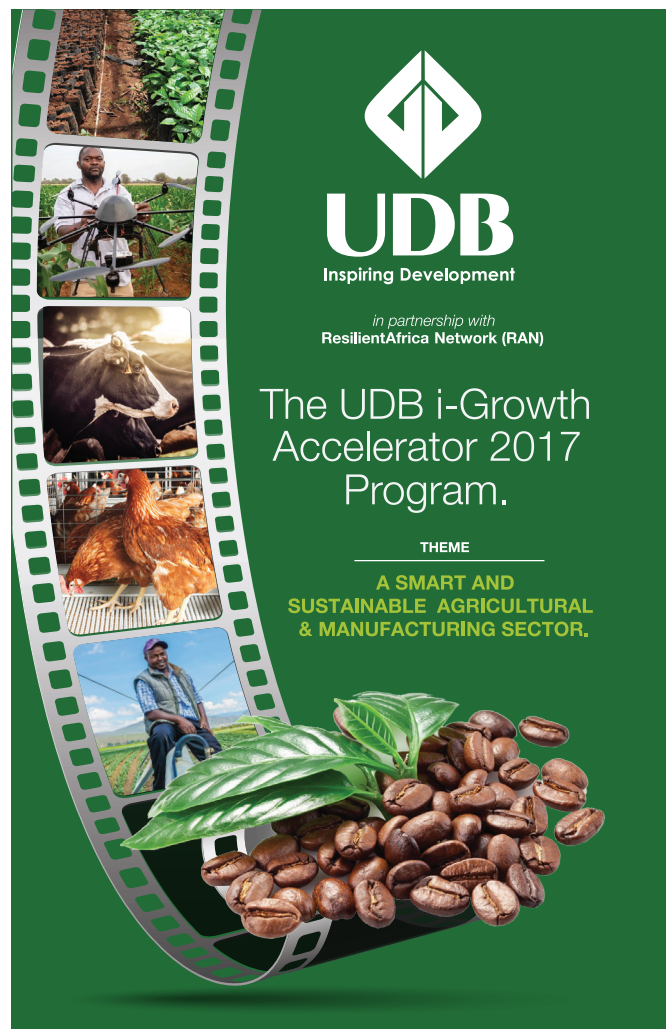
On 25th November 2017, UDB launched the i-Growth Accelerator Program 2017, an annual initiative that would support individuals to grow and expand their start-up enterprises focused in the Agriculture and Manufacturing sectors under the theme; 'Towards a Smart and Sustainable Agricultural and Manufacturing Sector'.

The program was opened up to individuals, youth groups, community based organisations, vocational institutes, students, and young entrepreneurs involved in projects that demonstrated transformative interventions in the form of 'solutions' or 'technologies'. Additionally, successful projects included those that portrayed attributes of regional, national and community-level scalability, creation of employment opportunities, multi-sectorial collaboration, and environmental conservation. Other aspects that would be considered were; originality of the idea, business sustainability, clear implementation plan, cost effectiveness and a clear competitive advantage of the solution.

The awards ceremony was held in January 2018.



(L-R) Chief Executive Officer UDB Patricia Ojangole, Professor William Bazeyo (RAN), Dr. Dorothy Okello (RAN) during the Press launch of the 2017 i-Growth Accelerator Program.



Financial Sustainability

For a detailed discussion on the Bank's financial performance, please refer to the financial review on page 59 of this annual report.

As a Bank operating within the Ugandan economy and whose mandate is pivotal in promoting socio-economic development in this country, we must ensure that we operate in a sustainable way. This will therefore allow us to pay dividends

to our shareholders, salaries to our employees, tax to the Ugandan government as well as support local businesses through the procurement of goods and services.

Below is the Bank's value added statement which indicates the wealth that UDB creates through its activities for our key stakeholders, being the shareholder, employees, development partners and suppliers. It also illustrates how much we re-

invest for future growth. The value added is calculated as the Bank's revenue performance minus payments such as cost of services, depreciation and amortization. The resulting amount is distributed to the stakeholders who include employees, shareholders, community investments and government.

The total wealth created by the bank in 2017 was Ushs 30.3 billion as shown in the value added statement below.

	2017	%	2016	%
	Ushs '000		Ushs '000	
Interest income	21,987,003		17,759,909	
Interest expense	(1,044,783)		(272,782)	
Wealth created from operations	20,942,220		17,487,127	
Foreign exchange gains	27,857		1,035,409	
Fee and commission income	932,242		919,849	
Other income	8,412,317		5,657,841	
Total wealth created	30,314,636	100	25,100,226	100
Distribution of wealth				
Retained for growth	8,306,247	27	6,449,237	25
Employees	7,631,124	25	7,276,886	29
Government	3,569,344	12	2,644,320	11
Suppliers	6,464,485	21	4,177,511	17
Impairment loss on financial assets	3,865,375	13	4,116,233	16
Depreciation and amortisation	478,061	2	436,039	2
Total wealth distributed	30,314,636	100	25,100,226	100

Corporate Social Responsibility and Transformation

UDB understands the importance of Corporate Social Responsibility (CSR) and recognises it as a tool to strengthen its relationships while contributing to society at the same time. In 2017, we continued to demonstrate our commitments to transform lives in communities through the following initiatives:-

a) UDB contributed towards the buying of Life Jackets for Bwama Primary School located on Bwama Island to be used by students while crossing Lake Bunyoni.

b) UDB staff participated in the MTN Marathon as a contribution towards the purchase of Mulago Cancer Institute Machine.

c) Our own Daphne Twinomucunguzi worked with staff to raise funds to save Kayla Ruvuza's life so that she could live like any other normal child. Staff also participated in car wash that was held on the 13th -August -2017 at Philp Omondi Stadium Behind Shop-rite lugogo.

d) The Bank donated Ushs 5 million towards the Rotary Club for building a Blood Bank in Mengo Hospital

e) UDB sponsored the 5th Annual East Africa Waste Management Conference hosted by National Environment Management Authority (NEMA) from 24th -25th of August at Protea Hotel, geared towards the sustainable waste management.

Education

UDB understands and contribute its responsibility towards the society, giving back to the people is indeed what fetches our glory and empathy.



UDB contributed towards the buying of Life Jackets for Bwama Primary School located on Bwama Island to be used by students while crossing Lake Bunyoni.

Helping the Vulnerable children

UDB sponsored two deaf boys and three deaf girls in Masaka School for deaf who were currently being denied education due to poverty, stigma and ignorance in their communities and families, to attend school. This donation is not just making a

financial contribution to an educational institute for deaf children, but we are confirming that deaf children are born with the same capabilities for learning, and they should be supported to reach their full potential.

Environment

The environment is important to all life on earth, not just wildlife; we humans depend on it for our very survival as well. This may be hard to visualize because of how we have structured our living space today. UDB sponsored the 5th Annual Eastern Africa Waste Management Conference hosted by National Environment Management Authority (NEMA) from 24th -25th of August at Protea Hotel. This conference brought together stakeholders in the waste management sector to discuss and share best practices by contributing to the sustainable development of Uganda and East African in general.



Clinton Mawanda, Marketing & Corporate Communication Manager UDB addresses the press team during the launch of the 5th Annual East Africa Waste Management Conference.

A Day at Angel's Center for Children with Special Needs



thankfully acknowledged the support from UDB. "Raising a child with special needs is a heart breaking scenario that emotionally drains families in the struggle to see that children meet their development milestones. There is a lot of judgment and opinion on how families are raising these children and stigma within the communities." She narrated. There were several testimonies of children who attend Angel's Center.

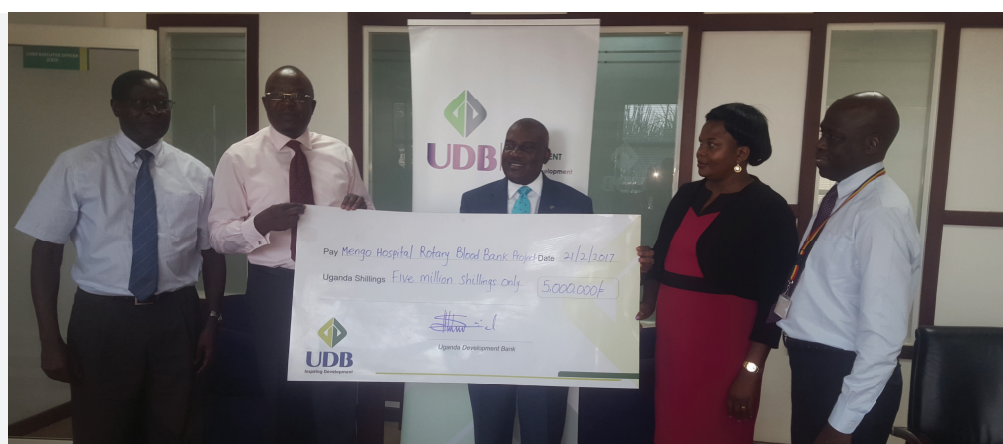
As part of the fulfillment of our CSR mandate, among other things, we focused on less privileged children and tried to make a contribution towards them becoming productive members of the communities they were previously a burden to.

Angels Centre is a Non-Governmental

Organization that takes care of children with special needs dealing with physical and mental challenges which include but are not limited to; downs syndrome, autism, hydrocephalus and cerebral palsy. The center is located in Nansana along Hoima Road. The Director of the center, Madam Rosemary Namboozee



UDB Staff hand over gifts to the Director of Angel's Centre for children with special needs.



UDB Board Members led by the Chairman Dr. Samuel Seijaaka officiates a cheque worth Ushs 5 mn to the Rotary Club in the campaign of building a Blood Bank in Mengo Hospital



UDB Staff participated in the MTN Marathon as a contribution towards the purchase of Mulago Cancer Institute Machine.



Financial Sustainability

Financial sustainability remains a priority for the Bank in its efforts to drive socio-economic development in the Country.

Five year extract from the Bank's annual financial statements

Financial Statistics		2017	2016	2015	2014	2013
Ushs millions						
Statement of Comprehensive Income						
	Gross Interest on loans	21,987	17,759	16,339	11,220	11,090
	Net Interest and fee Income	21,874	18,406	16,966	11,657	11,579
	Net impairment loss on financial assets	(3,865)	(3,315)	(4,572)	(2,737)	(3,188)
	Written off Loans	-	(801)	(6,871)	-	-
	Non-Interest Income	8,440	6,693	9,005	7,790	1,972
	Operating expenses	(14,573)	(11,890)	(11,750)	(9,764)	(9,741)
	Profit before income tax	11,876	9,093	2,778	6,946	622
	Profit for the year	8,306	6,449	1,911	4,868	515
Statement of Financial Position						
	Loans and advances (Net)	224,286	168,798	141,547	108,888	96,744
	Balances with other banks	29,797	11,904	12,132	21,685	13,474
	Investment properties	32,800	30,200	29,100	29,100	28,500
	Total assets	297,471	226,427	205,557	169,939	146,889
	Capital and reserves	204,448	156,541	141,548	126,606	108,299
	Total liabilities	93,023	69,886	64,009	43,333	38,590
Statement of cash flow						
	Cash flow used in operating activities	(39,900)	(8,289)	(41,735)	(7,847)	(29,260)
	Net cash (used in)/ generated from investing activities	(16,112)	3,079	6,716	(9,565)	10,914
	Net cash generated from financing activities	58,234	7,095	17,293	17,293	10,790
Key financial ratios						
	Yield on interest bearing instruments	10.3 %	10.7 %	11.6 %	9.6 %	11.4 %
	Net interest income margin	95 %	98 %	99 %	100 %	99 %
	Cost income ratio (without impairment)	48 %	47 %	45 %	50 %	71 %
	Cost income ratio (with impairment)	61 %	64 %	89 %	63 %	95 %
	Return on assets	3 %	3 %	1 %	3 %	0.4 %
	Return on equity	5 %	4 %	1 %	4 %	0.5 %
	Loan impairment ratio	7.6 %	8.0 %	7.9 %	8.8 %	8.6 %
	Debt equity ratio	38 %	36 %	38 %	28 %	28 %

The Bank remained as a going concern and despite the economic conditions that prevailed during the year, the Bank managed to improve its financial performance compared to 2016. Profit for the year increased by 29 % from Ushs 6.4 billion in 2016 to Ushs 8.3 billion in 2017 on the back of growth in funding and capitalisation

of the Bank as well as increase in loan disbursements to development projects.

