UDB

Inspiring Development

ECONOMIC RESILIENCE THROUGH SUSTAINABLE DEVELOPMENT FINANCE

ANNUAL REPORT 2020

Uganda Development Bank Ltd
Plot 6 Nakasero Road Rwenzori Towers, 1st Floor, Wing B, P.O Box 7210, Kampala, Uganda
Tel: +256 (0) 414 355 550, (0) 312 355 500
Website: www.udbl.co.ug
Email: info@udbl.co.ug

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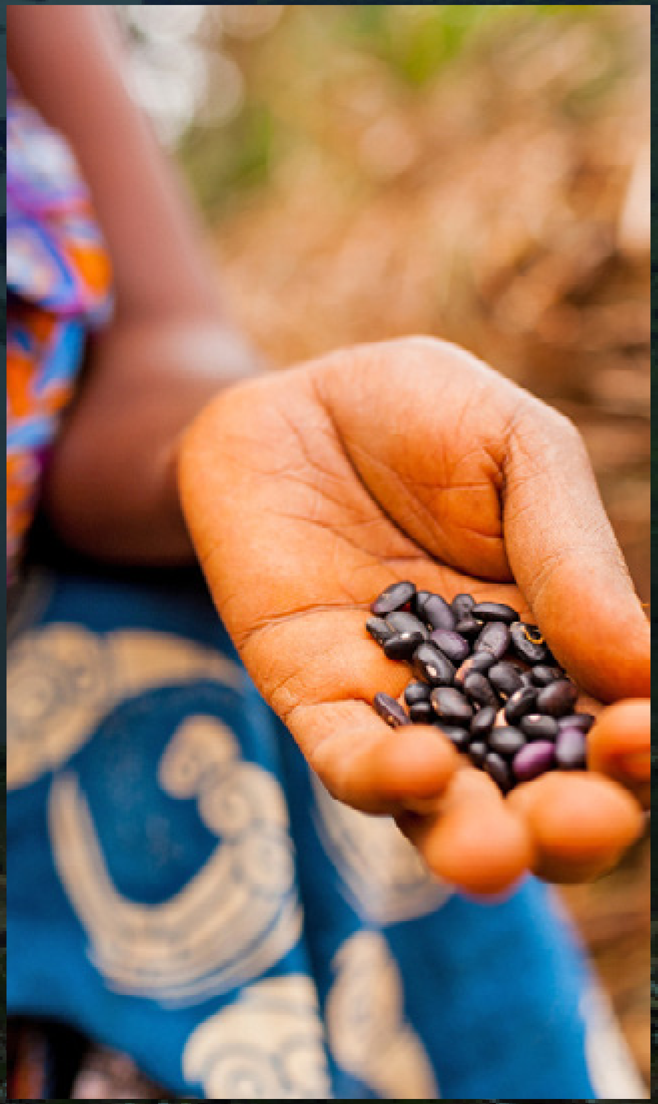
"UGANDA DEVELOPMENT BANK HAS CONTINUED TO BE A TRUSTED AGENCY IN IMPLEMENTING KEY STRATEGIC INITIATIVES OF GOVERNMENT, ESPECIALLY IN AVAILING CREDIT TO FINANCE PRIVATE INVESTMENTS IN KEY SECTORS OF THE ECONOMY AT AFFORDABLE INTEREST RATES.

Hon. Matia Kasaija, Minister of Finance, Planning & Economic Development



ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institutions
ADFIMI	Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank
AfDB	African Development Bank
AGM	Annual General Meeting
BADEA	Arab Bank for Economic Development in African
BARC	Board Audit and Risk Committee
BCC	Board Credit Committee
BSPC	Board Strategic Planning Committee
DFI	Development Finance Institution
E&S	Environmental and Social Management Framework
EOSD	European Organization for Sustainable Development
ERM	Enterprise Risk Management
EU	European Union
EVP	Employee Value Proposition
EXCO	Executive Committee
GCF	Green Climate Fund
GDP	Gross Domestic Product
GRI	Global Reporting Initiatives
IDB	Islamic Development Bank
IFRS	International Finance Reporting Standards
MD	Managing Director
MoU	Memorandum of Understanding
NAADS	National Agricultural Advisory Services
NARO	National Agricultural Research Organization
NDP	National Development Plan
NPA	National Planning Authority
PSC	Private Sector Credit
SDG	Sustainable Development Goals
SME	Small and Medium Enterprise
UBA	Uganda Bankers Association
UDB	Uganda Development Bank Limited
UNCDF	United Nations Capital Development Fund
USHS	Uganda Shillings

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 the 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 Uganda Shillings equivalent. The foreign currency generated includes earnings arising from the 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 (USHS):

Annual income statement profit attributable to ordinary shareholders, minorities and preference shareholders.

EARNINGS PER SHARE (USHS):

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 a 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.

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"

PURPOSE STATEMENT

"To improve the Quality of Life of Ugandans"

HIGH IMPACT GOALS

Reduce Poverty in Uganda while protecting the natural environment

Build a Sustainable Food System for Uganda

To promote sustainable Industrialization in Uganda

FOREWORD FROM THE

MINISTER OF FINANCE

Hon. Matia Kasaija, Minister of Finance, Planning & Economic Development

I take pleasure in presenting the Annual Report on the overall operations and performance of Uganda Development Bank Ltd (UDB) for the financial year ended 31st December 2020.

The year 2020 has been extremely challenging for many of our businesses and the economy at large - initially due to floods in various parts of the country, then a locus invasion in some areas; and later due to the unprecedented Corona-virus pandemic.

Uganda Development Bank has continued to be a trusted agency in implementing key strategic initiatives of Government, especially in availing credit to finance private investments in key sectors of the economy at affordable interest rates. The timely and targeted efforts of the Bank that included loan restructuring for ailing businesses and liquidity support to key sectors like Agriculture, Agro-processing and Manufacturing has helped businesses and the economy during this challenging and uncertain period.

COVID-19 has had adverse impact on the global economies, households, businesses, and the overall flow of credit.

Despite these challenges, the UDB demonstrated tremendous effort and delivered positive performance. The interventions undertaken by the bank are expected to hasten the process of recovery from the negative impacts of the pandemic.

As shareholders, we recognize that balance sheet strength is critical to the Bank's ability to deliver on its mandate, drive business outcomes and realize strong and sustainable returns. Against this backdrop, the shareholders at our last Annual General Meeting held on 28th May 2020, resolved to increase the bank's authorized share capital from Ugx500Billion to Ugx2Trillion. Government is committed to paying up the authorized capital to enable the Bank to fulfill its mandate. It is also important to emphasize that good governance is crucial to the Bank's ability to effectively deliver on its purpose and strategy.

Let me convey my gratitude to the Bank's Board of Directors for their stewardship of the Bank.

I want to also thank the Management and Staff for their commitment and dedication in executing the Bank's strategies and steering UDB during an extremely difficult year. I challenge you to continue to commit to the Bank's long-term sustainability and to deliver even greater impact on the lives of the citizens we all serve.

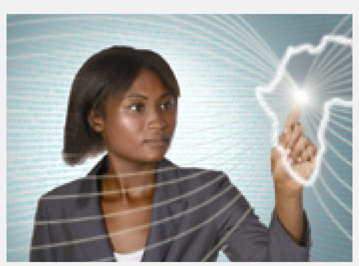
Finally, I wish to convey my sincere good wish to the Bank's customers, financiers and other stakeholders for their continued support. I remain optimistic about what lies ahead for the Bank and the country at large.

Matia Kasaija

KEY PRIORITY SECTORS

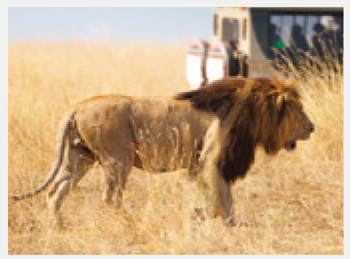
AGRICULTURE

The sector is our main lever for reducing poverty while protecting the natural environment, recognizing that most of our people earn a living from it. Our priorities will entail improving household incomes.



HUMAN CAPITAL DEVELOPMENT

The labour market requires adequate skills to serve it's needs and a healthy work force. The private sector is supported under this program to increase technical and vocational skills required by unemployed youth so they can be absorbed by the labour market.

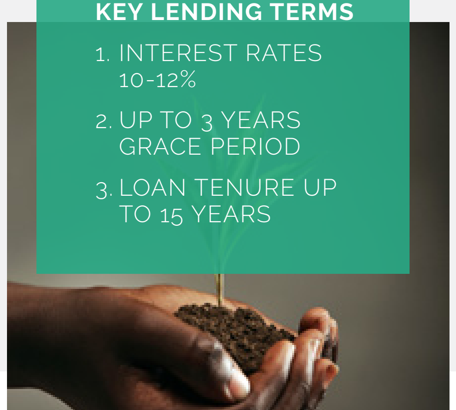


TOURISM AND HOSPITALITY

Funding focus is on tourism infrastructure such as the development of accommodation facilities in game parks and other tourist destinations, ecological sites, museums, heritage sites/cultural centres, tourist stopovers, purchase of specialized tourist transport facilities and equipment among others. This is in recognition of the economic impact across the tourism value chain for the country.

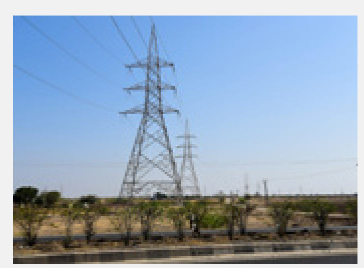
KEY LENDING TERMS

1. INTEREST RATES 10-12%
2. UP TO 3 YEARS GRACE PERIOD
3. LOAN TENURE UP TO 15 YEARS



INDUSTRY

We aim to promote sustainable industrialization of Uganda while supporting Agro-Industry, Manufacturing and Mineral-Based value addition. Our specific contribution is to increase the value-added share of exports and to promote import substitution.



INFRASTRUCTURE

Infrastructure is a key enabler of economic activity in the country. The Bank's infrastructure interventions complement the Government's intervention by supporting increase in stock of infrastructure in the country as promoted by Private Sector and Private-Public partnerships.

CROSS-CUTTING PRIORITIES

ENVIRONMENTAL AND SOCIAL GOVERNANCE

The Bank safeguards all its development initiatives by managing environmental risk to combat deforestation and improve natural resource management, including increasing soil and water conservation, promoting farmer-managed natural regeneration or complementary tree-planting in cropland, encouraging adoption of improved varieties, and supporting diversified livelihoods opportunities in and around protected areas that support biodiversity conservation through smart-agriculture led production.

CLIMATE CHANGE

Climate change presents significant challenges and opportunities for development, in the context of sustainable development. International, regional and national financial institutions are increasingly considering climate change as an important factor in their operations, recognizing opportunities for investments that contribute to sustainable development and promoting mitigation and adaptation to climate change. Although the potential for climate change to have extreme consequences on development is widely acknowledged, the speed and scale of change is highly uncertain. The Paris Agreement 2015 on climate, sustainable development and financing has not yet succeeded in slowing emission growth and building a resilient economy.

UDB is redirecting its investment towards low carbon risk projects to achieve the goals of the National Climate Change Policy, 2015 and Green Growth Development Strategy 2031. The bank is in the process of establishing a green finance strategy for low-carbon, climate resilient (LCR) investments. This is intended to help put UDB on track to the establishment of a green finance fund to consolidate and enlarge its investment portfolio with only low carbon risk investments (clean projects) by 2024.

GENDER (WOMEN AND YOUTH)

The Bank is undertaking a greater contribution to gender opportunity and equity as a basic guiding principle at project acceptance (gender and development) and implementation (gender in development) by evaluating the proportion of women and youth participation for all its development initiatives. Specific gender guidelines for operational work have been designed and disseminated and appropriate training provided. Gender issues are fully embedded across the bank through the adoption of global best practices, improved incentives and recognition.

STAKEHOLDER ENGAGEMENT

The Bank recognizes the strategic role of stakeholders in delivering its mandate and is implementing a communication and stakeholder engagement strategy to create consistent and effective messaging which ensures clarity of purpose both internally and externally. Through these interventions, the Banks communicates its development objectives, outcomes and impact regularly and effectively.

THE BANK'S PRODUCT PORTFOLIO

SHORT TERM LOANS

To bridge the gap in times of temporary cash flow deficit, the Bank provides short term facilities to finance the working capital component of a start-up project or an existing project with a tenure of 1 to 3 year. This is intended to facilitate key operational requirements that directly aids production such as the purchase of raw materials and productive inputs.

MEDIUM-TERM LOANS

This facility offers flexible financial interventions mainly for companies undergoing expansion or diversification of business. The tenure for medium-term loans is 4 to 8 years.

LONG TERM LOANS

With a tenure between 9 and 15 years, this facility offers patient capital the burden of rushed loan repayment. Long Term loans also provide greater flexibility and resources to fund various capital needs and reduces dependence on one capital source.

Loan terms vary from project to project, depending on the nature of the business. A grace period of up to 36 months may be considered and is determined by the implementation schedule and project cash flows.

ASSET FINANCE

The Bank facilitates the acquisition of qualifying assets that aid production and/or value addition in key sectors. The asset is the primary security for the financing. UDB undertakes to meet 80% of the asset cost and the borrower contributes 20%. The borrower pays back over an agreeable period, ranging from 3 to 8 years. A borrower can provide additional security as an alternative to the 20% contribution. This is evaluated on a case by case basis.

Funds can be accessed in local currency and USD; Up to 8 years repayment period; Up to 3 years grace period.

TRADE FINANCE

The bank seeks to creatively address financing gaps in the flow of goods and services between different parties in the various trade and related value chains. This is mainly for raw material acquisition and export promotion. Our products are tailored to the unique requirements of each transaction.

They include: Structured Trade & Commodity Financing Pre and Post shipment finance and Trade Service (Letters of Credit, Bank Guarantee, Bills on collection).

EQUITY INVESTMENT

Equity investment is a mode of business financing where UDB provides capital or invests in a project in return for a shareholding in the project on given terms. The project must fall within the Bank's priority sectors.

UDB will take not more than 25% shareholding; The minimum investment is USD 100,000 or Ushs equivalent; UDB recovers its investment through a dividend, revenue sharing, share value appreciation and other means as may be prescribed in the investment agreements; UDB will be a shareholder for a maximum of 10 years. Terms and conditions of exit after this period will be spelt out in the investment agreements; Equity investment may be offered alongside debt (loan) or other financing arrangements

The project may be either a going concern or a start-up. Regarding start-ups, preference will be given to innovative concepts deemed too risky for conventional financing but showing realistic prospects of profitability and positive socio-economic impact.

BUSINESS ADVISORY SERVICES

The Bank's Advisory Services function aims to improve the business performance of our clients to promote the sustainable growth of SMEs in the priority sectors of the economy. We offer tailored programs in governance, management, project-related technical matters, and financial management.

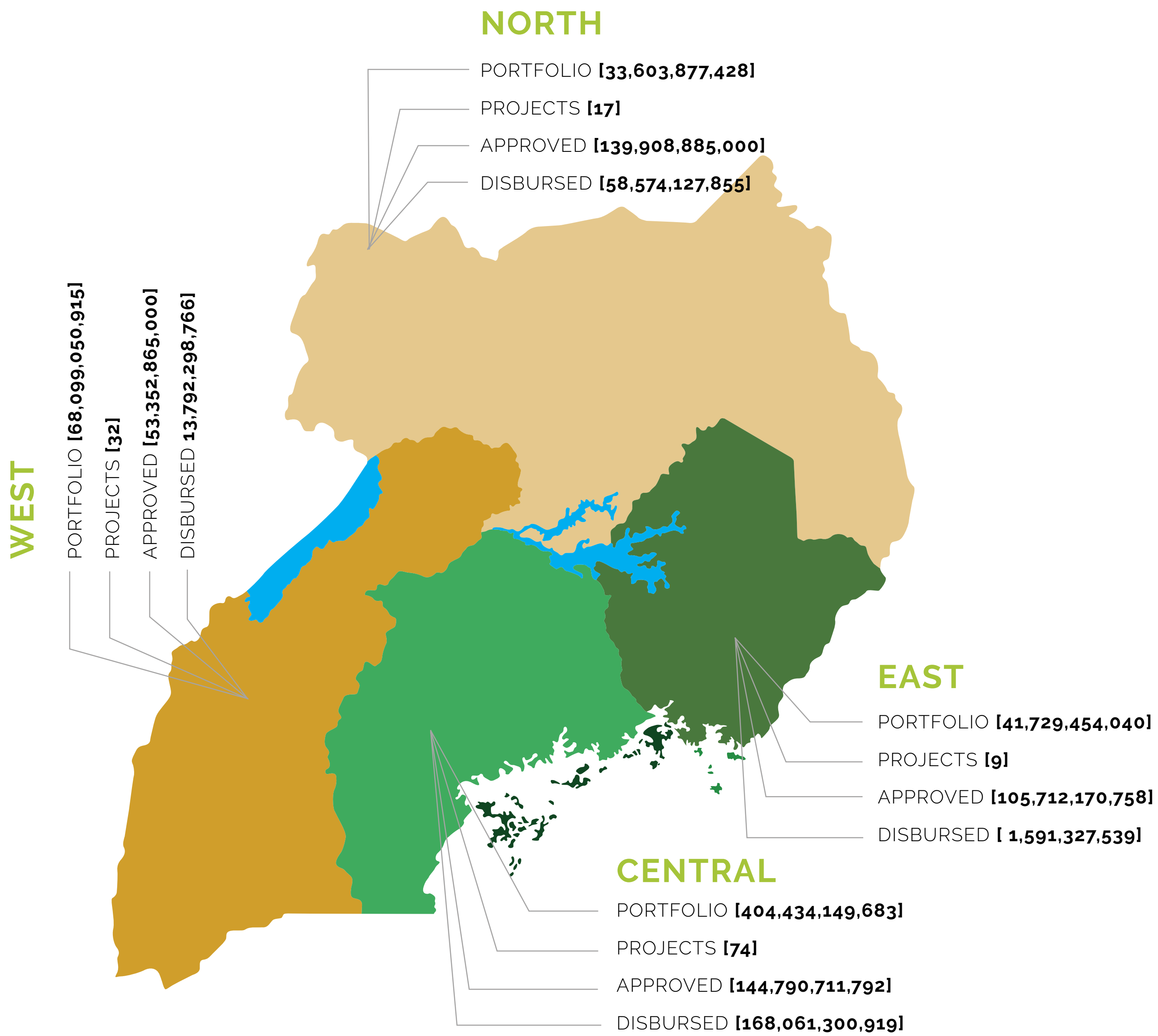
PROJECT PREPARATION

The project preparation function at UDB aims to support projects from identification through concept design, pre, and detailed feasibility studies, financial close to commercial operations. The bank's objective is to bridge the gap between the project concept and bankability. This is with the intent to unlock investment opportunities to harness socio-economic benefits for the country.

UDB's highly skilled in-house team works in collaboration with local and international experts to deliver the following support services; project identification; Pre and feasibility studies; technical assistance; financial structuring and sourcing and managing project preparation funds.

COMPANY
OVERVIEW

BANK'S
FOOTPRINT
APPROVALS AND DISBURSEMENTS



Central region includes the Kampala Metro Area that comprises of Wakiso, Kampala CBD and Mukono where majority of industries and business activities are located.

WHO
WE ARE

About Uganda Development Bank

The Uganda Development Bank Ltd (UDB) was established by the Government of Uganda (GoU) to promote the country's economic development by undertaking specific objectives stated in its mandate. These included:

a. Profitably promote and finance viable economic development in Uganda by assisting in the establishment, expansion, and modernization of key sectors as well as by providing advice to clients as it relates to establishing and expanding businesses in these sectors;

b. Provide finance in the form of short, medium and long term secured loans:

c. Acquire shareholding in viable businesses; and

d. Make funds available for reinvestment by selling any investment of the company when and as appropriate.

UDB IS A KEY PLAYER IN PROMOTING PRIVATE SECTOR DEVELOPMENT

The National Development Plans (NDPs) identify priority sectors and key public and private delivery partners that will drive the achievement of the Country's strategic objective of attaining high middle-income status by 2040. As a development Bank, it is recognized by the Government that UDB is one of the key entities in implementing the interventions outlined in the NDPs, particularly those that relate to the provision of affordable finance to facilitate and catalyze private sector investment and support the growth and development of SME's. UDB is, therefore, a key player in promoting private sector development.

VISION

"Preferred and trusted development finance services provider for socio-economic development"

MISSION

"Accelerating socio-economic development through sustainable financial interventions"

OUR VALUES

Integrity

We promise and only promise what we can deliver. We do what we say we are going to do and are accountable for our promises. We value honesty and consistency in our words and actions. We earn trust by living up to our commitments and make decisions that are in the best interest of the Bank and our customers.

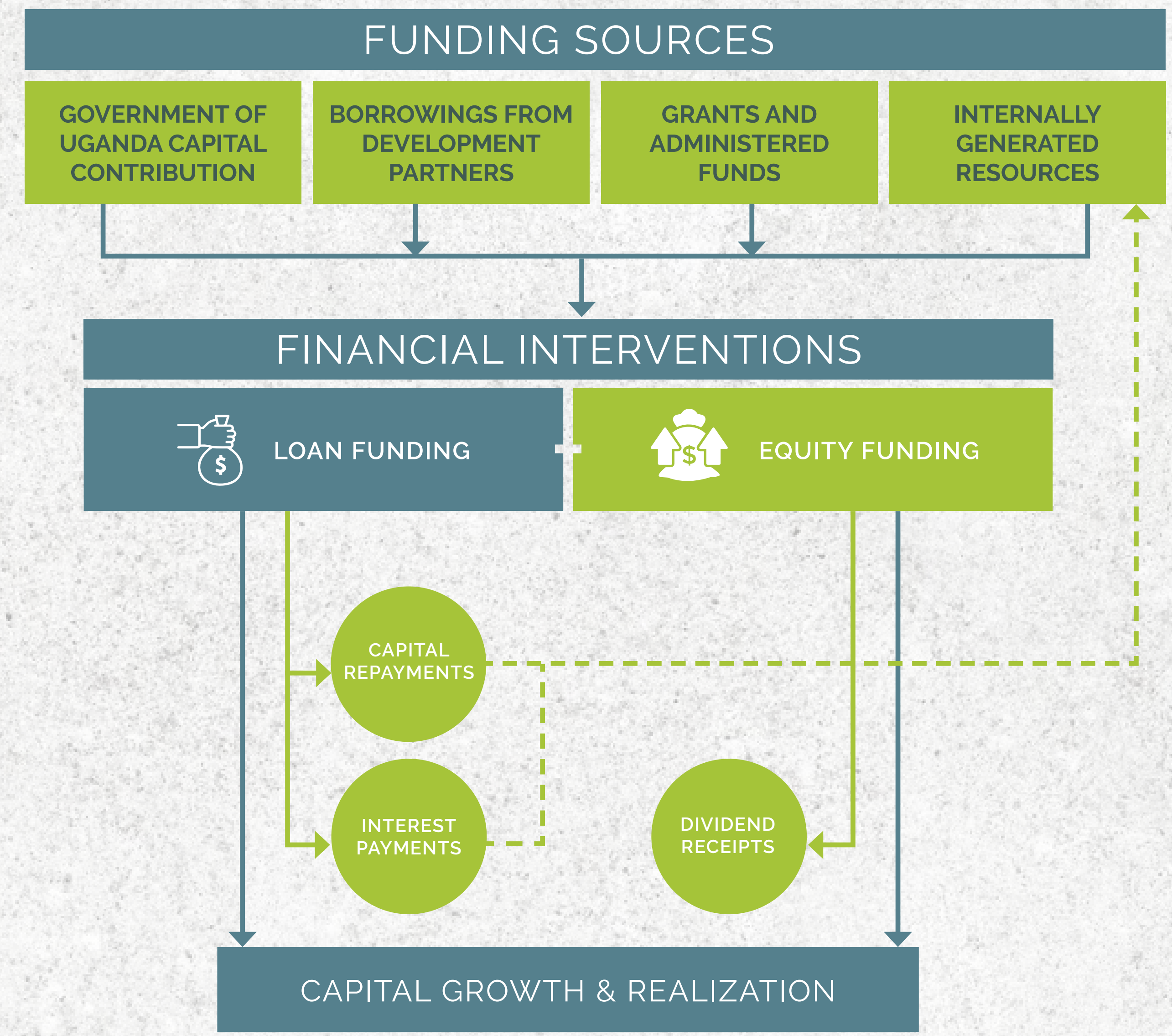
Commitment

We are devoted to being the best we can be. To achieve this, we place our customers at the center of everything we do. We consistently deliver on expectations and go the extra mile to get the job done. We approach everything with "It can be done" attitude.

Excellence

We deliver the highest quality and value possible through simple and relevant solutions.

OUR FUNDING MODEL



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

OUR BUSINESS MODEL

OUR RESOURCES

CAPITAL	HOW THE RESOURCE IS USED TO ENABLE OUR BUSINESS MODEL
FINANCIAL CAPITAL ▪ Capital contributions from the Government of Uganda ▪ Principle and Interest repayments from loans ▪ Borrowings from development partners ▪ Dividends and capital profits from equity investment ▪ Fees from project preparation and business advisory services	▪ Extending new loans ▪ Making new equity investments ▪ Repaying borrowings ▪ Cover operating expenses
SOCIAL CAPITAL ▪ Network of entrepreneurs, clients and project partners. ▪ Government ties ▪ Other funders and development partners	▪ Sourcing transactions to finance ▪ Developing and co-investing projects ▪ Leveraging our balance sheet to increase the impact
HUMAN CAPITAL ▪ Our staff	▪ Assessing funding applications ▪ Monitoring and managing our portfolio and all other aspects of our business
INTELLECTUAL CAPITAL ▪ Industry-specific and macro-economic research ▪ Knowledge gained through our experience ▪ Due-diligence, credit granting, and post-investment processes.	▪ Developing strategies for the development of key priority sectors ▪ Providing inputs to government policy formulation ▪ Allows us to identify and manage risk in the businesses that we fund
MANUFACTURED CAPITAL ▪ IT infrastructure and systems.	▪ Improving our processes ▪ Connecting with our key stakeholders
NATURAL CAPITAL ▪ Upholds strict environmental standards	▪ Monitoring the carbon emissions of projects we invest in and their environmental policies ▪ Providing funding that reduces companies' impact on the environment

SUPPORT ACTIVITIES

CATEGORY	ACTIVITIES
ACTIVITIES DIRECTLY RELATED TO PROVISION OF FUNDING	▪ Assessing the viability of business plans ▪ Providing funding to potentially viable businesses ▪ Developing and funding projects in key priority sectors ▪ Sourcing partners for development projects
ACTIVITIES SUPPORTING THE DEVELOPMENT IMPACT OF OUR BUSINESS	▪ Providing non-financial support to entrepreneurs ▪ Developing and managing specialized funding products to address specific development outcomes ▪ Undertaking sector and economic research ▪ Participating in government and private sector development initiatives
ACTIVITIES DIRECTLY SUPPORTING THE FUNDING ASPECTS OF OUR BUSINESS	▪ Sourcing and managing loans and other funds at the lowest possible cost to pass on these benefits to our clients ▪ Managing our portfolio of loans and investments to ensure that we collect principal, interest and dividend payments
CROSS-CUTTING SUPPORTING ACTIVITIES	▪ Assets and Liabilities management ▪ Human capital management ▪ Business technology ▪ Strategy and economic research ▪ Governance, compliance and legal services ▪ Enterprise risk ▪ Corporate affairs ▪ Procurement ▪ Business advisory

OUTPUTS

LOAN APPROVALS
CUMULATIVE VALUE APPROVED FROM 2016 TO 2020
Ushs **1,244.5**Bn

LOANS DISBURSED
DISBURSEMENTS FROM 2016 TO 2020
Ushs **732.9**Bn

FUNDING RAISED
VALUE OF FUNDING RAISED FROM 2016 TO 2020
Ushs **1,087**Bn

SUSTAINABILITY INITIATIVES
THE BANK REVISED ITS STRATEGY TO INCLUDE ITS SUSTAINABILITY AGENDA OVER THE NEXT FIVE YEARS.

DEVELOPMENT OUTCOMES

TURNOVER AND PROFITABILITY OF PROJECTS FINANCED
TURN OVER 2020 Ushs **2,480.5**Bn
PROFITABILITY 2020 Ushs **411**Bn

JOBS CREATED/ MAINTAINED
DIRECT AND INDIRECT JOBS IMPACT
24,013 (2020)

PRIORITY SECTORS SUPPORTED
CUMULATIVE SECTORAL DISTRIBUTION OF

FUNDING APPROVALS
34% Primary Agriculture;
30% Agro-processing;
23% Manufacturing;
5% Tourism & Hospitality
3% Infrastructure;
2% Human Capital;
3% Others

2019 FINANCIAL OUTCOMES
TOTAL ASSETS 2020 Ushs **1,089**Bn
CUMULATIVE NET PROFIT AFTER TAX FROM 2016 TO 2020 Ushs **56.31**bn

OUR STRATEGY

In 2020, UDB commenced the implementation of a revised strategic plan for the period 2020-2024. The purpose of the revision was to achieve alignment with the 3rd National Development Plan, to strengthen accountability for development outcomes and to engender sustainability in the bank's investments and operations, among others.

Over the strategy period (2020 – 2024) and as part of its sustainability strategy, UDBL's interventions will be guided by three distinct High Impact Goals, which are further underpinned by the Bank's Purpose Statement: "**Improving the quality of life of Ugandans**''. These three High Impact Goals are;

GOAL 1

REDUCE POVERTY IN UGANDA WHILE PROTECTING THE NATURAL ENVIRONMENT

The Bank is set to uplift people from poverty, where poverty is defined as people living below $1.25 a day. The target which was based on previous capital budgets for the Bank will now be reviewed considering recent changes in the Bank's capitalization program.

Key interventions under this goal include supporting yield enhancement initiatives including water for crop production and livestock husbandry, fostering financial inclusion and access to financial services especially by women and youth, SMEs in agriculture and farming communities; youth empowerment and entrepreneurship development among others.

GOAL 2

BUILD A SUSTAINABLE FOOD SYSTEM FOR UGANDA

The Bank seeks to support the country's agriculture sector to become resilient to climate change shocks and impacts. Hunger-free is defined as having three meals a day. Under this goal, the Bank will support a system that delivers food security and nutrition through climate smart agriculture, where food production is consistent and profitable, has a neutral/ positive impact on the environment.

The key interventions under this goal will include initiatives aimed at the development of select crop and livestock value chains; financing to climate-smart agriculture and organic food production; supporting the use of agro-techs across the value chain and farm deployment of the same; and financing investments that support enhanced food security and reduction of harvest to post-harvest losses such as investments in storage facilities. The Bank will promote adoption of Agriculture 4.0 in its interventions.

GOAL 3

PROMOTE SUSTAINABL;E INDUSTRIALIZATION IN UGANDA

The Banks seeks to increase value of value-added exports through implementation of an industrial sector strategy that provides affordable and long-term finance targeting cottage, small, medium and large size industries that aim to facilitate import replacement and/or promote exports. The interventions will be across three sub-sectors which include, Agro Industrialization, Manufacturing and Mineral based value addition. There will also be a focus on sustainable industrialization, through which 21st century industry technologies that are clean and climate-smart will be promoted and adopted.

Achieving these strategic goals will increase household incomes with a medium to long-term impact of improving the quality of life of Ugandans.

2020 STRATEGIC PERFORMANCE

TARGET

UGX **217**BN (DEBT)
UGX **10**BN (EQUITY)

INVESTED IN PROJECTS WITHIN PRIORITY SECTORS AND ALIGNED WITH THE HIGH IMPACT GOALS

OUTCOME

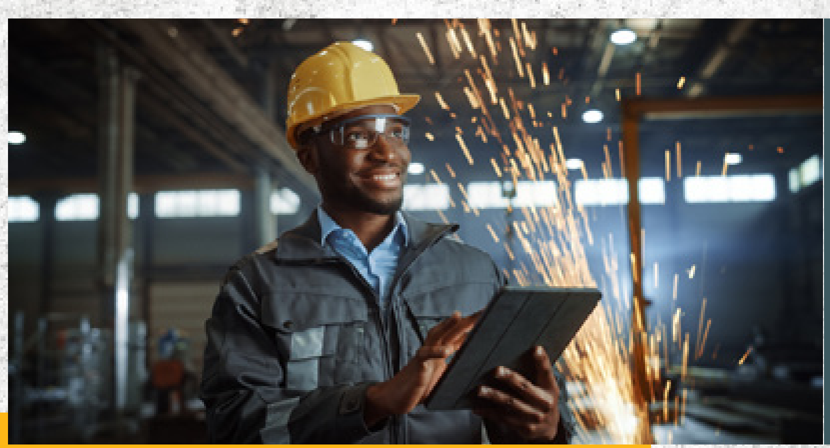
UGX **242**BN | **112%**

In 2020, the Bank set out to invest UGX 217 Bn (debt) and UGX 10 Bn (private equity) in the High Impact Goals (HIGs). These investments were to be channelled through the Bank's **five priority areas** namely: **Agriculture**; **Tourism and Hospitality**; **Industry**; **Infrastructure**; and **Human Capital Development** using the bank's financial and non-financial products/services of: **Term loans**, **Asset finance**, **Trade finance**, **Equity investment**, **Farmer group models**, **Advisory services** and **Project preparation**.