Financial sustainability remains a priority for the Bank in its efforts to drive socio-economic development in the Country. For the foreseeable future, the Bank plans to raise sufficient

funding through a combination of Government of Uganda Capital Contribution, debt, and internally generated funds to invest in new developmental loans into the economy. Credit Risk Management including resultant impairment for loan loss will also continue to be key in ensuring our financial sustainability.

Ensuring Financial Sustainability

A brief review of the financial performance of the Bank compared to the previous year is as follows:

Interest and Fee Income

The bank's net interest and fee income increased by 18.8% to Ushs 21.9 billion from Ushs 18.41 billion in 2016. Interest and similar income grew by Ushs 4.2 billion in 2017 as a result of a 32% growth in the gross loans and advances.

Interest expense and similar charges also increased by 283% to Ushs 1.04 billion from Ushs 0.272 billion in 2016 as a result of 115% increase in borrowings arising from new lines of credit of US\$ 26 million secured by the bank during the year.

Other Income

Other income grew by 22.8% to Ushs 5.6 billion from Ushs 4.6 billion in 2016. Other income includes Ushs 1.2 billion of previously written off loans recovered during the year.

Net Impairment Loss and write off of loans and advances

The impairment charge on the loan portfolio increased by 16.6% in 2017, equivalent to Ushs 0.55bn, mostly due to collective impairment arising from the 32% growth in the gross loans and advances. However, there was a reduction in the specific impairment provisions due to improvement in the quality of the book which saw the Non-Performing Assets (NPA) ratio reduce from 19% in 2016 to 15.4% in 2017.

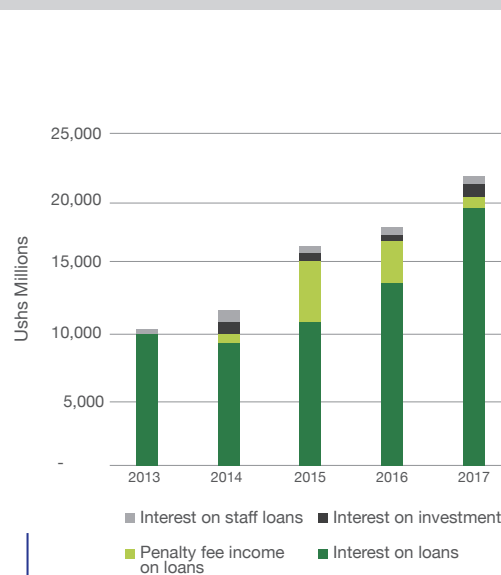
Operating expenses

Operating expenses increased by 23% to Ushs 14.6 billion in 2017 from Ushs 11.9 billion in 2016 majorly due to the costs of the Institutional Development Study carried out by International Financial Consulting (IFC) during the year. The Bank continues to manage its costs to ensure financial sustainability. The cost-to-income ratio with impairment improved to 61% from 64% in 2016 while that without impairment slightly edged up to 48% from 47% in 2016.

STRENGTHENING THE FINANCIAL POSITION OF THE BANK

The bank's total assets increased by 31% to Ushs 297 billion on the back of increase in the Government of Uganda capital contribution as well as draw down of approved lines of credit. Below is a brief review of the Bank's major assets and liabilities and how they impacted the performance above:-

Interest and Similar Income



Borrowings from development partners

These comprise of lines of credit sourced from other Development Financial Institutions (DFI's) for the sole purpose of supporting the development mandate of the Bank. During the year, the Bank secured new lines of credit totaling US\$ 26 million (approximately Ushs 93.6 billion) from the Arab Bank for Africa Economic Development and from The Islamic Development Bank (IDB). The Bank drew down Ushs 20.4 billion which was used in supplementing existing funding to grow the loan book. The draw downs gave rise to growth in borrowings by 115% to Ushs 36.1 billion from Ushs 16.8 billion in 2016.

Government of Uganda capital contribution

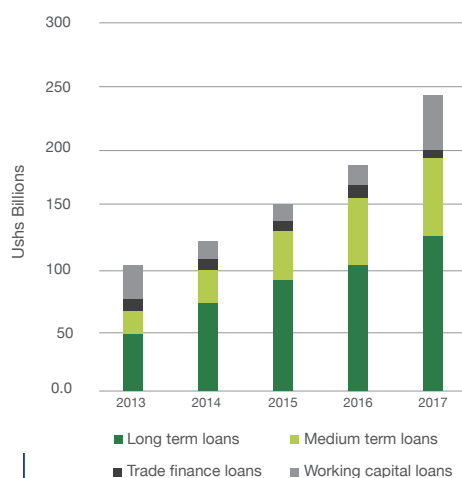
The Bank received additional capital contribution from the Government of Ushs 32.5 billion in 2017 compared to Ushs 8.5 billion in 2016. This gave rise to a 319% increase in total capital contribution in 2017 to Ushs 52 billion from Ushs 12.4 billion in 2016. The additional contribution was pivotal in the growth of the loan book registered during the year.

Gross Loans and Advances

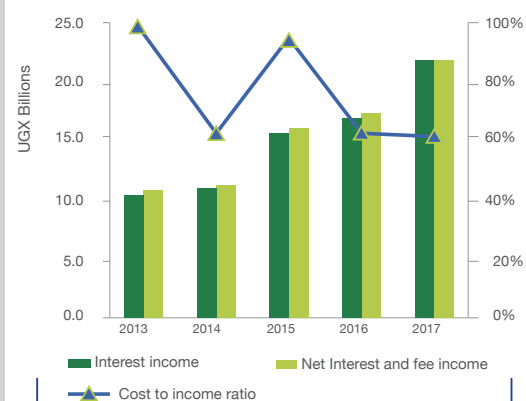
Gross loan and advances rose by Ushs 59.1 billion (32%) during the year compared to a growth of Ushs 29.8 billion (19%) in 2016. Ushs 95.27 billion was disbursed to projects in 2017 compared to Ushs 57.7 billion in 2016 representing a 65% growth in disbursements. The growth in loans and advances was supported by the growth in the funding base of the Bank as described above, in addition to the capital and interest repayments and the internal profits.

Key Performance Indicators

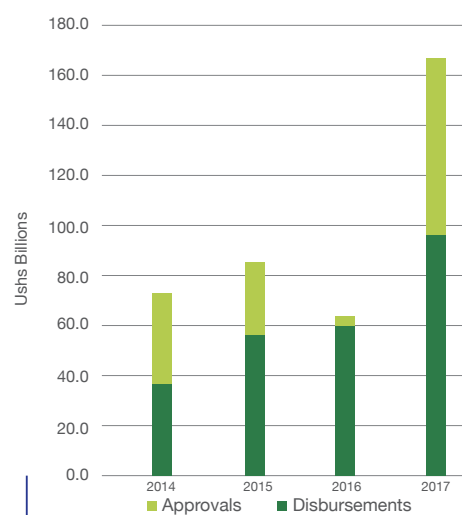
Loan Portfolio growth



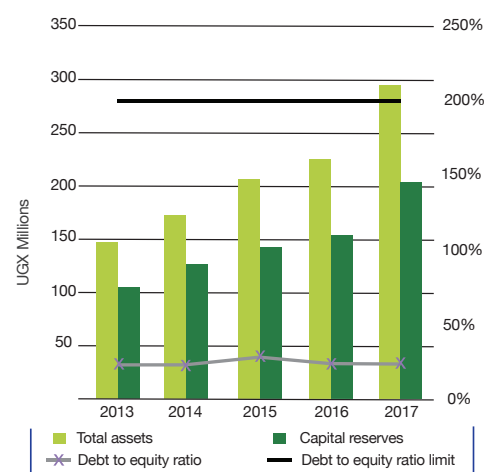
Interest and net interest Income vs cost-to-income ratio



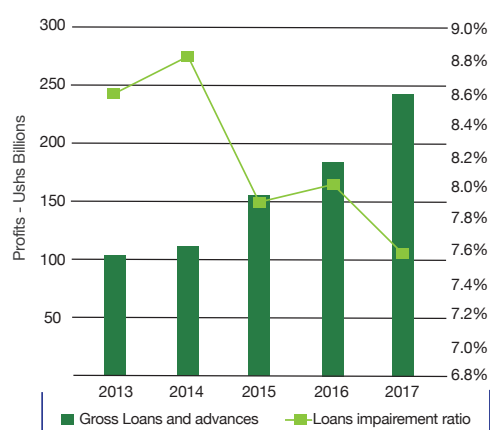
Approvals Vs. Disbursements



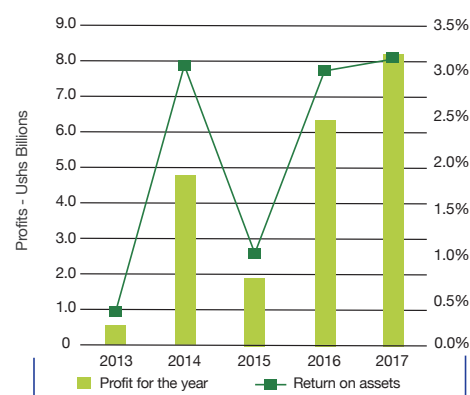
Balance Sheet growth vs debt/equity ratio



Gross loans vs loan impairment vs NPA Ratio



Return on assets





Human Capital

At UDB, we deliberately invest in making the Bank a career- rewarding and great place to work. In tandem with our Human Capital Strategy, we recruit the very talented individuals, and in a congenial environment, provide them opportunities to learn, thrive and grow.

Our People

At the heart of every organization that is truly focused in delivering its strategic aspirations and assuring its long term sustainability, lies its people

– The Human Capital.

The HR Department, in liaison with line management, stands at the forefront of truncating the overarching organizational objectives and aligning these with individual staff objectives, thereby assisting the staff and organization to focus only on what is wildly important.

At UDB, we pride ourselves in deliberately creating a working environment that supports every member of staff to make their own individual contribution to the overall goals of the Bank, remain productive, learn, flourish and grow.

Our diverse Employee Value Proposition (EVP) supports the staff to grow in both their career and personal lives. Our EVP is grounded on:

- Cultivating a supportive and congenial culture
- Nurturing a learning organization
- Supporting career progression
- Appropriate total rewards and compensation commensurate to responsibility and individual contribution;
- Leveraging on our unique and compelling corporate philosophy and mandate.

Against this backdrop, the Bank continues not only to grow but also to make very meaningful contributions to the lives and livelihoods of Ugandans in general.



Staff Training, Learning & Development

At UDB, we firmly believe that for staff

to be most productive in their roles, they must be adequately skilled, empowered and supported to do their jobs. In result, the Bank devotes substantial resources in supporting staff to develop business-critical skills as well as those competencies that are most relevant to their jobs, currently and in the future.

During the course of 2017, the bank achieved an average of 8-leaner days per staff, sponsored staff to attend over 30 training programs, 5 professional certifications among other interventions.

To complement these programs, the Bank has partnered with other Development Financial Institutions (DFI's) and DFI Associations within and outside Africa, that provide technical support and knowledge transfer especially in the technical areas of development financing. These strategic partners among others include the Development Bank of South Africa (DBSA), the Industrial Development Corporation (IDC), SME Bank of Malaysia, the Association of African Development Financial Institutions (AADFI), and the Association of Development Finance Institutions in Member Countries of the Islamic Development Bank (ADFI), among others.