As at end of December 2020 the Bank had disbursed UGX 242.02 Bn, exceeding the target by 12%. Specifically, in relation to the Bank's Sustainability strategy, the Bank's projected development impact resulting from approved projects in 2020 include, but are not limited to:

HIGH IMPACT GOALS	RESULT AREA	KEY ACHIEVEMENTS
HIG 1. Reducing poverty in Uganda while protecting the natural environment	— Increased yields of selected value chains	— Thirty percent (%30) increase in yields in selected value chains.
	— Sustainable water for production for crop & livestock husbandry	— Construction of four (4) smaller holder irrigation schemes. — Construction of fifty-one (51) valley dams.
	— Reduction in post – harvest losses.	— Four (4) post- handling facilities constructed.
	— Access to Finance for 1,000 small holder farmers.	— Four (4) large processors supported. — Nine thousand thirteen (9,013) beneficiaries from seven (7) direct farmer groups started.
	— Tourism, hospitality, and cultural heritage preservation.	— Eight (8) tourism facilities supported.
HIG 2. Build a sustainable Food System for Uganda	— Increased food production and yields.	— Six (6) farmer groups with 8,189 beneficiaries supported in food production.
	— Increased support for organic farming and adoption of climate smart farming techniques.	— Five (5) farms using organic inputs supported. Eight (8) farms supported to adopt climate smart farming techniques.
HIG 3. To promote sustainable In-dustrialization in Uganda	— SME industrial skill development.	— UGX 24 Bn of UDB funds allocated to SME industrial development.
	— Adoption of cleaner production technologies / climate smart industry.	— Five (5) SME Supported to adopt cleaner production technologies.
	— Improved capacity of local contractors to undertake infrastructure development.	— Two (2) local infrastructure contractors supported.
	— Increased participation of women in industrial development.	— Six (6) women – owned or led enterprises approved.

Overall, the COVID-19 pandemic slowed down the implementation of various business initiatives such as the Bank's business and operations which were constrained by the COVID-19 containment measures. Despite the challenge, the Bank registered notable strategic achievements during the year including;



- **Implementation of the revised organizational design, policy frameworks, technological and other institutional arrangements in support of the strategy,**
- **Additional funding to the tune of Ugx 510 billion from the Government was realized; this capital base creates a bedrock for the bank's ability to fund impact-creating investments in pursuit of UDB's High Impact Goals,**
- **The Bank was awarded a Level 5 Certification under the Sustainability Standards and Certification Initiative (SSCI) - the highest award in the certification process, in addition to UDBL being the first DFI in Africa to attain this status,**
- **The Bank undertook various strategic partnerships aimed at catapulting its reach and relevance; these included partnerships with Post Bank Limited, National Chamber of Commerce, Economic Policy Research Centre, and Financial Sector Deepening Uganda (FSDU), among others,**
- **Various milestones were achieved with regards to the Bank's digitization journey,**
- **The Bank, in partnership with the European Union (EU) allocated funds in form of a "grant attached to a loan" to enable the Tourism sector soar through the hardship caused by the COVID-19 pandemic, and**
- **The Bank adapted to the COVID-19 pandemic restrictions as well as challenges and continued to deliver value to its varied stakeholders even through the lockdown.**

The Bank will seek to consolidate these accomplishments in 2021 and beyond, as it continues to implement its strategic plan.

> **THE BANK WAS AWARDED A LEVEL 5 CERTIFICATION UNDER THE SUSTAINABILITY STANDARDS AND CERTIFICATION INITIATIVE (SSCI) - THE HIGHEST AWARD IN THE CERTIFICATION PROCESS, IN ADDITION TO UDB BEING THE FIRST DFI IN AFRICA TO ATTAIN THIS STATUS.**

STRATEGIC OUTLOOK FOR 2021

UGX 502BN & UGX 10BN

TO BE DISBURSED BY THE BANK IN HIGS THROUGH IT'S 2021 BUSINESS PLAN.

In 2021, the Bank will continue to implement various strategies to enable the country to thrive amidst the COVID-19 crisis which continues to impact the economy. These strategies include supporting the local production of essential goods, replacing imports as much as possible, modifying existing financial and non-financial products and developing/implementing new ones to support domestic production of essential items, identifying and financing technological transformation of business, industry and infrastructure projects, identifying strategic and development partnerships for collectively addressing the three challenges (supply-side challenges, demand-side challenges, and technological challenges) and starting the implementation of the Financing 4.0 program.

The second year of UDBL's 5-year Strategic plan will be implemented through its 2021 Business Plan which maintains alignment with NDP III. The Bank is targeting to disburse **UGX 502 Bn (debt) and UGX 10 Bn (private equity)** in the High Impact Goals (HIGs). Sustainability strategies and initiatives have been developed to strategically disburse these funds and COVID-19 notwithstanding, the Bank is committed to optimally execute its strategy in 2021 by progressing the implementation of the Bank's sustainability strategy coupled with optimizing operational efficiency to achieve its high impact goals.

Specifically, the 2021 business plan is focusing on the following:

- Advancing the import replacement and export advancement strategy that is intended to catalyze the industry sector,
- Supporting women and youth in the SME space involved in industry, especially agro-processing,
- Promoting value-addition in agriculture especially in the rural production zones,
- Enhancing customer experience through digitization and innovative solutions,
- Responding to the negative impacts of the COVID-19 crisis on the economy to support the country's resilience,
- Ensuring fast and prudent absorption of financial resources, including capital, by employing efficient business practices, and
- Optimizing the Bank's human resources through enhancing productivity and skills development, among others.

Following is a summarized graphical representation of the Bank's 2021 Sustainability strategy.

SUSTAINABILITY STRATEGY

HIGH IMPACT GOALS	DEVELOPMENT IMPACT	KEY RESULT AREAS	SELECT INITIATIVES
HIG 1 **Reducing poverty in Uganda while protecting the natural environment**	Lift at least 50,000 people above USD$ 1.25 a day	— Sustainable water for production for crop and livestock husbandry — Access to finance for small holder farmers and SMEs	— Support the development of water for production projects. — Adoption of fintech solutions to support financial inclusion. — Widening the outreach for the farmer group financing model
HIG 2 **Build a sustainable Food System for Uganda**	Lift 200,000 people out of hunger	— Increase food production and yields in selected value chains including: 1-Cereals- rice, maize, millet & sorghum. 2-Pulses-beans & peas 3-Beef/ Dairy/ Poultry. — Increased support for organic farming and adoption of climate smart farming techniques — Increased use of improved and climate resilient inputs and technologies.	— Development of out-grower schemes with anchor off-takers in selected food value chains. — Partnerships with private primary production technical expert service providers to support the setup of medium and large- scale food production farms in Uganda. — Partner with Agriterra to support and promote farmers involved in climate smart agriculture. — Develop partnerships with National Agricultural Research Organisation (NARO) to enhance commercial production & dissemination of improved inputs and technologies for farming.
HIG 3 **To promote sustainable industrialization in Uganda**	Increase the value of industrial output by UGX 800Bn	— SME Industrial development — Improvement in post-harvest handling — Import substitution & Export advancement resulting into increased foreign exchange earnings.	— Target manufacturing and agro-industry SMEs in business development. — Establish co-investment partners. — Partnerships with value chain actors to support the establishment of harvest and post-harvest handling infrastructure in regional grain hubs. — Support projects involved in value addition, import substitution and export promotion in agricultural zones. — Support enterprises in industrial parks(manufacturing). — Support /set up 3 enterprises / factories to increase the supply of essential goods & services such as production of medical drugs and supplies.

ENABLERS	CROSS CUTTING PRIORITIES
KEY RESULT AREAS	
— Improve capacity of local contractors to undertake infrastructure development. — Increased access to health facilities — Tourism, hospitality, and cultural heritage preservation & promotion. — BTVET Institutions developed / rehabilitated.	— youth skills and entrepreneurship development. — Increased participation of women in industrial development. — SME development and support through business advisory
SELECT INITIATIVES	
— Develop and implement a local contractor support program (UNRA). — Develop and implement a Municipality infrastructure support program (KCCA) — Support establishment and expansion of privately owned health facilities / centres. — Finance the development /rehabilitation of BTVET Institutions to avail the relevant skills & training applicable to the industry sectors.	— Invest through Fund Managers with similar mandate to reach innovative youth-led start-ups with minimal capital requirements. — Support establishment and growth of women and youth owned/ led enterprises (or enterprises producing commodities mostly consumed by women).

*Enablers accelerate growth in other sectors like Agriculture and Industry, and these include infrastructure, health, tourism and hospitality, human capital development and digitization.

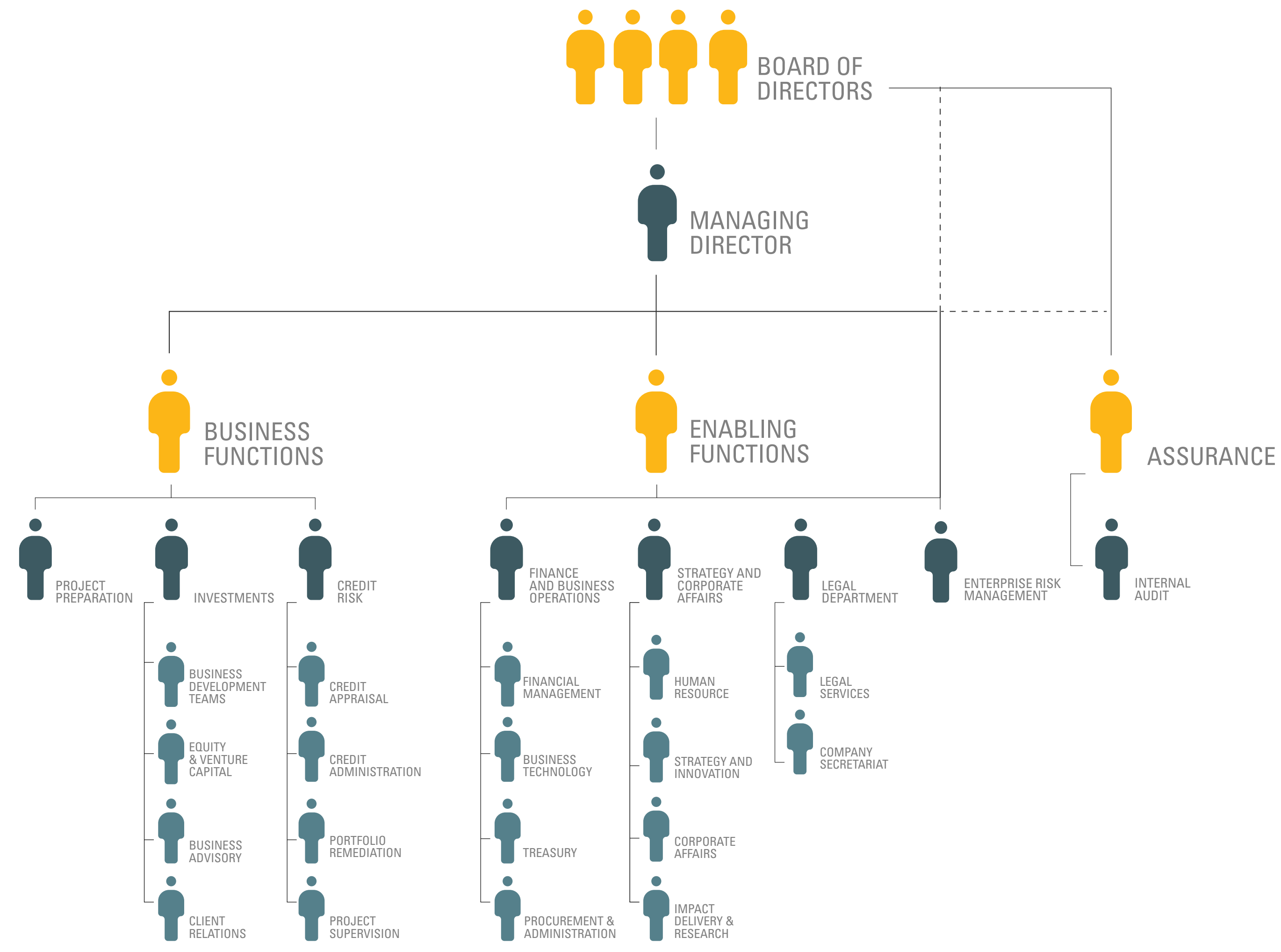
**Cross- cutting priorities include gender, youth, environmental sustainability, and climate change.

MANAGING OUR
KEY RISKS & 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. Below are the key risks monitored by the Bank and the mitigating actions in place:

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	▪ Monthly reviews by management and Quarterly reviews by the Board of performance vis-à-vis targets ▪ Corrective action taken to address shortcomings noted ▪ Annual Board and Senior Management strategy sessions
Credit Risk – the 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 board and 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 external events	▪ Periodic review of key risk indicators ▪ Periodic risk and control self-assessments ▪ Ongoing skilling and competency building of staff ▪ Up-to-date policy framework
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 ▪ Implementation of the treasury strategy and enterprise risk management framework.
Market Risk - Risk of an uncertain and volatile macroeconomic environment	▪ Continuous analysis of the market to assess likely changes and the impact of these changes on the business
Compliance Risk – Non-compliance to laws and regulations	▪ Dedicated compliance and legal functions ▪ Compliance monitoring process is in place ▪ Internal controls reviewed regularly ▪ Project-specific reviews for each of the deals we finance
Reputational Risk – Failure to prevent and respond to reputational risk events impacting on UDB's goodwill and reputation	▪ Implementation of communication and stakeholder engagement strategies

ORGANIZATIONAL
STRUCTURE



The Bank continued to implement the Board approved structure comprised of 6 directorates.

Two of the directorates (business functions) i.e. Investments and Credit are directly involved in transactions, focusing on all priority sectors and performing due diligence on projects applying for funding.

The Investments Directorate comprises of professionals that prospect for business and manage client relationships and the Bank's investments.

The Credit Directorate manages the credit risk of the Bank's investment portfolio. The Bank continues to strengthen the newly established units including the Project Preparation Unit which is responsible for the identification of promising bankable ideas and taking these through the respective preparation cycle, including concept design and commercialization.

The business functions are supported by 4 directorates that facilitate:

- The legal aspects of transactions
- Strategy formulation and implementation monitoring, human capital management, research and communications
- Resource mobilization & optimization, and business technology services
- Enterprise risk management & assurance

The Bank will continue to optimise its organizational structure and head count to deliver its long-term strategic objectives and high impact goals.

ENGAGING OUR
STAKEHOLDERS

Our Stakeholder Engagement Strategy is designed to support the achievement of the Bank's strategic objectives by providing a road map for engaging our Stakeholders.

The interventions we employ include Staff Engagement, Brand awareness and Reputation Building, Media Relations Management, Customer Relations Management, and Strategic Relationship Development. These interventions have created a platform and an enabling environment for stakeholders to share their feedback with us in real-time and to build positive perceptions about the Bank.

The engagements held in 2020 were very successful and enabled us to attain critical insights into trends in the Development Finance space. They also kept us informed of the most pressing issues in the private and public sectors and therefore informed our business interventions making us more responsive and relevant to our Stakeholders. A series of high visibility activities provided us with excellent opportunities to further furnish the public with information about the Bank's role, socio-economic and financial performance as well as strategic direction moving forward.

We have taken significant steps towards making our interventions strategic and proactive and this has resulted in a greater appreciation for our role as a National Development Finance institution as well as enhanced visibility and a greater appreciation for the development impact generated by the Bank.

Below are our Stakeholder Map and a pictorial highlighting the key Stakeholder Interventions held in the year 2020.

STAKEHOLDERS	How we engage	What we engage on	Stakeholders' contribution to value creation
GOVERNMENT	Formal meetings; Policy discussions; Conferences; On-site visits	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 activities at numerous level; training and development needs analysis; results presentations; performance reviews; internal communication and staff surveys; social media platforms	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 engagement forums and communication activities; social media platforms	Customer's needs support (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; social media platforms	Funding opportunities, financial performance, future prospects and organisational sustainability	Provide financial resources required to sustain and grow the business
SUPPLIERS	One-on-one meetings, service reviews and presentations and bid invitations	Contract and service agreements and performance.	Suppliers provide the valued expertise, products and services required to maintain our business and facilitate our growth
COMMUNITY	Project implementation; community surveys; communication activities, corporate social 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; social media platforms	Key strategic initiatives; project information; operational and financial performances	Raise public awareness of our strategy, products and services as well as our operational results.

Stakeholder Engagement remains a key strategic intervention for the Bank. The year 2020 was filled with tremendous challenges as well as opportunities. UDB rose to the challenge and harnessed the latter which necessitated effective engagement of various stakeholder groups.

The relevance of the Bank due to the constraint to the economy caused by the COVID-19 pandemic was significantly heightened. It was of the utmost importance that UDB be seen to be capable of supporting economic recovery to see the country through one of the greatest crises of our time. This was partially achieved through strategic stakeholder engagement.

UDB CO-HOSTS WORLD DEVELOPMENT FINANCE FORUM

Uganda Development Bank (UDB) together with the Ministry of Finance, Planning and Economic Development and the European Organization for Sustainable Development (EOSD) hosted the 1st World Development Finance Forum 2020 (WDFF) in Kampala with virtual attendance from members worldwide.

UDB co-hosted the World Development Finance Forum in partnership with Association of African Development Finance Institutions (AADFI), Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank (ADFIMI), City of Karlsruhe, Germany, European Organization for Sustainable Development (EOSD) and Government of Uganda.

The challenges and opportunities emerging from the COVID-19 pandemic necessitated this high-level global forum which focused on delivering tangible and breakthrough results to the member DFIs and their countries. It was predicated on the need for international consensus on the Post-COVID-19 agenda for the national development banks and the countries and territories they serve.

PARTNERSHIP WITH EUROPEAN ORGANIZATION FOR SUSTAINABLE DEVELOPMENT

The Minister of Finance, Planning and Economic Development (MoFPED), Hon. Matia Kasaija, visited Karlsruhe, Germany in July 2018 on behalf of the President of the Republic of Uganda H.E. Mr. Yoweri Kaguta Museveni. The purpose of the visit was to attend the Global Sustainable Finance Conference and to hold detailed talks with Mr. Arshad Rab, Chairman, International Council of Sustainability Standards for Value-Driven Financial Institutions and CEO, European Organization for Sustainable Development (EOSD). A Joint Communiqué endorsed by the City of Karlsruhe through the Lord Mayor Dr. Frank Mentrup was signed to lay the foundation for the cooperation. The focus was on the fields of sustainable finance, startups, and smart and sustainable industrialization with the aim to support Uganda's national efforts to create a modern, resilient, and sustainable economy and to achieve the goal of becoming a middle-income country. The cooperation also agreed to explore interventions for supporting the implementation of the Uganda Green Growth Development Strategy and the development of modern energy sector which can deliver affordable, reliable, and sustainable energy. The SEED project is flagship programmes being implemented under the joint Communiqué. The Uganda Development Bank representing MoFPED is the coordinator of the flagship project.

SEED Project

The Smart Energy Ecosystem Development (SEED) is a EOSD led initiative whose purpose is support the creation of a 21st century energy ecosystem which is democratic, decarbonized, decentralized, digitalized, de-monopolized and disintermediated. It also features mobilization of financial resources and active stakeholder participation in developing and adopting a smart energy ecosystem approach considering the local/ national conditions. It ensures sound competitive market environment, full empowerment of consumers, opens new business opportunities for small and medium-sized enterprises, encourages entrepreneurship and helps in creating a green, equitable and vibrant economy. During the year, several initiatives were completed including the development of the Uganda energy sector brief and the submission of a funding application to the European Commission under the International cooperation program aimed at accelerating the green transition and energy access in Partnership with Africa.

Mr. Arshad Rab (2nd left), CEO of the EOSD and UDB officials at a consultative meeting with stakeholders in the Energy Sector in Kampala

PARTNERSHIP WITH EUROPEAN UNION

Support to the Tourism Sector

UDB in partnership with European Union (EU) allocated funds in form of a grant attached to a loan to enable the sector soar through the hardship of COVID-19. The facility sought to stimulate businesses operating in the tourism sector, which have been heavily impacted by COVID-19 by providing a grant and soft loan with flexible terms aligned to the current needs of the sector. A total approximate pool of UGX 61.8 Billion (UGX 40Bn UDB loan plus UGX 21.8Bn EU Grant) was set aside for this intervention.

The targeted beneficiaries of this partnership were business entities under Uganda Hotel Owners Association (UHOA) and Association of Uganda Tour Operators (AUTO).

START Facility

The United Nations Capital Development Fund (UNCDF), in partnership with Private Sector Foundation Uganda (PSFU) and Uganda Development Bank Limited (UDBL), and with support from the European Union, launched the Support to Agricultural Revitalization and Transformation (START) Facility.

The Facility is intended to offer access to affordable medium-term finance for agricultural value adding projects in Northern Uganda through provision of Business Development Services and seed capital in the form of concessional loans, grants and partial guarantees.

START is expected to contribute to increased food security, improved maternal and child nutrition, and enhanced household incomes as a key outcome of the Development Initiative for Northern Uganda (DINU). DINU is a Government of Uganda programme supported by the European Union.

EU IS A FUNDING PARTNER OF FAO AGRINVEST

AgrInvest, a blended finance initiative of the Food and Agriculture Organization of the United Nations (FAO), uses public funding to attract sustainable private investments in the agrifood sector. More productive, resilient, and inclusive agrifood systems will help reduce poverty, hunger,, and malnutrition, create decent jobs, especially for women and young people, and ensure greater environmental sustainability.

Agriculture is often deemed too risky for financing because of its dependence on weather and seasonal change. AgrInvest focuses on key value chains in a country to help de-risk lending and improve the agricultural investment environment by using the latest assessment and financial analysis tools, digital solutions and policy dialogue.

AgrInvest in Uganda seeks to build lasting capacities to leverage responsible investments that transform agrifood systems. And it seeks to increase investment opportunities, including for smaller family farmers – the majority of Uganda's farmers – who largely fall outside of formal agribusiness value chains. With support from the FAO Investment Centre and the European Union Delegation in Uganda, AgrInvest's main public sector investment partner is the UDB. The UDB seeks to become a leading business partner for agriculture and food-related businesses, helping borrowers grow their businesses and to offer innovative products and services to its clients.

KEY ELEMENTS OF AGRIVEST TO UDB

Increased Investing: The project supports the Bank to increase its investment portfolio in the food and agriculture sectors. The Bank is strengthening its capacities to assess business proposals and their risks –making sure proposals are economically viable and environmentally and socially responsible – and, in turn, to advise clients on astute financing and business growth. This serves to improve the quality of the pipeline of new proposals over the long term.

Green Finance: FAO-developed tools like the Ex-Ante Carbon Balance Tool (EX-ACT) and the Global Livestock Environmental Assessment Model interactive (Gleam-i) are being introduced to help the Bank assess the greenhouse gas emissions and carbon balance of loan applications in food and agriculture.

Policy Dialogue: Policy dialogue and technical assistance will help de-risk and enhance the viability of agricultural investments. Regular dialogue supported by data analysis involving public and private actors along the value chain – from farm to fork – can pinpoint trouble areas and identify solutions.

Digital Solutions: To enhance the Bank's lending, the project has teamed up with the UN Capital Development Fund (UNCDF) to increase the Bank's capacity to use digital technologies – from profiling clients and assessing risks based on geodata, to delivering loans via digital payment systems. This will allow the UDB, a branchless national development bank, to significantly increase its outreach to small-scale farmers in underserved rural areas.

Impact measurement: Big data analytics can help the Bank understand how agricultural investments contribute to reducing poverty. Greater capacity to use big data analytics can significantly lower the cost of impact monitoring, and, in turn, contribute to better planning of UDB's agricultural activities.

UDB PARTNERSHIP WITH UGANDA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY

Another manifestation of the Bank's robust Stakeholder Engagement strategy was the partnership with Uganda National Chamber of Commerce and Industry. UDB entered a partnership with Uganda National Chamber of Commerce (UNCCI) to facilitate various capacity building sessions, projects and activities for mutual benefit of their medium and small-scale enterprises (SMEs), youth and women in business. Both organizations are committed to participating in projects that will benefit the business community such as Business Advisory Services, Youth and Women Entrepreneurship growth and development, Vocational Development Training, Customized Statistical Reports and Research and Small and Medium Business Development projects.

Officials from Uganda National Chamber of Commerce and Uganda Development Bank at the signing of an MoU in partnership to facilitate capacity building of SMEs, youth and women in business.

MEDIA INTERVENTIONS

Members of the UDB Executive Committee at a courtesy visit at Vision Group.

The Media is one of the Bank's most important Stakeholder groups. The deliberate drive towards generating greater appreciation for the role of Development Finance in the economy and relatedly, the impact generated by the Bank among stakeholders and the public necessitates effective engagement of the media fraternity. The attainment of Brand Awareness, Reputation and Strategic Relationship building will be largely driven by engagement of our media partners. To this end, the UDB Executive Committee carried out courtesy visits to the two leading daily print media houses, Vision Group and Nation Media Group. The purpose of these engagements was to lay a foundation for future strategic media interventions and to discuss potential partnerships between the two institutions. The Bank also carried out a media training on Development Finance for a select group of Business Editors and journalists from the mainstream media houses. This intervention was intended to provide our media partners with a comprehensive understanding of the business and to build their capacity to report on Development Finance. .

KEY STAKEHOLDER INTERVENTIONS
PICTORIAL

Board and Management attend the 2020 Annual Business Retreat.

UDB Board and Management at the 2020 AGM with the shareholders of the bank, State Minister of Finance for Investment and Privatization, Hon. Evelyn Anite.

UDB Media Partners at a training on Development Finance at Golden Tulip Hotel in Kampala.

UDB Board Members unveil the Sustainability Standards & Certification Initiative seal.

ENHANCING CUSTOMER EXPERIENCE

The Bank recognizes the strategic role of customers in delivering her mandate and created a client relations unit to focus on customer needs, formalize the systems and processes in place while driving the Customer Experience Management strategy on an ongoing basis throughout the plan period (2020 – 2024).

Understanding the financial needs, worries, and aspirations of our customers is the key to serving them effectively. Harnessing that understanding to create and deliver services and products that most effectively serve them is the essence of customer centricity for Uganda Development Bank.

> UDB'S CUSTOMER EXPERIENCE MANAGEMENT OBJECTIVE IS TO ACHIEVE EXCELLENCE IN A PROGRESSIVE MANNER THAT BALANCES CUSTOMER NEEDS WITH THE ABILITY TO DEVELOP AND IMPLEMENT TOOLS, PRODUCTS, SERVICES, PROCESSES, AND INNOVATIONS THAT FULFILL CUSTOMER REQUIREMENTS.

In a fully customer centric UDB:

- knowledge of client needs, expectations, and behaviors drives decision-making.
- Empowering and engaging clients for continuous product and service improvement is central to our success.
- leadership and organizational structures integrate and reflect a deep desire to meet customer needs and expectations; and
- there is a constant drive to innovate, build partnerships, and develop capacity to meet customer needs better and continuously.
- Dedicated customer contact channels email: **clientrelations@udbl.co.ug** and Telephone +256 414 355 509

UDB's Customer Experience Management objective is to achieve excellence in a progressive manner that balances customer needs with the ability to develop and implement tools, products, services, processes, and innovations that fulfill customer requirements. It's imperative to not only listen to our customers, but to enter each conversation with clear next-step suggestions and to approach each situation from a place of positive action.

To achieve this objective, the Bank has transformed the organizational behavior and conventional business processes for managing customer interactions by automating the workflow throughout the loan process resulting in reduced enquiries on progress and turn-around time, while ensuring that resources are directed to achieving a more positive customer experience. It cannot just be a part of the customer-facing teams instead, the customer Experience Management - Centricity has been cascaded from the top down and aligns with the overall vision, mission, and values.

> THE CUSTOMER EXPERIENCE MANAGEMENT - CENTRICITY HAS BEEN CASCADED FROM THE TOP DOWN AND ALIGNS WITH THE OVERALL VISION, MISSION, AND VALUES.

GOVERNANCE

CHAIRMAN'S STATEMENT

During the year ended 31st December 2020, the economic environment world-over was severely constrained, with global economic growth slowing to 3.3%. Similarly, Uganda's economy had a slowed growth rate of 2.9%, mainly on account of the adverse effects of COVID-19 and the related containment measures. The projected growth rate in real GDP for 2021 is expected to improve as countries implement various preventive measures, including widescale national inoculation programs.

Despite 2020 being a very challenging year, I am pleased to report that the Uganda Development Bank registered significantly improved performance and received an unqualified audit opinion. This is testament to the Board of Director's prudent oversight over the operations of the Bank and its governance. Also during this challenging year, the bank registered significant achievements and implemented many initiatives, the majority of which are presented in this report.

UDB ended the year on a strong footing with substantial growth in income, profit after tax and asset value as well as delivery varied socio-economic development outcomes. Shareholder equity also grew substantially by 162%, rising to Ugx911Billion in 2020. This was on account of the steadfast commitment of the Government of Uganda and the continued support from our development partners, which ensured that the Bank was adequately funded and able to make an impactful contribution on the quality of life of Ugandans.

The Board remains focused on the attainment of the Bank's mission of **accelerating socio-economic development through sustainable financial interventions** in the country. Our objective is to ensure that the Bank's interventions create jobs, boost growth and fight poverty by promoting inclusive growth in the country, in tandem with the national priorities as encapsulated in both the third National Development Plan (NDP111) and Vision2040.

In the course of the year 2020, the Board approved amendments to various policies to align them to the status on ground and ensure they remained relevant to the Bank's business. The Board also approved the import substitution strategy which guided the Bank's intervention in in sectors such as manufacturing and agro industrialization to counter the negative impact created by the COVID-19 pandemic as well as take advantage of opportunities that would unfold through increased funding.

In 2021, the Bank will continue to leverage on its current achievements and focus more deliberately on supporting the SMEs, development of Women and Young entrepreneurs across the country as well as finance

"IN 2021, THE BANK WILL CONTINUE TO LEVERAGE ON ITS CURRENT ACHIEVEMENTS AND FOCUS MORE DELIBERATELY ON SUPPORTING THE SMES, DEVELOPMENT OF WOMEN AND YOUNG ENTREPRENEURS ACROSS THE COUNTRY AS WELL AS FINANCE OPPORTUNITIES IN THE KEY GROWTH SECTORS.

Mr. Felix Okoboi
Board Chairman

IN 2020, UGANDA'S ECONOMIC GROWTH SLOWED DOWN TO
2.9%

IN 2020, GLOBAL ECONOMIC GROWTH SLOWED DOWN TO
3.3%

"UDB ENDED THE YEAR ON A STRONG FOOTING WITH SUBSTANTIAL GROWTH IN INCOME, PROFIT AFTER TAX AND ASSET VALUE AS WELL AS DELIVERY VARIED SOCIO-ECONOMIC DEVELOPMENT OUTCOMES.

SHAREHOLDER EQUITY ALSO GREW SUBSTANTIALLY BY
162%

opportunities in the key growth sectors (mainly primary agriculture, agro-processing and manufacturing), with the view to import replacement whilst promoting production for export.

On behalf of the Board of Directors, I would like to convey our sincere gratitude and appreciation to all our stakeholders for supporting the Bank, but most especially to our shareholders, the Minister of Finance Planning and Economic Development Hon. Matia Kasaija, and the Minister of State for Privatization and Investment Hon. Evelyn Anite as well as the entire Management team of the Ministry for their constant and unwavering support to the Bank.

I thank the Managing Director, Ms. Patricia Ojangole, the Management team, and the entire staff body for their tireless efforts and continuous hard work and dedication to the Bank and the development of our country, by ensuring the Bank served our clients and customers with distinction even through the pandemic and for meeting the various business milestones in 2020.

To my fellow Directors, I appreciate your continued commitment and dedication, and commend you for upholding a high standard of corporate governance. Your oversight has contributed significantly, not only to the financial sustainability of the Bank but also to its continued focus on its pivotal role in the development of our country.

Felix Okoboi (Mr.)
Board Chairman

BOARD OF DIRECTORS

Mr. Felix Okoboi
Board Chairperson

Master of Engineering, (Architecture) Aachen University of Technology; Master of Arts in International Studies, University of Pennsylvania; Master of Business Administration (Finance), University of Pennsylvania.

Age: 50 Appointed: 2018

Directorship in other institutions: Chairman, Investment Committee of Yield Uganda Private Equity Fund; Managing Director CLB Capital Ltd.

Other roles: Board Advisor for National Social Security Fund; Apex Member of the Financial Markets Development Committee of Bank of Uganda.

Ms. Patricia Ojangole -
Managing Director

M.Phil in Development Finance (cum laude), 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: 43 Appointed: 2018

Directorship in other institutions:- Trade Mark EA, Busitema University Fund & Liberty Life Assurance (U) Ltd.

Committees: Member, Board Strategic Planning Committee and Board Credit Committee.

Mr. Henry Balwanyi Magino
Independent Non-Executive Director

Chartered Secretary, ICSA; LLB (Makerere); Pg. Dip (Law Development Centre); Member of the Institute of Chartered Secretaries & Administrators-ICSA of London UK-ACIS

Age: 57 Appointed: 2015

Roles currently held:- Partner/ Advocate, Asire & Co. Advocates.

Committees: Chairperson, Board Audit and Risk Committee.

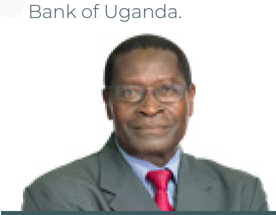
Ms. Silvia Angey Ufoyuru -
Independent Non-Executive Director

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

Age: 51 Appointed: 2015

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

Committees: Chairperson, Board Strategic Planning Committee and Member, Board Audit and Risk Committee.



Mr. Nimrod Waniala
Independent -Non-Executive Director

Masters in Banking & Finance for Development (Fin. Africa Foundation, Milan); BSc. Econ (Makerere University)

Age: 69 Appointed: 2015

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

Committees: Chairperson, Board Credit Committee and Member, Board Strategic Planning Committee.

Mr. Francis Tumuheirwe -
Independent Non-Executive Director

Master of Science (Economics), Bradford University, United Kingdom; Bachelor of Science (Economics and Statistics), Makerere University

Age: 66 Appointed: 2018

Directorship in other institutions: - Board Chairman Uganda Electricity Distribution Company Limited.

Committees: Member, Board Audit and Risk Committee.

Mr. John Ira K. Byaruhanga -
Non-Independent Non-Executive Director

Master of Public Administration (Economic Policy Management), Columbia University; BSc. Economics, Makerere University

Age: 48 Appointed: 2017

Roles currently held: Ag. Commissioner, Tax Policy Department, Ministry of Finance, Planning and Economic Development.

Committees: Member, Board Strategic Planning Committee and Member, Board Credit Committee

MANAGING DIRECTOR'S STATEMENT

SUPPORTING ECONOMIC RESILIENCE

The year 2020 was unprecedented worldwide as it was characterized by the onset of the COVID-19 pandemic. The pandemic continues to ravage various parts of the world, presenting and/or intensifying supply-side and demand-side and technological challenges to global and national economies. These challenges have impacted different countries variedly, with the effects being felt in greater intensity within the developing countries that were already beleaguered with either weak economies or inadequate social safety nets. Like other countries, Uganda experienced varied social and economic effects from this pandemic during 2020, with the tourism and education sectors bearing the brunt of these effects.

THE BANK WILL CONTINUE TO PROVIDE FINANCIAL AND NON-FINANCIAL INTERVENTIONS THAT SUPPORT BUSINESSES ENGAGED WITHIN THE KEY GROWTH SECTORS OF THE ECONOMY AS ITS CONTRIBUTION TOWARD ENSURING THAT THE ECONOMY REVERTS TO NORMALCY.

Against this backdrop, there was a heightened role for governments to support economic resilience and relatedly, this compounded the already cardinal role of Development Finance Institutions (DFIs) world over, as economic vehicles to support their governments in managing the crisis and restoring normalcy and to provide countercyclical funding to sustain economic activities.

Accordingly, the Government supported the Bank with funding to support the economy to be self-sustaining which would also help in fast recovery of the economy pre and post the crisis. The Bank approved and committed Ugx 444Billion in 2020, and disbursed Ugx242Billion in loans to various private-sector projects across the country.

The bank also implemented a raft of credit relief measures to support its more distressed customers following impact of the pandemic on their business. Under these measures, UDB restructured loans amounting to Ugx 51Billion as well as deferred interest payments on Ugx172Billion worth of loans for upto 18months. These relief measures, extended to businesses in sectors most affected by the pandemic, freed the much-needed liquidity to enable the affected enterprises continue operating.

Additionally, the Bank in partnership with the European Union (EU), committed Ugx40Billion to a soft and subsidized loan fund to finance businesses engaged in tourism whereunder, the eligible beneficiaries also access a grant to finance their working capital needs during the crisis. The grant component amounting to Euro 6Million (approximately Ugx27Billion) is funded by the European Union.

The bank will continue to provide financial and non-financial interventions that support businesses engaged within the key growth sectors of the economy as its contribution toward ensuring that the economy reverts to normalcy.

DELIVERING UDB BUSINESS STRATEGY

The year 2020 marked the first year of implementation of the UDB Strategic Plan 2020-2024. Amidst a myriad of the challenges the bank's business faced during the year, the bank's overriding aspiration was to reengineer the business and deliver a horst of sustainability initiatives in support of the bank's High Impact Goals; amongst these initiatives include:

a. Engendering sustainability

The Bank commenced impact-based planning, execution and reporting. To further consolidate this approach, UDB underwent a comprehensive review of its operations and undertook a processes redesign, supported by the Sustainability Standards and Certification Initiative (SSCI). Following the said review, the Bank was awarded a Level 5 Certification under the SSCI - the highest award in the certification process, in addition to UDB being the first DFI in Africa to attain this status.

b. Funding

As a means to anchor the bank's business and sustainability ambitions, the Bank

444bn
APPROVED & COMMITTED LOANS IN 2020

242bn
LOANS DISBURSED IN 2020

received additional funding to the tune of Ugx510billion from the Government. The bank's funding base increased, creating a bedrock for the bank to fund impact-creating investments in pursuit of UDB's High Impact Goals.

c. Right Structure, Right People, Right Processes

The bank implemented a revised organizational structure and revisited its various policy and process frameworks, technological and other institutional arrangements with the aim of supporting the realization of the bank's strategy and high impact goals. This adaptive approach, complimented by the implementation of a function of digitalization initiatives, enabled the Bank to continue operating throughout the year despite the COVID-19 restrictions and challenges.

d. Unlocking the value of strategic collaborations

To further consolidate and expand the reach of the gains and impact of UDB's interventions, the Bank pursued and continued to engage in impactful strategic collaborations - including with European Union (EU), Post Bank Limited, National Chamber of Commerce, Economic Policy Research Centre, and Financial Sector Deepening Uganda (FSDU), among others.

In liaison with the European Organization for Sustainable Development (EOSD), the Bank hosted the inaugural World Development Finance Forum, attracting the attendance of over 180 delegates from various DFIs and related agencies across the world. The forum culminated in the official launch of Financing 4.0 program that aims to pool resources to finance sustainability-conscious projects and investments as it makes finance work for all. UDB was admitted to the program during the forum.

SOCIO-ECONOMIC OUTCOMES AND IMPACT

Throughout the year, the bank continued to invest resources in projects that demonstrate the ability to deliver socio-economic outcomes and impact. Emanating from the bank's funding activities, the following development outcomes were realized in 2020:

a. Employment

24,013 jobs were created/maintained amongst the enterprises that the bank financed, down from 28,313 jobs in 2019; the related 15% decline is attributed to the job cuts particularly in the education and tourism sectors occasioned by the COVID-19 pandemic. Of these jobs created/maintained, 72% were occupied by youths and 62% were full-time jobs.

510bn
ADDITIONAL FUNDING FROM GOVERNMENT

24,013
JOBS CREATED/ MAINTAINED
AMONGST THE ENTERPRISES THAT THE BANK FINANCED.

b. Tax Contribution

The total contribution to government tax revenue by companies financed by the bank amounted to Ugx160.1Billion, growing by 12% from Ugx141.7%Billion in 2019.

c. Supporting Private Sector Performance

The annual output value for companies financed by the bank witnessed a 38% growth, supported by improved production mainly in agriculture and industry. Similarly, the profitability of these businesses totaled Ugx409.4Billion. Conversely, there was a 50% decline in export earnings during the year, yielding at Ugx175.4Billion – the drivers being the marked reduction in forex earnings for businesses engaged in tourism and hospitality, and manufacturers opting to either scale back production for export or to produce mainly for the local market during the lockdown.

d. Gender and other considerations

Of the 24,013 jobs that were created/ maintained, 33% (or 7,859 jobs) were held by females. Similarly, women held 34% representation in the shareholding, board and senior management structures of the companies funded; 23 jobs were occupied by persons living with disability. The Bank will continue to take deliberate efforts to finance enterprises that are women-led/ women-owned as well as support projects that create opportunities for underserved sections of the society.

e. Other Impact indicators

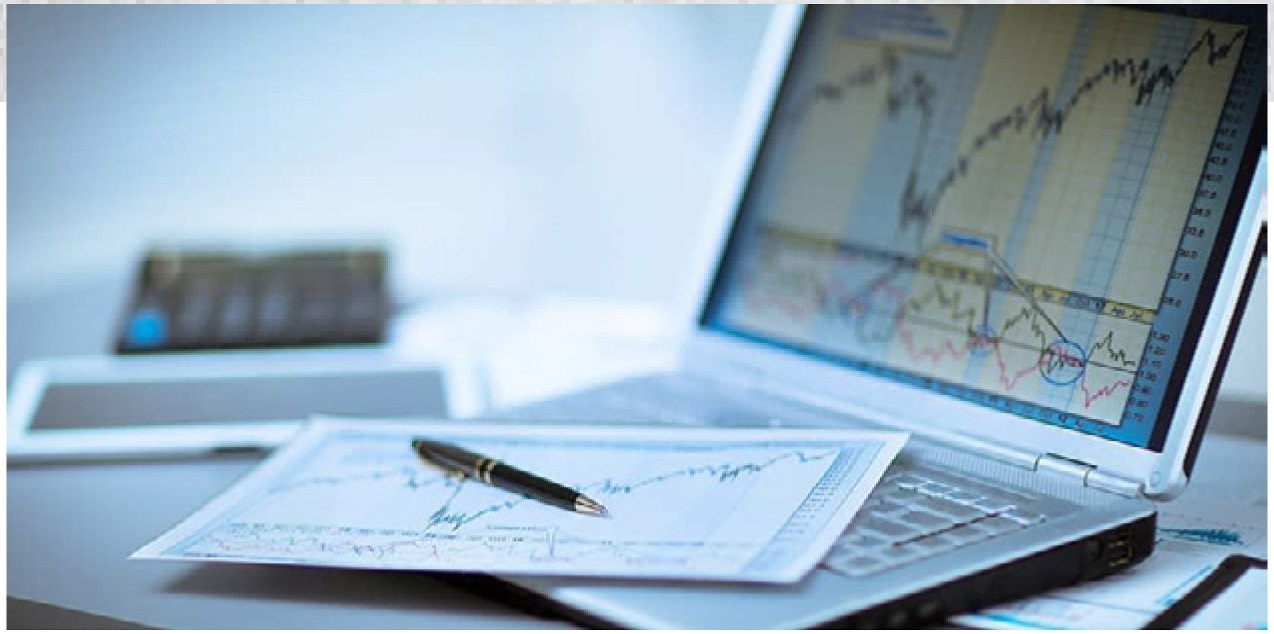
It is noteworthy that during the year and from the Bank's interventions, up to 5,275 people were lifted out of poverty i.e. they started to earn incomes above the poverty line (US$1.90 per day); the average yield per acre for cereal improved by 4% to 1,610Kgs while the value of industrial output improved from Ugx410.9Billion to Ugx1,520.7Billion.

PROJECTED IMPACT FROM 2020 - APPROVED PROJECTS (YET TO BE FULLY DISBURSED)

The bank in 2020 approved a total loan value of Ugx 444Billion toward 75 projects spread across the country. These projects, upon full implementation, are expected to create 57,234jobs, generate output value of Ugx 3,785Billion, contribute taxes amounting to Ugx 749Billion and generate Ugx 1,138Billion in foreign exchange earnings.

160.1bn
TOTAL CONTRIBUTION TO GOVERNMENT TAX REVENUE BY COMPANIES FINANCED BY THE BANK

5,275
PEOPLE WERE LIFTED OUT OF POVERTY



FINANCIAL PERFORMANCE

UDB continued to sustain balanced financial and non-financial performance. The Bank realized a post-tax profit of Ugx22.1Billion in 2020, more-than doubling from Ugx10.1Billion in 2019. This resulted majorly from the sustained growth in the bank's funding, matched by a 54% growth in the gross loan book, from Ugx354Billion in 2019 to Ugx557Billion at the end of 2020. Similarly, the bank's interest income improved to Ugx72.1 Billion, up by 72% from Ugx42.0 Billion in 2019.

The bank continued to grow in size. UDB's balance sheet grew by 124% from Ugx486.4Billion to Ugx1,089.8Billion on the back of improved Government of Uganda funding contributions totaling Ugx510Billion in 2020. The bank also drew down on the lines of credit held with its funding partners, deploying additional Ugx68Billion in 2020, and therefore giving rise to a 65%% uplift in total borrowings to Ugx143.49Billion.from Ugx87.22Billionin 2019.

The bank will continue to leverage its equity so as to diversify its sources for funding required to finance its investments whilst undertaking interventions to optimize its financial, human, technology and other resources, with the view to bolster operational efficiency.

Similarly, to protect shareholder value, UDB will continue to exercise prudence at business sourcing as a means to proactively manage its credit risk, and undertake any feasible supportive interventions that aim to resuscitate distressed customers' businesses.

LOOKING AHEAD

As the Bank continues on its sustainability journey, the 2021 priorities among others include;

i. Implement specialized strategies and interventions so as to reach the underserved communities in the country. Specific emphasis will be on the roll-out SME financing strategy, interventions to support youth and women, among others.

ii. Leverage technology and key partnerships to reach more far-flung beneficiaries with a focus on financing projects located upcountry.

iii. Promoting value-addition in agriculture especially in the rural production zones

iv. Fostering innovation as a way of life in the bank and strengthening staff competencies to enable them effectively and competently deliver in their roles.

v. Enhancing customer experience through digitization and innovative solutions

APPRECIATION

On behalf of Management and staff, I convey our sincere gratitude to all our stakeholders who continued to support the Bank to flourish particularly amidst the challenging operating environment during the year 2020. Our commitment is to stay true to the Bank's mandate and to continue making tangible contributions towards improving the quality of life of Ugandans.

I take this opportunity to convey our gratitude to the Bank's shareholders, the Ministry of Finance, Planning and Economic Development, for their unwavering support, and for ensuring that the Bank is adequately facilitated to deliver on its role. We extend our appreciation to the Board of Directors, for their oversight and continued counsel that has seen the Bank continue to grow over the years.

To the Management team and all staff at the Bank, I heartily commend each and every one of you for the passion with which you serve the needs of our customers and the varied stakeholders, and for tremendous commitment that exhibit on a daily basis; these virtues serve as the cornerstone for the bank to soar on.

To our valued clients with whom UDB conducts its business and our funding partners who have supported the Bank, we cherish the continued partnership. We look forward to working together to deliver more impact in the communities we serve.

As we look to a rewarding 2021, I wish you all good health and success.

Ms. Patricia A. Ojangole
Managing Director

22.1bn

POST-TAX PROFIT WAS REALIZED BY THE BANK IN 2020

THE BANK CONTINUED TO GROW IN SIZE. UDB'S BALANCE SHEET GREW BY 124%

54%

GROWTH IN THE GROSS LOANS

THE
EXECUTIVE TEAM

Ms. Patricia Ojangole -
Managing Director

M.Phil in Development Finance (cum laude), University of Stellenbosch Business School; Masters in Business Administration from ESAMI; B.Com Makerere University; Member of the Institute of Certified Public Accountants of Uganda (ICPAU); Fellow of the Association of Chartered Certified Accountants (FCCA); Member of the Institute of Internal Auditors (IIA)

Mr. Mahamoud Andama
Director Investments

MA (International Economics and Trade); Bachelor of Business Administration, Makerere University; Member of the Association of Chartered Certified Accountants (ACCA). He has completed several leadership and management programs and is pursuing an MBA at Edinburgh Business School-Heriot WATT University Scotland UK.

Mr. Denis Ochieng
Director Finance and Business Operations

MSc. Financial Risk Management, Glasgow Caledonian University; BCom (Accounting), Makerere University; Member of the Institute of Certified Public Accountants of Uganda (ICPAU); Fellow of the Association of Chartered Certified Accountants (FCCA); Graduate of the CEO Apprenticeship Program.

Ms. Sophie K. Nakandi
Head Legal and Company Secretary

Bachelor of Law, Makerere University; Postgraduate Diploma in Legal Practice, Law Development Centre; Masters in Business Law, De Montfort University, Leicester.

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; Member of the Institute of Certified Public Accountants of Uganda (ICPAU); Fellow of the Association of Chartered Certified Accountants (FCCA); Member of the Institute of Internal Auditors (IIA); Associate Member of the Association of Certified Fraud Examiners (ACFE).

Mr. Joshua Allan Mwesiga
Director Strategy and Corporate Affairs

MSc. Human Resources Management, Herriot Watt University- UK; BA (Social Sciences), Makerere University; Graduate Diploma in Modern Management & Administration, Cambridge International College, UK; Certified Senior HR Professional (SHRM-SCP), Member of the Society of Human Resources Management (SHRM)– USA; Graduate of the CEO Apprenticeship Program (CAP18).

Mr. Samuel Edem – Maitum
Director Credit

Masters of Science in Accounting and Finance, University Of Greenwich, London; Bachelor of Arts in Social Sciences (Economics) Makerere University, Kampala; Graduate CEO Apprenticeship Program 2013; Member of the Institute of Corporate Governance of Uganda.

GOVERNANCE STATEMENT

OVERVIEW

This report demonstrates Uganda development Bank Ltd's commitment to the highest standards of corporate governance and confirms that the Bank's dealings, processes, and operations continue to meet all applicable legal, statutory, and regulatory requirements.

The Board, Management and Staff remain committed to ensuring that the Bank's operations and processes are governed by clearly defined principles of good corporate governance of fairness, accountability, responsibility, and transparency.

Adherence to sound governance practices is central in promoting effective decision making which protects the interests of the Bank, enhances shareholder value, attracts the right human capital and investment partners, maintains goodwill with all stakeholders and builds public confidence in the Bank's products and services.

THE BANK'S

CORPORATE GOVERNANCE STRUCTURE

> THE PRIMARY ROLE OF THE BOARD IS TO PROTECT SHAREHOLDER VALUE OVER THE LONG TERM. IN SO UNDERTAKING THIS ROLE, THE BOARD ENSURES THAT THE BUSINESS OF THE COMPANY IS CONDUCTED ETHICALLY AND IN ACCORDANCE WITH THE RECOMMENDED STANDARDS OF CORPORATE GOVERNANCE.

BOARD OF DIRECTORS

The Board of Directors is the highest decision-making body in the Bank and is empowered by the Articles of Association to manage the affairs of business of the Company. The Directors are therefore accountable to the shareholders for performance and management of the Company.

The Board Charter sets out the Board's authority, responsibility and membership to facilitate its effective operations. The Charter also articulates the relationship between the Board and the Management of the Company including any delegated responsibilities and powers of the Managing Director.

The primary role of the Board is to protect shareholder value over the long term. In so undertaking this role, the Board ensures that the business of the company is conducted ethically and in accordance with the recommended standards of corporate governance.

ROLE OF THE BOARD

The Board is responsible for setting the appropriate strategic direction of the Bank, in a way that maximizes shareholder value and delivers the Bank's mandate of enhancing socio-economic development in the country. The Board sets the Bank's strategic objectives and ensures necessary resources are in place for the implementation of the strategy and approves the budget. The Board is also responsible for the appointment, removal, remuneration and performance review of Senior Executives, for maintaining a sound system of risk management and internal controls to provide reasonable assurance regarding the achievement of organizational objectives, ensures the Bank is managed with integrity and complies with all relevant laws, regulations, codes of business practice, and good corporate governance practices, approves all operational policies of the Bank and sanction any amendments or waivers thereof and approves the financial statements.

DELEGATED AUTHORITY TO THE MANAGING DIRECTOR

There is a clear division of responsibility at the Bank between the management of the Board and executive responsibility for running the business. The Board has delegated authority for the day-to-day operations of the Bank to the Executive Committee/Management who is led by the Managing Director. However, the Managing Director remains directly accountable to the Board for the effective management of the business for all activities and actions delegated that include but are not limited to the development of strategic and business plans, preparation of annual budgets and policy recommendations, supervising the execution of strategy and implementation of all policy decisions made by the Board, managing the Bank's risk profile in line with the extent and categories of risk identified as acceptable as well as ensuring appropriate internal controls and safeguarding the Bank's assets and resources.

BOARD STRUCTURE AND COMPOSITION

The Bank has set the appropriate structures to govern the business appropriately. The size of the Board is determined by the Memorandum and Articles of Association, which currently permits 7 members, 6 being non-executive Directors and 1 Executive Director. This composition ensures a balance of power on the Board such that no individual Director has unfettered powers of the decision-making process. Details of each Director and their date of appointment are disclosed on page 43.

The Board recognises the contribution played by Non-Executive Directors who constructively challenge Management's ideas and proposals, monitor the performance of Executive Management, bring independent thought and judgment to discussions and act in the best interest of the Company. The Executive Director ensures implementation of the strategy as well as Board resolutions and provides useful insight and perspective of the business, therefore, facilitating the Board to issue informed resolutions.

> **THE EXECUTIVE DIRECTOR ENSURES IMPLEMENTATION OF THE STRATEGY AS WELL AS BOARD RESOLUTIONS AND PROVIDES USEFUL INSIGHT AND PERSPECTIVE OF THE BUSINESS, THEREFORE, FACILITATING THE BOARD TO ISSUE INFORMED RESOLUTIONS.**

BOARD SKILLS AND EXPERIENCE

The Bank undertakes a thorough review of the Director skills, experiences and competencies, knowledge as well as diversity requirements in terms of age, gender and profession are available on the Board to meet current and future needs. The Board is comprised of individuals recognised for their high integrity who possess a track record of excellent performance in their professional careers, a wealth of experience and skills required to drive the Bank's Corporate strategy and High Impact Goals.

SKILLS MATRIX

The current composition ensured the Board effectively carried out its mandate. The table below indicates the matrix of skills required by the Bank as stated in the Memorandum and Articles of Association for the Bank to effectively deliver and enhance shareholder value:

No.	Skills	Performance rating
1.	A good appreciation of social, economic development and environmental issues	
2.	Audit, Risk and Accounting	
3.	Legal, Compliance and Corporate Governance	
4.	Human Resource and Labour relations	
5.	Strategy development and implementation	
6.	Private equity investments	
7.	Credit Risk Management, Corporate and project finance	
8.	Information Technology and IT Governance	

Key:

HIGH COMPETENCE/PRACTICED | MODERATE AWARENESS

The Board has access to independent advice and assurance and is supported by two (Board Advisors) who support the Credit and the Audit and Risk Committees of the Board.

DIRECTOR APPOINTMENTS AND SUCCESSION PLANNING

The Board Chairperson has the responsibility for ensuring that the Board composition is appropriate, of sufficient size, balanced in terms of skills, experience, independence and knowledge. He is also responsible for ensuring that there is a smooth succession planning mechanism for board positions.

The appointment and reappointment of Directors is conducted by the Shareholders at the Annual General Meeting (AGM) and interim Board appointments conducted between AGMs confirmed at the subsequent AGM as required by the Bank's Articles of Association

In selecting Directors, the appointing authority identifies individuals who are of very high integrity with knowledge and skills in sectors in which the Bank is involved.

A Director appointed receives a letter of appointment which sets out the terms and conditions for the appointment to the Board which must be accepted.

Non-Executive Directors are required to serve the Board for a term of three (3) years and are subject to re-election after the initial term and are eligible for one further term of three (3) years.

The six-year tenures of three of the Bank's Non-executive Directors Mrs. Silvia Angey Ufoyuru, Mr. Nimrod Waniala and Mr. Henry Balwanyi Magino who were chairpersons to the Strategy and Planning, Credit and Audit and Risk Committees of the Board respectively shall formally expire on 16th May 2021. The Bank appreciates the retiring Directors for their distinguished service to the Board.

The Board reviewed the existing skills and diversity sets and observed that skills including Information Technology and Innovations, Audit and Accounting, Credit and Project appraisal, and Economic, Social and Environmental skills would be required to facilitate the implementation of the Bank's strategy and accordingly informed the shareholders of the need to appoint **three (3) independent** non-executive Directors with possession of the required skills and diversity sets.

The Board Chairperson, Mr. Felix Okoboi and Director Francis Tumuheirwe's first term of service to the Board will expire on 1st August 2021. Following an evaluation of the Director's performance, the Board will submit relevant recommendations relating to their reappointment to the shareholders.

> **THE INDUCTION FURTHER ENABLES THE DIRECTORS TO MEET THE SENIOR MANAGEMENT TEAM.**

INDUCTION AND PROFESSIONAL DEVELOPMENT

All newly onboarded Directors participate in a formal induction process which is presented by the Managing Director as well as Senior Management and coordinated by the Company Secretary. The induction process enables the Directors to appreciate 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. The induction further enables the Directors to meet the Senior Management team. The induction program is regularly reviewed to ensure it considers the relevant developments.

Periodically, 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.

Annually, the Directors approve a Director Development Matrix which entails the various trainings that they are scheduled to undertake to augment their oversight role. During the year 2020, the Directors were trained in the following disciplines:

No	Name	Training
1.	**Mr. Felix Okoboi**	Reinventing board leadership in a covid-19 world
2.	**Mrs. Patricia Ojangole**	Reinventing board leadership in a covid-19 world
3.	**Mrs. Silvia Angey Ufoyuru**	Reinventing board leadership in a covid-19 world
4.	**Mr. Francis Tumuheirwe**	Reinventing board leadership in a covid-19 world Corporate Governance and Board Competency
5.	**Mr. Henry Balwanyi Magino**	Reinventing board leadership in a covid-19 world
6.	**Mr. John Byaruhanga**	Reinventing board leadership in a covid-19 world
7.	**Mr. Nimrod Waniala**	Reinventing board leadership in a covid-19 world

> **IN 2020, THE BOARD UNDERTOOK AN EXTERNAL ASSESSMENT OF ITS PERFORMANCE FACILITATED BY AN INDEPENDENT CONSULTANT, JAPHETH KATTO CONSULTING AND THE RECOMMENDED AREAS FOR IMPROVEMENT WERE NOTED.**

BOARD EVALUATION

Each year, the Bank undertakes a rigorous review of the effectiveness of the Board, its committees, and its individual Directors. Board evaluation helps us to determine whether the Board has been effective in carrying out its mandate, whether individual Directors continue to make quality contributions to the discussions at meetings and continue to demonstrate a commitment to their director role and whether there is presence of sufficient teamwork at the Board. In 2020, the Board undertook an external assessment of its performance facilitated by an Independent Consultant, Japheth Katto Consulting and the recommended areas for improvement were noted. An action plan to implement the recommendations was also generated.

BOARD MEETINGS

The Board meets at least 4 times in a year and holds a strategy session annually including any Special Board meetings required to attend to urgent business. During the period ended 31 December 2020, the Board of Directors convened 8 times and additionally, a Board strategy session was held over 2 days during the year. Refer to details on page 67 for Board attendance during the period. To enable the Board to effectively discharge its responsibilities, the Board approves an annual calendar and to allow the Directors sufficient time in preparation for the meetings, most of the Board and Committee papers are circulated four days before the meeting. To facilitate efficient decision making, the Management team, and other senior executives may be invited to attend part of the meetings to provide additional insight into technical matters at the relevant time during the Board and Committee meetings.

During the year 2020, the attendance of the meetings was good with sufficient justification provided for the absence of Directors mainly based on health and conflicting matters of national importance.

DECISION MAKING DURING THE COVID-19 PANDEMIC

The World Health Organisation declared the Corona virus (COVID-19) a global pandemic on March 11, 2020 and as result the Government put in place several restrictive measures to curb the spread of this virus including a ban on gatherings and meetings. 2020 was a unique year because many institutions were forced to operate during unprecedented times and ensure new ways of doing business. The pandemic created an opportunity to innovate. Digital board meetings became our new normal of improving board efficiency and we were forced to rethink our Digital strategy to ensure overall company efficiency and deliver on customer needs.

The Bank increased the frequency of its meetings during the pandemic to solely focus on the impact of the pandemic on its operations and on the strategy, but to also facilitate and dispense with urgent business. Meetings were held virtually via audio and video conferencing platform which enabled Directors' participation in the meetings. The Board received regular updates on the liquidity position and financial performance of the Bank, management's proposed actions to support the welfare of the workforce and establish appropriate health and safety measures, restructures of existing facilities that had been greatly affected by the pandemic. During the reporting period, the Bank received UGX. 510Billion from the Government of Uganda as additional funding to support the Bank deliver its mandate.

The Bank's Business Continuity plans were also tested and found resilient. The Bank continued to serve its customers and key stakeholders throughout the pandemic and this was possible following the roll out and implementation of continuity strategies during the period, enforcement of social distance mechanisms and the Telecommuting policy was successfully implemented while critical staff continued working at the office premises.

> "RISK OF CYBERSECURITY REMAINED A KEY AGENDA FOCUS AREA FOR THE BOARD DURING THE REPORTING PERIOD AND MITIGATIONS WERE PUT IN PLACE TO PROTECT THE BANK'S DATA.

DIGITAL TECHNOLOGY

The Bank continues to accelerate its digital transformation to ensure improved efficiency in work processes. The risk of cybersecurity remained a key agenda focus area for the Board during the reporting period and mitigations were put in place to protect the Bank's data.

The Board utilizes technology in its operations and the Board papers are circulated to the Directors through a secure portal known as *Convene*. The electronic mode of operation contributes to the preservation of the environment by reduction of paper use in addition to augmenting efficiency.

BOARD COMMITTEES

The Board delegates some of its responsibilities to Committees but remains accountable to the shareholders. The Committees augment the Board's efficiency but also facilitate detailed discussion of technical issues and application of relevant specialized Director expertise to specific areas. The Board is comprised of three Board Committees, the Board Strategic Planning Committee, Board Credit Committee, and the Board Audit and Risk Committee. All Board Committees operate under Board-approved terms of reference which were reviewed during the year to keep abreast of developments in corporate governance as well as reflect the status on the ground. The Chairperson of each Board Committee is a non-executive Director and members of each committee are appointed by the Board Chairperson. The Board periodically reviews the composition of its committees as part of the Succession planning process. The Company Secretary is the secretary and provides secretarial services to all committees. At a Board meeting following the quarterly committee meetings, the Board receives a report on the recommendations of each committee.

To promote investment in sectors that are strategic to the growth and development of the economy, the Board approved the roll-out of the equity finance product and the governing policy. The fundamental reason for the Bank's decision to invest in private equity is to provide affordable equity financing to companies in key growth sectors. The constitution of the Equity Investment Committee that is mandated with the oversight of the product commenced and will be operationalized during the year 2021.

BOARD REMUNERATION

The Board Strategic Planning Committee plays an advisory role in the remuneration of staff and non-executive Directors. The Board ensures that Executive Directors are remunerated appropriately to attract and retain talent. Non-Executive Directors are paid a monthly retainer and sitting allowance for the meetings attended. No performance-based remuneration is paid to Directors. During the period ended 31 December 2020 the Directors were remunerated as per the table below:

Job Title	Monthly pay/retainer (UGX)	Sitting allowance (UGX)
Board Chairperson	4,500,000	1,250,000
Member of the Board	3,500,000	1,000,000

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 and ensure that shareholders are treated equally, avoid conflicts of interest, declare any conflicts of interest that has arisen, no personal profits are made at the company's expense; and not to accept any benefits from third parties that will compromise him or her.