In 2017 alone, 10 staff participated in various the learning attachments and exposure opportunities.

Leadership Development

The Bank participates in various leadership development programs as a means of enhancing the quality of its leaders and Managers, with the ultimate aim of strengthening the foundation that supports strategy execution, change management and navigation, and to sustain improved organizational performance.

The programs include the CEO Apprenticeship Program (CAP) administered in collaboration with the CEO Summit Uganda & Strathmore Business School and the Senior Management Leadership Development Program (SMLD). During the course of the year, 1 staff graduated from the CAP while 3 other emerging managers also participated in other leadership programs.



Our Headcount:
At 31st December 2017, the Bank had 49 staff (full-time), all Ugandans; including 27 (or 55 %) males and 22 females.



The Bank offers a unique employment proposition with a strong purpose.

People and processes

In order to both deliver on existing commitments and responsibly develop actions to address new requirements, we need to have the right staff with the right capabilities, in the right roles, managed by the right leadership.

The growth required to achieve this carries significant operational risk as well as business risk if a delay in adding resources causes the Bank to miss delivery deadlines for core programmes and policies, particularly where significant new features must be developed and implemented.

Our differentiators:

The employee experience

- Strong purpose
- Commercial FS and public sector mix
- Interesting work Values based culture
- Make a major impact
- Transform Ugandan economy
- Broad roles
- Senior stakeholders
- Accountability
- Flexibility
- Exposure to government



Employee engagement activities

Employee Wellness Program (EWP)

In a bid to support staff live more productive lives, the Bank implemented the Employee Wellness Program; the aim of which is to support staff be healthier (body and mind) by encouraging them to exercise more regularly, feed right, be more aware of their individual health status and knowledgeable about emerging lifestyle risks and diseases. The activities implemented under this program included health talks on topical lifestyle risks, physical activities and specialist medical check-ups.



Staff working out during the Bank's 2017 wellness program.



Staff Participate in the 2017 UDB Mini-Marathon



John Emoi, overall winner at the Wellness Day receives a reward

Employee Engagement Activities



1 The CEO, Patricia Ojangole, hands over a cheque of Ushs 750,000 to the Development Finance Team as a token of appreciation for exceeding their Q1 2017 targets.

2 The CEO acting as a flight captain issuing boarding passes to staff during the launch of "Flight 206", an internal staff productivity campaign.

3 A member staff (Michael Nangoli) makes his commitment to Flight 206.

4 Staff during the training of 4 Disciplines of Execution.

AT UDB, WE
DELIBERATELY
INVEST IN
MAKING
THE BANK
A CAREER-
REWARDING
AND GREAT
PLACE TO
WORK

Organizational Review

As a learning organization, UDB strives to incessantly improve itself by reforming itself and aligning with emerging and best market practices.

Through the year 2017, UDB embarked on a journey to a review its operations vis-à-vis its mandate, operating environment and long term aspirations. In result, the Bank contracted the services of International Financial Consulting Ltd (IFCL) to undertake an organization-wide review of its governance structure

and operating environment, including its internal processes, systems and people, among other aspects.

Following from the organizational review, the Bank, with input from Management, staff, Board, IFCL and various stakeholders, then adopted various organizational enhancement initiatives ranging from the strategic outlook of the Bank, its governance and funding structures, the organizational design, and a new range of policies and processes.

Emanating from this process, the Bank formulated a new strategic plan for the 5-year period 2018-2022 that seeks to further entrench the contribution of UDB in the socio-economic transformation of Uganda. Further, the Bank will in 2018 implement the new organizational structure as well as the revised policies, processes and practices, all geared at making the Bank much more efficient whilst delivering its mandate.



UDB Staff during one of the many sessions held with IFCL to discuss the Organisational enhancement initiatives and future strategic direction of the Bank.

Financial Statements

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TELEPHONE

General Lines: +256 - 41 - 7336000
Auditor General: +256 - 41 - 7336004 Sec.

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:.....

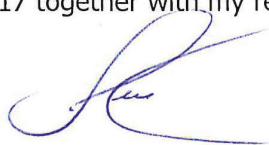
FIIT.48/354/02/17

29th March, 2018

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 2017

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 2017 together with my report and opinion thereon.



John F. S. Muwanga
AUDITOR GENERAL

Copy to: 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

Company Information

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
Dr. Stephen.R. Isabalija	Director
Mr. Nimrod Waniale	Director
Mrs. Silvia AngeyUfoyuru	Director
Mr. Henry Balwanyi Magino	Director
Mr. Johh Byaruhanga	Director <i>(From June 2017)</i>
Mr. Charles Byaruhanga	Director <i>(Jan - May 2017)</i>

SECRETARY

Mr. Elewa Apamaku
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

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

Report of the Directors

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 2017, 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:

	2017	2016
	Ushs '000	Ushs '000
Profit before tax	11,875,591	9,093,557
Income tax expense	<u>(3,569,344)</u>	<u>(2,644,320)</u>
Profit for the year	<u>8,306,247</u>	<u>6,449,237</u>

4. RESERVES

The reserves of the Bank are set out on page 14.

5. DIVIDENDS

The directors do not recommend the payment of a dividend in respect for the year ended 31 December 2017 (2016: 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 the Bank will incur a loss

because its customers or counterparties fail to discharge their contractual obligations. 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 that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and other prices, such as equity 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 note 4 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 2016, 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 86 % 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 2017, 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 28 February 2018.

By order of the Board,



 Ag. Company Secretary

Statement of Directors' Responsibilities

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 28 February 2018 and signed on its behalf by:


 Chairperson
 Feb 28, 2018


 Director
 28 February 2018

FOR THE YEAR ENDED 31 DECEMBER 2017

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF

UGANDA DEVELOPMENT BANK LIMITED

FOR THE YEAR ENDED 31ST DECEMBER 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the financial statements of Uganda Development Bank Limited set out on pages 12 to 74, which comprise the statement of financial position as at 31st December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Uganda Development Bank Limited as at 31st December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in my Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Bank in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing audits of Uganda Development Bank Limited. I have fulfilled my other ethical responsibilities in accordance with the IFAC Code, and in accordance with other ethical requirements applicable to performing the audit of Uganda Development Bank Limited. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon,

FOR THE YEAR ENDED 31 DECEMBER 2017

and I do not provide a separate opinion on these matters. For the matter below, my description of how the audit addressed it is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report, including in relation to these matters. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risks of material misstatement of the financial statements. The results of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter was addressed in the audit
Impairment of Loans and Advances	
Approximately 75% of the bank's total assets comprise loans and advances to customers.	I evaluated the key controls over the approval, recording and monitoring of loans and advances.
At each reporting date, the Bank assesses its loans and advances for impairment in accordance with IAS 39 Financial Instruments: Recognition and Measurement, which requires the amount of loss to be measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate.	I determined, for a sample of loans, whether the key judgments made were appropriate given the borrowers' circumstances. The key judgements I evaluated include whether the Bank's assumptions on the expected future cash flows, including the value of realisable collateral, was based on up to date valuations and available market information.
Assessment for impairment is a subjective area due to the level of judgment required in determining whether a loss event has occurred and use of assumptions by management in estimating the amount and timing of future cash flows. There is a risk that the assumptions used may be inappropriate and hence the estimated impairment loss may be inadequate.	I tested the completeness and accuracy of the underlying loan data used in the impairment calculation by agreeing details to the Bank's source documents on a sample basis.
Due to the significance of loans and advances and the related estimation process, this was considered a key audit matter.	For individually impaired loans, I recalculated management's provision amount to check for arithmetical accuracy.
I also considered the disclosures of these items which are included in notes 20 and 21 to the financial statements to be important to the users' understanding of the financial statements.	For the unidentified impairment, I re-computed the general provisions applied against respective loan categories for a sample of loans, based on the Bank's policy.
	I reviewed the presentation and disclosure of the matter regarding the loan provisions and the related risks such as credit risk, liquidity risk and the aging of the loans and advances.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of Uganda, 2012.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

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

Responsibilities of the Directors 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 for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also;

FOR THE YEAR ENDED 31 DECEMBER 2017

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

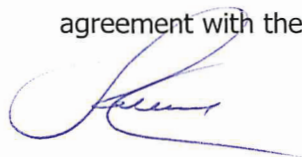
I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit. I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Report on Other Legal Requirements

As required by the Companies Act of Uganda, 2012, 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 purposes of my audit;

- (ii) In my opinion, proper books of account have been kept by the Bank so far as appears from my examination of those books; and
- (iii) The Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.



John F. S. Muwanga
AUDITOR GENERAL
28th March, 2018

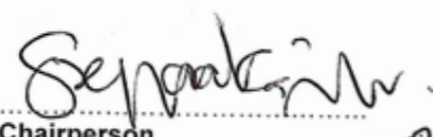
Statement of Comprehensive Income for the year ended 31 December 2017

	Note	2017	2016
		Ushs '000	Ushs '000
Interest and similar income	8	21,987,003	17,759,909
Interest expense and similar charges	9	<u>(1,044,783)</u>	<u>(272,782)</u>
Net interest income		20,942,220	17,487,127
Fee and commission income		<u>932,242</u>	<u>919,849</u>
Net interest and fee income		21,874,462	18,406,976
Net foreign exchange gains	10	27,857	1,035,409
Fair value gains on investment property	22	2,600,000	1,100,000
Net gain/(loss) on financial assets recorded at fair value through profit or loss	19	170,366	(36,367)
Other income	11	5,641,951	4,594,205
Net impairment loss on loans and advances	20(e)	(3,865,375)	(3,315,633)
Written off loans		<u>-</u>	<u>(800,600)</u>
Operating income after impairment losses		26,449,261	20,983,993
Personnel expenses	12	(7,631,124)	(7,276,886)
Depreciation and amortisation	23, 24	(478,061)	(436,039)
Other operating expenses	13	<u>(6,464,485)</u>	<u>(4,177,511)</u>
Profit before tax	14	11,875,591	9,093,557
Income tax expense	16(a)	<u>(3,569,344)</u>	<u>(2,644,320)</u>
Profit for the year		8,306,247	6,449,237
Other comprehensive income, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income net of tax		8,306,247	6,449,237
Basic/diluted earnings per share	15	83.06	64.49

Statement of the Financial Position as at 31 December 2017

	Note	2017	2016
		Ushs '000	Ushs '000
ASSETS			
Cash and cash equivalents	17	7,234,004	4,984,744
Deposits held in banks	18	22,563,078	6,919,893
Equity investments at fair value	19	343,925	173,559
Loans and advances	20	224,286,442	168,798,158
Staff loans and advances	21	3,068,290	2,622,532
Current income tax recoverable	16(b)	196,722	-
Investment property	22	32,800,000	30,200,000
Property and equipment	23	2,800,452	2,873,520
Intangible assets	24	638,922	468,697
Other assets	25	<u>3,539,629</u>	<u>9,386,140</u>
Total assets		<u>297,471,464</u>	<u>226,427,243</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	31	100,000,000	100,000,000
Asset revaluation reserve		294,700	294,700
GOU capital contributions	32	52,017,077	12,415,774
Retained earnings		<u>52,137,057</u>	<u>43,830,810</u>
Total equity		<u>204,448,834</u>	<u>156,541,284</u>
Liabilities			
Amounts due to Bank of Uganda	26	13,055,418	11,242,259
Borrowings	27	36,143,511	16,797,855
Kuwait Special Fund	28	29,339,519	28,365,633
Deferred income tax liability	29	6,016,873	5,967,856
Current income tax payable	16(b)	-	13,169
Other liabilities	30	<u>8,467,309</u>	<u>7,499,187</u>
		<u>93,022,630</u>	<u>69,885,959</u>
Total equity and liabilities		<u>297,471,464</u>	<u>226,427,243</u>

The financial statements were approved by the Board of Directors on 28 February 2018 and signed on its behalf by:


Chairperson
Feb 28, 2018


Director

Statement of **Changes in Equity** for the year ended 31 December 2017

		Share	GOU	Asset	Retained	
	Note	capital	capital	revaluation	earnings	Total
		Ushs '000	Contribu- tions Ushs '000	Reserve* Ushs '000	Ushs '000	Ushs '000
At 1 January 2016		83,123,443	20,749,144	294,700	37,381,573	141,548,860
Total comprehensive in- come for the year		-	-	-	6,449,237	6,449,237
Contributions by equity holders						
GoU capital contributions	32	-	8,543,187	-	-	8,543,187
Issue of shares	31	16,876,557	(16,876,557)	-	-	-
At 31 December 2016		100,000,000	12,415,774	294,700	43,830,810	156,541,284
At 1 January 2017		100,000,000	12,415,774	294,700	43,830,810	156,541,284
Total comprehensive in- come for the year		-	-	-	8,306,247	8,306,247
Contributions by equity holders						
GoU capital contributions	32	-	39,601,303	-	-	39,601,303
At 31 December 2017		100,000,000	52,017,077	294,700	52,137,057	204,448,834

*The asset revaluation reserve is a non-distributable reserve for accumulated gains arising from the revaluation of the Bank's land and buildings. The last revaluation 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.