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 discussions. 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.

COMPLIANCE WITH THE GOVERNANCE FRAMEWORK, CODES AND REGULATIONS

We recognise and agree with the principles stated in the King IV Report on Corporate Governance, ***that there is always a link between good governance and compliance with the law, and good governance cannot exist separately from the law and it is entirely inappropriate to unhinge governance from the law.*** For us conducting business in accordance with relevant legislation, regulations, standards, and codes is integral to our culture. Compliance provides assurance to our stakeholders that the existing systems and processes in place will secure sustainability of the business, protect the reputation of the Bank, and provide competitive advantage in the market.

The Bank is 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 all legislation, regulations, and codes of best practice.

The Board is charged with ensuring appropriate systems and controls are in place to monitor compliance with the legal and regulatory framework. Every quarter, 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.

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 the best fit for it and serve to enhance business and community objectives.

The Company has also put in place several policies to guide the operations of the business and the conduct by employees. These policies are periodically reviewed to ensure their relevance and practicability. Key policies reviewed during the period included the Credit policy, Anti-Fraud and Corruption, Conflict of Interest, Whistleblowing policy and the Human Resource Policies. The Board also reviewed its Charter to take into account changing circumstances and alignment to best practice.

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

ACTING ETHICALLY AND RESPONSIBLY

The Bank has an established Code of Conduct to ensure that the staff remain sensitised about the right thing to do and we continually strive to do business the right way. This behaviour helps shape our culture and is a necessity for successful delivery of our purpose, mandate and strategy. The Code of conduct underpins everything we do as an institution, and our relationship with our key stakeholders.

ENGAGEMENT WITH SHAREHOLDERS

The Bank maintained and values regular communication with its shareholders. The Bank provides the shareholders with adequate, timely and sufficient information about the Bank's Strategy. The Annual General Meeting provides a forum for the Board to engage the shareholders and be held accountable for the 2020 performance. Other engagements outside the Annual General Meeting were also held.

Shareholders are encouraged to attend the Annual General Meeting to exercise their rights including approving new Director appointments, re-appointment of Directors, approving the audited accounts and the annual report for the period ended 31st December 2020, appointment of external auditors for the period 2021, approving Director fees and approving a dividend or approving a re-investment of the net profits.

UGX **1.5** BILLION

VALUE OF CREDIT APPLICATIONS APPROVED BY BCC

BOARD COMMITTEE REPORTS

All the Chairpersons of the Board Committees are Non-Executive Directors. The Bank's Board structure is reflected on pages 43 and 67.

A. Board Credit Committee Report

The Board Credit Committee (BCC) comprises of an Independent/ Non-Executive Director, Mr. Nimrod Waniala, non-Independent/Non-Executive Mr. John Byaruhanga and the Managing Director, Mrs. Patricia Ojangole. The Director Investments, Director Credit and Head Risk attend BCC meetings as permanent invitees. The Committee is also supported by a Board Advisor who brings a wealth of technical experience to the committee. 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. The Committee monitors overall and product specific concentration limits, effective management of credit risk in the Bank, monitors the implementation of lending policies commensurate with specified risk appetite, including loan approval authorities, monitor ongoing lending activities, monitor delinquency trends and collection strategies and recommend write-offs to the Board.

The Committee reports to the Board on credit portfolios, adequacy of provisions and the status of non-performing loans. The BCC approves credit applications in the excess of Ushs 1.5 billion. The BCC convenes as and when required to consider credit applications falling within its ambit and has therefore complied with its mandate.

During the year ended 31st December 2020 the BCC contributed significantly to the overall funding approvals of Ushs. 444 billion approved by the Committee. Details of these and other transactions are provided in the sustainability section of this report.

The Committee held 11 meetings during the year and details of the attendance are indicated on page 67.

B. Board Strategic Planning Committee Report

The Board Strategic Planning Committee (BSPC) comprises two independent Non-Executive Directors, one Non-Independent Non-Executive Director, and the Managing Director. Mrs. Silvia Angey Ufoyuru is the Chairperson of the BSPC while Mr. Nimrod Waniala, Mr. John Byaruhanga, and Ms. Patricia Ojangole are members. The Director Strategy and Corporate Affairs and the Director Finance and Business Operations attend BSPC meetings as permanent invitees. The Board is satisfied that the collective skills of the members of the BSPC 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:

i. Work closely with Management in developing the Bank's long-term strategy and annual business plan. Management is mandated with the duty of executing the strategy and reports to the BSPC on the performance against the approved strategy and annual business plans every quarter, including a detailed account of achievement against the targets outlined through the key performance indicators.

ii. Provision of Oversight on matters about the Bank's human resource policies.

iii. Assisting the Board in determining the broad policy for executive and Senior Management remuneration and maintaining oversight over the Bank's remuneration philosophy.

iv. Ensuring that the right caliber of Management is recruited and retained.

v. Assisting the Board in the setting of performance-related incentive schemes, performance criteria, and measurements.

vi. Oversight over the implementation of the Banks' Information technology and digitization Strategy.

During the year, the Committee considered various strategic issues including the following:

i. An evaluation of the Bank's Executive and Senior Management's performance.

ii. Amendment of the Human Resource Policies to attain alignment to the Legal framework and enshrine best practices.

iii. Approval of the Business Technology and Digitisation Strategy

iv. Approval of the Green Finance and Investment Strategy

v. Approval of the Communication and Stakeholder Engagement Strategy

vi. Approval of the Research Strategy

The Committee held 4 meetings during the year and details of the attendance are indicated on page 67.

C. Board Audit and Risk Committee Report

The Board Audit and Risk Committee (BARC) is constituted of three Independent Non-Executive Directors. Mr. Henry Balwanyi Magino is the Chairman of the committee while Mr. Francis Tumuheirwe and Mrs. Silvia Angey Ufoyuru. The Committee is supported by a Board Advisor who provides technical guidance to the Committee. The Chief Internal Auditor, Director Finance and Business Operations, Head Legal and Head Risk attend BARC meetings as permanent invitees.

The BARC assists the Board in fulfilling its oversight responsibilities, in particular the evaluation of the adequacy and efficiency of accounting policies, internal controls, risk management, and financial reporting processes. Also, the BARC assesses the independence and effectiveness of the External and Internal auditors.

During the year, the Committee carried out its functions through discussions with Executive Management, Internal Audit, External Audit, and the external adviser. The BARC 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 considered the following and recommended the same to the Board for approval:

i. 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.

ii. Implementation status of the Pricing Model.

iii. Consideration of the Expected Credit Loss

iv. The Bank's audited accounts

v. Anti-Fraud and Corruption Policy

vi. Conflict of Interest Policy

vii. Whistleblowing policy

INTERNAL CONTROL

The BARC 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 significant findings came to the attention of the Committee to indicate that any material breakdown in internal controls had occurred during the financial year under review.

The Committee opines 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 judgments and estimates. The BARC obtained assurance that the internal controls of the Bank were effective in all material aspects throughout the year under review.

This assurance was 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.

INTERNAL AUDIT

The Internal Audit department has a functional reporting line to the Committee Chairperson and an administrative reporting line to the Managing Director. The BARC, with respect to its evaluation of the adequacy and effectiveness of internal controls, receives reports from Internal Audit every quarter, 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 concerning adverse Internal Audit findings. The Committee has overseen a process by which the 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.

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

> **THE BOARD AND MANAGEMENT APPRECIATE M/S KPMG FOR THE PROFESSIONALISM EXHIBITED DURING THE 3-YEAR AUDIT PERIOD.**

EXTERNAL AUDITORS

In accordance with the Law, the Bank's external auditor is the Auditor General. The Auditor General delegated the 2020 external audit process to KPMG. 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 Committee, in consultation with Executive Management, agreed to the engagement letter, audit plan and audit fees for the financial year ended 31 December 2020.

The Committee:

i. Approved the external auditors' annual plan and related scope of work

ii. Monitored the effectiveness of the external auditors in terms of their skills, independence, execution of the audit plan, reporting and overall performance.

The Auditor General shall appoint new external Auditors and effect communication to the Bank. The Board and Management appreciate M/S KPMG for the professionalism exhibited during the 3-year audit period. Their advisory ensured the Bank improved its internal control systems and overall effectiveness.

FINANCIAL STATEMENTS

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

i. Reviewed and discussed the audited Annual Financial Statements with the external auditors and Management.

ii. Reviewed the Management Letter and Management's responses

iii. Reviewed significant adjustments resulting from external audit queries and accepted unadjusted audit differences.

iv. Reviewed areas of significant judgements and estimates in the Annual Financial Statements; and

v. Received and considered reports from the internal auditors.

EXPERTISE AND EXPERIENCE OF THE FINANCE FUNCTION

The Committee has considered and has satisfied itself with 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 Finance function.

GOING CONCERN

The Directors, based on the current financial projections and facilities available, have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, at least for the next twelve (12) months. The Directors accordingly continue to adopt the going concern basis in the preparation of the Bank's annual financial statements. The External Auditors have confirmed this opinion.

RISK MANAGEMENT

The Board delegates the discharging of its duties related to the identification, assessment and management of key risks facing the Bank to the Board Audit and Risk Committee (BARC). The Committee ensures the review of risk management activities including the implementation of the Bank's Enterprise Risk Management Framework, adequacy of financial reporting practices, effectiveness of internal controls, fraud risk management, and the reliance on information technology operations. The BARC is satisfied that appropriate and effective risk management practices are in place and reported on timely.

"THE COMMITTEE ENSURES THE REVIEW OF RISK MANAGEMENT ACTIVITIES INCLUDING THE IMPLEMENTATION OF THE BANK'S ENTERPRISE RISK MANAGEMENT FRAMEWORK, ADEQUACY OF FINANCIAL REPORTING PRACTICES, EFFECTIVENESS OF INTERNAL CONTROLS, FRAUD RISK MANAGEMENT, AND THE RELIANCE ON INFORMATION TECHNOLOGY OPERATIONS.

BOARD STRUCTURE AND COMPOSITION

	UDB Board of Directors	Board Credit Committee	Board Strategic Planning Committee	Board Audit and Risk Committee
	Responsible for the performance of the Bank while retaining full and effective control	Considers and approves Credit transactions and oversees Credit Risk	Responsible for the strategic direction of the bank,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

	Full Board Meeting	Board Credit Committee	Board Strategic Planning Committee	Board Audit and Risk Committee
Number of meetings	**11**	**10**	**4**	**5**
Felix Okoboi	11**	1*	Nil	1*
Nimrod Waniala	11	10**	4	Nil
Henry Magino	10	10	Nil	4
Silvia Angey Ufoyuru	9	Nil	3**	5
John Byaruhanga	10	7	3	Nil
Francis Tumuheirwe	8	Nil	Nil	5
Patricia Ojangole	10	9	4	Nil

***On invitation ** Chairperson of the respective committee**

COMPANY SECRETARY

The Company Secretary is accountable to the Board and plays a pivotal role in the corporate governance of the Bank. The Company Secretary who ensures information is made available to Board members in a timely fashion, provides Board and Committee meeting support, designs Board induction programs and Board evaluation tools including co-ordinating any post-evaluation action implementation plans, arranging training and development for the Directors as well as provision of advisory services to the Board on corporate governance matters and ethics, advisory on compliance with procedures,applicable statutes and regulations.

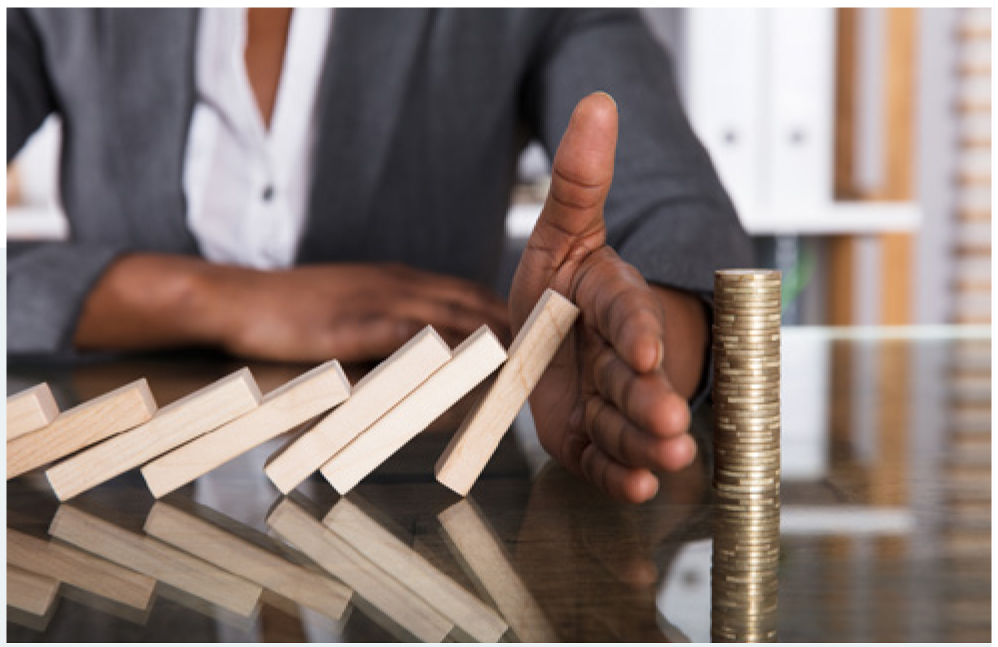
All Directors have unlimited access to the advice and services of the Company Secretary.

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 entire Board.

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

ENVIRONMENTAL &

SOCIAL RISK MANAGEMENT



In the past two decades, E&S risk became a serious threat for DFIs.

As a result, E&S risks management has steadily gained a place in the risk management best practices of the financial sector. By identifying and managing the E&S risks related to clients and their business activities, DFIs can improve their risk profile portfolios (IFC, 2007). E&S risk primarily relates to potentially direct and indirect negative E&S impacts, generated by the business activity that is being financed by the bank. By financing high-risk projects, such as manufacturing and infrastructure, the negative E&S impacts that will result will not only affect the enterprise, but also the bank that financed the project. The implications may have financial or legal consequences and/or reflect poorly on the DFI's reputation. These risks, however, are not only present in high-risk projects. They are also present where there are a large number of low-risk operations (e.g., microfinance in the textile sector) in one environmentally and socially fragile area, and the risk may be significant when the cumulative impact is taken into consideration.

The Bank through its Environmental and Social Risks Management Policy (UDB ESRMP, 2020) recognizes that its business decisions and those of its clients have the potential to impact communities (social wellbeing) and the environment.

Generally, the environmental and social risks inherent in UDB operations are dependent on a number of factors such as client's investment operations, the industry sector and the geographic context. E&S issues typically include environmental degradations and pollution, hazards to human health, safety and security, impacts on communities and threats to a region's biodiversity and cultural heritage. In most cases, a client has control over the E&S issues associated with their operations and can take the necessary steps to mitigate these risks. In line with the above, the Bank is obliged to prevent, avoid, or mitigate any adverse impacts and risks to the community and environment emanating from implementation of its financed activities. As provided for in the Bank's Environmental and Social Risks Management Policy (ESRMP), all projects financed by UDBL undergo E&S Risks due diligence prior to approval for financing.

Unmanaged E&S issues in the portfolios/ investments financed by UDB at client level trigger and expose both the Bank and client's business to e number of risks ranging from credit to reputation, fines/ penalties, and market risks, among others. Therefore, a proactive approach guided by E&S risks evaluation procedures as suggested by the UDB's ESRMP is key to managing, avoiding, or preventing such risks.

SUSTAINABILITY ASPECTS OF THE BANK ACTIVITIES

Uganda Development Bank is the only certified financial institution under the Sustainability Standards & Certification Initiatives (SSCI) in Uganda. Sustainability is central to the growth of emerging market economies (IFC, 2007), but is also crucial to the survival of the financial sector especially Development Financial Institutions such as UDB. UDB's sustainability aspects are premised on three pillars i.e., Planet (environmental protection), People (Social inclusion) and Profits (economic viability) as illustrated in **Figure 1** below..

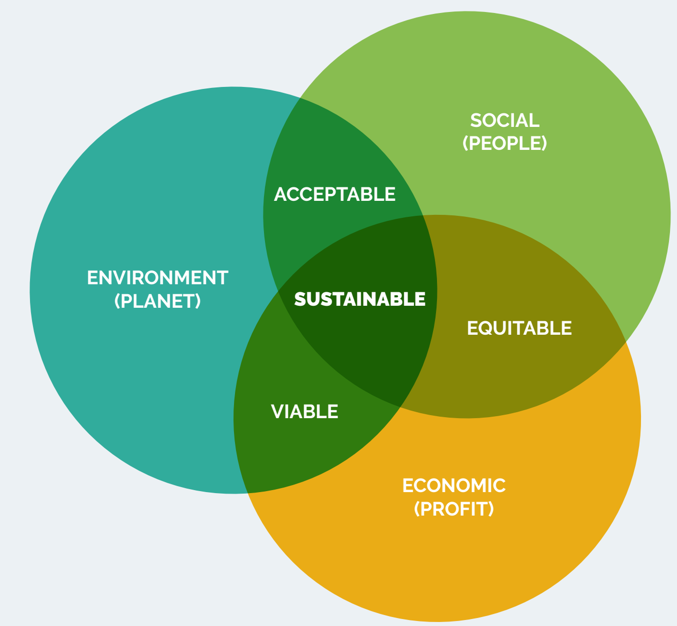


Figure 1: UDB's Sustainability aspects

INCIDENT MANAGEMENT AND REPORTING

For this period of this reporting (FY 2020), the environmental and social risk desk registered three Occupational health and Safety incidents reported from three borrowers as described in the **table 1** below. The Bank proposed mitigation measures for all the borrowers to implement to minimize future incidents.

Table 1: Registered E&S incidences in 2020

Incident	Incident Category	Mitigation Measures
Client 1	Sustained leg injuries	The victim was given first aid from at the factory facility and later referred to the Hospital facility with which the company has a Memorandum of Understanding to handle all the emergence/referral cases that emerge at the factory facility.
Client 2	Loss of a finger	The victim had first aid administered to him at the facility and was later transferred to hospital for further management. The company also handles its minor cases of illnesses and accidents at a nearby clinic.
Client 3	Loss of finger by two employees due to low hanging running funs	First aid was administered to the victims and then referred to the clinic for further management. Occupational health and safety (OHS) measures enforcement such as provision and usage of PPE has been enhanced at the facility. The Bank recommended that the company hires health & saftey personnel to oversee and manage all the OSH issues at the facility establishment.

ENVIRONMENTAL & SOCIAL GOVERNANCE ASSURANCE

The Bank through its mandate is committed to promoting sustainable development throughout all its activities and will thus not finance projects that cause environmental degradation and social disharmony. To ensure compliance with the policy requirements therefore, the bank has set out a series of procedures to which all projects must be subjected prior to approval for funding. The E&S due diligence process is initiated during project review and appraisal using tools such as screening and categorization aimed at identifying, evaluating, and managing/mitigating the E&S risks of such projects before a decision to finance them is made. Additionally, the review and appraisal process provide a basis for setting conditions that benchmark the loan covenant conditions and subsequent monitoring of environmental and social performance tagged to disbursements.

E&S RISK APPRAISAL IN CREDIT APPLICATIONS

The environmental and social risk category A[1],B[2], C[3] or FI[4] (Financial Intermediaries), reflects the magnitude of E & S potential impacts associated with implementation of financed projects and determines the nature of the environmental and social risks and impacts assessment/appraisal, information and disclosure and stakeholder engagement required.

In 2020, the bank received and approved 92 investment facilitation requests, valued up to 142.75 billion shillings. Majority of these projects (up to 95%) brown field projects with a small number of start-ups. All projects under category B were subjected to E&S risks and impacts evaluation, potential risks and impacts analysed and ranked according to the bank ESMS. It is however, important to note that the Bank has 2 projects in the categorised as A within its portfolio as these break rocks for use as raw materials.

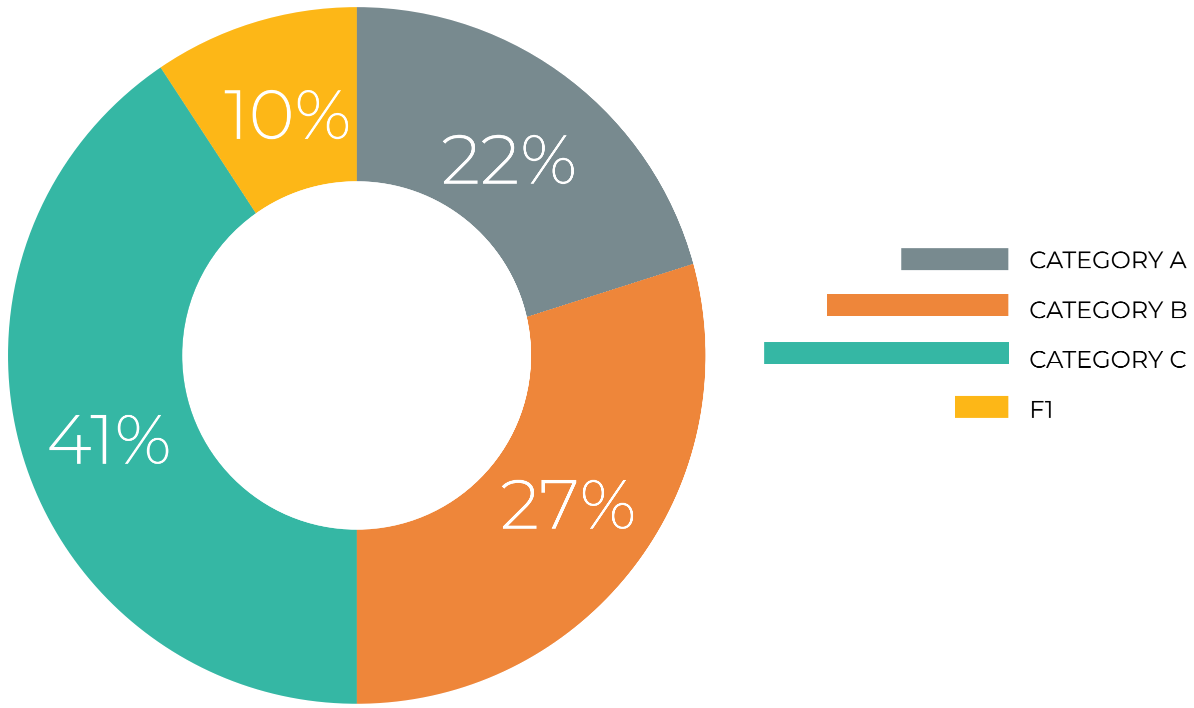


Figure 2: Breakdown of Bank Investment by category in 2020

1 Projects with potentially negative significant and adverse environmental and social impacts, requiring a detailed participatory assessment process.
2 Projects with environmental and social impacts that are site-specific, and which can be readily assessed and managed.
3 Those that are expected to result in minimal adverse environmental and social impacts.
4 Transactions that involve the provision of financing to a financial intermediary – typically a bank or a fund which are required to adopt and implement procedures to manage their environmental and social risks.

GREEN FINANCE ACTIVITIES

In 2020, the Green Finance Unit participated in initiatives and activities aimed at implementing the Green Finance & Investment Strategy (2020-2024). These are elaborated on below.

a. Progressing the GCF Direct Access Accreditation Application Process

The Bank progressed its pursuit for the Green Climate Fund (GCF) Direct Access Accreditation and obtained the GCF Online Application System (OAS) Platform. Preparation of the GCF Direct Access Accreditation application form was commenced, and the completed form shall be submitted to the GCF Secretariat by end of quarter one of 2021. To streamline the Bank's engagement with The Global Green Growth Institute (GGGI), discussions were held and a draft MoU on the GCF Direct Access Accreditation application support was developed. GGGI as the Delivery Partner on behalf of Ministry of Finance, Planning and Economic Development (MoFPED)/ the National Designated Authority (NDA) for climate finance under the grant financing mechanism is undertaking the GCF Readiness and Preparatory Support Programme (RPSP) to strengthen Uganda's engagement with the GCF. It is at the backdrop of this propgamme that the MoU between the Bank and GGGI is being developed. The MoU also encompasses collaboration on other climate finance initiatives such as development of project pipeline. These shall be conducted on an adhoc basis. The MoU shall be finalized and signed by the Bank and GGGI in early 2021.

b. Development of Green Finance Policy

During the year, the Green Finance Unit started developing its green finance policy aimed at greening the bank's current project portfolio and stimulating green investments. The policy shall contain procedures and guidelines to support inclusion of climate risk and disaster resilience in the Bank's investment, appraisal criteria and tools, green financing evaluation criteria and monitoring indices to monitor progress of investment projects. This policy shall be finalized and approved by the Bank management in quarter one of 2021.

c. Establishment of the Green Financing Fund

To progress the process of establishing the Green Financing Fund, the green finance unit developed a concept note and continued to explore potential partnerships with various development partners including UNDP, FAO, GGGI and DBSA for the establishment of this fund. The fund shall operate under the green design bank principles. Discussions with these institutions also entailed positioning this Green Financing Fund to double as a National Financing Vehicle for Uganda for mobilizing climate finance from various public and private sources as well as including designing climate finance instruments. UNDP, FAO and GGGI showed interest to collaborate with the bank and to potentially support this initiative. During 2021, the unit shall explore further concrete agreements with these institutions specifically on the exact kind of support and which stages of establishment of the fund they shall provide support, respectively.

d. Development of Project Pipeline and Advisory Opportunities

The Bank's Green Finance and Investment Strategy 2020 -2024 provides an opportunity for the Bank to join a large syndicate of financial products to finance Renewable Energy projects and implement programme financing. Scoping of the market to develop a project pipeline and advisory opportunities of sustainable green projects was initiated in collaboration with the infrastructure and agriculture departments. Identified and technically supported potential projects included solar hybrid mini-grids and productive use project (3 water treatment plants, 1 ice plant, 3 fish driers) aimed at providing

THE BANK PROGRESSED ITS PURSUIT FOR THE GREEN CLIMATE FUND (GCF) DIRECT ACCESS ACCREDITATION AND OBTAINED THE GCF ONLINE APPLICATION SYSTEM (OAS) PLATFORM.

"…SEVERAL TECHNICAL AND MANAGEMENT STAFF UNDERWENT A SERIES OF INTERACTIVE ONLINE TRAININGS TO STRENGTHEN THEIR KNOWLEDGE OF AGRICULTURE'S ENVIRONMENTAL IMPACT, AS WELL AS THEIR CAPACITY TO ASSESS THE GREENHOUSE GAS EMISSIONS AND CARBON BALANCE OF LOAN APPLICATIONS.

electricity to households, businesses, and institutions for Buvuma district, Upscaling Mwena Ice Plant from 5 tons to 20 tons per day at Mwena landing site - Buggala Island, a project on Production of pre-fabricated blocks using bio-composite (recycled plastic and agricultural waste) raw materials and a Business Concept for expanding their solar energy business operations by investing in the innovative distribution of good quality solar energy solutions, equipment, products, appliances & materials across the Country to contribute to the Country's Rural Electrification Master Plan.

The unit progressed its discussions with adelphi research gGmbh and collaborators (Finding XY and SEED) on potential collaboration on the Uganda Green Enterprise Finance Accelerator (UGEFA) Programme. The programme is funded by the European Union and aims to facilitate the flow of green finance to the Ugandan small and medium-sized (SME) sector through strengthening green SMEs and improving available funding mechanisms for SME debt financing. Operational Guidelines for the Funding Facilitation Mechanisms and a draft MoU were developed. The MoU shall be finalized and signed in early 2021.

Similar discussions were held with GIZ on UDB's participation as the Executing Entity in the proposed program on GCF De-Risking Private Sector Investments in RE Mini-Grids and Low-Emission Rural Industrialization in Uganda Programme. The executing entity will manage the De-Risking Funding Facility to be set up to support Mini-Grid developers and local SMEs. The de-risking approach combines GCF grants, government subsidies and GIZ technical support in order to crowd-in concessional loans, an SME guarantee and private sector equity. The programme provides an opportunity for the Bank to join a large syndicate of financial products to finance Renewable Energy projects and implement programme financing.

Additionally, the green finance unit also explored potential collaboration with The University on Wageningen University & Research (WUR) on the East African livestock sector programme aimed at helping smallholder (crop-livestock) farmers build partnerships and adopt interventions that will help them reduce the greenhouse gas emissions of their farming practices, and eventually prepare them for a mechanism of climate finance. All these discussions shall be progressed during 2021.

Lastly, the unit identified one research area to advance climate investments in financial institutions. The topic is *"Assessing Barriers (non-financial and financial gaps) and Solutions to private sector access to finance for green investments (both adaptation and mitigation) in Uganda"*. In collaboration with the research department, the unit shall undertake this research during 2021.

e. Capacity building under the Agri-Invest initiative

UDB continued to recognise climate change as a major risk factor especially to its main target sectors of agriculture, tourism, and manufacturing. The bank through its Strategic Plan 2020-2024 and High Impact Gools renewed its commitment of promoting sustainability of its funding through incorporation of climate change risk screening as part of E & S appraisal process and reinforcement of climate change mitigation and adaptation measures using green finance tools or financial incentives.

In May 2020, through the three-year Agri-Invest initiative supported by FAO, several technical and management staff underwent a series of interactive online trainings to strengthen their knowledge of agriculture's environmental impact, as well as their capacity to assess the greenhouse gas emissions and carbon balance of loan applications. The first training focused on the use of two FAO-developed tools – the Ex-ante Carbon-Balance Tool (EX-ACT) and the Global Livestock Environmental Assessment Model-interactive (GLEAM-i). Similarly, new staff that missed the first training including the Environment and Social Risk Officer (from Risk and Compliance Department), the Senior Investment Manager - Agriculture (from the Investment Department) and the Green Finance Officer (from the Executive Department) participated in the Online Advanced Course – Livestock and Climate Change: Assessment of Emissions, Mitigation Options And Adaptation Strategies conducted by the International Centre For Advanced Mediterranean Agronomic Studies (CIHEAM) and the Mediterranean Agronomic Institute Of Zaragoza (IAMZ) from 19-30 October 2020.

By the end of the year 2020, with technical support from the FAO team, UDB staff started practicing using the two FAO tools on a couple of select pilot projects undergoing the appraisal process which shall be finalised in the first quarter of 2021. The knowledge and skills acquired from the courses shall be used in quantification of Ex-Ante GHG emission for agricultural sector specifically the dairy industry with Ex-Act and Gleam-i tools at appraisal level and quantification GHG emission in on-going projects/ investments monitoring during monitoring phase using Ex-Act and Gleam-i.

GREENHOUSE GAS ASSESSMENT

UDB's headcount continued to grow significantly, rising to 88 employees from 69 in 2019. This accounted for 18.82% increase and has an exponential impact on the emissions generated by the bank.

To account for the bank's Greenhouse Gas Emissions Inventory/ carbon footprint, from its operations for the year 2020, the Greenhouse Gas Emission Assessment was undertaken using the GHG Protocol Corporate standard. It covered direct and indirect emissions from the bank's direct control operations. The estimation was conducted using emission factors obtained from the Intergovernmental Panel on Climate change (IPCC). Hence, the organizational boundary was still used because it defines the businesses and operations that constitute the company for the purpose of accounting and reporting greenhouse gas emissions. Therefore, UDB carbon footprint used the operational control approach and categorizes them into different scopes, as either direct or indirect. Scopes used included:

Scope 1 (or 'direct') GHG emissions that occurred from sources that are owned or controlled by UDB, for example, emissions from combustion in bank owned vehicles were estimated as indicated in the table 1 below. The Bank owns five vehicles which consume diesel as the fuel source.

Scope 2 (or 'indirect') emissions that physically occurred at UDB offices were estimated for electricity generated using generators specifically at UDB Towers and the Munyonyo office, electricity to power the mowing machine at Munyonyo office and electricity purchased from the national grid. Generators consume petrol and this was factored into estimating the emissions they generated in 2020.

Out of the 85 staff members, it was estimated that 75 of them commuted to and from work using personal owned vehicles while the rest used public transport/taxi. Due to lack of data on the type and fuel consumed of public vehicles used, their emissions were not quantified for this reporting period. Similarly, emissions from cooling for the bank's own use were not included due to the lack of data on AC make/model and the total number in the various UDB offices. Due to the lack of data on outsourced vehicle, their emissions were not quantified as well.

Scope 3 (or other 'indirect') GHG emissions from UDB's activities occurring from sources not owned or controlled by the bank were also estimated. These include emissions from waste, transportation, electricity consumption, and water.