Statement of Cash Flows

for the year ended 31 December 2017

		2017	2016
OPERATING ACTIVITIES	Note	Ushs '000	Ushs '000
Profit before taxation		11,875,591	9,093,557
Adjustments for:			
Unrealised foreign exchange loss on borrowings		1,480,830	1,563,666
Depreciation	23	167,200	155,865
Amortisation of intangible assets	24	310,861	280,174
Write-back of accelerated amortisation	24	(108,643)	-
Write-off of fixed assets	23	3,080	11,781
Loss/(gain) on disposal of property and equipment		-	(5,390)
Impairment loss on staff and customer loans and advances	20 (e)	3,865,375	3,315,633
Net unrealised exchange gains		(27,857)	(1,035,409)
Fair value gain on Investment properties	22	(2,600,000)	(1,100,000)
Fair value (gain)/loss on equity investments	19	(170,366)	36,367
Interest expense on borrowings	9	<u>1,044,784</u>	<u>272,782</u>
Operating profit before changes in operating assets and liabilities		15,840,855	12,589,026
Changes in operating assets and liabilities			
Increase in loans and advances		(59,353,659)	(30,565,803)
Decrease in other assets		5,846,511	5,935,552
Increase in other liabilities		968,122	3,267,713
Increase in staff loans and advances		(445,758)	(501,511)
Increase in amounts due to the Kuwait Fund	28	<u>973,886</u>	<u>1,746,528</u>
Cash used in operations		(36,170,043)	(7,528,495)
Income tax paid	16	<u>(3,730,218)</u>	<u>(761,133)</u>
Net cash flows used in operating activities		<u>(39,900,261)</u>	<u>(8,289,628)</u>
INVESTING ACTIVITIES			
Acquisition of property and equipment	23	(97,212)	(74,275)
Acquisition of intangible assets	24	(372,443)	-
Proceeds from sale of property and equipment		-	5,390
Movement in deposits held in Banks		<u>(15,643,185)</u>	<u>3,147,978</u>
Net cash flows (used in) / generated from investing activities		<u>(16,112,840)</u>	<u>3,079,093</u>
FINANCING ACTIVITIES			
Proceeds of amounts due to Bank of Uganda	26	2,746,120	875,239
Repayments of amounts due to Bank of Uganda	26	(932,961)	(1,024,177)
Proceeds from borrowings	27	20,369,940	-
Repayment of borrowings	27	(3,549,898)	(1,299,099)
Contributions from the Government of Uganda	32	<u>39,601,303</u>	<u>8,543,187</u>
Net cash flows generated from financing activities		<u>58,234,504</u>	<u>7,095,150</u>
Increase in cash and cash equivalents		2,221,403	1,884,615
Net foreign exchange difference		27,857	1,035,409
Cash and cash equivalents at 1 January		<u>4,984,744</u>	<u>2,064,720</u>
Cash and cash equivalents at 31 December	17	<u>7,234,004</u>	<u>4,984,744</u>

Notes to the Financial Statements for the year ended 31 December 2017

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 Ltd
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 preparation

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
- Freehold land and buildings

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 translation

The financial statements are presented in Uganda shillings (Ushs), which is also the functional currency of the entity. Transactions in foreign currencies are initially recorded in the functional currency at the spot exchange rates ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date.

All translation gains and losses arising on non-trading activities are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or

loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

b) Revenue recognition

(i) Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at FVPL, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in profit or loss. The calculation takes into account all of the contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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. The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry.

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) Dividend income

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

(v) Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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 tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax

assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Current tax and deferred tax relating to items recognised directly in other comprehensive income or equity are also recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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, equity investments at fair value 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 intention and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale, and

do not meet the definition of loans and receivables.

- 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, and are classified as loans and receivables. Loans and receivables 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

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired Or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) the Bank has transferred substantially all the risks and rewards of the asset, or

(b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(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 currently enforceable legal right to set off the recognised amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Bank did not offset any financial assets and liabilities during the year.

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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
Or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their

economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank's determines the policies and procedures for both recurring fair value measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the Bank.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

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

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, and do not meet the definition of loans and receivables.

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 assets fair value;
- sales or reclassifications after the Bank has collected substantially all of the assets 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 amount, 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.

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 after every 3 years 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.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity.

However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus. The revaluation surplus is transferred to retained earnings upon derecognition of the asset to which it relates.

(ii) Subsequent costs

Subsequent expenditure on an asset is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank and the expenditure improves the condition of the asset beyond its previously assessed standard of performance. 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.

(iv) Impairment

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 asset. 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 of disposal 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.

(v) Derecognition

An item of property or equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

i) Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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.

The intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

k) Share capital

Ordinary shares 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.

Other Long term Employee benefits

iv. Service gratuity

Gratuity expenses are accrued for staff whose contracts contain gratuity benefits in specific contributions as specified by their contracts and payments made after the contract term has elapsed.

m) Contingent liabilities and commitments

The Bank enters into various irrevocable commitments and contingent liabilities in order to meet the financial needs of its customers. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and therefore, form part of the overall risk of the Bank.

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.

o) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For all assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years.

The Bank did not need to record any impairment loss for its non-financial assets during the reporting period.

p) Accounting for leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and involves an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether or not the arrangement conveys a right to use the asset.

Finance leases

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item to the lessee are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Where a finance lease results from a sale and lease back transaction, any excess of the sale proceeds over the carrying amount of the asset is deferred and amortised over the lease term.

Capitalised leased assets are depreciated over the shorter of the estimated useful lives of the assets, or the lease term if there is no reasonable certainty that the company will obtain ownership by the end of the lease term.

Operating leases

Operating leases are all leases that are not finance leases. Operating lease payments are recognised as expenses in the profit or loss on the straight line basis over the lease term.

Leases in which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

q) Kuwait Special Fund

The Bank manages these funds in trust on behalf of the Government of Uganda. The funds are recorded as a liability on receipt of the funds and the corresponding entries are recorded under cash and bank balances or loans and advances to customers.

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. When the grant relates to an expense item it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

r) New and amended standards and interpretations

The Bank applied for the first time certain amendments to the standards which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including

both changes from cash flows and non-cash changes (such as foreign exchange gains or losses). The Bank has provided the information for both the current and comparative period in notes 26, 27 and 32.

Changes from the following new or revised standards and interpretations, amendments to existing standards and interpretations and improvements to IFRSs that were effective for the current reporting period did not have material impact on the accounting policies, financial position or performance of the Bank.

- IAS 12: Recognition of Deferred Tax Assets for Unrealised losses (Effective 1 January 2017)
- Annual Improvements 2014 - 2016 Cycle
- IFRS 12 Disclosure of interests in other entities – Clarification of the scope of the disclosure requirements in IFRS 12.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are described below. This description is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective. The Bank expects that adoption of these standards, amendments and interpretations will in most cases not have significant impact on the Bank's financial position or performance in the period of initial application. In cases where it will have an impact, the Bank is still assessing the possible impact as indicated below.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, 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 the new standard on the required effective date using the full retrospective method.

The Bank has no significant revenue generating contracts with customers that are not within the scope of IFRS 9 and therefore no significant impact is expected.

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.

s) New and amended standards and interpretations

The Bank plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Bank has performed an impact

assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank will adopt IFRS 9. 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 an increase in the loss allowance resulting in a negative impact on equity within the range of Ushs 4 billion to Ushs 10 billion. In addition, the Bank will implement changes in classification of certain financial instruments.

(a) Classification and measurement

The Bank does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held at fair value through profit or loss with gains and losses recorded in profit or loss will continue to be recorded in profit or loss, and, therefore, the application of IFRS 9 will not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Bank analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

b) Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment

methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- the contractual cash flows that are due to the Bank under the contract, and
- The cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

The Bank will group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below | :

- Stage 1 – Performing loans: when loans are first recognised, the Bank will recognise an allowance based on 12-month expected credit losses.
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, the Bank will record an allowance for the lifetime expected credit loss.
- Stage 3 – Impaired loans: the Bank will recognise the lifetime expected credit losses for these loans.

In addition, in Stage 3 the Bank will accrue interest income on the amortised cost of the loan net of allowances.

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

c) Transition Impact

The Bank will adopt the new standard on the required effective date using the modified retrospective transition approach.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition,

measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two

types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the bank will continue to assess the potential effect of IFRS 16 on its financial statements. Other amendments issued but not yet effective which the Bank does not expect to have an impact on its financial statements are listed below:

- Transfers of Investment Property – Amendments to IAS 40 (Effective 1 January 2018)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions Amendments to IFRS 2 (Effective 1 January 2018).
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28.
- IFRS 17 Insurance Contracts
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for

first time adopters

- AIP IFRS 3 Business Combinations – Previously held interests in a joint operation (effective 1 January 2019)
- AIP IFRS 11 Joint Arrangements – Previously held interests in a joint operation (effective 1 January 2019)
- AIP IAS 23 Borrowing costs – Borrowings costs eligible for capitalisation (effective 1 January 2019)
- AIP IAS 12 Income taxes – Income taxes consequences of payments on financial instruments classified as equity.
- AIP IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective 1 January 2018)
- Prepayment features with Negative Compensation – Amendment to IFRS 9 (effective 1 January 2019)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations (effective 1 January 2018)
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)
- Long-term interests in Associates and Joint Ventures – Amendments to IAS 28.
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendment to IFRS 4 (effective 1 January 2018)

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 Bank's Audit and Risk 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. The Bank's policy is that risk management processes are audited by the internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures.

Internal Audit discusses the results of its assessment with management and reports its findings and recommendations to the Audit and Governance committee. The Board Assets and Liabilities Committee is responsible for managing its assets and liabilities and the overall financial structure. It is also responsible for the funding and liquidity risks of the Bank. Concentrations arise when a number of counterparties are engaged in similar business

activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

The bank's financial instruments by category are indicated below:

	2017			2016		
	Loans and receivables	Fair value through profit or loss	Total	Loans and receivables	Fair value through profit or loss	Total
	Ushs '000	Ushs'000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Financial assets						
Cash and cash equivalents	7,234,004	-	7,234,004	4,984,744	-	4,984,744
Equity investments	-	343,925	343,925	-	173,559	173,559
Deposits held in banks	22,563,078	-	22,563,078	6,919,893	-	6,919,893
Staff loans and advances	3,068,290	-	3,068,290	2,622,532	-	2,622,532
Other assets (excluding non-financial assets)	1,475,195	-	1,475,195	7,373,265	-	7,373,265
Loans and advances	224,286,442	-	224,286,442	168,798,158	-	168,798,158
Total financial assets	258,627,009	343,925	258,970,934	190,698,592	173,559	190,872,151
	Financial liabilities at amortised cost		Total	Financial liabilities at amortised cost		Total
	Ushs '000		Ushs '000	Ushs '000		Ushs '000
Amounts due to Bank of Uganda	13,055,418	-	13,055,418	11,242,259	-	11,242,259
Other liabilities	5,565,550	-	5,565,550	5,336,553	-	5,336,553
Borrowings	36,143,511	-	36,143,511	16,797,855	-	16,797,855
Kuwait Special Fund	29,339,519	-	29,339,519	28,365,633	-	28,365,633
Total financial liabilities	84,103,998	-	84,103,998	61,742,300	-	61,742,300

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 deposits with banks, loans and advances to customers, staff loans and other assets.

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.

Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Impaired loans and advances

Impaired loans and advances are those 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).

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio in accordance with the requirements 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 20 (loans and advances).

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

	2017	2016
	Ushs '000	Ushs '000
Bank balances (Note 17)	7,234,004	4,984,744
Deposits held in other banks (note 18)	22,563,078	6,919,893
Loans and advances to customers (Note 20)	224,286,442	168,798,158
Staff loans and advances (Note 21)	3,068,290	2,622,532
Other assets	<u>1,475,195</u>	<u>7,250,882</u>
	<u>258,627,009</u>	<u>190,576,209</u>

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 31 December 2016 without taking into account any collateral held. The exposures are based on carrying amounts as reported

in the statement of financial position.

86% (2016: 87%) of the total maximum exposure is derived from loans and advances to customers. Investment in fixed deposits represents 8% (2016: 4%) of the maximum exposure.

Loans and advances are secured by collateral mainly in the form of charges over land and buildings or personal/other guarantees. The market sale value of the collateral held as at 31 December 2017 is Ushs 729 billion (2016: Ushs 518 billion).

Loans and advances	2017	2016
	Ushs '000	Ushs '000
Individually impaired:		
Gross amount	38,507,529	68,644,187
Allowance for impairment	(10,368,959)	(8,037,128)
Carrying amount	<u>28,138,570</u>	<u>60,607,059</u>
Collectively impaired:		
Gross amount	204,149,518	114,843,686
Allowance for impairment	(8,001,646)	(6,652,587)
Carrying amount	<u>196,147,872</u>	<u>108,191,099</u>
Total carrying amount	<u>224,286,442</u>	<u>168,798,158</u>
	2017	2016
	Ushs '000	Ushs '000
Collectively impaired analysed as follows:		
Past due but not impaired:	79,230,942	36,788,539
Neither past due nor impaired	<u>116,916,930</u>	<u>71,402,560</u>
Total carrying amount	<u>196,147,872</u>	<u>108,191,099</u>
Neither past due nor impaired have zero days in arrears.		
Loans that are past due but not impaired:		
	2017	2016
	Ushs '000	Ushs '000
Past due up to 29 days	28,955,329	22,397,570
Past due 30 - 59 days	33,523,577	4,464,815
Past due 60 -179 days (Only term loans)	<u>16,752,036</u>	<u>9,926,154</u>
	<u>79,230,942</u>	<u>36,788,539</u>

Credit quality by class of financial assets

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross (before provision for impairment).

31 December 2017						
		Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
		High grade	Standard grade			
Financial assets	Note	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Bank balances	17	7,234,004	-	-	-	7,234,004
Fixed deposits	18	22,563,078	-	-	-	22,563,078
Loans and advances to customers	20	116,916,930	-	87,232,588	38,507,529	242,657,047
Staff loans and advances	21	4,401,445	-	-	1,293,673	5,695,118

31 December 2016						
		Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
		High grade	Standard grade			
Financial assets	Note	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Bank balances	17	4,984,744	-	-	-	4,984,744
Fixed deposits	18	22,563,078	-	-	-	22,563,078
Loans and advances to customers	20	71,402,560	-	43,441,126	68,644,187	183,487,873
Staff loans and advances	21	2,622,532	-	-	1,109,188	3,731,720
Other assets		7,250,882	-	-	-	7,250,882
		206,219,394	-	6,652,587	9,146,316	222,018,297

b) Market risks

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

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.

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

Interest rate risk arises from the possibility that changes in interest

rates will affect future cash flows or the fair values of financial instruments.

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 on financial instruments with variable interest rates;
- 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 table below sets out the impact on future net interest income of an incremental 10 % parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2017.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below:

	10 % fall in interest rates		10 % rise in interest rates	
	Effect of profit before tax	Effect on equity	Effect of profit before tax	Effect on equity
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 31 December 2017				
Profit before income tax	<u>36,056</u>	<u>36,056</u>	<u>(36,056)</u>	<u>(36,056)</u>

End of day positions are marked to market daily. The intra-day positions are managed by treasury/dealing room through stop loss/dealer's limits.

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	Ush '000	Ush '000
31 December 2017					
Financial assets					
Held to maturity investments	22,563,078	-	-	-	22,563,078
Loans and advances	35,399,540	46,460,253	70,523,430	71,903,219	224,286,442
Staff loans and advances	<u>80,128</u>	<u>592,975</u>	<u>1,417,958</u>	<u>977,229</u>	<u>3,068,290</u>
Total financial assets	<u>58,042,746</u>	<u>47,053,228</u>	<u>71,941,388</u>	<u>72,880,448</u>	<u>249,917,810</u>
Financial liabilities					
Borrowings	<u>7,995,151</u>	-	-	<u>28,148,360</u>	<u>36,143,511</u>
Total financial liabilities	<u>7,995,151</u>	<u>-</u>	<u>-</u>	<u>28,148,360</u>	<u>36,143,511</u>
Interest sensitivity gap	50,047,595	47,053,228	71,941,388	44,732,088	213,774,229
31 December 2016					
Total financial assets	32,370,295	31,290,917	62,182,145	52,497,226	178,340,583
Total financial liabilities	<u>505,259</u>	<u>625,049</u>	-	<u>15,667,547</u>	<u>16,797,855</u>
Interest sensitivity gap	<u>31,865,036</u>	<u>30,665,868</u>	<u>62,182,145</u>	<u>36,829,679</u>	<u>161,542,728</u>

(ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. 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 table below sets out the impact on future earnings of an incremental 10 % parallel fall or rise in all foreign denominated balances as at 31 December 2017.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below:

	10 % Depreciation		10 % Appreciation	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
GBP	(500)	(500)	500	500
EUR	(33)	(33)	33	33
USD	(277,118)	(277,118)	277,118	277,118
Total	(277,651)	(277,651)	277,651	277,651

The Bank's currency position is as follows:

	Uganda shillings	US Dollars	Euro	GBP	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
31 December 2017					
Financial assets					
Cash and cash equivalents	5,997,340	1,236,664	-	-	7,234,004
Deposits held in banks	13,059,838	9,503,240	-	-	22,563,078
Staff loans and advances	3,068,290	-	-	-	3,068,290
Other assets (excluding non-financial assets)	1,078,183	392,203	-	4,809	1,475,195
Loans and advances	171,459,009	52,827,433	-	-	224,286,442
Total financial assets	194,662,660	63,959,540	-	4,809	258,627,009
Financial liabilities					
Amounts due to Bank of Uganda	13,055,418	-	-	-	13,055,418
Other liabilities	3,580,941	1,978,974	326	5,309	5,565,550
Borrowings	-	36,143,511	-	-	36,143,511
Kuwait special fund	-	29,339,519	-	-	29,339,519
Total financial liabilities	16,636,359	67,462,004	326	5,309	84,103,998
Net currency position	178,026,301	(3,502,464)	(326)	(500)	174,523,011
31 December 2016					
Total financial assets	121,406,586	68,743,201	548,805	-	190,698,592
Total financial liabilities	17,953,203	45,394,165	548,530	9,306	63,904,934
Net currency position	103,453,383	23,349,036	275	(9,306)	126,793,658

(iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. 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 344 million. An increase and a decrease of 10 % in the share prices could have the following impact on the statement of comprehensive income:

	Change	Effect on profit before tax	
Year-end share price		2017	2016
		Ushs '000	Ushs '000
KENGEN	+10 %	663	128
Uganda Clays Ltd	+10 %	29,427	12,177
The New Vision Ltd	+10 %	1,993	5,051
KENGEN	-10 %	(663)	(128)
Uganda Clays Ltd	-10 %	(29,427)	(12,177)
The New Vision Ltd	-10 %	(1,993)	(5,051)

iv) Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall. If 10 % of repayable financial instruments were to prepay at the beginning of the year following the reported period, with all other variables held constant, the profit before tax for the year would be reduced by Ushs 36 million.

Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms.

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.

Source of funding

The Bank maintains a diversified and stable funding base comprising the core retail and corporate customers in addition to the nascent institutional banking component. The Bank borrows from other International Development Banks and periodic funding from the Government of Uganda.

Management of the liquidity risk

The Bank's approach of managing liquidity is to ensure that as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation.

In order to manage liquidity risk, the Bank invests its surplus reserves in time deposits with maturities concentrated in short term maturity of one to three months

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

	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 2017								
Financial assets								
Cash and cash equivalents	7,234,004	-	-	-	-	-	-	7,234,004
Deposits held in banks	22,563,078	-	-	-	-	-	-	22,563,078
Loans and advances	19,994,323	422,533	2,604,667	20,564,012	24,034,311	87,795,918	122,132,525	277,548,289
Staff loans and advances	1,390	-	16,142	108,276	1,775,352	12,761	7,806,731	9,720,652
Other assets (excluding non-financial assets)	-	1,123,494	-	-	398,477	-	-	1,521,971
Total financial assets	49,792,795	1,546,027	2,620,809	20,672,228	26,208,140	87,808,679	129,939,256	318,587,994
Financial liabilities								
Amounts due to Bank of Uganda	-	-	-	-	4,930,596	14,342,312	-	19,272,908
Other liabilities	401,174	-	-	2,254,619	3,313,889	-	-	5,969,682
Borrowings	-	-	393,416	11,313,416	3,433,152	-	35,737,277	50,877,261
Kuwait special fund	-	-	-	-	-	-	54,777,542	54,777,542
Total financial liabilities	401,174	-	393,416	13,568,035	11,677,637	14,342,312	90,514,819	130,897,393
Net liquidity gap	49,391,621	1,546,027	2,227,393	7,104,253	14,530,503	73,466,367	39,424,437	187,690,601
31 December 2016								
Total financial assets	11,904,637	16,276,664	5,022,506	7,757,694	35,057,721	62,182,145	52,497,225	190,698,592
Total financial liabilities	444,785	-	1,692,351	1,288,658	625,049	-	59,854,071	63,904,934
Net liquidity gap	11,459,852	16,276,664	3,330,155	6,469,036	34,432,672	62,182,145	(7,356,846)	126,793,658

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 2018 is set out below:

Recognition and measurement of provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of an amount can be made. The Bank's contingent liabilities have been disclosed in Note 34 of the financial statements.

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. The Bank's impairment losses on loans and advances have been detailed in Notes 20 and 21 to the financial statements.

Going concern

The directors have assessed the Bank's ability to continue as a going concern and are satisfied that the Bank has the resources to continue in business for the foreseeable future. This has been based on the fact that they are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

Valuation of the Investment Property and property and equipment

The Bank measures its investment property and property and equipment at fair value with the changes in the fair value recognised in profit or loss for investment property and other comprehensive income for property and equipment. These are valued with reference to market based evidence, using comparable prices adjusted for specific market factors such as location, condition of the asset.

During the year ended 31 December 2017, the Bank engaged an independent valuation specialist to determine the fair value of its investment property. Land and Buildings have not been revalued during the year. The carrying amounts of investment property and plant, property and equipment are disclosed in notes 22 and 23 to the financial statements.