Table 1: 2020 UDB's Carbon Footprint by source

		Emission Sources			Emissions		
	Year	**2019**	**2020**	**Units**	**2019**	**2020**	**Units**
Electricity	Grid supplied electricity	181,144	130,165	kWh	87.67	63.0	tCO2e
Electricity	Generators	95	337	Lts	0.086	0.303	tCO2e
Electricity	Mowing machine	116	127	Lts	0.104	0.114	tCO2e
Transport/5 UDB Vehicles	Gas / Diesel Oil	16,648	16,267	Lts	42.58	41.6	tCO2e
Transport/Staff Commuting (cars)	Petrol	50,820	69,300	Lts	107.38	146.4	tCO2e
Business Travel Air (from 2019 report)	Aviation Fuel	-	0.00	Lts	47.00	0.00	tCO2e
Waste Disposal	Solid waste	1.875	1.25	Tons	(National Emission Factor missing)		
Water Consumption	Water	2612.4	490.8	M3	0.89	0.17	tCO2e
Paper Consumption	Paper	1.38	1.00	Tons	29.04	28.67	tCO2e
Total Emissions					**314.75**	**321.66**	**tCO2e**

NB: Waste from waste disposal not calculated due to the lack of national emission data from the IPCC.

UDB's GHG emissions increased as compared to emissions generated in 2019 as indicated in table 3 above. The overall GHG emissions increased from 314.75 tCO2e in 2019 to 321.66 tCO2e in 2020. However, this increase is not as significant as should be anticipated from the increased headcount of the bank's staff of 18.82%. This was due to COVID – 19 pandemic restrictions where the bank's working arrangements changed with many employees working from home through online platforms and no business travels or study programmes conducted outside Uganda. There was also minimum in country travel for project monitoring.

In year 2020, the highest emissions of 146.4 tCO2e accounting for 45.5% of the total emissions were generated from transport sector by staff commuting in personal cars. This mirrored the same scenario observed in the year 2019. These were followed by emissions from electricity consumption from the national grid that accounted for 63.0 tCO2e and representing 19.6% of the total emissions generated by the bank. The breakdown of generation per category in illustrated in figure 5 below.

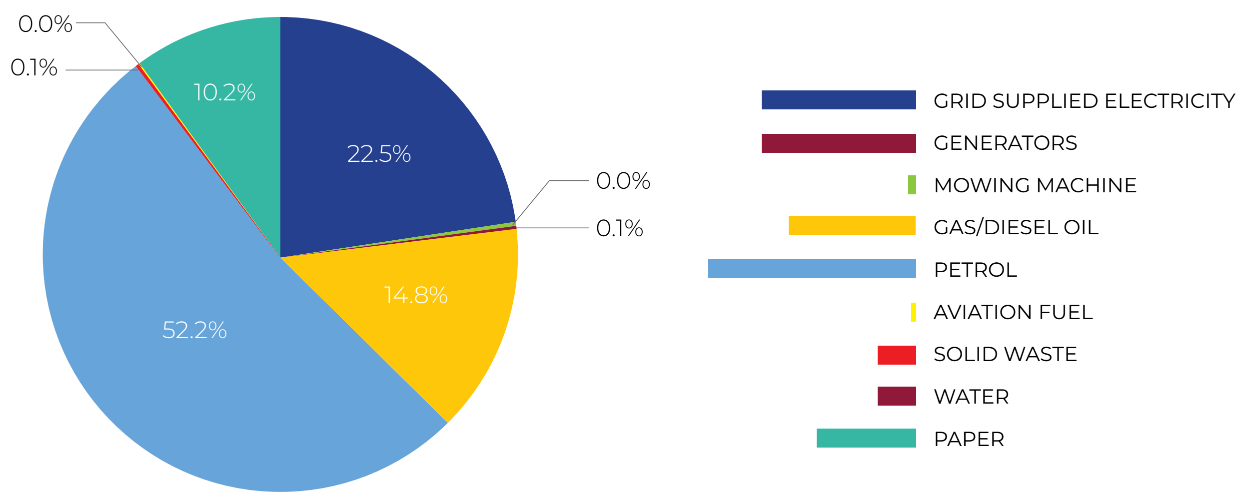


Figure 2: Breakdown of emission generation per data category

Not all emissions generated by the bank could be estimated and or quantified due to lack and or insufficient data availability. This data included type of vehicles used by staff commuting to and from work using public transport/taxi, data on AC make/model and the total number in the various UDB offices and lack of data on outsourced vehicles and amount of fuel they consumed in 2020.

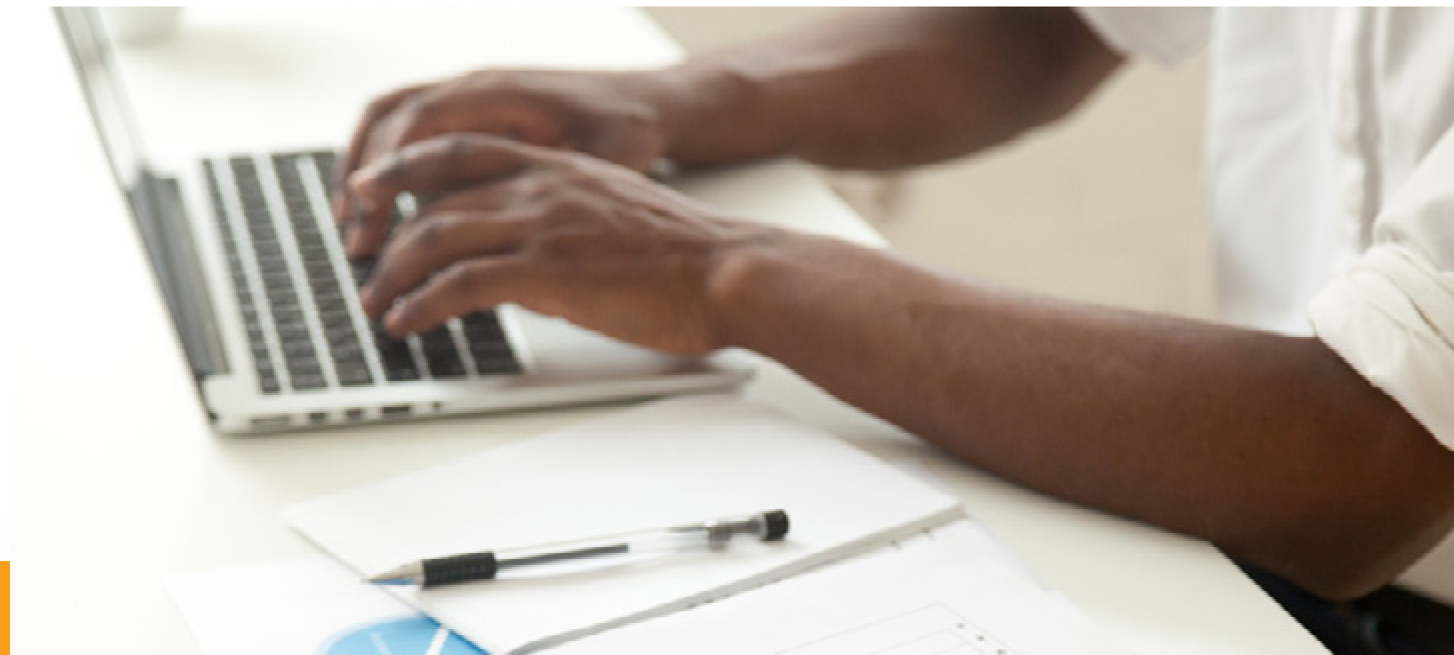
While efforts to collect data for estimating carbon emissions from businesses financed by the bank were made, majority of these projects/ businesses provided little to no no data. Thus, their emission generations could not be estimated from the provided data which could also not be verified as actually correct. In 2021, data collection tools shall be designed by the bank, shared with the financed businesses to enable them collect and store this information on a regular basis and share it with the bank at a quarterly basis. This could mitigate the lack of data.

The Agri-Invest initiative and more specifically the knowledge and skills acquired from training on the use of Ex-Act and Gleam-I tools shall be key in solving this GHG data collection challenge to ease project appraisal process quantification of Ex-Ante GHG emission for agricultural sector specifically the dairy industry in on-going projects/ investments.

2021 INITIATIVES

Enhancement of Bank's portfolios E&S performance monitoring benchmarked mainly by the loan covenant conditions. This shall be aimed at ensuring businesses compliances with covenant conditions and other E&S requirements, facilitate incident tracking, reporting and management, as well as enhance E&S requirements awareness among the promoters.

RISK COMPLEX



OVERVIEW/EXECUTIVE SUMMARY

The Risk Management Complex comprises the Enterprise risk Management and the Environmental & Social (E&S) risk Units. During the year, the Bank embarked on rolling out its Climate Finance Strategy which works closely with the E&S Unit.

Effective risk management is fundamental to the business activities of the Bank. While the Bank remains committed to increasing shareholder value by developing and growing its business within the Board-sanctioned risk appetite, due consideration is given to the interests of all stakeholders in pursuing this objective. The Bank therefore seeks to achieve an appropriate balance between risk and reward in its business.

During the year, the Bank continued to base its risk management framework on a well-established governance process, with each line of defence religiously taking on its role. The framework relied on individual responsibility and collective oversight, supported by a comprehensive reporting and escalation process.

The industry standard 'three lines of defence' model is embedded in the Bank's operating model. The first line of defence, Line Management, is responsible for risk management. The Risk Management department represents the second line of defence, which is independent of Line Management. It is accountable for establishing

THE BANK'S ENTERPRISE-WIDE RISK MANAGEMENT (ERM) FRAMEWORK PLACES EMPHASIS ON ACCOUNTABILITY, RESPONSIBILITY, INDEPENDENCE, REPORTING, COMMUNICATION, AND TRANSPARENCY.

and maintaining the Bank's risk management framework, as well as for providing risk oversight and independent reporting of risks to senior management and the Board of Directors. The third line of defence consists of Internal and External Auditors who provide an independent assurance of the adequacy and effectiveness of the internal control environment. The Internal Audit department reports directly to the Board Audit and Risk Committee.

The Bank's Enterprise-wide Risk Management (ERM) Framework places emphasis on accountability, responsibility, independence, reporting, communication, and transparency. The ERM approach to risk management takes a holistic view of the risks inherent in the Bank's strategy, operations, business; and the management of risks is embedded into the mainstream planning, business, and decision-making process.

The Bank categories risks into four broad types of risks and fifteen sub-risks namely (i) Strategic risks (Strategic, Capital, Reputation), (ii) Business risks (Credit, Counterparty, Equity Investments, Development Impact), (iii) Financial risks (Market), and (iv) Operational risks (Human Capital, Compliance, Legal, Conduct, Business Continuity, Process, Business Technology).

Apart from witnessing the unprecedented COVID-19 pandemic outbreak and its devastating effects on world economies, businesses and health, these risks were well managed throughout the year. The pandemic brought about both opportunities and threats to the Bank. Opportunities included increased capitalization to resuscitate struggling businesses while threats included requests from clients to restructure loans and deferment of repayments. This prompted the Bank to test its readiness and resilience to such events.

The Bank has a well-diversified portfolio achieved through the continuous process of balancing risks and rewards, as well as prudent approaches to credit risk management, while staying true to its development mandate.

During the year, the Bank achieved various initiatives were geared towards enhancement of the overall risk management environment as follows:

a. The Board of Directors approved the revised Enterprise Risk Management framework aligned to strategy and performance in line with COSO-Integrated standards. The new framework also expended on the Bank's risk universe to incorporate risks that appeared to pose threats to the Bank and a risk appetite statement in line with Bank's strategy.

b. The Bank leveraged on the outbreak of COVID-19 to update its Business Continuity Plan (BCP) for relevance and effectiveness. The BCP documentation was revised to include scenarios and the recovery plan for pandemics. The documentation outlines critical roles and key processes should such similar pandemics re-occur in the future.

> **THE BANK LEVERAGED ON THE OUTBREAK OF COVID-19 TO UPDATE ITS BUSINESS CONTINUITY PLAN (BCP) FOR RELEVANCE AND EFFECTIVENESS**

c. In a bid to improve the combating of money laundering and terrorism financing, the Bank through one of its potential funders embarked on the procurement process for a consultant to review and upgrade the Bank's anti-money laundering and combating of terrorism financing framework (AML/CFT) to international standards. The exercise began and is expected to be concluded by the end of the second quarter 2021. The framework shall improve efficiencies but mostly safeguard the Bank from being used as a conduit for money laundering.

> **THE BANK HAS A WELL-DIVERSIFIED PORTFOLIO ACHIEVED THROUGH THE CONTINUOUS PROCESS OF BALANCING RISKS AND REWARDS, AS WELL AS PRUDENT APPROACHES TO CREDIT RISK MANAGEMENT, WHILE STAYING TRUE TO ITS DEVELOPMENT MANDATE.**

d. The Bank revised and upgraded its compliance framework through proactive measures to ensure adherence to laws and regulations, internal policies and internationally accepted principles of risk management. Furthermore, the Compliance Unit updated, enhanced and the Board approved its risk management policies including Whistleblowing, Anti-Fraud & Corruption, Conflict of Interest and the Code of Conduct in line with best practices. These were specifically aligned to the current Bank strategy that stipulates the three high impact goals namely (i) reducing poverty, (ii) building a sustainable food system and (iii) industrializing Uganda.

e. The department participated in the review of the loan origination process that aimed at reducing the turnaround time and serve customers more efficiently. The review was followed by automation of the process, which was finalized in 2020. The Risk department was tasked with the duty to coordinate the user acceptance testing (UAT) exercise and confirm the adequacy of version 1. The UAT is scheduled for first quarter of 2021 and "Go-Live" expected in second quarter of 2021. Once up, the system is expected to enhance efficiency and effectiveness in the credit life cycle from onboarding through to disbursement.

f. The Bank also registered substantial progress in developing tools to manage operational risk and improve the risk culture across the organization. Through the combined assurance exercise between Risk department and Internal Audit, data was collected from user departments on risks and internal controls in their respective areas. This information was to enhance the Risk & Control Self-Assessment (RCSA) templates. This exercise has been planned to conclude by the end of first quarter of 2021.

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THE RISK FOCUS IN 2021 REMAINS TO ENSURE THAT THE BANK'S STRATEGIC AND FINANCIAL OBJECTIVES ARE ACHIEVED IN LINE WITH THE BANK'S MANDATE, AND WITHIN ITS RISK APPETITE.

FOCUS FOR 2021

The global economy continues to be volatile and under stress, and the Bank's sustained commitment to sound risk management has proved to be effective, as reflected in the financial performance and strong capital position which is considered adequate to support growth and cover potential losses. To remain resilient, therefore, the Bank shall adopt the VUCA approach (Volatility, Uncertainty, Complexity & Ambiguity) to risk management to assist in visualising, assessing, and mitigating the risks that may threaten its mission and avoid surprises.

The dynamic and continually evolving nature of risk requires that the Bank similarly continues to enhance and evolve its risk management capabilities.

The risk focus in 2021 remains to ensure that the Bank's strategic and financial objectives are achieved in line with the Bank's mandate, and within its risk appetite. This will include the alignment of the department to the Bank's growth strategy, to drive the actualisation of the desired risk appetite.

The risk of corona virus (COVID-19) which may lead to an increase in impairments and reducing financing opportunities, remains the single largest risk facing the Bank. In this regard, the Bank will continue to devise ways to grow its portfolio in a sustainable manner in 2021 and beyond.

2021 INITIATIVES

i. Implementation of the VUCA model in risk management as a tool for effective strategic management as it's becoming harder to predict at what time and form threats and opportunities may arise and affect business objectives. The VUCA model shall be implemented to, for example, deal with the uncertainties in the world economy and the continued effects of covid19. Technological change is increasingly facilitating the threat of cyber-crime and the Bank plans to implement projects under the information technology that will require proactive assessment and management due to complexities surrounding them.

ii. Implementation of the combined assurance model as a coordinated approach to ensure that all assurance activities provided by senior management adequately address significant risks across the Bank and that effective controls exist to mitigate these risks. The model shall lead to value-addition and a positive contribution to the overall governance, risk management, and internal control framework within the Bank.

iii. Implementation of a risk sharing strategy through syndications & co-financing such as for infrastructure projects, insurance, apex lending model (through commercial

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AUTOMATION OF RISK MANAGEMENT TOOLS AND PROCESSES SHALL BE KEY TO THE DEPARTMENT. THIS SHALL INCLUDE PROCUREMENT OF AN OPERATIONAL RISK SYSTEM THAT SHALL COVER RISK CONTROL SELF-ASSESSMENTS (RCSAS); OPERATIONAL RISK ASSESSMENT.

banks for on lending to small & medium enterprises), etc. providing to the Bank credit enhancement and portfolio diversification. The approach will further boost the Bank's capacity to achieve its mandate and provide access to a larger market.

iv. The Anti-Money Laundering (AML) and Sanctions program shall be reviewed and enhanced by a consultant firm to integrate the Bank's processes with operational systems across the Bank in a drive to ensure checks are being done effectively and efficiently from the inception of any business relationship. The risk department together with the consultant shall undertake a bankwide training to enhance awareness and embed the Know Your Customer (KYC) culture throughout the organisation. The Compliance Unit shall maintain its momentum in having an independent review of the Bank's status of adherence to internal policies, procedures, laws and regulations as well as the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) and Sanctions policies.

v. Automation of risk management tools and processes shall be key to the department. This shall include procurement of an operational risk system that shall cover Risk Control Self-Assessments (RCSAs); operational risk assessment; control design; audit findings tracking and closure; and monitoring and reporting, among others.

vi. The Bank's readiness and resilience to shocks was improved through the update to its documentation regarding business continuity. In 2021, the department plans to undertake simulation exercises aimed at testing the Bank's corporate business continuity plan (BCP) including the disaster recovery plan for its technology environment. This shall include switching off the main server and turning on the recovery site to confirm whether recovery time objectives are achieved.

vii. The department plans to undertake risk awareness sessions in a bid to improve the risk culture across the Bank and embrace a common risk language. This shall entail trainings in risk management and changes to policies approved by the Board of Directors in 2020.

OPERATING

ENVIRONMENT

ECONOMIC PERFORMANCE FOR 2020 AND
OUTLOOK FOR 2021

GLOBAL ECONOMY

The global economy is expected to contract by 5.2% in 2020 and projected to expand by 4.2% in 2021, according to World Bank report of June 2020. The 2020 world recession is mainly attributed to the impact of COVID-19 pandemic that significantly affected key growth sectors, tourism being the hardest hit; other contributing factors include global trade uncertainty and geo-politics.

The COVID-19 has also impacted greatly on the businesses financed by the Bank and has led to the restructuring of nearly 45% of the Bank's portfolio and the impact is likely to spread to the year 2021 before full recovery can be realized. Greatly affected are the Tourism and Education sectors. The projected growth in both the local and global economy is expected to create demand for credit in terms of new projects and refinancing of existing projects

4.2%

EXPANSION OF THE GLOBAL ECONOMY IN 2021 IS EXPECTED ACCORDING TO WORLD BANK

with commercial banks as they look for more affordable credit and extended loan tenure.

Relatedly, during the year, the employment level dropped by 3% as factory closures and social distancing forced capital and workers into idleness. There was a sharp drop in international tourism, equivalent to approximately 25% (Africa mostly affected) and a 15% switch in household demand away from services requiring close human interaction. A rapid assessment by International Finance Corporation (IFC) reveals

that 1.6 billion people in the informal sector were affected, 64% (or 740 million) being women.

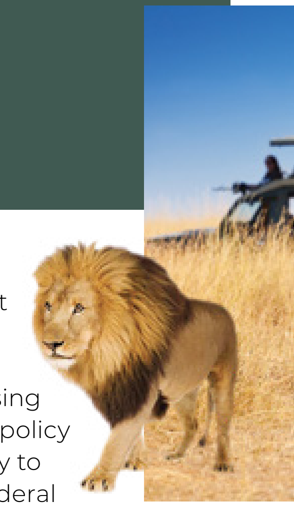
The increasing cost of doing business as a result of the measures adopted to curb the impact of COVID-19 has greatly and continues to narrow profitability of many businesses leading to staff layoffs and in some cases business closure. This calls for additional support to businesses in form of blended finance to enable them meet operating expenses and retain workers.

Blended finance is a strategic tool to bridge the financing gap by catalysing private capital towards projects with a high development impact. It is the targeted use of concessional funding in high-impact projects in which actual or perceived risks are too high for commercial finance alone. Blended finance is a collaborative exercise, with DFIs and other financiers, working with private sectors to mobilize additional finance for development. Consequently, UDB will source concessional funding to enable the bank to support businesses that are struggling to survive.

Similarly, global trade is estimated to decline by over 15% in 2020 and expand by 9.5% in 2021 (World Bank, 2020). The shock from COVID-19 comes at the same time as U.S.-China trade relations are once again deteriorating. With these global economic challenges, between 70 million to 100 million people are already driven to extreme poverty. As a result, the global extreme poverty rate will increase from 8.23% to 8.82% under the baseline scenario and 9.185% under a downside scenario.

The expected recovery in global trade is likely to benefit the country and the Bank as prices of key commodities that are exported are expected to improve, hence improving the terms of trade. As trade improves, the level of business activities in the country will improve, hence more demand for investment resources and timely payback.

> **"THERE WAS A SHARP DROP IN INTERNATIONAL TOURISM, EQUIVALENT TO APPROXIMATELY 25%**



As an interim measure, governments have taken extraordinary steps to protect businesses and employees from the outbreak's economic fallout, but this has consequences, with gross public debt rising fast. Several central banks have lowered policy interest rates in order to increase liquidity to stimulate economic growth, with the Federal Reserve Bank (USA) aiming at maintaining policy rates at less than 0.25% up to 2023 and European Central Bank at negative or less than 0.32%.

Headwinds to global growth outlook include: the COVID-19 outbreak which could recur in places that appear to have gone past peak infection; escalating tensions between US and China on multiple fronts, against a backdrop of low inflation and high debt in advanced economies; and protracted weak aggregate demand could sustain disinflation and debt service difficulties, which could in turn weigh further on activity.

The recession in advanced economies is hitting Emerging Markets and Developing Economies (EMDEs) through shocks to trade flows, tourism, remittances, commodity prices as well as sudden reversal of capital flows. Approximately 60% of Small and Medium Enterprises (SMEs) are significantly affected by COVID-19 with 23 million people pushed to extreme poverty.

Moving forward, the implication is that Governments must seize this opportunity to engineer a fairer and a more sustainable economy, making competition and regulation smarter, modernizing government taxes, spending and social protection.

Source: World Bank economic forecasts (June 2020)

SUB-SAHARAN ECONOMY

In Sub- Saharan Africa, GDP is expected to contract by 2.8% in 2020 and expand by 3.1% in 2021; while remittance flows, which are the economic lifeline for many developing economies are expected to fall by 20% in 2020. For the first time in 60 years, developing countries and emerging markets are likely to contract, with their incremental financing needs arising from the crisis are in the range of 2.5%-10% of GDP per year, but only half of these can be met internally.

In sub-Saharan Africa, oil exporters are expected to lose over US$ 65 billion in revenue and health spending will increase up to US$ 10.6 billion in the year 2020.

EAST AFRICAN ECONOMY

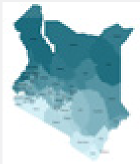
Generally, all the East Africa Community (EAC) countries are on the recovery path from the impact of COVID-19 except South Sudan. The possible gloomy economic outlook of South Sudan is attributed to over-reliance on imports. South Sudan's economy is expected to contract by 4.3% in 2020 and by 23.6% in 2021. Kenya's economy will expand by 1.5%, Tanzania by 2.5%, Rwanda by 2% and Uganda by 3.3% in 2020 and grow by 5.2%, 5.5%, 6.9% and 3.7% respectively in 2021, according to World Bank report, 2020.

Table 1: East African Community GDP growth rate 2021-2017

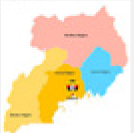
	Actuals			Forecasts	
Year	**Y2017**	**Y2018**	**Y2019**	**Y2020**	**Y2021**
Kenya	4.8	6.3	5.4	1.5	5.2
Tanzania	6.8	5.4	5.8	2.5	5.5
Uganda	3.9	6.2	6.5	3.3	3.7
Rwanda	6.1	8.6	9.4	2	6.9
Burundi	0.5	1.6	1.8	1	2.3
South Sudan	-6.9	-3.5	3.2	-4.3	-23.6

Source: World Bank Economic forecasts (June 2020)

IN SUB- SAHARAN AFRICA, GDP IS EXPECTED TO CONTRACT BY 2.8% IN 2020 AND EXPAND BY 3.1% IN 2021



KENYA'S ECONOMY WILL EXPAND BY 1.5%, TANZANIA BY 2.5%, RWANDA BY 2% AND UGANDA BY 3.3% IN 2020 AND GROW BY 5.2%, 5.5%, 6.9% AND 3.7% RESPECTIVELY IN 2021



UGANDA'S GDP IS FORECAST TO EXPAND BY 3.3% IN 2020 AND 3.7% IN 2021 COMPARED TO 6.5% GROWTH RATE REALIZED IN 2019

THE STATE OF UGANDA'S ECONOMY

Uganda's GDP is forecast to expand by 3.3% in 2020 and 3.7% in 2021 compared to 6.5% growth rate realized in 2019 (World Bank, 2020). This is much lower than the 7% growth rate target as per the NDP III. The slowed growth rate experienced in 2020 is largely attributed to the impact of COVID-19 and the measures to curb it, the impact of the locust invasion and the effect of climate change for example, floods in the Lake Victoria and Kyoga basin, Kasese and Soroti which affected the road infrastructure, hampering transportation of agricultural products to markets. Like many African countries, tourism has been the hardest hit sector of the economy – with a predicted loss of US$ 5 billion over the next 5 years. Sectors like Education have been significantly impacted due to the prolonged close. Some intervention has been undertaken in the sectors of Agriculture, import ssubstitution, Eexport promotion, and Tourism, the impact of which may be felt in 2022 when these industries have started production. In comparison to Uganda, Tanzania has never experienced a closure, while the Kenyan economy has a strong industrial base, which makes it easier to recover quickly.

The poverty level in the country is expected to rise by 2% - 8% while 46% of the population are already food insecure. Most workers employed in the Micro, Small and Medium Enterprises (MSMEs) have been pushed below the poverty line with 46% in manufacturing, 40% in hospitality and 41% in trading & services.

With the increasing risk profile of MSMEs, UDB needs to source and create risk-sharing schemes e.g. a special credit guarantee fund targeting MSMEs. Such schemes will attract other financiers to the SME sector.

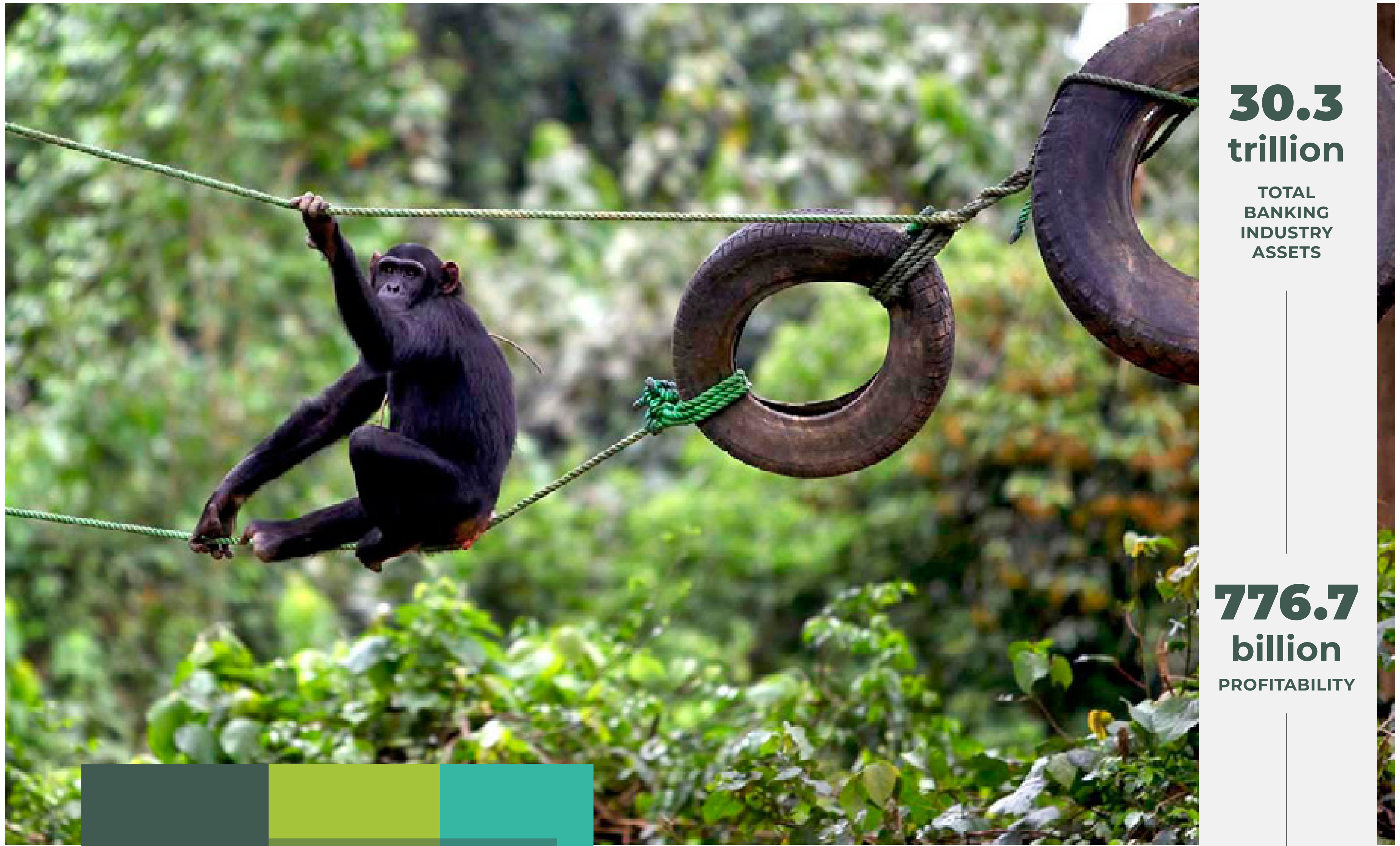
Conversely, Headline inflation has been controlled within the 2.8% to 4.7% range for the first 9 months of 2020, with core inflation

varying from 2.5% to 6.2% (Uganda Bureau of Statistics, UBOS, 2020). The low annual inflation rate is largely attributed to food crops and related items inflation because of the favourable weather conditions experienced in the country. Notably, annual transport inflation rose, reaching the peak at 62.5% during the same periods as the government implemented COVID-19 containment measures.

The Business Confidence Index (BCI) was below the threshold of 50 for the periods March-to August 2020, implying negative sentiments about doing business in the country. Note that the level of economic activity declines as the COVID-19 pandemic spreads. The BCI improved as the lockdown eased, rising to 50.08 in September 2020 and is projected to increase further to 54 in 2021. The improvement in sentiments about doing business in the last three months to September 2020 has led to an improvement in the level of economic activities in the country.

The performance of the External Sector was negatively impacted by the COVID-19 pandemic, with the country's trade balance deteriorating to a deficit of US$ 227.6 million in September 2020, largely attributed to the decline in the volume and value of exports (Bank of Uganda, 2020). During the same period, the Uganda shilling depreciated against the dollar up to 3,807 in April 2020, mainly due to the reduced inflows from export receipts. The Uganda shilling is projected to depreciate by 2% against the US dollar from 3,697 in September 2020 to 3,760 in September 2021, according to Trading Economics forecasts.

As a development bank, UDB has the mandate to accelerate the pace of recovery in the economy. The Bank needs to source additional funding from both its shareholders and other partners to finance this recovery process. The need for grant funding and technical assistance is critical in providing blended finance that is highly concessional and vital for faster recovery. The Bank's focus shall be in the following areas of blended finance: 1) Unfunded liabilities such as sourcing for grants and Insurance facilities, and 2)



THE UGANDA SHILLING IS PROJECTED TO DEPRECIATE BY 2% AGAINST THE US DOLLAR

ACCORDING TO TRADING ECONOMICS FORECASTS.

Collaborations in areas of Syndication, Technical Assistance, Feasibility studies and Capacity building.

With the rising level of poverty in the country because of the preventive measures adopted against COVID-19, UDB needs to make a deliberate move to identify business opportunities that exist in various parts of the country, including start-ups as this will expand the economic base of the country and provide new employment opportunities, especially for youth.