6. FAIR VALUE MEASUREMENT

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.

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.

Fair value hierarchy

31 December 2017	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Ushs '000	Ushs '000	Ushs '000
Assets measured at fair value				
Equity investments	31 Dec 2017	343,925	-	-
Investment property	31 Dec 2017	-	32,800,000	-
Leasehold land	31 Dec 2014	-		1,208,000
Buildings	31 Dec 2014	-		1,270,880
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	269,743,974	-
Staff loans and advances		-	5,111,754	-
Amounts due to Bank of Uganda		-	14,791,789	-
Kuwait Special Fund		-	33,241,675	-
Borrowings		-	39,393,589	-

31 December 2016	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Ushs '000	Ushs '000	Ushs '000
Assets measured at fair value				
Equity investments	31 Dec 2016	173,559	-	-
Investment property	31 Dec 2016	-	30,200,000	-
Leasehold land	31 Dec 2014	-		1,208,000
Buildings	31 Dec 2014	-	-	1,270,880
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	201,113,538	-
Staff loans and advances		-	2,911,011	-
Amounts due to Bank of Uganda		-	12,478,907	-
Kuwait Special Fund		-	31,485,853	-
Borrowings		-	18,255,130	-

There were no transfers between level 1 and level 2 during 2017 or 2016. The fair value of the financial assets and liabilities is included at the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; Or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Other fair value related disclosures for assets that are measured at fair value are in Notes 19, 22 and 23. The following methods and assumptions were used to estimate the fair values:

- The fair values of the quoted equity investments are based on price quotations at the reporting date.
- The fair value of the investment property has been estimated using the depreciated replacement value of a similar storied building. The valuation requires management to make certain assumptions such as building costs in the country, the high values of prime land around the Central

Business area in the city and the subsequent high rentals in the locality.

- The fair value of the bank's leasehold land and buildings was estimated based on the replacement and depreciated replacement values of similar assets within the same locality.

Fair value versus carrying amounts of financial assets and liabilities carried at amortised cost

The fair values of financial assets and liabilities together with the carrying amounts shown in the statement of financial position are analysed as follows:

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Assets				
Financial assets				
Cash and cash equivalents	7,234,004	7,234,004	4,984,744	4,984,744
Deposits held in banks	22,563,078	22,563,078	6,919,893	6,919,893
Equity investments at fair value	343,925	343,925	173,559	173,559
Loans and advances	224,286,442	269,743,974	168,798,158	201,113,538
Staff loans and advances	3,068,290	5,111,754	2,622,532	2,911,011
Other assets	<u>1,475,195</u>	<u>1,475,195</u>	<u>4,578,632</u>	<u>4,578,632</u>
Total financial assets	<u>258,970,934</u>	<u>306,471,930</u>	<u>188,077,518</u>	<u>220,681,377</u>
Financial liabilities				
Amounts due to Bank of Uganda	13,055,418	14,791,789	11,242,259	12,478,907
Borrowings	36,143,511	39,393,589	16,797,855	18,255,130
Kuwait Special Fund	29,339,519	33,241,675	28,365,633	31,485,853
Other liabilities	<u>5,565,500</u>	<u>5,565,500</u>	<u>7,499,177</u>	<u>7,499,177</u>
Total financial liabilities	<u>84,103,948</u>	<u>92,992,553</u>	<u>63,904,924</u>	<u>69,719,067</u>

The fair values of financial instruments not measured at fair value were determined as follows:

- Loans and advances to customers and staff loans: The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.
- Borrowings and Kuwait Special Fund (KSF): The interest rate

charged on borrowings held by the Bank is based on Weighted Average Cost of Capital (WACC) which indicates the return the Bank's stakeholders expect to receive, or other bases for determining market interest rates. The interest rates are variable and in line with market rates for similar facilities. The fair values of such interest bearing borrowings not quoted in an active market are based on discounted cash flows using interest rates for similar facilities.

- Amounts due to Bank of Uganda: The estimated fair value of amounts due to Bank of Uganda represent the discounted amount of estimated future cash flows expected to be repaid. Expected cash flows are discounted at current market rates to determine fair value.

The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy are shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	
			2017	2016
Loans and advances	DCF method	WACC	13 %	11 %
Borrowings and KSF	DCF method	WACC	13 %	11 %

7. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

			(Current)	(Non-Current)	(Current + Non-Current)
	Statement of financial position amount	Note	No more than 12 months after the reporting period	More than 12 months after the reporting period	Total
Assets					
Cash and bank balances	7,234,004	17	7,234,004	-	7,234,004
Deposits held in banks	22,563,078	18	22,563,078	-	22,563,078
Equity investments at fair value	343,925	19	343,925	-	343,925
Loans and advances to customers	224,286,442	20	35,399,540	188,886,902	224,286,442
Staff loans and advances	3,068,290	21	80,128	2,988,162	3,068,290
Current income tax recoverable	196,722	16(b)	196,722	-	196,722
Property and equipment	2,800,452	23	-	2,800,452	2,800,452
Investment Property	32,800,000	22	-	32,800,000	32,800,000
Other assets	3,539,629	25	1,123,494	2,416,135	3,539,629
Intangible assets	638,922	24	-	638,922	638,922
Total assets	297,471,464		66,940,891	230,530,573	297,471,464
Liabilities					
Amounts due to Bank of Uganda	13,055,418	26	1,084,562	11,970,856	13,055,418
Borrowings	36,143,511	27	7,995,151	28,148,360	36,143,511
Kuwait Special Fund	29,339,519	28	-	29,339,519	29,339,519
Deferred income tax liability	6,016,873	29	-	6,016,873	6,016,873
Current income tax payable	-	16	-	-	-
Other liabilities	8,467,309	30	5,557,551	2,909,758	8,467,309
Total liabilities	93,022,630		14,637,264	78,385,366	93,022,630

8. INTEREST AND SIMILAR INCOME

	2017	2016
	Ushs '000	Ushs '000
Interest on loans	20,991,770	14,184,862
Penalty fee income on loans	1,235,423	3,110,738
Interest on deposits held in banks	920,577	462,680
Interest on staff loans	569,274	660,787
Gross interest	23,717,044	18,419,067
Less: Transfers to Kuwait fund (Note 28)		
Interest earned on loans disbursed out of the fund	(1,730,041)	(659,158)
Interest income	21,987,003	17,759,909

9. INTEREST EXPENSE AND SIMILAR CHARGES

	2017	2016
	Ushs '000	Ushs '000
Interest expense	<u>1,044,783</u>	<u>272,782</u>

10. NET FOREIGN EXCHANGE GAINS

	2017	2016
	Ushs'000	Ushs'000
Net realised foreign exchange gains/(losses)	52,924	(1,005,424)
Net unrealised foreign exchange (losses)/gains	<u>(25,067)</u>	<u>2,040,833</u>
	<u>27,857</u>	<u>1,035,409</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 2017 was 1 USD/ Ushs 3,650 (2016: 1 USD/ Ushs 3,613).

11. OTHER INCOME

	2017	2016
	Ushs '000	Ushs '000
Dividend income	12,556	4,052
Rental income	2,342,912	2,236,026
Agency fees	719,604	296,263
Grant income	1,098,415	-
Other income*	<u>1,468,464</u>	<u>2,057,864</u>
	<u>5,641,951</u>	<u>4,594,205</u>

*Other income above include fair value gains on the financial assets recorded at fair value through profit or loss, interest income on the current bank accounts, loan recoveries and reversals made during the year that could not be classified in any of the other income lines.

12. PERSONNEL EXPENSES

	2017	2016
	Ushs '000	Ushs '000
Salaries	5,959,014	5,410,770
Service gratuity	321,762	279,755
NSSF contributions	577,111	516,008
Staff provident fund contributions	352,047	327,575
Staff welfare	401,254	515,797
Discount on staff loans marked to market	<u>19,936</u>	<u>226,981</u>
	<u>7,631,124</u>	<u>7,276,886</u>

13. OTHER OPERATING EXPENSES

	2017	2016
	Ushs'000	Ushs'000
Administration expenses	4,250,067	2,354,743
Rent, utilities and maintenance costs	1,689,688	1,425,879
Directors' emoluments	373,449	257,303
Auditors' remuneration	151,281	139,586
	<u>6,464,485</u>	<u>4,177,511</u>

14. PROFIT BEFORE TAX

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

	2017	2016
	Ushs'000	Ushs'000
Depreciation (note 23)	167,200	155,865
Amortisation of intangible assets (note 24)	310,861	280,174
Directors' emoluments (note 13)	373,449	257,303
Auditors' remuneration (note 13)	151,281	139,586
Write-off of fixed assets	3,080	11,781
Write back of accelerated amortisation	(108,643)	-
Net foreign exchange gains	(27,857)	(1,035,409)
Fair value gains on investment property	<u>(2,600,000)</u>	<u>(1,100,000)</u>

15. EARNINGS PER SHARE

	2017	2016
Net profit attributable to ordinary equity holders of the Bank (Ushs 000's)	8,306,344	6,449,237
Weighted average number of ordinary shares in issue during the year	<u>100,000,000</u>	<u>100,000,000</u>
Basic and diluted earnings per share (Ushs)	<u>83.06</u>	<u>64.49</u>

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The diluted earnings per share is the same as basic earnings per share as there were no potentially dilutive instruments outstanding at the end of the reporting period.

16. TAXATION

(a) Income tax expense		
	2017	2016
	Ushs'000	Ushs'000
Current income tax:		
Corporation tax	2,819,913	1,511,957
Rental tax	702,873	670,808
Prior year over provision	(2,459)	-
Deferred income tax (Note 29)	<u>49,017</u>	<u>461,555</u>
	<u>3,569,344</u>	<u>2,644,320</u>

16. TAXATION (CONTINUED)

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

	2017	2016
	Ushs'000	Ushs'000
Profit before income tax	11,875,591	9,093,557
Tax calculated at the statutory rate of 30 % (2016: 30 %)	3,562,677	2,728,067
Tax effect of:		
Expenses not deductible for tax purposes	9,127	6,131
Over provision in prior year current tax	(2,460)	-
Deferred income tax prior year adjustment	-	(89,878)
	3,569,344	2,644,320

(b) Current income tax (recoverable) / payable

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

	2017	2016
	Ushs'000	Ushs'000
At 1 January	13,169	(1,408,463)
Charge for the year	3,522,786	2,182,765
Prior year over provision	(2,459)	-
Tax paid	(3,730,218)	(761,133)
At 31 December	(196,722)	13,169

17. CASH AND CASH EQUIVALENTS

	2017	2016
	Ushs'000	Ushs'000
Short term deposits with financial institutions	7,234,004	4,984,744

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

18. DEPOSITS HELD IN BANKS

	2017	2016
	Ushs'000	Ushs'000
Time deposits	22,563,078	6,919,893

The average effective interest rate was 9 % for Uganda Shillings denominated investments (2016: 13.50 %) and 2.50 % for USD denominated investments (2016: 3.45 %).