30.3 trillion
TOTAL BANKING INDUSTRY ASSETS

776.7 billion
PROFITABILITY

5.4%
NON PERFORMING ASSET RATIO OF THE INDUSTRY

Business development grants to support MSMEs business growth is necessary for MSMEs.

THE STATE OF UGANDA'S BANKING INDUSTRY

As at June 2019, the total assets of the Banking industry were Ugx 30.3 trillion, a rise from Ugx 27.4 trillion in 2018 (10.5% rise) with profitability rising to Ugx 776.7 billion in 2019 from Ugx 737.7 billion in 2018 *(Bank of Uganda (BOU) Financial Stability Report 2019).*

The Non-Performing Asset ratio of the industry rose from 5.1% in 2018 to 5.4% in 2019 then at 6.7% as at October 2020 and the capital adequacy ratio grew from 20.64% in 2018 to 27.76% in 2019. Return on equity for the industry dropped from 4.69% in 2018 to 2.37% in 2019 attributed to a general drop in profitability with over eight (8) financial institutions reporting losses. The ratio of Write off to net loans rose from 2.44% in 2018 to 2.51% in 2019.

Only 14.7% or 5/34 of the regulated financial institutions have been listed on Uganda's Securities Exchange.

Banks from South Africa, United Kingdom and India remain the highest beneficiaries from Uganda's financial sector with more than 72% of total profits after tax generated by non-native financial institutions accounting for Ugx 528bn being exposed to capital flight.

In the industry, 32.35%of the financial institutions had their loan to deposit ratio greater than the recommended 80-90%. Housing Finance Bank is top on the list in capital adequacy, with a low-risk rating of just 7.6%.

While risk arising from inflation affected some of the banks, less than 7% of these financial institutions had a significant external impact. The only consistent systemic effect on banks profitability in the past 20 years has been foreign exchange volatility.

Over 52% of banks have suffered negative effects of foreign exchange fluctuations losing a significant amount of money. Return on equity dropped year on year from 8.63% in 2018 to 7.66% in 2019, a drop of 12.64%. The cost of deposits grew by 15% year on year with over 15 banks increasing their interest rates over the past 12 months. Banks with high dependence on non-interest incomes experience strong deviation in exchange rates that also depleted their savings significantly.

Centenary bank is the safest bank in Uganda with the lowest risk rating standing at just 12.42, performing well on all tiers especially, earnings, profitability and return on shareholders' value. Liquidity coverage dropped from 8.6 times of annual liquidity buffer in 2018 to 4.2 in 2019, with more than 76.47% of banks having less liquidity coverage after 12 months.

Financial technology (Fintech) has increased uptake of formal financial services with mobile money playing a significant role. Currently, 27 million people are registered with mobile money in the country (BOU, 2019). The main driver for Fintech is the increasing consumers' preference and demand for convenience, speed, and lower cost of financial services. The number of transactions through mobile money grew by 26.26%, with amount transacted increasing from Ugx 18 tn in 2018 to Ugx. 20 tn in 2019. The number of Banking Agents rose by 22.29% in 2019 to 642,970.

OVER
52%
OF BANKS

HAVE SUFFERED NEGATIVE EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS LOSING A SIGNIFICANT AMOUNT OF MONEY.

To this end, it remains important for UDB to increase its outreach to MSMEs by adopting the use of Fintech. As foreign exchange fluctuations is a key systemic risk facing banks in Uganda, UDB will closely monitor the impact of such fluctuations on its assets put in place mitigants to address the emerging risks.

Bank of Uganda maintained the Central Bank Rate (CBR) at 7% from June – October 2020 and remained committed to providing liquidity support to Supervised Financial Institutions (SFIs) with the aim of stimulating economic recovery. The commercial banks' lending rates rose from 17.8% in March to 19.9% in September 2020 due to increased risk aversion in the financial sector as the ratio of non-performing loans to total gross loans reached 6.2%. The Central Bank continues to persuade the commercial banks to reduce lending rates (moral suasion monetary policy) to increase private sector credit to boost economic growth in the country.

SUSTAINABILITY REPORT

THE SUSTAINABILITY STANDARDS CERTIFICATION INITIATIVE (SSCI) AWARD

In September 2020, the Bank was awarded the Sustainability Standards Certification Initiative Award for its commitment to conduct its business with sustainability at the core of its operations. The Bank achieved the highest level of certification, Level 5, that there is to be awarded and will continue to work towards maintaining that level of certification.

H.E Amb. Marcel R. Tibaleka, Uganda's Ambassador to Germany recieves the SSCI award on UDB's behalf from Tom Hoyem, Council Member of SSCI in Germany.

BRIEF ABOUT SSCI

The Sustainability Standards Certification Initiative (SSCI) is a global initiative for developing and maintaining the first truly holistic, universally accepted, and an executable set of across-the-board sustainability standards. SSCI is dedicated to value-driven financial institutions that wish to make lasting positive impacts on the societies and natural environments in which they operate.

The SSCI certification is a voluntary process by which applicants are assessed against wide-ranging requirements of sustainability standards. SSCI does not treat sustainability considerations as just an "add-on" -; sustainability must be embedded within the DNA of the applicant in order to fulfill SSCI certification requirements. After a rigorous implementation and review process, the distinction of SSCI Sustainability Certified Financial Institution is awarded to successful applicant institutions.

KEY BENEFITS OF SSCI CERTIFICATION

- SSCI Certification enables financial institutions to unleash their organizational innovation capacity, which is a survival imperative in our fast-changing world that is characterized by fast technological disruptions and shifting demographics, social, political and economic trends.
- SSCI Certification also helps in creating a socially responsible, environmentally sustainable and economically feasible business model which is compatible with 21st century requirements. It helps overcome the challenge of shifting the focus from shareholder value to stakeholder value, thereby ensuring the long-term profitability of certified financial institutions.
- SSCI will be instrumental in enabling DFIs and other value-driven financial institutions to raise funding for their institutions for the sustainability projects they finance. Currently, there is an upward trend in Socially Responsible Investments (SRI) with the SRI assets estimated at more than US$ 30 trillion. There is therefore a growing appetite in the market for sustainability-centric investment opportunities. However, the quality of those investments in terms of sustainability is being increasingly probed. SSCI will therefore directly empower investors to make responsible and informed decisions. SSCI's sustainability standards are transparent and available to all potential investors, regardless of size.
- Certification with SSCI provides all value-driven institutions who are openly working for the well-being of their stakeholders an advantage over those who are merely "outstanding advertisers" with unproven claims of sustainability. Moreover, because of the across-the-board application of sustainability standards, SSCI certified financial institutions gain a clear competitive advantage in terms of long-term profitability, trust and visibility of their sustainability credentials in the market.

THE BANK'S SSCI JOURNEY

The Bank's certification journey started back in November 2018 when Management requested for the Board of Directors support in this initiative. Through the dedicated efforts and commitment from the Board, Management and Staff worked towards implementing the requirements of the Standards over a period of 1 year and 4 months. In April 2020, we eventually submitted our portfolio of evidence to the European Organisation for Sustainable Development (EOSD) to support our sustainability intent. It was quite a tough and demanding journey but well worth it.

Pivotal to the Bank's sustainability journey was the re-definition of its strategic intent which first and foremost required the Bank to define why it exists i.e. "its Purpose Statement" and the strong positive impacts that the Bank wanted to create i.e. "the High Impact Goals". Accordingly, the Bank approved the following as its Purpose Statement and High Impact Goals

OUR PURPOSE STATEMENT - "IMPROVING THE QUALITY OF LIFE OF UGANDANS"

Quality of life is about the general wellbeing of people. The Bank's focus on Improving the Quality of Life of Ugandans shall involve changing the social, economic, health, educational and environmental conditions which affect human capital development in the country.

UGANDA DEVELOPMENT BANK (UDB) DECLARED SUSTAINABILITY-CERTIFIED FINANCIAL INSTITUTION

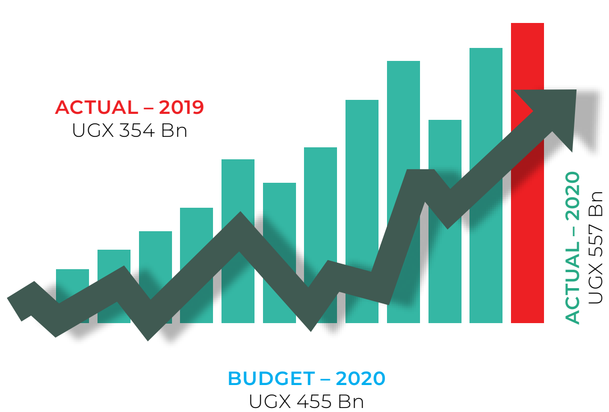
INVESTMENTS

PERFORMANCE OVERVIEW

Gross Loan Portfolio

The year 2020 was largely impacted by various micro and macro-economic disruptions that resulted from the COVID-19 pandemic. The pandemic resulted in economic downturn as registered by majority of the businesses both locally and internationally. Restrictions on movement, curfews, reduced social interactions all meant that we could no longer operate as normally as we usually would.

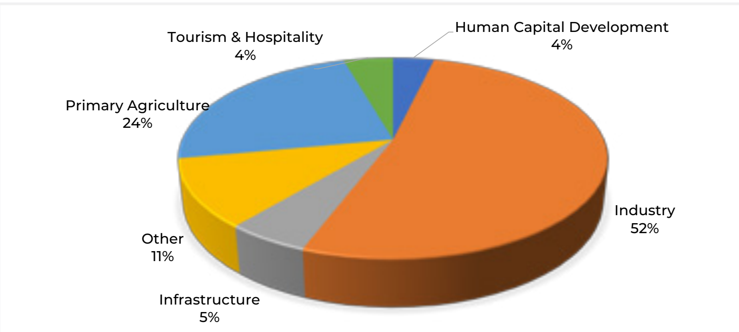
In spite of this, the investment directorate was able to register a positive growth of 54% in the gross loan portfolio from UGX 354Bn (2019) to UGX 557Bn (2020), and well above the budgeted UGX 455Bn for the year.



Portfolio Classification

Portfolio Classification by Sector

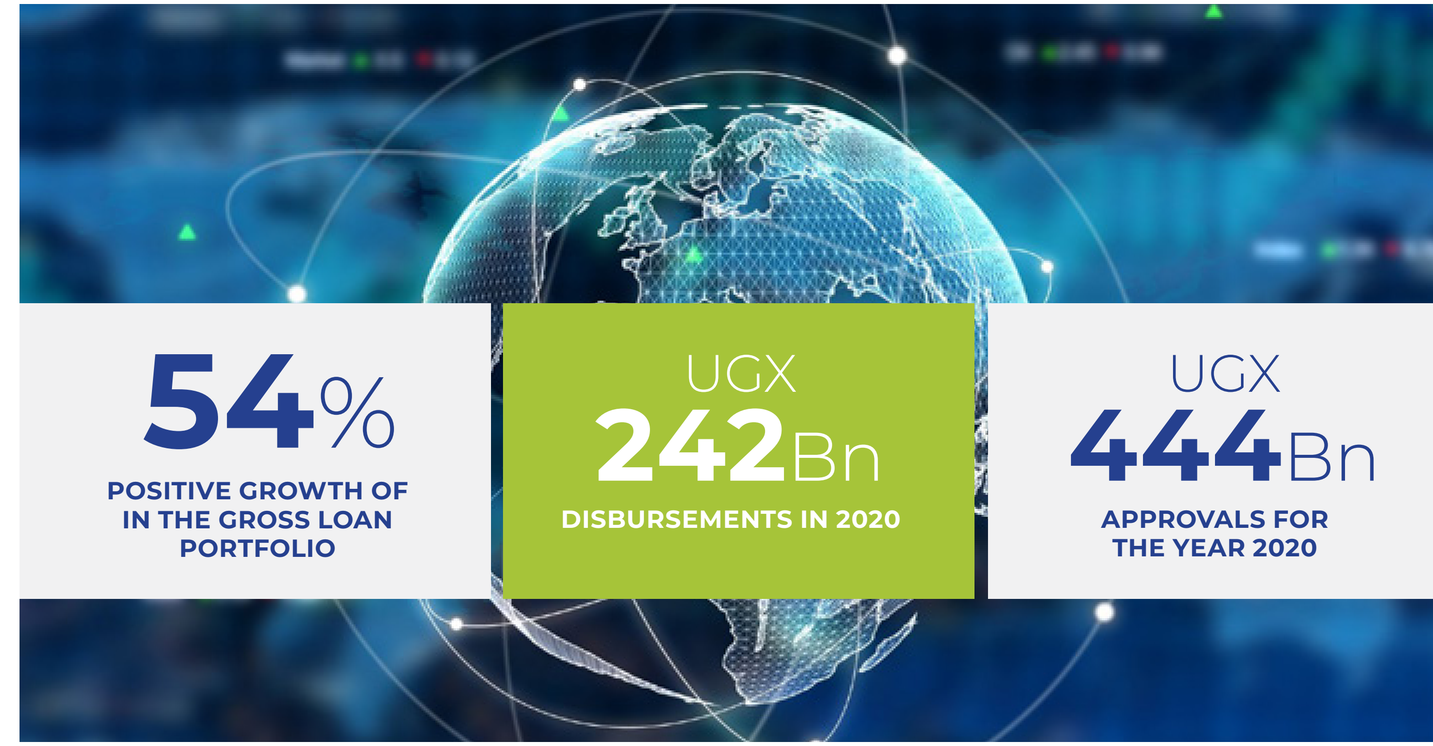
Industry which comprises of manufacturing, agro-industrializtion and mineral based, remains the dominant sector accounting for **52%,** followed by primary agriculture at **24%**, infrastructure at **5%**, human capital development at **4%**, tourism & hospitality at **4%** and other sectors (real estate) at **11%**. The dominance of industry and agriculture is a true reflection of Uganda's economic sector drivers and the bank has indeed made these priority sectors n which to invest in.



ANALYSIS OF 2020 – DISBURSEMENTS, APPROVALS AND PIPELINE

Year-on-year disbursements have continued to grow, from UGX 183.9Bn in 2019 to UGX 242Bn in 2020, a growth of 31% which was above the budgeted target for the year of UGX 217Bn by 12%.

Approvals for the year 2020 were UGX 444Bn, 73% higher than 2019 approvals which were 256Bn, and 46.5% above the budgeted target for the year of UGX 303Bn.



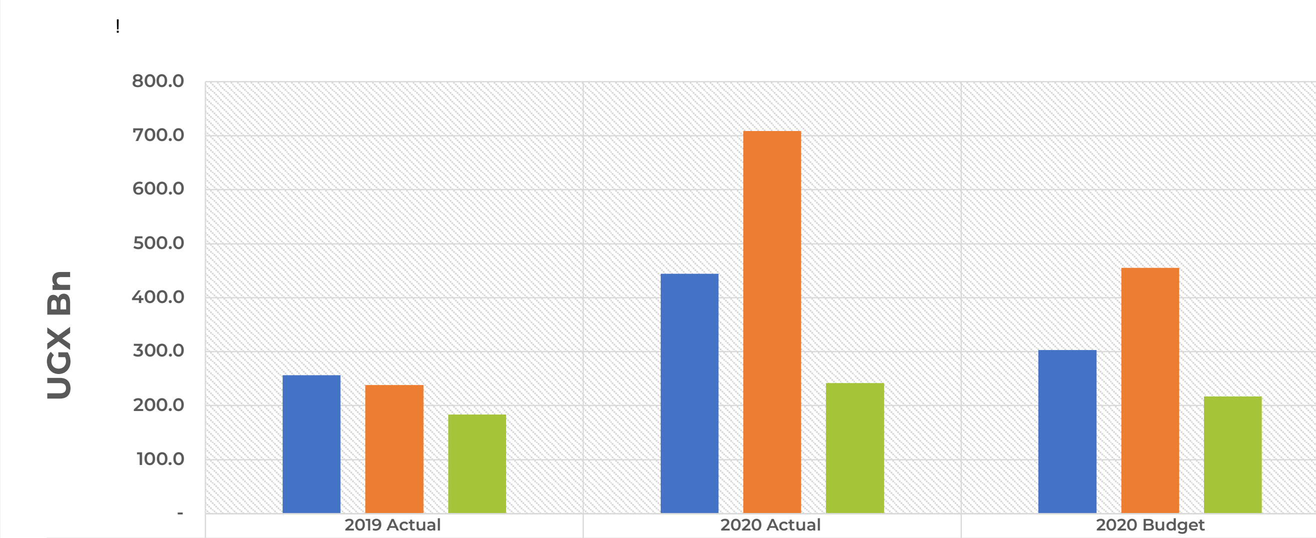
54%
POSITIVE GROWTH OF IN THE GROSS LOAN PORTFOLIO

UGX 242Bn
DISBURSEMENTS IN 2020

UGX 444Bn
APPROVALS FOR THE YEAR 2020

We were able to generate a cumulative pipeline of UGX 709Bn against a target of UGX 455Bn, and above the 2019 performance of UGX 238Bn.

A large portion of the pending pipeline and approvals will be converted within Q1 and Q2 2021.

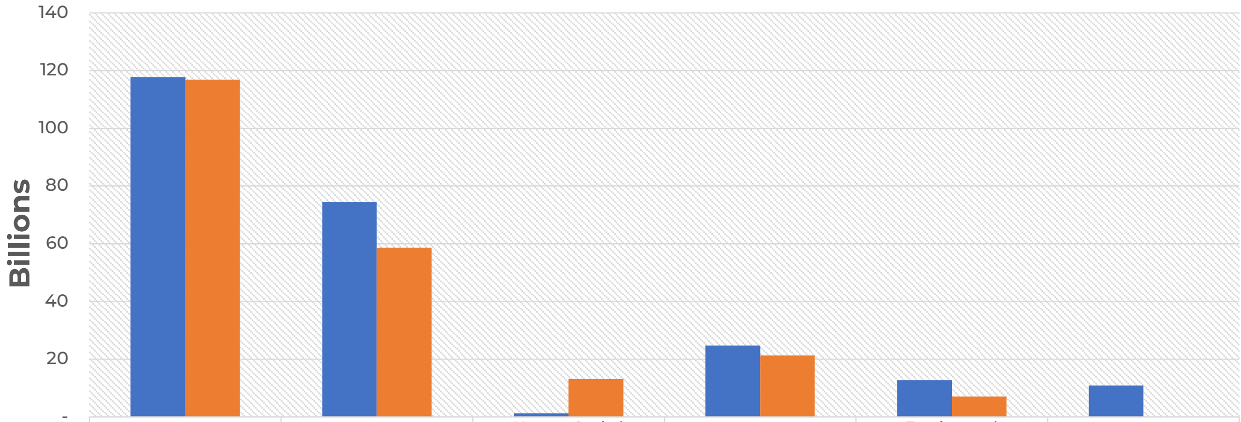


	2019 Actual	2020 Actual	2020 Budget
Approval	256.4	444	303
Pipeline	238.1	709	455
Disbursements	183.9	242	217

Analysis of Disbursements

Disbursements by Sector

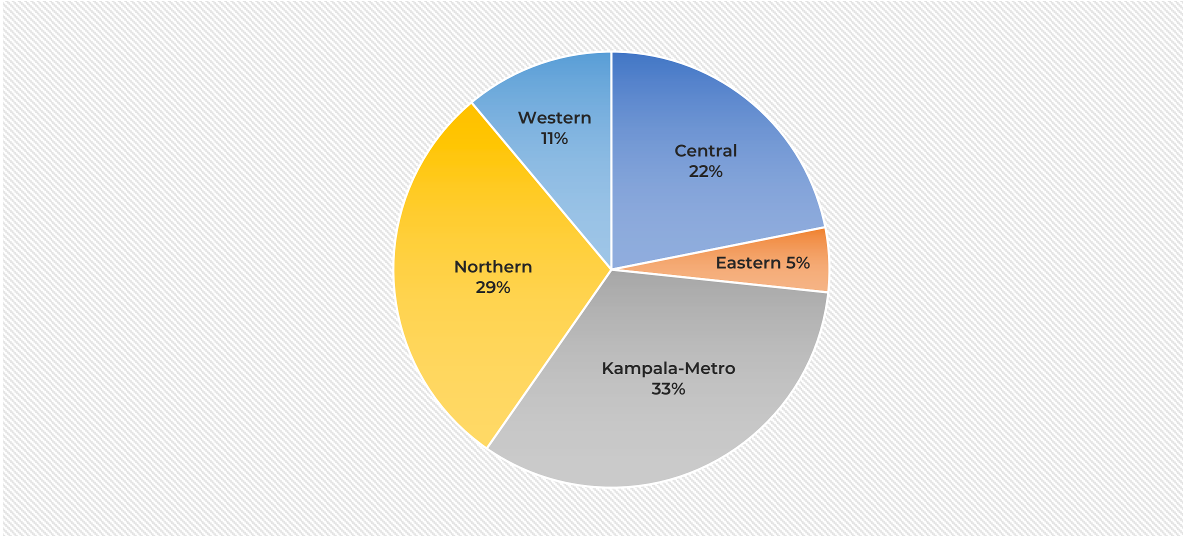
Of the 242Bn disbursed in 2020, industry accounted for 117.8Bn representing 49%, against a target of 53.8%, Primary Agriculture 74.4Bn representing 31%, against a target of 27%, Human Capital Development 1.27Bn representing 1%, against a target of 6% Infrastructure 24.7Bn representing 10% against a target of 9.7% Tourism and Hospitality 12.8Bn representing 5% against a target of 3.3% and others 10.8Bn representing 4% against a target of 0%. Overall, the performance of Industry, Primary Agriculture and Infrastructure were consistent with the budget.



	Industry	Primary Agriculture	Human Capital Development	Infrastructure	Tourism and Hospitality	Others
Actual	117,827,465,812	74,483,939,567	1,270,000,000	24,781,836,450	12,779,026,250	10,876,787,000
Budget	116,811,597,003	58,722,229,953	13,210,294,811	21,259,159,789	7,089,858,702	-

Disbursements by Region

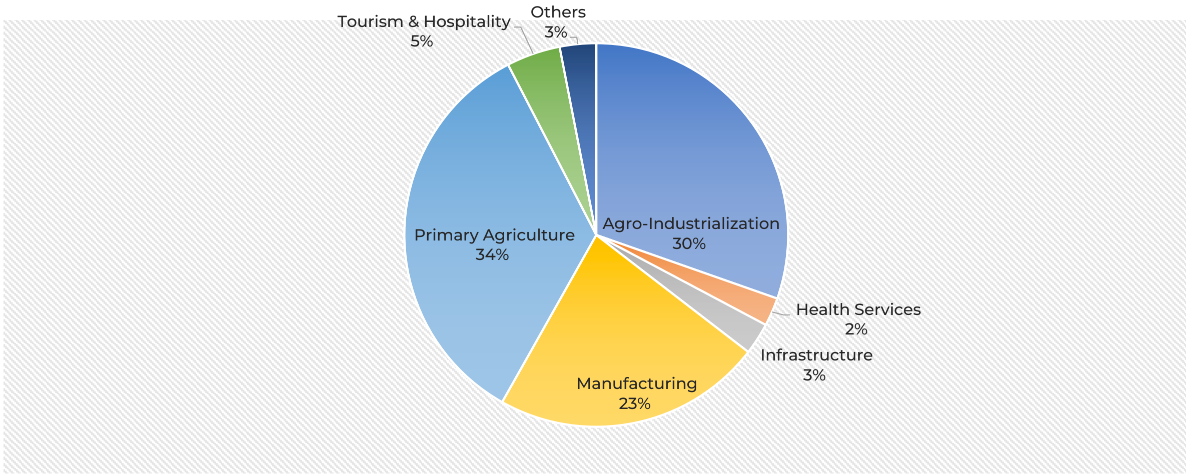
The regional allocation of the 242Bn disbursement was 33% to Kampala metro, Northern 29%, Western 11%, Central 22%, and Eastern 5%.



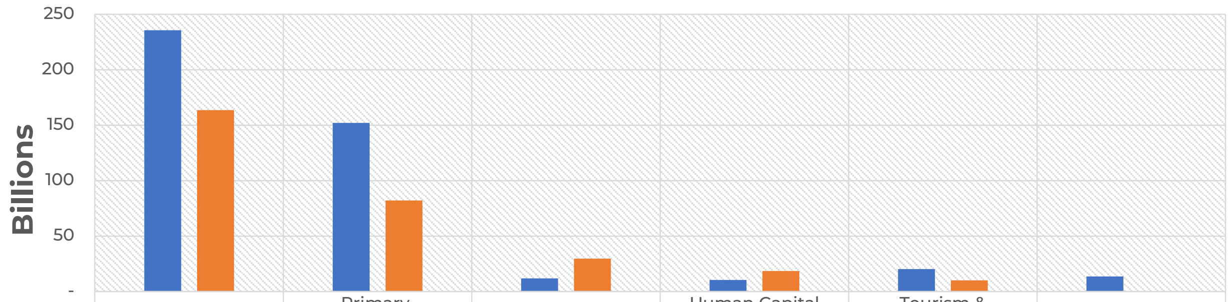
Analysis of Approvals

Approvals by Sector

The distribution of the 444 Bn approvals has been 34% to primary agriculture, 30% agro industrialization, 23% manufacturing, 3% infrastructure, tourism 5% and others including health 3%.



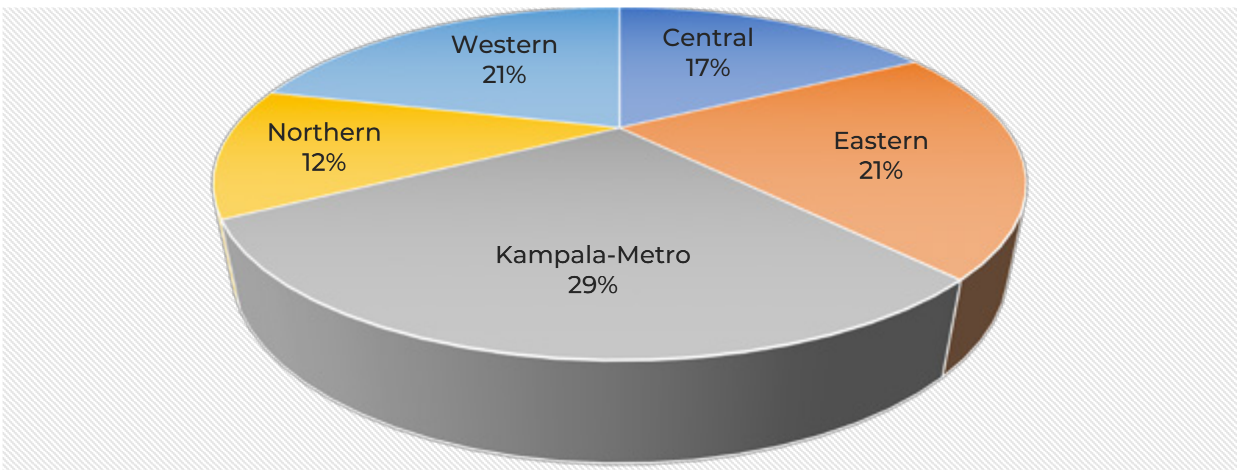
Approvals by Sector in UGX



	Industry	Primary Agriculture	Infrastructure	Human Capital Development	Tourism & Hospitality	Others
Actual	235,620,012,710	151,944,745,000	11,874,334,840	10,600,000,000	20,142,040,000	13,583,500,000
Budget	163,536,235,804	82,211,121,935	29,762,823,704	18,494,412,736	9,925,802,183	-

Approvals by Region

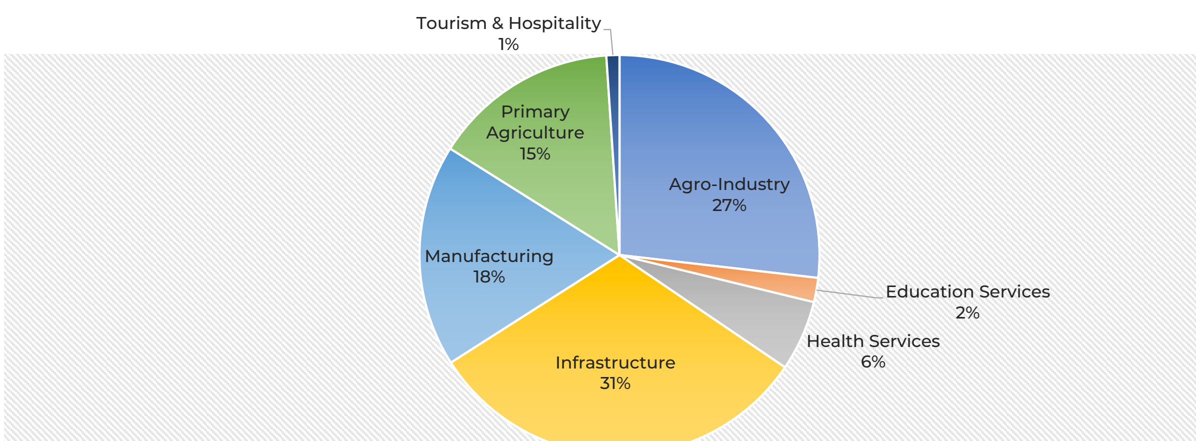
The regional distribution of the approved facility is **29**% to Kampala metro, **21%** Eastern, **12%** Northern, **17%** Central, **21%** Eastern. The regional distribution for the year was within the target of ensuring 50% of disbursements are outside Kampala metro.



Analysis of Pipeline

We were able to generate a pipeline of UGX 709Bn against a target of UGX 445Bn.

UGX 443Bn of the pipeline that is currently not yet approved and/ or disbursed is distributed per sector as below:



SOCIO-ECONOMIC DEVELOPMENT IMPACT 2020

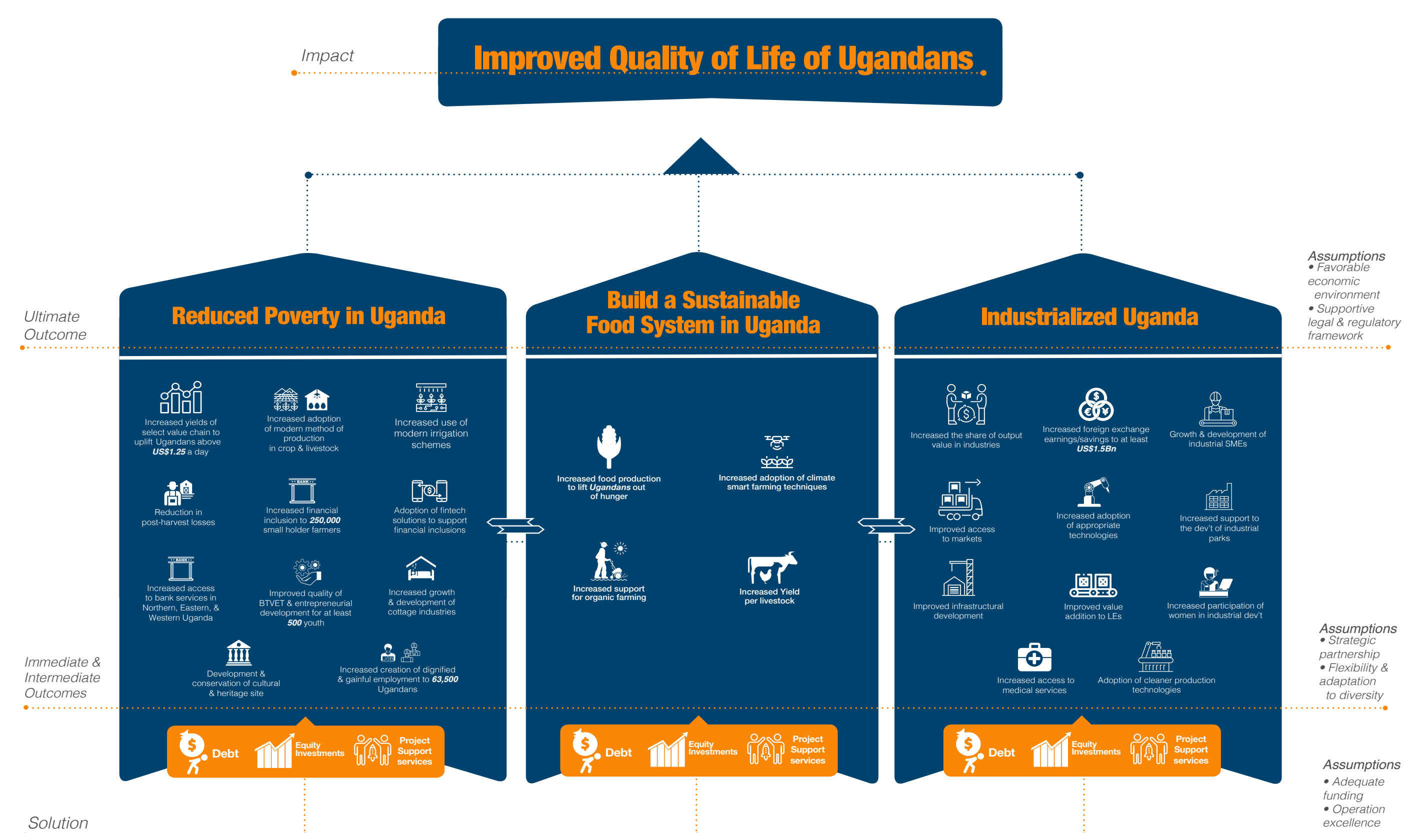
1 BACKGROUND

The Government of Uganda has planned to achieve Vision 2040 through a series of six five-year development plans (NDPs). While NDP I focused on "Growth and Employment", the NDPII focused on addressing the drivers of "Uganda's Competitiveness" as a destination for private investments. The NDP III currently under implementation, focuses on increasing household income and improved quality of life of Ugandans. It is proposed that government will pursue strategies to increase domestic production and expand exports by promoting resource-led industrialization.

In line with its mandate, Uganda Development Bank (UDB) provides financing to projects in priority sectors of the economy and consistent with the NDPs. The bank annually tracks and report on the progress of implementation and achievement of development outcomes. This is done by tracking the progress made by the enterprises financed against key development impact indicators as part of accountability for the development outcomes.

UDB's intended development impact is specifically demonstrated by its Theory of Change (contained in the figure below), which establishes the logical connection between what the Bank does, why it does it, and how it contributes to defined development outcomes.

UDB Theory of Change 2020-2024



OVERVIEW OF SOCIO-ECONOMIC IMPACT 2020

Employment:

UDB recognizes job creation as one of her top priority outcome objectives. The Bank contributes to job creation directly by being additional to domestic investment which translates into direct effect on productivity. The bank's interventions in 2020 created/maintained 24,013 jobs in the economy detailed below.

Sector Gender Distribution in Employment

NDP Sector:	Total Employed	Youth Employment	Full Time Employees		Temporary Employees	
			Male	Female	Male	Female
Hospitality & Tourism	146	142	67	61	6	12
Manufacturing	11,675	6,159	9,031	2,079	425	140
Health	416	355	149	260	3	4
Education	478	304	228	139	73	38
Agriculture	9,027	8,330	1,467	720	3,509	3,331
Infrastructure	418	380	67	37	280	34
Others	1,853	1,504	225	402	624	602
Total	**24,013**	**17,174**	**11,234**	**3,698**	**4,920**	**4,161**

Source: Field Data

Of the 24,013 jobs created and maintained,

- 17,174 were occupied by the youth, representing 72%
- The employment share among males and females was 67% and 33% respectively.
- Of the total jobs, 62% were on full time basis while 38% were on temporary basis.

There was a decline in jobs created and maintained in 2020, 15% down from 28,313 jobs in 2019. This decline was occasioned mainly by job cuts in the education, tourism, and hospitality sectors. In the Tourism and hospitality sector, most staff were laid off due to the implication of lockdown measures which affected international tourist traffic to the country, whereas in some sectors (like education), some employees voluntarily moved to other productive sectors of the economy, especially the teachers.

As the economy transitions past the pandemic, there will be gains in employment creation across all the affected sectors, supported by the interventions implemented by government that aim to improve the business environment.

12%
GROWTH
2020 TAX CONTRIBUTION

38%
UPLIFT
OUTPUT VALUE OF THE ENTERPRISES SUPPORTED BY THE BANK

72%
OF JOBS
CREATED/ MAINTAINED ARE OCCUPIED BY THE YOUTH

TAX CONTRIBUTIONS

The bank tracks the tax contributions (corporation tax) of projects it funds. Tax contribution grew by 12% in 2020, represented by a movement from UGX141.7Bn in 2019 to UGX160Bn in 2020. This increase is majorly attributed to increase in industrial outputs from the manufacturing sector.

NDP Sector:	Tax Contributions
Hospitality and Tourism	**50,821,500**
Manufacturing	**134,953,666,204**
Health	**14,528,096,800**
Education	**30,680,000**
Agriculture	**10,332,499,149**
Others	**239,000,000**
Total	**160,134,763,653**

The lockdown presented opportunity for the manufacturing sector specially to explore production in support of import substitution and for the wider domestic market.

ANNUAL OUTPUT VALUE

Overall, there was a 38% uplift in output value of the enterprises supported by the bank, represented by the increase from Ugx1.795Trillion in 2019 to UGX2.48Trillion in 2020; this growth was occasioned by marked performance in the manufacturing and agriculture sectors. Conversely, the COVID-19 pandemic and related control measures constrained some sectors like tourism and education as businesses struggled with little or no activity. This affected their share of contributions to turnover.

NDP Sector:	Turnover 2019	Turnover 2020
Hospitality and Tourism	1,148,243,436	176,413,000
Industry	410,869,560,000	1,520,736,411,057
Health	31,277,231,000	76,093,656,000
Education	14,956,532,927	5,840,000,000
Agriculture	1,038,116,905,661	636,340,444,085
Others	239,000,000,000	241,300,000,000
Total	**1,795,547,093,024**	**2,480,486,924,142**

FOREIGN EXCHANGE EARNED

In 2020, there was a 50% decline in foreign exchange earnings. This was attributed to the implication of the global lock-down measures which significantly affected the tourism and hospitality sector, a major forex earner for the country. Additionally, exports were affected as many firms in the manufacturing sector either scaled down production or opted to exploit opportunities within the local market. All the above happened on the background of a constrained regional market, particularly in Rwanda, South Sudan and Kenya. The figure below details the forex earned from projects across the various sectors that bank funds.

NDP Sector:	Forex Earnings	% Contribution
Hospitality and Tourism	169,405,000	0.1%
Industry	122,131,732,250	69.6%
Health	-	0.0%
Education	-	0.0%
Agriculture	53,096,169,020	30.3%
Others	-	0.0%
Total	**175,397,306,270**	**100.0%**

SUPPORTING PRIVATE SECTOR COMPETITIVENESS

The profitability of these businesses funded by the bank totaled Ugx409.4Billion, improving by 131% from Ugx178Billion in 2019.

NDP Sector:	Profitability	% Contribution
Hospitality and Tourism	52,477,501	0.0%
Industry	387,675,106,208	94.7%
Health	4,205,000,000	1.0%
Education	377,137,001	0.1%
Agriculture	11,660,287,562	2.8%
Others	5,429,000,000	1.3%
Total	**409,399,008,272**	**100.0%**

The growth in profitability is associated with business growth in the industry sector. The sector remained functional with a lot of virgin opportunity, especially exploration of new markets for their products and import substitution.

GENDER AND OTHER CONSIDERATIONS

Of the 24,013 jobs that were created/maintained, 33% (or 7,859 jobs) were held by females. Similarly, women held 34% representation in the shareholding, board and senior management structures of the companies funded; 23 jobs were occupied by persons living with disability – *refer to the figure below for highlights the social inclusion metrics.*

Allotment	Male	Female
Company Shareholdings	**66.4%**	**33.6%**
Board of Directors	**68.9%**	**31.1%**
Senior Management Team	**62.4%**	**37.6%**
PWDs	**22**	**1**

As the bank entrenches social inclusion and gender considerations in its strategy and operations, UDB will continue to take deliberate efforts to support enterprises that create opportunities for the underserved sections of the society including women and youth.

LINKAGE TO HIGH IMPACT GOALS (HIGS)

Measurement of HIGs is dependent on the annual ex-post evaluation that tracks the level of achievement on the average household incomes and the impact it creates on the quality of life of both the direct and indirect beneficiaries.

i. Reduced poverty

- There were 12,560 employees on full time basis
- 40% (5,275 people) were lifted above poverty line ($1.90 per day), with an average pay of Ugx242,976
- Average monthly income of those below the poverty line was $1.49

ii. Build sustainable food system.-

Productivity and yields	2018	2019	2020
Average yield per acre (cereal)	1,400	1,550	1,610
Dairy Livestock (Average yield per cow)	6	8	8

There was 3.8% increase in yields per acre of cereal.

- Yield per dairy livestock remained constant, at 8 liters per cow.
- There was 9.3% of livestock farmers engaged in cross-breeds.
- There was 6.5% of livestock farmers had local breeds of livestock.
- There was 5.3% of livestock farmers engaged in raring exotic breeds.

iii. Industrialize Uganda.

- There was UGX1.52 Trillion worth of industrial output value generated, with Ugx122billion worth of foreign exchange earnings generated from the industry sector.
- A total of 43.2% of the companies in the industry sector reported acquiring improvement in skills and specialization in 2020 while 35.1% of these companies supported benefitted from varied technological transfers.
- A total of 21.7% of the companies supported have adopted cleaner production technology, in line with environmental protection.

PROJECTED DEVELOPMENT IMPACT OF PROJECTS APPROVED 2020 (NOT YET FULLY DISBURSED)

The Bank in 2020 approved a total loan value of UGX443.7Bn, distributed among 75 companies spread across the country.

These projects, upon full implementation, are projected to create 57,234 new jobs, generate Ugx3.7trillion in output value, Ugx749Billion in tax revenue contributions to government, and to earn Ugx1.1Trillion in forex exchange earnings. This is further illustrated in the table below.

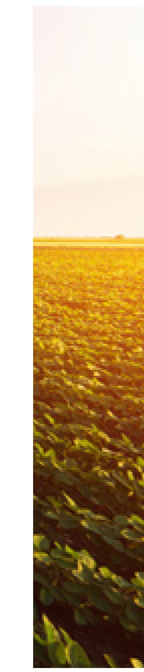
Sectors	No. of Companies	Projected Jobs	Projected Output Value (UGXBn)	Projected Tax (UGXBn)	Projected Forex (UGXBn)
Primary Agric	21	47,554	1,764.68	125.665	916.66
Agro-Industry	21	5,845	760.487	463.671	49.22
Tourism & Hospitality	10	371	238.2	50.379	56.35
Industry	17	2,837	582.4	106.699	115.54
Infrastructure	4	407	16.585	1.241	0.29
Health	2	220	422.7	1.4	0.17
Total	**75**	**57,234**	**3,785.05**	**749.055**	**1,138.23**

SECTOR SPECIFIC INTERVENTIONS

AGRICULTURE

Uganda development Bank Limited (UDB) driven by her Purpose of Improving the quality of lives of Ugandans has embraced agriculture as one of her key priority sectors.

Agriculture still remains the mainstay of the Ugandan economy, providing for about 24% of GDP, offering more than 70% employment and accounting for more than 80% of Uganda's exports. The agriculture sector as well presents massive opportunities for other sectors such as manufacturing and industry, especially agro-processing that uses agriculture raw materials. Given the dominance of agriculture as a source of livelihood, agriculture offers a great opportunity for the country to embark on increasing household incomes and improving the quality of life of Ugandans.



UGX **285**Bn
2020 BANK APPROVED FUNDING

UGX **78**Bn
2019 BANK APPROVED FUNDING

Funding Activity

During the year 2020, the Bank approved funding increased to UGX 285 billion, compared to UGX 78 billion in 2019. UGX 126 billion was disbursed in the same year, up from UGX 69.1 billion in 2019. The approvals and disbursements were in projects involved in primary agriculture and agro-industry.

The bank continues to support projects in agriculture and agro-industry across the entire value chain from primary production to agro-processing and value addition. The Bank continued to make use of both the Apex and Group Lending model to support more than 1,000 small holder farmers across the country. Using the farmer group and apex model we have been able to avail flexible loans as small as UGX 500,000 to farmers for production and other agricultural activities such as valley dam construction, land opening, acquisition of farm inputs, purchase of farm production animal stocks etc. Using the apex model with our partner financial institutions, we have been able to avail financing to several small holder farmers and agri-SME's that are located in the rural areas. We have as well offered direct lending to agriculture entities involved in several activities in different value chains for both crop and animal.

The Bank has designated lines of credit at concessional terms targeted for this sector. The Bank of Uganda Agricultural Credit Facility (ACF), the Kuwait Fund and United Nations Capital Development Fund (UNCDF) in addition to UDB funds from government capitalization.

KEY SECTORAL COLLABORATIONS

FAO AGRI-INVEST

With support from the FAO Investment Centre and The EU Delegation in Uganda, UDB has continued to expand her agricultural lending portfolio to offer innovative products and services to her clients. The key elements of Agri-Invest to UDB are:

i. ***Increased Investing*** – The project supports the bank to increase her investment portfolio in the food and agriculture sectors.

ii. ***Green Finance*** – FAO-developed tools like Ex-Ante Carbon Balance Tool (EX-ACT) and the Global Livestock Environmental Assessment Model interactive (Gleam-i) are being introduced to help the Bank assess the greenhouse gas emissions and carbon balance of loan applications in food and agriculture.

iii. ***Policy Dialogue*** - Policy dialogue and technical assistance to help de-risk and enhance the viability of agricultural investments.

iv. ***Digital Solutions*** – To enhance the Bank's lending, the project has teamed up with the UN Capital Development Fund (UNCDF) to increase the Bank's capacity to use digital technologies.

v. ***Impact measurement*** – Through use of big data analytics to help the Bank understand how agricultural investments contribute to reducing poverty.

UNCDF

The bank partnership with United Nations Capital Development Fund (UNCDF), has enabled cooperation in areas of mutual concern, in particular enhancement of the effectiveness of development efforts specifically to improve access to finance for SMEs in agricultural value addition through a dedicated facility for business development services and blended finance referred to as "Support to Agricultural Revitilization and Transformation (START) Facility" as part of the Development Initiative for Northern Uganda (DINU).

AGRA

The bank continued with her partnership with the Alliance for a Green Revolution in Africa (AGRA) in development of the agriculture finance strategy to address the existing gaps and set a direction for agri-finance. The agri-finance strategy will be completed in Q1-2021 and will set a clear strategy that addressed the needs of all players in the various agricultural value chains.

MSINGI

The bank leveraged on her partnership with Msingi East Africa to avail appropriate and required funding to the aquaculture sector. Through the partnership with Msingi East Africa, UDB have been able to provide financing to more than five (5) projects in fishery, an amount of USD 385,000. Msingi and UDB have worked closely together to support the competitiveness, innovation and growth in the aquaculture sector.

Outlook In 2021

The Bank will continue to ride on the initiatives and partnerships undertaken during 2020, to strengthen her interventions in the sector. The bank targets to increase her funding approvals and disbursements to UGX 350 billion and UGX 250 billion respectively to support activities in primary agriculture and agro-industrialization. The bank targets to provide support to at least 2,000 new small holder farmers and will roll out a fintech solution to serve her clientele better. The bank also intentions to develop special products targeted to women and youth and will focus largely on SMEs.

CUSTOMER PROFILES

ROCKSPRING FISH FARM

80+
PEOPLE EMPLOYED

UGX 60m
ANNUAL TAX REVENUES

Rock Springs Fish Farm Ltd is a private company located in Tororo District, Eastern Uganda, and involved in tilapia and catfish farming busines in cages and ponds. The Farm was formed for commercial aquaculture production with aim of exploiting the immense opportunity created by the currently widening fish demand gap in Uganda and the world at large. This was envisaged to be accomplished by adopting intensive aquaculture technologies using high quality feeds, focusing on market-led production and providing quality technical support to other fish producers.

The bank has supported the company by providing financing to enable the business to expand her capacity and increase her production of fish. The company has been able to expand her capacity and currently has 65 fishponds and more that 20 cages that produce more than 20,00 fingerlings every 6 months.

Rock Springs Fish Farms employs highly qualified technical staff and uses basic low-cost intensive proven technologies blended with best management practices and production of her own fingerlings. The company employs more than 80 staff and contributes more than UGX 60 in annual tax revenues.

NUMA FEEDS

150
PEOPLE EMPLOYED

UGX **50**m
ANNUAL TAX REVENUES

NUMA Feeds is a privately owned local SME and Agro-processor specializing in the milling of maize, rice, millet and soya beans to produce various products for both human and animal consumption. The company has been in this business for a period of more than 20 years and working with farmers and farmer groups in the districts of Sheema, Bushenyi, Mbarara, Mitooma, Buhweju, Insingiro, Soroti, and Nakasongola from whom the business sources raw materials.

The bank has supported the company by providing adequate working capital for the business to enhance her production and increase her operational capacity. The company's current production capacity is 280 Metric tons per month and employs a workforce of more than 150 staff. The business contributes annually more than UGX 50m in tax revenues.

TOURISM

Tourism sits at the heart of the economic development of Uganda and impacts other sectors of the economy like agriculture, transport and others. Tourism is a key driver of job creation, innovation, and growth. Until the advent of COVID-19 pandemic in Uganda in March 2020, Tourism was the main foreign exchange driver of the economy. This highlights the sector's significance to the economy as enshrined in National Development Plan III. UDBL's primary areas of funding in the sector are those projects located in the tourist destination areas aimed at enhancing longer stay of visitors and offering a memorable experience.

Beyond the normal tourism financing offered, the bank partnered with European Union thereby availing a sector-based intervention facility to hoteliers and tour operators across the country in order to curtail, reverse and preserve the effects of COVID-19 on the socio-economic impact of the sector by providing affordable working capital funds to the sector tailored to the specific needs of the business. Call for applications attracted 93 companies.

Ndere Troupe Ltd

The business started as a Cultural Development Company under the name Ndere Troupe; it has since become a renowned Uganda's cultural ambassador and a household name in cultural music dance and drama.

Ndere Cultural Centre runs three regular performances a week and these attract local and international visitors in an addition to all the other performances on social functions locally and internationally.

The cultural centre also hosts other functions such as wedding and corporate parties besides running food & refreshment, and 29 rooms for guest accommodation.

The company has since diversified and expanded business horizons to include Obuntu Cuddle Hotel on top of Nakabugo Hill near Bulenga/BBira, Obuntu Tourist lodge on the shores of Lake Mutanda in Kisoro and Obuntu Home with a museum at Kabanyoro-Ntugamo district.

UDB FINANCING

1

Build (20 rooms) of the 40 rooms Obuntu Cuddle Hotel with conference and recreation facilities on top of the Nakabugo Hill.

2

Complete the 17 room first phase of the Obuntu Lodge on the Northern shores of the incredibly beautiful Lake Mutanda in Kisoro district.

3

Convert the diary, crop and fish farm in Kabanyoro-Ntungamo district into Obuntu Home" with a museum for the great lakes region.

Desert Breeze Hotel Ltd-Arua

85
PEOPLE TO BE EMPLOYED

UGX **3.3**Bn
TAX REVENUES

Desert Breeze Hotel was born in 2006, starting operations as a small guest house located in Arua Municipality. It was later incorporated into Desert Breeze Hotel Ltd in the 2009. The hotel has since grown into a facility of choice for visitors enroute West Nile Region boosting of occupancy rates above 80% prior to COVID insurgency.

Through funding from UDB, the hotel is undergoing expansion that will increase its bed capacity from 40 to 120. The expansion will cement the hotel's position as a business and leisure facility able to accommodate the ever-increasing visitors to West Nile. UDB funding is projected to increase the staff enrolment to 85 employees, increase contribution of tax revenue by UGX 3.3Bn and UGX 1.7Bn in foreign exchange earnings in the medium term.

Elephant Hab Lodge

26
PEOPLE EMPLOYED DIRECTLY

8
FEMALES EMPLOYED

Elephant Hab Lodge is one of the best safari lodges within the Queen Elizabeth National Park in Western Uganda. The lodge offers a wide range of accommodation options, from luxury safari to budget camping nestled at the shoulders of the famous Kyambura Gorge, about 400 metres from Kyambura Trading Centre.

Elephant Hab Lodge consists of medium and premium cottages that offer privacy and tranquility. The tourist lodge is poised to employ 26 staff directly, 8 of which are female. It also offers various socio-economic benefits to communities within its environs.

MANUFACTURING

Uganda's manufacturing sub-sector has grown in the last decade, employing 7% of the labour force and contributing 21% of the Gross Domestic Product (GDP). The manufacturing sub-sector has an indirect impact through backward and forward linkages, bringing together small-scale business operators and rural farmers with large businesses within supply and value addition chains.

The sub-sector is majorly dominated with food processing and drinks at 40% and 20.1% respectively. Other contributors include chemical, paint, soap, and foam products; metal products; bricks and cement; as well as textiles, clothing and footwear; medical and pharmaceuticals, plastics, heavy machinery, and cereals to mention but a few

In 2020, UDB managed to directly fund projects within the manufacturing sector worth UGX 67.7Bn, Approved projects to be funded were worth UGX 100.8Bn and a pipeline of projects yet to be approved were worth UGX 133.45Bn.

UGX
67.7 Bn
DIRECT UDB FUNDING TO MANUFACTURING SECTOR

The world in 2020 was hit by the effects of the deadly COVID-19 pandemic. And in order to avert the spread of the virus, many countries (including Uganda) came up with preventative measures like the closure of borders and lockdown of non-essential services among others. This had an impact to the small but expanding manufacturing sub-sector which has been instrumental in boosting employment and poverty reduction prior to the outbreak of the pandemic.

Negative effects of COVID-19

1. The disruption of the supply chain impacted on timeliness and volumes produced as some of these imports are raw materials for the different industries within the sub-sector

2. The disruption of the logistical channels and drop in demand, reduced sales especially of non-essential items.

3. SMEs were hit by a liquidity shock (less working capital) due to restrictions in movement forcing consumers to shift priorities to most essential expenditure items.

4. There was Limited access to essential service providers due to the set MoH SOPs forcing most SMEs in manufacturing to limit fulltime staff and rely on service providers which was costly

5. Managing the work environment amidst COVID19- forced most factories to temporarily lay off some workers, while others temporarily stopped production operations hence the reduction in the volume of goods produced.

Opportunities presented by COVID-19

The outbreak of COVID-19 enabled companies re strategize so as to boost their internal locally manufacturing capacity for the once imported products.

Outlook for 2021 and beyond:

As UDB we have come up with proposed interventions through the import substitution strategy intended to counter the negative impact created by the COVID-19 pandemic and take advantage of opportunities that will unfold.

The import substitution strategy is intended to catalyze the process of industrialization in the country with the view to transform the economy to a modern and industrialized status that can sustainably generate sufficient industrial outputs that satisfy domestic, regional and foreign markets; and rapidly increase per capita incomes to improve the living standards of Ugandans

HUMAN CAPITAL DEVELOPMENT

Under the Country's National Development Plans, 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.

The focus of the Bank in education will continue to be 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 approved funding of Ushs 10.6 billion compared to Ushs 14.77 billion in 2019. Ushs 1.27 billion was disbursed in 2020 compared to Ushs 4.6 billion in 2019, this drop is attributed to the effects of COVID-19 pandemic that saw the closure of all schools, universities & tertiary institutions since 20th March 2020. Total funding approved from 2014 to 2017 totaled Ushs 50.58 billion out of which Ushs 20.07 billion had been disbursed as at 31 December 2020.

Ushs **1.27 billion** was disbursed in 2020 compared to Ushs **4.6 billion** in 2019, this drop is attributed to the effects of COVID-19 pandemic

Impact COVID-19 Pandemic

In the education sub-sector, the impact has been felt by low and average-income households in both public and private schools, given the inability to access innovative educational instructions. More than 17.5 million people are in both public and private schools, all seated at home. In the health sub-sector there has been a decline in human development and increase in poverty; Ugandans living in poverty who rely on the government's free healthcare programmes have experienced a reduced access to primary healthcare. As a result, Uganda has registered an increase in number of preventable deaths during childbirth and in other health emergencies, and an increased occurrence of deaths due to preventable disease like malaria. Access to family planning and other healthcare programmes has also been compromised.

Outlook

In 2021 the Bank has expectations of increasing funding to this sector with targeted new funding approvals of Ushs 56 billion. The Bank will continue to address key sector constraints like undeveloped infrastructure that impacts the quality & access of educational and health services, limited skills to women & youth that limits their active participation to gainful economic employment, to mention but a few.

INFRASTRUCTURE

In line with the Bank's strategy to maximize development impact by intervening in key priority sectors as defined in the National Development Plan of Uganda, the infrastructure unit was created with the overall purpose of channeling resources to address private sector infrastructure specific constraints to achieve expected development outcomes while contributing to the long-term sustainability of the Bank. In the mid-term, the Bank aims to build capacity to support the country to structure and arrange financing for large infrastructure projects.

Currently, the Bank Focus is on expanding clean energy use, ICT Infrastructure, Transport Infrastructure and Water & Sanitation Infrastructure in addition to supporting local contractors who need equipment and working capital.

The Bank has built a healthy pipeline of infrastructure projects that are at various stages of appraisal with financial close expected in early 2021. The key projects due for financial close in 2021 are in the energy sector, ICT sector and Transportation.

BUSINESS ADVISORY SERVICES

The Bank provides non-financial services to both existing and prospective customers through the Business Advisory and Project Preparation Units. The units support potential and existing clients and enable them package their concepts / business ideas into bankable proposals that could be financed by UDB. In addition, the Bank's non-financial services ensure that businesses receive professional advice aimed at streamlining their internal processes to enable their sustainable growth.

Through the Business Advisory function, the Bank takes a strategic review of business establishments and advises business owners on improvements aimed at increased performance and growth. Reviews may be done on aspects such as governance, statutory compliance, sales and marketing, investment, human resource, financial and strategic planning among others. Also, the Business Advisory Unit in collaboration with pre-qualified subject matter experts, may handhold prospective clients with plausible business concepts and enable them prepare and submit qualifying credit applications to the Bank.

Project Preparation on the other hand supports the development cycle of high quality or large-scale projects to demonstrate their bankability. The function unlocks technical and financial bottlenecks in order to catalyze the development of viable project ideas that often-times fail to materialize into actual projects as a result of inadequate early-stage investment and technical skills - both of which often-times lead to extensive delays. Projects are supported to carry out activities such as: technical feasibility studies, financial viability studies, demand assessments, operations' funding assessments, obtaining relevant regulatory approvals, legal structuring, compliance among others. Supported projects may be both Public and Private sector led and should present potential for significant Development Impact.

FINANCIAL SUSTAINABILITY

FINANCIAL SUSTAINABILITY

For a detailed discussion on the Bank's financial performance, please refer to the financial review on page 120 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 sustainably. 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.

UGX **69.48**Bn

TOTAL WEALTH CREATED BY THE BANK IN 2020

The total wealth created by the bank in 2020 was Ushs 69.48 billion as shown in the value-added statement below.

	2020		2019	%
Interest income	72,062,342		42,021,779	
Interest expense	-4,162,653		-3,104,553	
Wealth created from operations	67,899,689		38,917,226	
Foreign exchange gains	499,719		-73,394	
Other income	1,082,937		-1,358,722	
Total wealth created	69,482,345	100	37,485,111	100
Distribution of wealth				
Retained for growth	22,108,778	32	10,140,260	27
Employees	13,473,317	19	11,375,982	30
Government	9,555,278	14	5,244,994	14
Suppliers	8,882,641	13	8,711,422	23
Impairment loss on financial assets	14,687,571	21	1,403,807	4
Depreciation and amortisation	774,760	1	608,646	2
Total wealth distributed	69,482,345	100	37,485,111	100

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

FINANCIAL PERFORMANCE OVERVIEW

Five-year extract from the Bank's annual financial statements

Financial Statistics	2020	2019	2018	2017	2016	2015
Statement of Comprehensive Income						
Gross Interest on loans	72,062	42,022	35,463	22,919	17,759	16,339
Net Interest and fee Income	67,900	38,917	33,246	21,874	18,406	16,966
Net impairment loss on financial assets	-14,688	-1,404	-7,910	-3,865	-4,116	-11,443
Non-Interest Income (net)	1,583	-1,432	5,630	8,440	6,693	9,005
Operating expenses	-23,131	-20,696	-17,373	-14,573	-11,890	-11,750
Profit before income tax	31,664	15,385	13,594	11,876	9,093	2,778
Profit for the year	22,109	10,140	9,486	8,306	6,449	1,911
Statement of Financial Position						
Loans and advances (Net)	511,882	334,415	276,694	224,286	168,798	141,547
Balances with other banks	518,736	103,147	44,383	29,797	11,904	12,132
Investment properties	34,151	31,473	34,796	32,800	30,200	29,100
Total assets	1,089,804	486,365	370,118	297,471	226,427	205,557
Capital and reserves	910,785	347,483	253,612	204,448	156,541	141,548
Total liabilities	179,019	138,882	116,506	93,023	69,886	64,009
Statement of cash flow						
Cash flow used in operating activities	-120,641	-43,970	-49,846	-39,900	-8,289	-41,735
Net cash (used in)/generated from investing activities	-372,620	-68,803	7,527	-16,112	3,079	6,716
Net cash generated from financing activities	537,869	103,841	65,737	58,234	7,095	17,293
Key financial ratios						
Yield on interest bearing instruments	10.38%	11.60%	12.30%	10.30%	10.70%	11.60%
Net interest income margin	94.22%	92.61%	94%	95%	98%	99%
Cost income ratio (without impairment)	33%	55.20%	45%	48%	47%	45%
Cost income ratio (with impairment)	54%	58.80%	65%	61%	64%	89%
Return on assets	2.81%	2.60%	2.80%	3%	3%	1%
Return on equity	3.51%	3.70%	4%	5%	4%	1%
Loan impairment ratio	6.23%	10.60%	10.60%	7.60%	8.00%	7.90%
Debt equity ratio	16%	33.80%	38%	38%	36%	38%

The Bank realised a profit for the year of Ushs 22.1 billion, registering a 118 % growth from the Ushs 10.1 billion realized in 2019 as a result of continued growth in funding and capitalisation of the Bank coupled with increase in loan disbursements to development projects and investment from interest earning assets of available funding.

In its efforts to remain financially sustainable in the foreseeable future, the Bank intends to digitise its operations to drive productivity and increase efficiency gains, fast track the implementation of it funding and capitalisation strategy and seek alternative ways of raising financing to invest in small, medium and large scale projects with high potential for development impact on the economy.

ENSURING FINANCIAL SUSTAINABILITY

A review of the Bank's financial performance for the financial year 2020 compared to 2019 is as follows:

INTEREST INCOME

Net interest increased by 74% to Ushs 67.9 billion from Ushs 38.9 billion in 2020. Interest and similar income grew by Ushs 30 billion (71%) in 2020 as a result of a 53% growth in the gross loans and advances.

Interest expense and similar charges also increased by 34% to Ushs 4.2 billion from Ushs 3.1 billion in 2019 as a result of 77% increase in borrowings arising from new lines of credit of Ushs 67 billion secured by the bank in 2020 compared to Ushs 49 billion drawn down in 2019.

OTHER INCOME

Other income reduced by 8% to Ushs 1.8 billion from Ushs 2.0 billion in 2019. Other income includes Ushs 789 million loss on investment property realized as a result of the void period from the bank's investment property during the year.

118% growth

FROM THE 10.1 BILLION REALIZED IN 2019

22.1 billion

PROFIT IN 2020

...THE BANK INTENDS TO DIGITISE ITS OPERATIONS TO DRIVE PRODUCTIVITY AND INCREASE EFFICIENCY GAINS...

NET IMPAIRMENT LOSS AND WRITE OFF OF LOANS AND ADVANCES

The impairment charge on the loan portfolio increased mainly because of refinement of the ECL and management overlays in respect to NPL accounts. This largely arises from the increase in impairment of non-performing loans on account of lower-than-expected cashflows from realization of collateral. 2020 being the third year of implementation of the IFRS 9 requirements.

OPERATING EXPENSES

Operating expenses increased by 11.6% to Ushs 23.1 billion in 2020 from Ushs 20.7 billion in 2019 majorly due to increased staff costs, the banks'digitization and communication campaign activities. The cost-to-income ratio with impairment decreased to 54% from 59% in 2019 while that without impairment decreased to 33% from 55% in 2019.

STRENGTHENING THE FINANCIAL POSITION OF THE BANK

The bank's total assets increased by 124% to Ushs 1.09 trillion as a result of an increase in the Government of Uganda capital contribution and a drawdown 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:-

BORROWINGS FROM DEVELOPMENT PARTNERS

Borrowings comprise 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 drew down Ushs 67 billion which was used in supplementing existing funding to grow the loan book. The drawdowns gave rise to growth in borrowings by 77% to Ushs 124.7 billion from Ushs 70.5 billion in 2019.