19. EQUITY INVESTMENTS AT FAIR VALUE

	Ordinary	Original	Fair value	Fair value
	Shares	Cost	2017	2016
		Ushs'000	Ushs'000	Ushs'000
KENGEN	6,431	1,948	1,926	1,284
Uganda Clays Limited	10,147,335	538,036	294,273	121,768
The New Vision Ltd	92,674	18,535	47,726	50,507
	10,246,440	558,519	343,925	173,559

19. EQUITY INVESTMENTS AT FAIR VALUE (CONTINUED)

Movement in number of shares

	At 1 January		At 31 December
	2017		2017
	Opening	Purchases	Closing
	Balance	/(Sales)	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>
	<u>10,246,440</u>	<u>-</u>	<u>10,246,440</u>
	At 1 January		At 31 December
	2016		2016
	Opening	Purchases	Closing
	Balance	/(Sales)	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>
	<u>10,246,440</u>	<u>-</u>	<u>10,246,440</u>

Movement in fair value during the year ended 31 December 2017

	Opening	Fair value	Closing
	Balance	gain/(loss)	Balance
	Ushs'000	Ushs'000	Ushs'000
KENGEN	1,284	642	1,926
Uganda Clays Ltd	121,768	172,505	294,273
The New Vision Ltd	<u>50,507</u>	<u>(2,781)</u>	<u>47,726</u>
	<u>173,559</u>	<u>170,366</u>	<u>343,925</u>

Movement in fair value during the year ended 31 December 2016

	Opening	Fair value	Closing
	Balance	loss	Balance
	Ushs'000	Ushs'000	Ushs'000
KENGEN	1,556	(272)	1,284
Uganda Clays Ltd	152,210	(30,442)	121,768
The New Vision Ltd	<u>56,160</u>	<u>(5,653)</u>	<u>50,507</u>
	<u>209,926</u>	<u>(36,367)</u>	<u>173,559</u>
	2017	2016	
	Ushs	Ushs	
Movement in price per share	Closing	Closing	
KENGEN	299.42	199.59	
Uganda Clays Limited	29.00	12.00	
The New Vision Ltd	<u>515.00</u>	<u>545.00</u>	

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

20. LOANS AND ADVANCES

(a) Products		
	2017	2016
	Ushs'000	Ushs'000
Long term loans	126,805,277	97,527,566
Medium term loans	65,805,826	61,138,439
Trade finance loans	9,349,250	8,334,124
Working capital loans	40,696,694	16,487,744
Gross advances	242,657,047	183,487,873
Less:		
Individually assessed impairment losses	(10,368,959)	(8,037,128)
Collective impairment losses	(8,001,646)	(6,652,587)
	224,286,442	168,798,158

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

	2017	2016
	Ushs'000	Ushs'000
Less than one year	35,399,540	25,370,274
1- 5 years	116,983,683	91,462,130
Over 5 years	71,903,219	51,965,754
	224,286,442	168,798,158

(c) Gross loans to customers by sector composition:

SECTOR	EXPOSURE			
	2017		2016	
PRIMARY SECTOR	Ushs '000	%	Ushs '000	%
Forestry	3,300,460	1 %	3,980,000	3 %
Mining and extractive	4,482,079	2 %	2,560,000	2 %
Primary agriculture	18,320,832	8 %	10,340,000	5 %
Primary sector- Total	26,103,371	11 %	16,880,000	9 %
SECONDARY SECTOR				
Agro-processing	25,924,454	11 %	24,300,000	18 %
Manufacturing	84,392,302	35 %	50,257,873	18 %
Secondary sector- Total	110,316,756	46 %	74,557,000	36 %
TERTIARY SECTOR				
Construction and real estate	32,426,736	16 %	29,980,000	23 %
Infrastructure	15,460,895	9 %	16,180,000	
Education	10,351,043	5 %	9,180,000	6 %
Financial services	22,865,585	7 %	12,240,000	8 %
Health	7,391,417	4 %	7,940,000	5 %
Hotels, hospitality and tourism	5,336,458	3 %	6,070,000	5 %
Tertiary services- Total	93,832,134	44 %	81,590,000	48 %
TRADE SERVICES				
Trade and Commerce	12,404,784	6 %	10,460,000	7 %
Grand total	242,657,047	100 %	183,487,873	100 %

The weighted effective interest rate on loans at 31 December 2017 was 8.3 % (2016: 8 %) for USD and 13.3 % for Ushs (2016: 11 %).

20. LOANS AND ADVANCES (CONTINUED)

(d) Movement in provision for impaired loans and advances

	2017	2016
	Ushs'000	Ushs'000
At 1 January	14,689,715	12,130,517
Additional provisions raised during the year	3,705,070	5,070,903
Recoveries and provisions no longer required	(24,180)	(1,725,142)
Written off during the year	-	(786,563)
At 31 December	<u>18,370,605</u>	<u>14,689,715</u>

(e) Net Impairment loss on loans and advances

Additional provisions as above	3,705,070	5,070,903
Direct write offs through SOCI	-	(612,570)
Recoveries and provisions no longer required	(24,180)	(1,725,142)
Net provision for staff loans (Note 21c)	<u>184,485</u>	<u>582,442</u>
Profit and loss effect	<u>3,865,375</u>	<u>3,315,633</u>

(f) 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. As an internal requirement, the forced sale value of the collateral security is over and above the amounts of loans and advances disbursed. The forced sale value of the collateral held by the bank was Ushs 562 billion as at 31 December 2017 (2016: Ushs 518 billion).

21. STAFF LOANS AND ADVANCES

(a) Staff loans and advances

	2017	2016
	Ushs'000	Ushs'000
Staff loans	5,695,118	5,354,981
Provision for impairment	(1,293,673)	(1,109,188)
Discount on staff loans marked to market	<u>(1,333,153)</u>	<u>(1,623,261)</u>
	<u>3,068,290</u>	<u>2,622,532</u>

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

	2017	2016
	Ushs'000	Ushs'000
Within three months	11,911	3,191
Between three and six months	8,280	62,994
Over six months	<u>3,048,099</u>	<u>2,556,347</u>
	<u>3,068,290</u>	<u>2,622,532</u>

Staff loans and advances are categorised as staff advances, staff personal loans and staff housing loans. Staff advances and staff personal loans are unsecured and guaranteed by future staff salaries from the Bank. The weighted effective interest rate on loans at 31 December 2017 was 8 % (2016: 8 %).

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

	2017	2016
	Ushs'000	Ushs'000
At 1 January	1,109,188	1,060,842
Additional provisions raised during the year	384,361	591,068
Recoveries and provisions no longer required	(199,876)	(8,626)
Loan write-offs	<u>-</u>	<u>(534,096)</u>
As at 31 December	<u>1,293,673</u>	<u>1,109,188</u>

22. INVESTMENT PROPERTY

	2017	2016
	Ushs'000	Ushs'000
At 1 January	30,200,000	29,100,000
Fair value gain on investment property	<u>2,600,000</u>	<u>1,100,000</u>
At 31 December	<u>32,800,000</u>	<u>30,200,000</u>

The value of the Bank's investment property, commercial towers, on Plot 22 Hannington Road, Kampala at 31 December 2017 has been arrived at on the basis of a valuation carried out as at 31 December 2017 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.

The Bank applies the fair value model on its investment model in determining the property value.

The Bank has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

During the year ended 31 December, the following amounts were recognised in the Bank's profit or loss:

22. INVESTMENT PROPERTY (CONTINUED)

	2017	2016
Other income	Ushs'000	Ushs'000
Rental Income	2,342,912	2,236,026
Fair value gains on investment property	<u>2,600,000</u>	<u>1,100,000</u>
	<u>4,942,912</u>	<u>3,336,026</u>
	2017	2016
Other operating costs	Ushs'000	Ushs'000
Property rates	40,563	34,769
Maintenance costs	<u>32,194</u>	<u>11,305</u>
	<u>72,757</u>	<u>46,074</u>

The significant unobservable inputs for the investment property were as follows:

Range of estimated market value per acre Ushs 666 m to Ushs 1.5 billion

23. PROPERTY AND EQUIPMENT

	Freehold	Buildings	Furniture and fittings	Motor	Computers	Total
	land			Vehicles		
	Ush '000	Ush '000	Ush '000	Ush '000	Ush '000	Ush '000
COST/VALUATION						
At 1 January 2016	1,208,000	1,352,000	476,415	528,946	472,612	4,037,973
Adjustment to reconcile to the fixed assets register	-	-	799	-	(9,316)	(8,517)
Disposals	-	-	(60,329)	-	(52,790)	(113,120)
Write offs	-	-	(45,144)	-	(6,933)	(52,076)
Additions	-	-	39,600	-	34,675	74,275
At 31 December 2016	1,208,000	1,352,000	411,341	528,946	438,248	3,938,535
Additions	-	-	6,745	-	90,468	97,212
Adjustment to reconcile to the fixed assets register	-	-	-	-	(3,080)	(3,080)
Write offs	-	-	-	(88,739)	-	(88,739)
At 31 December 2017	1,208,000	1,352,000	418,086	440,207	525,636	3,943,929
DEPRECIATION						
At 1 January 2016	-	27,040	312,261	525,284	206,497	1,071,082
Adjustment to reconcile to the fixed assets register	-	-	8,251	3,662	(8,648)	3,264
Charge for the year	-	27,040	39,222	-	89,603	155,865
Disposals	-	-	(60,329)	-	(52,790)	(113,120)
Write offs	-	-	(45,144)	-	(6,933)	(52,076)
At 31 December 2016	-	54,080	254,261	528,946	227,729	1,065,016
Charge for the year	-	27,040	34,785	-	105,375	167,200
Write offs	-	-	-	(88,739)	-	(88,739)
At 31 December 2017	-	81,120	289,046	440,207	333,104	1,143,477
NET CARRYING AMOUNT						
At 31 December 2017	1,208,000	1,270,880	129,040	-	192,532	2,800,452
At 31 December 2016	1,208,000	1,297,920	157,080	-	210,520	2,873,520

23. PROPERTY AND EQUIPMENT (CONTINUED)

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 and that of the buildings, Ushs 931 million. The revaluation surplus on land and buildings was recognised in other comprehensive income and credited to asset revaluation reserve in equity and is not available for distribution to the shareholders. The portion of the revaluation loss on freehold land which did not relate to a previously recognised revaluation gain, was debited to profit or loss

in the year it was realised.

The significant unobservable inputs for land and buildings were as follows:

- Range of estimated value of buildings - Ushs 23 billion to Ushs 32.8 billion
- Estimated value of bare land (per acre) - Ushs 14.5 billion

24. INTANGIBLE ASSETS

Cost	2017	2016
	Ushs '000	Ushs '000
At 1 January	1,575,164	1,575,164
Adjustment to reconcile to the fixed assets register	(23,485)	-
Additions	<u>372,443</u>	<u>-</u>
At 31 December	<u>1,924,122</u>	<u>1,575,164</u>
Amortisation		
At 1 January	1,106,467	826,293
Adjustment to reconcile to the fixed assets register	(132,128)	-
Amortisation for the year	<u>310,861</u>	<u>280,174</u>
At 31 December	<u>1,285,200</u>	<u>1,106,467</u>
Net carrying amount		
At 31 December	<u>638,922</u>	<u>468,697</u>

25. OTHER ASSETS

	2017	2016
	Ushs'000	Ushs'000
Prepayments	731,281	389,614
Other receivables (Afrexim Bank)**	890,450	883,844
Security deposits***	359,514	861,800
Other debtors*	225,231	5,627,621
Prepayment on staff loans marked to market	<u>1,333,153</u>	<u>1,623,261</u>
	<u>3,539,629</u>	<u>9,386,140</u>

* The other debtors balance includes loan disbursements made using UDB funds pending reimbursement by the different development partners as at 31 December 2017. These mainly relate to BADEA (Arab Bank for Economic Development in Africa) receivable of Ushs 176 million (2016: BADEA receivable of Ushs 5.6 billion)

**These were security deposits the Bank transferred to Afrexim Bank in the process of negotiating for a new line of credit in 2016. The amount has been returned in 2018 to UDB having failed to negotiate the terms of the funding with Afrexim Bank successfully.

***Security deposits include a deposit to registrar of the high

court in respect to UDB vs AFRO KAI Limited case amounting to Ushs 150 million and any advance payments paid on behalf of the bank's customers for property valuation by the Bank.

26. AMOUNTS DUE TO BANK OF UGANDA

	2017	2016
	Ushs '000	Ushs '000
At 1 January	<u>11,242,259</u>	<u>11,391,197</u>
Drawn down during the year	2,746,120	875,239
Repayments during the year	<u>(932,961)</u>	<u>(1,024,177)</u>
	<u>1,813,159</u>	<u>(148,938)</u>
At 31 December	<u>13,055,418</u>	<u>11,242,259</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.

27. BORROWINGS

	2017	2016
	Ushs'000	Ushs'000
Japan Bank for International Cooperation (JBIC)	-	625,049
Arab Bank for Economic Development in Africa (BADEA Loan 0632)	15,541,803	16,172,806
Arab Bank for Economic Development in Africa (BADEA Trade Finance)	8,190,000	-
Arab Bank for Economic Development in Africa (BADEA Private sector)	6,552,000	-
Islamic Development Bank (IDB)	<u>5,859,708</u>	<u>-</u>
	<u>36,143,511</u>	<u>16,797,855</u>

The movements in borrowings were as follows:

	2017	2016
	Ushs'000	Ushs'000
Balance as at 1 January	16,797,855	16,260,506
Drawdowns during the year	20,369,940	-
Interest	1,044,783	272,782
Repayments during the year	<u>(3,549,897)</u>	<u>(1,299,099)</u>
Foreign exchange losses	<u>1,480,830</u>	<u>1,563,666</u>
	<u>36,143,511</u>	<u>16,797,855</u>

i) JBIC loan

This represented 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. The loan was 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 was serviced by the Government of Uganda and the Bank and was fully repaid as at year end.

ii) BADEA Loan

This represents a US Dollars 4,500,000 loan from the Arab

27. BORROWINGS (CONTINUED)

Bank for Economic Development in Africa (BADEA) to the Government of the Republic of Uganda. The entire proceeds of the loan were lent to the Bank per a loan agreement dated 18th December 2009, with the Government of Uganda as the Guarantor of the loan.

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.

iii) BADEA Loan Trade Finance

This represents a US Dollars 10,000,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to Uganda Development Bank with Government of the Republic of Uganda being the guarantor

under the terms and conditions specified in the Guarantee Agreement concluded between BADEA and Republic of Uganda dated 13th February 2017. The loan is to be used exclusively to finance import transactions from Arab Countries to UDB's eligible clients in the Republic of Uganda.

Interest is payable on the Interest payment date, to BADEA on the amount disbursed and outstanding from time to time during each Interest Period, at a rate of 6 months USD LIBOR or its successor rate, plus 325 basis points.

As at 31 December 2017, USD 3,000,000 had been disbursed from the loan account (2016; Nil).

iv) BADEA Loan Private sector

This represents a US Dollars 6,000,000 loan from the Arab

Bank for Economic Development in Africa (BADEA) to the Government of the Republic of Uganda. 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 2017, USD 1,800,000 had been disbursed from the loan account (2016; Nil)

v) Islamic Development Bank (IDB)

This represents a US Dollars 10,500,000 loan from the Islamic Development Bank to Ugandas Development Bank. The entire proceeds of the loan were lent to the Bank per the loan agreement dated 18th May 2017.

28. KUWAIT SPECIAL FUND

	2017	2016
	Ushs '000	Ushs '000
Balance as at 1 January	<u>28,365,633</u>	<u>26,619,105</u>
Agency costs	(719,604)	(296,263)
Interest on loans disbursed out of the fund	1,730,041	659,158
Effect of foreign exchange movements	<u>(36,551)</u>	<u>1,383,633</u>
	<u>973,886</u>	<u>1,746,528</u>
Balance as at 31 December	<u>29,339,519</u>	<u>28,365,633</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. The weighted effective interest rate on loans disbursed as at 31 December 2017 was 8.3 % (2016: 8 %) for USD and 13.3 % for Ushs (2016: 11 %).

29. 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 % (2016: 30 %). The movement in the deferred income tax liability is detailed below:

		2017	2016
		Ushs'000	Ushs'000
At the start of the year		5,967,856	5,506,301
Charge to profit or loss		49,017	461,555
At the end of the year		<u>6,016,873</u>	<u>5,967,856</u>
Year ended 31 December 2017			
	At	Charge/	At
	1 January	(credit) to	31 December
	2017	profit or loss	2017
	Ushs '000	Ushs '000	Ushs '000
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	138,568	4,708	143,276
Provisions and unrealised losses	(923,273)	(735,691)	(1,658,964)
Revaluation on property and equipment	126,300	-	126,300
Fair value gain on investment property	<u>6,626,261</u>	<u>780,000</u>	<u>7,406,261</u>
Net deferred income tax liability	<u>5,967,856</u>	<u>49,017</u>	<u>6,016,873</u>
Year ended 31 December 2016			
	At	Charge/	At
	1 January	(credit) to	31 December
	2016	profit or loss	2016
	Ushs '000	Ushs '000	Ushs '000
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	188,892	(50,324)	138,568
Provisions and unrealised losses	(495,034)	(428,239)	(923,273)
Tax losses carried forward	(710,907)	710,907	-
Revaluation on property and equipment	126,300	-	126,300
Fair value gain on investment property	<u>6,397,050</u>	<u>229,211</u>	<u>6,626,261</u>
Net deferred income tax liability	<u>5,506,301</u>	<u>461,555</u>	<u>5,967,856</u>

30. OTHER LIABILITIES

	2017	2016
	Ushs'000	Ushs'000
Accrual and other liabilities	2,994,952	2,920,551
Deferred arrangement fees	2,901,758	2,162,634
Staff gratuity	155,259	89,908
Other creditors	<u>2,415,340</u>	<u>2,326,094</u>
	<u>8,467,309</u>	<u>7,499,187</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 % (2016: 20 %) of their annual gross salary.

31. ISSUED CAPITAL

	2017	2016
	Ushs'000	Ushs'000
At 1 January	100,000,000	83,123,443
Issue of shares	-	<u>16,876,557</u>
At 31 December	<u>100,000,000</u>	<u>100,000,000</u>

The bank's authorised share capital is Ushs 100 billion (2016: Ushs 100 billion) divided into 100 million shares of Ushs 1,000 each. As at 31 December 2017, the bank had issued 100,000,000 shares (2016: 100,000,000). All issued shares are fully paid up.

32. GOVERNMENT OF UGANDA CAPITAL CONTRIBUTIONS

	2017	2016
	Ushs'000	Ushs'000
At 1 January	12,415,774	20,749,144
Contributions during the year	39,601,303	8,543,187
Accumulated contributions converted to equity	-	<u>(16,876,557)</u>
At 31 December	<u>52,017,077</u>	<u>12,415,774</u>

Government of the Republic of Uganda secured a loan from Arab Economic Development amounting to Kuwaiti Dinars 3,000,000. The entire proceeds of the loan were passed on to the Bank for the capitalisation of the Bank per the loan agreement dated 22 December 2010.

33. COMMITMENTS

a) Loan 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.

	2017	2016
	Ushs'000	Ushs'000
Loans approved but not disbursed at year end	<u>108,454,187</u>	<u>124,970,560</u>

b) Lease Commitments**i. Bank as a lessor**

The Bank has entered into operating leases on its investment property consisting of certain office buildings. These leases have terms of 3 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The total rental income recognised in profit or loss during the year was Ushs 2.343 billion (2016: Ushs 2.236 billion).

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2017	2016
	Ushs'000	Ushs'000
Within one year	1,556,020	2,314,793
After one year but not more than 5 years	-	1,543,196
	1,556,020	3,857,989

ii. Bank as a lessee

The Bank entered into a commercial lease for premises with Pine Investments Limited expiring on 31 January 2018. This lease had a 5 year life with a renewable option included in the contract. There are no restrictions placed upon the lessee by entering into this lease.

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

	2017	2016
	Ushs'000	Ushs'000
Within one year	62,790	751,410
After one year but not more than 5 years	-	62,618
	62,790	814,028

34. CONTINGENT LIABILITIES

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, the Bank is involved in various litigation, arbitration and regulatory proceedings in Uganda in the ordinary course of its business. The Bank has formal controls and policies for managing legal claims. Based on professional

legal advice, the Bank provides and/or discloses amounts in accordance with its accounting policies described in Note m. At year end, the Bank had several unresolved legal claims.

Below is a summary of the legal cases that the Bank is handling. The Bank's legal advisors' opinion is that it is possible, but not probable, that the court ruling may be in favour of Plaintiff.

Accordingly, no provision for any claims has been made in these financial statements. The possible outflow which could result from such litigation, based on the current status of the legal proceedings, is estimated to be no more than 1,056 million (2016: Ushs 1,056 million), while the timing of the outflow is uncertain.

	2017	2016
	Ushs'000	Ushs'000
Pending court cases:		
Two Ways Import and Export Limited	100,000	100,000
Intra Commodities Limited	141,673	141,673
Ivan Ssebowa	120,000	120,000
Other pending court cases	695,000	695,000
	1,056,673	1,056,673

Possible legal claims against the Bank:

(a) Intra Commodities Limited v Farm 2 Market Limited and Uganda Development Bank Limited H.C.C.S 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 Limited). 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 and subsequently, the 1st Defendant did not make delivery of the other 50 % stock. This 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 balance 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) Ivan Ssebowa v UDB H.C.C.S. No. 176 of 2013

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's 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 Limited and 2 others V UDB 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 the guarantors of the facility.

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.

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.

35. ASSETS PLEDGED AS SECURITY

As at 31 December 2017, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

36. 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:

	2017	2016
	Ushs'000	Ushs'000
GoU capital contributions (note 32)	39,601,303	8,543,187
Issue of shares (note 31)	-	16,876,557
Staff loans: interest earned	569,274	660,786
Staff loans: repayments	1,052,994	1,031,116
Staff loans: disbursements	1,120,008	2,183,012
Outstanding balances		
Staff loans (note 21)	<u>2,769,259</u>	<u>2,622,532</u>
Key management compensation		
Salaries	1,737,457	1,767,556
NSSF Company contributions	157,951	144,677
Service gratuity	<u>321,762</u>	<u>279,755</u>
	<u>2,217,170</u>	<u>2,191,988</u>
Directors' remuneration	<u>373,449</u>	<u>257,303</u>

37. CAPITAL MANAGEMENT

The primary objective of the Bank's capital management policy is to ensure that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. The Bank's Board ALCO committee is charged with the responsibility of assessing the adequacy of its capital and on a quarterly basis assesses the capital requirements of the Bank. The total capital of the Bank is shown in the table below:

	2017	2016
	Ushs '000	Ushs '000
Issued capital	100,000,000	100,000,000
Asset revaluation reserve	294,700	294,700
GOU capital contribution	52,017,077	12,415,774
Retained earnings	<u>52,137,057</u>	<u>43,830,810</u>
	<u>204,448,834</u>	<u>156,541,284</u>

During the year, the Bank got additional capital contributions from Government of Uganda of Ushs 39.6 bn (2016: Ushs 8.5 bn).

38. EVENTS AFTER THE REPORTING PERIOD

There are no reportable events after the reporting date (2016: None).



All figures sourced from Uganda Development Bank as at 31st December 2017 unless otherwise stated.
This Publication is available at Uganda Development Bank Limited. Any inquiries regarding this publication should be sent to;

**Plot 6 Nakasero Road
Rwenzori Towers, 1st Floor, Wing B
P.O.Box 7210, Kampala, Uganda
Phone: +256 414 355 550 / +256 414 355 555 / +256 414 355 556
Email: info@udbl.co.ug**



Uganda Development Bank Limited (UDBL) is a public enterprise wholly owned by the Government of Uganda and carrying on business as a Development Finance Institution (DFI). The bank, a successor company to Uganda Development Bank, was incorporated as a limited liability company under the Public Enterprises Reform and Divestiture Act, Cap.98, Laws of Uganda and it is mandated to finance enterprises in key growth sectors of the economy. In order to deliver this mandate, the Bank continues to focus its operations and will only play in the key growth sectors as identified from time to time in the National Development Plan (NDP), identifying specific sector interventions. The Bank shall therefore work to develop a niche market for long term development finance.