GOVERNMENT OF UGANDA CAPITAL CONTRIBUTION

The Government of Uganda continued to capitalise the Bank throughout 2020 with additional capital of Ushs 510 billion injected into the Bank in 2020 compared to Ushs 87.7 billion in 2019. This gave rise to an 277% increase in total capital contribution in 2020 to Ushs 693.8 billion from Ushs 183.9 billion in 2019. The capital contributions remain key in facilitating the growth in the Bank's loan portfolio. The bulk of the capital contribution was utilised to finance projects that mitigate the effects of COVID-19 on the economy.

RETAINED EARNINGS

The bank's retained earnings increased by 35% due to profits of Ugx 22.1billion registered during the year.

GROSS LOANS AND ADVANCES

Gross loan and advances increased by Ushs 177 billion (53%) during the year compared to a growth of Ushs 45 billion (15%) in 2019. Ushs 242.3 billion was disbursed to projects in 2020 compared to Ushs 183.9 billion in 2019 representing a 31.7% growth in disbursements. The growth in the funding base of the Bank, the capital and interest repayments and the internal profits continued to support the growth in the loans and advances.

124%
INCREASE IN TOTAL ASSETS

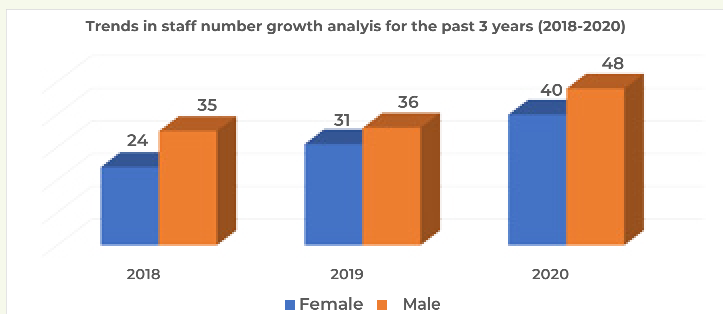
HUMAN CAPITAL

OPTIMIZING OUR HUMAN RESOURCES

At UDB, we are committed to the ongoing development of our people. We are cognizant that as a business, we can only be as good as the individuals on our team. In our pursuit to be the employer of choice, we purposefully seek out and nurture people with a blend of skills and competencies required to deliver the bank's strategic goals, and who demonstrate their commitment towards the Bank's values.

Headcount

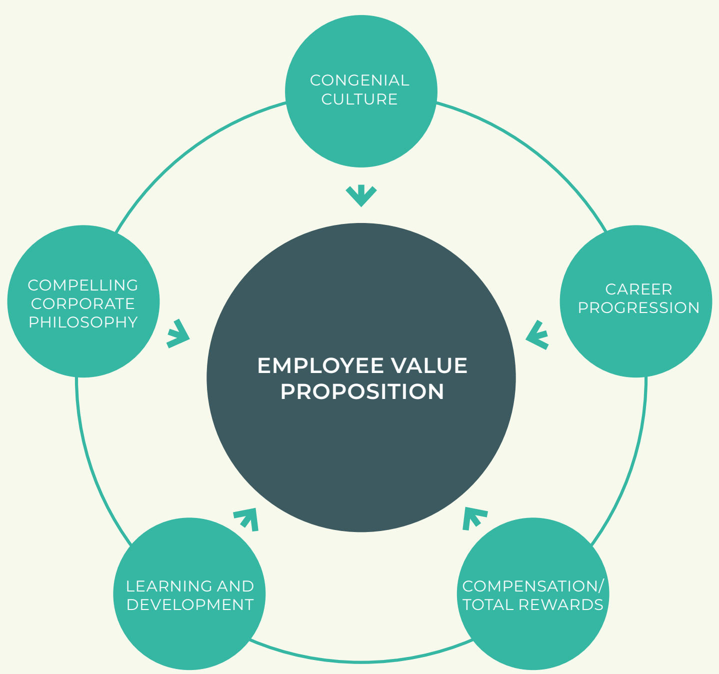
The staff compliment of the Bank continues to grow in tandem with the growing scale and size of the Bank; by the end of 2020, the total headcount stood at 88 staff.

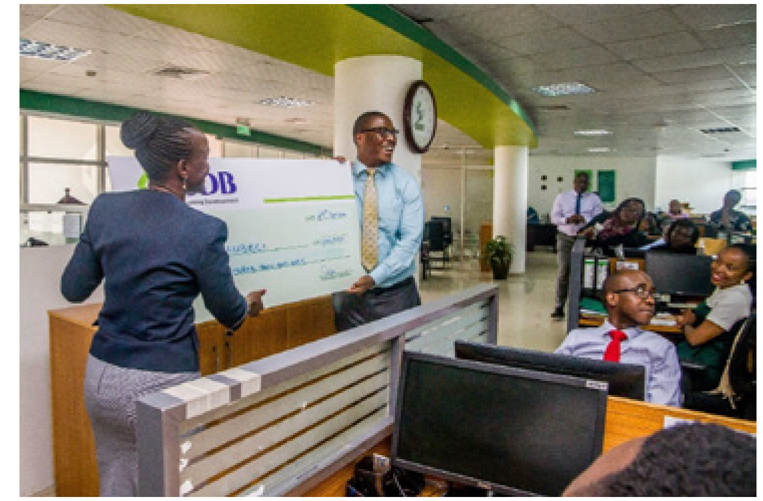


Keeping our people engaged

To attract and retain the best talent, UDB has a compelling value proposition premised on:

- Compelling corporate philosophy as the country's national DFI.
- Congenial culture grounded on respect for all.
- Facilitating career growth.
- A competitive compensation (total rewards) structure.
- Providing opportunities for learning and development





The MD, Patricia Ojangole handing over a cash prize to Thaib Lubega, in reward for winning an internal innovation challenge.

The Director Strategy & Corporate Affairs, Joshua Mwesiga handing over a token of appreciation to Freddie Sanywa upon his retirement from the Bank having served for 23 years.

A cross-section of UDB staff and Board attending various engagements in Kampala.

WORK PLACE AGILITY

The bank has constantly expressed resolute commitment to regularly review, update and align its human resource policies and practices to prevailing regulatory and operating environment.

During the COVID-19 pandemic lock down, the Bank implemented employee tele-commuting arrangements to ensure business continuity and the safety of staff. Some of the key aspects of these arrangements included integration of the electronic platforms to facilitate day-to-day business operations including routine business activities like meetings, interviews & training. These e-platforms tremendously improved operational efficiency and optimised the costs of operations.

employee WELLNESS program MIND ▸ BODY ▸ SPIRIT

The year 2020 was a unique year characterized by the onset of a global pandemic (COVID-19) which paralyzed the entire world. The outbreak of COVID-19 had an unprecedented toll on people's physical health, finances, psychosocial wellbeing of people. Many institutions scaled down their talent resources as their uncertainties for the future scaled up. In Uganda we experienced a lockdown which marked a period of physical isolation.

At individual level, the pandemic was associated with a lot of stress stemming from various factors such as breakdown of the social networks, isolation for both the COVID-19 victims and for those caring for the victims, massive use of technology including e-platforms where many people were originally adamant and reluctant to adopt, spending a lot of time at home was also another dynamic that caused stress for both the staff and their family members.

Subsequently, all these factors would potentially have had a negative effect on the general wellness of staff thus affecting performance. Against this background the Bank rolled out an **Employee Wellness Program** designed to promote a healthy, happy, and balanced environment for staff.

This program is executed through a number of interventions amongst which was the ***Employee Assistance Services*** purposed to promote employee total individual well-being i.e. mind, body and soul. Services provided under this program include Mental Health, Telephonic counselling, Basic Counselling services, Stress management, talk shows, Conflict resolution at workplace, family and marriage therapy and work-life balance sessions.

GRADUATE APPRENTICESHIP PROGRAM

Are you a recent graduate, with demonstrable passion and commitment to improve the quality of life of Ugandans? Do you possess an outstanding academic achievement, and wish to explore your leadership potential? Are you committed to engaging in critical issues of Uganda's development, have a genuine interest to make a difference, and to be part of something bigger than yourself? If yes, then you are a good candidate for the bank's Graduate Apprenticeship Program (GAP).

The Graduate Apprenticeship Program (GAP) is a one-two year experiential program aimed at developing specialized development finance professionals for the future. We attract highly qualified and motivated professionals from reputable educational institutions for a rewarding career journey in the bank.

Wanume Mwima Ibrahim
BSc. Mechanical Engineering

Joining the Uganda Development Bank Apprenticeship program provided me with the opportunity to augment my passions with a resounding mission. Through all-round exposure to the Bank's operations, I was able to work on exciting projects particularly in Infrastructure.

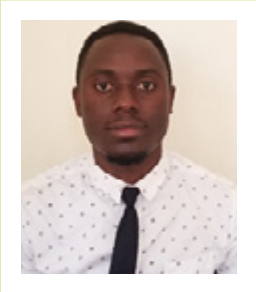
I was fascinated by the organizational culture which nurtures teamwork, learning & growth, innovativeness and integrity. The Bank's multisectoral nature and diversity presents a vast pool of opportunities for Graduates from all backgrounds. If you are looking to contribute to National development and build a career in development finance, then look no further.

Phiona Martha Kababiito
Bachelor of Science in Civil Engineering

The Graduate Apprenticeship Program at UDB from 2020 to 2021 was a steppingstone to my professional and personal development. Through the structured on-the-job training, mentorship and continuous professional development sessions, the staff generously shared their knowledge and experience. I was nurtured and empowered to actively engage in the bank activities. The Bank also challenged me to creatively think, engineer and transform ideas into bankable projects for socio-economic development as well as innovate sustainable financial interventions. I am enthusiastic to continue working with the Bank towards improving the lives of Ugandans.

Joel Sserunkuma
Bachelor of Business Administration

The Graduate Apprenticeship Program at Uganda Development Bank is an excellent opportunity to learn and grow, and at the same time demonstrate competences. As a Graduate Trainee at the Bank, I have got the opportunity to work on transformational projects as well as interacting with highly knowledgeable, committed, and welcoming colleagues across the organization.



Asiimwe Deo
Bachelor of Environmental Science Techology & Management

Joining the Bank in the first cohort of the Graduate Apprentice Program was a lifetime opportunity to boost my career. It was a great experience working with highly experienced professionals who give a hands-on training in the development banking operations. The training offers a wholistic approach to learning the system of development banking through the rotational program throughout the bank's departments. The staff are very open minded and very willing to share their knowledge. The training gave me the opportunity to apply my theoretical knowledge practically in addition to bridging the knowledge gap needed to accomplish real life tasks. The specialized mentoring in Environmental and Social aspects and personal development programs have built in me a wealth of knowledge, confidence, and expertise to assess Environmental and Social risks. With the knowledge base, personal development programs and hands on training, the UDB apprentice program is the epitome of learning.

FINANCIAL

STATEMENTS

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
Mr. Felix Okoboi	Chairperson
Mrs. Patricia Ojangole	Managing Director
Mr. Francis Tumuheirwe	Director
Mr.Nimrod Waniala	Director
Mrs.Silvia Angey Ufoyuru	Director
Mr. Henry Balwanyi Magino	Director
Mr. Johh Byaruhanga	Director

SECRETARY

Ms Sophie K. Nakandi
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 26, Kyadondo Road, Nakasero
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

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

Housing Finance Bank Uganda Limited
Plot 2-4 Wampewo Avenue
P. O. Box 1539
Kampala, Uganda

ABSA Bank Uganda Limited
Plot 2 Hannington Road
P. O. Box 7101
Kampala, Uganda

Centenary Bank Uganda Limited
Plot 2 Burton Street
P. O. Box 1892
Kampala, Uganda

AUDITORS
Auditor General
Government of Uganda
P. O. Box 7083
Kampala, Uganda

DELEGATED AUDITOR
KPMG
3rd Floor Rwenzori Courts
Plot 2 &4A Nakasero Road
P. O. Box 3509
Kampala, Uganda

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 & Co. 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

Tibeingana & Co. Advocates
1st Floor, Eco Bank Plaza
Plot 4, Parliament Avenue,
P. O. Box 72646,
Kampala - Uganda

CITADEL Advocates
Trust Tower, 9th Floor,
Plot 4 Kyadondo Road, Nakasero
P. O. Box 11070
Kampala-Uganda

The Directors submit their report together with the audited financial statements of Uganda Development Bank Limited ("the Bank") for the year ended 31 December 2020, which disclose the state of affairs of the Bank.

1. INCORPORATION

The Bank was incorporated under the Companies Act of Uganda, 2012 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:

	2020	2019
	Ushs '000	**Ushs '000**
Profit before tax	31,664,056	15,385,253
Income tax expense	(9,555,278)	(5,244,994)
Profit for the year	22,108,778	10,140,259

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 2020 (2019: 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, and 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 note 5 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 2020, 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 91.76% (2019: 90.28%) 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. AUDITOR

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 Bank are required to 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.

Accordingly, M/S KPMG Certified Public Accountants were appointed to carry out the audit on behalf of the Auditor General for the year ended 31 December 2020.

10. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue at the meeting of the Board of Directors held on ...12th March.....2021.

....

Mrs. Sophie K. Nakandi

Company Secretary

By order of the Board

The Bank's Directors are responsible for the preparation and fair presentation of the financial statements of Uganda Development Bank Limited set out on pages 12 to 79, comprising the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Companies Act of Uganda, 2012.

The Bank's management is also responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern for the next twelve months from the date of this statement.

The auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the International Financial Reporting Standards (IFRS) and Companies Act of Uganda, 2012.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on ...12th March........................ 2021.

....	....
FELIX OKOBOI	**HENRY BALWANYI MAGINO**
Chairperson	**Director**

Date ..1 April.......... 2021

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF UGANDA DEVELOPMENT BANK LIMITED FOR THE YEAR ENDED 31ST DECEMBER, 2020

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Uganda Development Bank Limited which comprise the statement of Financial Position as at 31st December 2020, and the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows together with other accompanying statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of Uganda Development Bank Limited for the year ended 31st December 2020 are prepared, in all material respects, in accordance with section 51 of the Public Finance Management, 2015 and the International Financial Reporting Standards (IFRSs).

Basis for Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Uganda Development Bank Limited in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, the "International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)" (IESBA Code), and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. 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 my professional judgment, were of most significance in my 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, and I do not provide a separate opinion on these matters.

I have determined the matter described below as the key audit matter to be communicated in my report.

Key Audit Matter	How the matter was addressed in the audit
Impairment of Loans and Advances (Refer to notes 4 d, 5(a), 6 and 20 to the financial statements)	
Impairment of loans and advances to customers is based on the Expected Credit Loss (ECL) model and is considered a key audit matter because management makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. The COVID-19 pandemic has affected the economy and business activities in the country and has triggered an economic decline. To mitigate the impacts of COVID-19, the Bank implemented various measures e.g moratoria and making financing of facilities more flexible. All these aspects have an impact on the parameters considered by the Bank when quantifying the expected credit loss on loans and advances to customers. During the year ended 31 December 2020, impairment provision on loans and advances to customers increased from UGX20bn to Ushs 34 Billion. The key areas where I identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's implementation of IFRS 9 are: **Model estimations** Inherently, judgmental modelling is used to estimate Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL). The PD and EAD models used in the Stage 1 and Stage 2 loans as well as the projected cashflows for Stage 3 loans are key drivers of the Bank's ECL results and are therefore the most significant judgmental aspect of the Bank's ECL modelling approach. **Economic scenarios** IFRS 9 Financial Instruments requires the Bank to measure Expected Credit Loss (ECL) on a	**My audit procedures in this area included:** — Assessing the modelling techniques and methodology implemented by the Bank against the requirements of IFRS 9. — Assessing the design and operating effectiveness of relevant controls over the; • Data used to determine the ECL parameters, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model; and • Expected credit loss model, including model build and approval, ongoing monitoring and validation, model governance and mathematical accuracy. — Challenging the significant modelling assumptions as well as overlays with a focus on the: • Key PD, LGD and EAD modelling assumptions adopted by the Bank; and • Basis for and data used to determine overlays. — Assessing management's basis of determining SICR by evaluating whether the SICR criteria is aligned to management's credit risk processes and how management establishes credit risk at origination. — Obtaining a sample of exposures and evaluating the: • Timely identification of exposures with a significant deterioration in credit quality; and • Expected loss calculation for exposures assessed on an individual basis.

forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them and the associated impact on ECL.	— I evaluated the reasonableness of the macroeconomic scenarios used by management in determination of ECL by comparing the Bank's economic forecasts to reputable external sources of macroeconomic forecasts. — Challenging management's assumptions on projected cash flows when assessing stage 3 impairment by evaluating the assumptions against current economic performance, assumptions most commonly used in the Banking industry, and also comparison with external evidence.
Significant Increase in Credit Risk ('SICR') For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgment within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.	— Involving my internal IT specialists to evaluate the reliability of data used in the ECL model and to assess the integrity of the data used to develop the ECL model. — Assessing whether the disclosures in the financial statements are adequate and appropriately present the key judgements and assumptions used in determining the expected credit losses in accordance with IFRS 7 Financial Instruments: Disclosures. — Evaluating management's assessment of the impact of COVID-19 on the ECL model.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, and other supplementary information. The other information does not include the financial statements and my auditors' report thereon. 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 consistent 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.

Management Responsibilities for the Financial Statements

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officer is accountable to Parliament for the resources of Uganda Development Bank Limited.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the International Financial Reporting Standards (IFRSs), and the Public Finance Management Act 2015 and for such internal control as management determines 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 Accounting Officer is responsible for assessing the Uganda Development Bank Limited'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 Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Uganda Development Bank Limited's financial reporting process.

Auditor General'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 an auditor's 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 ISSAIs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- 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 Uganda Development Bank Limited's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's 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 Uganda Development Bank Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's 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 auditor's report. However, future events or conditions may cause the Uganda Development Bank Limited 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 Accounting Officer 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 Accounting Officer 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.

From the matters communicated with the Accounting Officer, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities

In accordance with Section 19 (1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements, that; except for the matters raised in compliance with legislation section below, and whose effect has been considered in forming my opinion on financial statements, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

Report on the Audit of Compliance with Legislation

The material findings in respect of the compliance criteria for the applicable subject matters are disclosed in the management letter.

John F.S. Muwanga
AUDITOR GENERAL

6th April, 2021

	Note	2020	2019
		Ushs '000	Ushs '000
Interest and similar income	8	72,062,342	42,021,779
Interest expense and similar charges	9	(4,162,653)	(3,104,553)
Net interest income		**67,899,689**	**38,917,226**
Net foreign exchange gains/(loss)	10	499,719	(73,394)
Fair value loss on investment property	22	(789,532)	(3,323,000)
Net loss on financial assets recorded at fair value through profit or loss	19	(16,051)	(98,416)
Other income	11	1,888,522	2,062,694
Net impairment loss on financial instruments	20(e)	(14,687,571)	(1,403,807)
Operating income after impairment losses		**54,794,776**	**36,081,303**
Personnel expenses	12	(13,473,317)	(11,375,982)
Depreciation and amortisation	23, 24	(774,760)	(608,646)
Other operating expenses	13	(8,882,643)	(8,711,422)
Profit before tax	14	**31,664,056**	**15,385,253**
Income tax expense	16(a)	(9,555,278)	(5,244,994)
Profit for the year		**22,108,778**	**10,140,259**
Total comprehensive income net of tax		**22,108,778**	**10,140,259**
Basic/diluted earnings per share	15	**221.09**	**101.40**

The notes set out on pages 16 to 79 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020	2019
		Ushs '000	Ushs '000
ASSETS			
Cash and cash equivalents	17	138,125,272	21,689,075
Deposits held in banks	18	380,610,389	81,458,271
Equity investments at fair value	19	111,285	127,336
Loans and advances	20	511,881,678	334,414,806
Staff loans and advances	21	6,207,271	3,891,810
Current income tax recoverable	16(b)	-	2,181,171
Investment property	22	34,151,000	31,473,000
Property and equipment	23	5,152,592	5,089,650
Intangible assets	24	483,723	823,629
Other assets	25	13,080,854	5,216,463
Total assets		**1,089,804,064**	**486,365,211**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	33	100,000,000	100,000,000
GOU capital contributions	34	693,873,246	183,902,306
Kuwait Special Fund	28	31,222,552	-
Asset revaluation reserve	35	1,203,464	1,203,464
Retained earnings	43	84,485,757	62,376,979
Total equity		**910,785,019**	**347,482,749**
Liabilities			
Amounts due to Bank of Uganda	26	16,321,890	16,017,692
Borrowings	27	124,682,155	70,541,546
Kuwait Special Fund	28	-	30,777,916
European Union grant	30	7,125,873	-
UNCDF Fund	29	2,490,371	664,670
Deferred income tax liability	31	2,747,128	5,776,986
Current income tax liabilities	16(b)	724,052	-
Other liabilities	32	24,927,576	15,103,652
		179,019,045	**138,882,462**
Total equity and liabilities		**1,089,804,064**	**486,365,211**

The financial statements on pages 12 to 83 were approved and authorised for issue by the Board of Directors on...17th March...2021 and signed on its behalf by:

....	....
FELIX OKOBOI	**HENRY BALWANYI MAGINO**
Chairperson	**Director**

The notes set out on pages 16 to 79 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	GOU capital Contributions	Kuwait Special Fund	Asset revaluation Reserve*	Retained earnings	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 1 January 2019	100,000,000	100,171,606	-	1,203,464	52,236,720	253,611,790
Total comprehensive income for the year	-	-	-	-	10,140,259	10,140,259
Contributions by equity holders						
GoU capital contributions	-	83,730,700	-	-	-	83,730,700
Balance at 31 December 2019	**100,000,000**	**183,902,306**	**-**	**1,203,464**	**62,376,979**	**347,482,749**
Total comprehensive income for the year	-	-		-	22,108,778	22,108,778
Contributions by equity holders						
GoU capital contributions	-	509,970,940		-	-	509,970,940
Kuwait Special Fund	-	-	31,222,552	-	-	31,222,552
Balance at 31 December 2020	**100,000,000**	**693,873,246**	**31,222,552**	**1,203,464**	**84,485,757**	**910,785,019**

The notes set out on pages 16 to 79 form an integral part of these financial statements.

		2020	2019
OPERATING ACTIVITIES	**Note**	**Ushs '000**	**Ushs '000**
Operating profit before changes in operating assets and liabilities	**41**	**50,771,295**	**20,474,296**
Changes in operating assets and liabilities			
Increase in loans and advances		(192,154,443)	(59,022,702)
Increase in other assets		(7,864,391)	(325,632)
Increase/(Decrease) in other liabilities		9,823,924	(760,316)
Increase in staff loans and advances		(2,315,461)	(1,499,342)
Increase in amounts due to the Kuwait Fund		30,777,916	516,539
Increase in amounts due to UNCDF		1,825,701	664,670
Cash used in operations		**(109,135,459)**	**(39,952,487)**
Income tax paid		(9,679,913)	(4,017,577)
Net cash flows used in operating activities		**(118,815,372)**	**(49,846,376)**
INVESTING ACTIVITIES			
Acquisition of property and equipment		(497,797)	(287,702)
Acquisition of intangible assets		-	(744,981)
Acquisition of land on investment property		(3,467,532)	-
Movement in deposits held in Banks		(299,152,118)	(67,769,896)
Net cash flows generated from investing activities		**(303,117,447)**	**(68,802,579)**
FINANCING ACTIVITIES			
Proceeds of amounts due to Bank of Uganda		6,872,857	9,791,072
Repayments of amounts due to Bank of Uganda		(6,568,659)	(3,063,561)
Proceeds from borrowings		59,854,520	38,807,670
Repayment of borrowings		(8,608,318)	(25,425,260)
Proceeds from European Union		7,125,873	-
Proceeds from Kuwait		(30,777,916)	-
Contributions from the Government of Uganda		509,970,940	83,730,700
Net cash flows generated from financing activities		**537,869,297**	**103,840,621**
Increase/(Decrease)/ in cash and cash equivalents		**115,936,478**	**(8,932,022)**
Net foreign exchange difference		499,719	(73,394)
Cash and cash equivalents at 1 January		21,689,075	30,694,491
Cash and cash equivalents at 31 December	**17**	**138,125,272**	**21,689,075**

The notes set out pages 16 to 79 form an integral part of these financial statements.

1. REPORTING ENTITY

Uganda Development Bank Limited (the "Bank") is a company domiciled in Uganda. The address of the Bank's registered office is:
Uganda Development Bank Limited
Rwenzori Towers
Plot No. 6 Nakasero Road
1st Floor, Wing B
P. O. Box 7210
Kampala, Uganda

The Bank is primarily involved in development financing.

2. BASIS OF PREPARATION

a. Basis of accounting and statement of compliance

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

For purposes of reporting under the Companies Act of Uganda, 2012 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.

Changes to significant accounting policies are described in Note 3 of the financial statements.

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. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE

New standards, amendments and interpretations effective and adopted during the year ended 31 December 2020

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020. The adoption of these new and revised standards and interpretations had no significant material impact on the financial statements.

Definition of a business (Amendments to IFRS 3)

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

In October 2018, the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs.

- Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

The amendment is not expected to have a material impact on the the Bank.

Definition of Materiality (Amendments to IAS 1 and IAS 8)

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of ‘material’ which is quoted below from the final amendments.

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.

The amendment is not expected to have a material impact on the financial statements of the Bank.

Amendments to References to Conceptual Framework in IFRS Standards

- The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:
- new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

The amendment is not expected to have a material impact on the financial statements of the Bank.

Interest rate Benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

The amendments are effective from 1 January 2020. Early application is permitted.

The amendment is not expected to have a material impact on the financial statements of the Bank.

4. 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 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 and expense

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 is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging a 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.

a. Financial assets and financial liabilities

Recognition and initial measurement

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

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

iii. Classification

- On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect Contractual cash flows; and The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest **(SPPI).**
- A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

i. Business model assessment

- The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

ii. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

- In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers;
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

iii. Non-recourse loans

- In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Company's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:
- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;

The Bank's risk of loss on the asset relative to a full-recourse loan;
the extent to which the collateral represents all or a substantial portion of the borrower's assets; and whether the Bank will benefit from any upside from the underlying assets.

iv. Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets

v. Derecognition

a. Policy on derecognition

Financial assets

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

i. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of;

ii. the consideration received (including any new asset obtained less any new liability assumed) and;
any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Bank transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities.

Financial liabilities

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

a. Modifications of financial assets and financial liabilities.

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

- If the cash flows 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 a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:
- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see xi (f) for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

a. Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

i. Offsetting

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

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

ii. 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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

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Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

a. Impairment

Policy applicable

- The Bank recognises loss allowances for ECL on the following financial instruments:
- financial assets that are debt instruments; loan commitments issued; and No impairment loss is recognised on equity investments.
- The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and

other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not Credit-impaired are referred to as 'Stage 2 financial instruments'.

b. Measurement of ECL

- ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

c. Restructured financial assets

- 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 of whether the financial asset should be derecognised and ECL are measured as follows.
- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

a. If the expected restructuring will result 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 included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

- Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

a. Presentation of allowance for ECL in the statement of financial position

- Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Undrawn commitments and letters of credit: generally, as a provision; See Note 31
  where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

b. Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are reported under other income in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

c. Non-integral financial guarantee contracts

- The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:
- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and the guarantee is given by the parent of the borrower or another company within the borrower's Company.

  If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired.

Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

The Bank accounting policies on the classification of financial instruments under IFRS 9 are set out in **Note 4 (d)**

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.

a. 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 ter.m

Loans and advances to customers and staff are classified under amortised cost in accordance with IFRS 9.

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 fair value changes recognised immediately in profit or loss.

a. Investment securities

The 'investment securities' caption in the statement of financial position includes: debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;

h.

i. Property and equipment

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.

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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. Property and equipment (Continued)

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 off 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.

a. 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 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.

a. 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

a.

ii. Employee benefits

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.

iii. 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.

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

i. 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.

a. 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.

b. 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.

b. 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.

c. Accounting for leases

IFRS 16 introduces significant changes to lessees accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a Right of Use asset and a Lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

Definition of a lease

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

As a lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Bank recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Bank is reasonably certain to exercise that option.

The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the bank's incremental borrowing rate is used. For leases that contain non-lease components, the bank allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.
All right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liabilities.
Depreciation is calculated using the straight-line method to write-down the cost of each asset to its residual value over its estimated useful life. If the ownership of the underlying asset is expected to pass to the Bank at the end of the lease term, the estimated useful life would not exceed the lease term.
For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset if of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

As lessor

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.
The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss account on a straight-line basis over the lease term.

The Bank used a number of practical expedients when applying IFRS 16. In particular, the Bank:
did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
used hindsight when determining the lease term.

The Bank has not recognised a right-of-use asset and lease liabilities as at 31 December 2020 due to the above practical expedient that the lease term ends within 12 months.

Details	2020 Ushs'000	2019 Ushs'000
Expenses relating to short-term leases	898,816	905,212

Kuwait Special Fund

The Bank managed these funds in trust on behalf of the Government of Uganda. The funds were recorded as a liability on receipt of the funds and the corresponding entries were recorded under cash and bank balances or loans and advances to customers until 14 October 2020 when Kuwait approved transfer of this the Kuwait Special Fund from the Bank's liabilities' section to the equity section.

Grants

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.
The accounting policies are consistent with those reported in the previous year except for the adoption of the standards and amendments effective for the current period as set out note 3 to the financial statements.

Standards issued but not yet effective
At the date of authorisation of the financial statements of Uganda Development Bank Limited for the year ended 31 December 2020, the following Standards and Interpretations were in issue but not yet effective:

Standard		Annual periods beginning on or after
IFRS 16	Leases – COVID-19 modifications (Effective for periods beginning 1 June 2020)	1 June 2020
Amendments to IAS 1	(Effective for annual periods beginning on after 1 January 2022)	1 January 2022
IFRS 17	Insurance Contracts	1 January 2023

IFRS 16 –Leases – COVID-19 modifications (Effective for periods beginning 1 June 2020)
On May 28, 2020, the IASB issued an amendment to IFRS 16 to provide a practical relief for lessees in accounting treatment for rent concessions that occur due to COVID-19 with effective date from 1 June 2020.

In the light of the effects of the COVID-19 pandemic, and the fact that many lessees are applying the standard for the first time in their financial statements, the Board provided an optional practical expedient for lessees.

Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications.

Rent concessions are eligible for practical expedient if they occur as a direct consequence of COVID-19 pandemic and if all of the following criteria are met;

- the change in lease payments result in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to the other terms and conditions of the lease.

The amendment is not expected to have a significant impact on the financial statements of the Bank.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current; (Effective for annual periods beginning on after 1 January 2022)

The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the “right” to defer settlement by at least twelve months and make explicit that only rights in place “at the end of the reporting period” should affect the classification of a liability;

- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

IFRS 17 Insurance Contracts; (Effective for annual periods beginning on after 1 January 2023 with earlier adoption permitted)

IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model (“general model”) for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.

The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity’s financial statements.

The amendment is not expected to have any impact on the financial statements of the Bank.

1. 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 and Risk 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 Risk committee.

The Board Strategic Planning 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.

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 measures the loss allowance on loans and advances at an amount equal to the 12-month or lifetime expected credit losses depending on whether or not the credit risk has increased significantly since initial recognition.

COVID-19 Pandemic Consideration

On 11 March 2020, the World Health Organization declared Coronavirus (COVID-19) outbreak a pandemic in recognition of its rapid spread across the globe.
COVID-19 affects the Bank and results in certain uncertainties for the future financial position and performance of the Bank. The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report
its effects are subject to levels of uncertainty.

The Government of Uganda has put in place measures to prevent the spread of COVID-19 in Uganda as follows;

- Opening up of non-essential services done in a phased manner
- Curfew from 9.00 pm to 5.30 am
- Restriction on public gatherings to not exceeding 200 people
- Opening up of schools in a phased manner
- Curfew on ''Boda-Boda'' Motorbikes at 6.00 pm
- Public and private transport opened up with strict SOPs

Uganda Development Bank Limited's position on the pandemic;

In response to the pandemic, the Bank did a Loan Portfolio Analysis in respect to COVID-19 since the loan book is the largest risk item on the balance sheet and the following were the results;

Uganda Development Bank Limited approved deferment of payments for the performing facilities in the education and tourism sectors for an initial 3 months period starting April 2020. Payments that were deferred initially fell due in July 2020. However, upon the expiry of the period, some facilities still couldn't meet their obligations, and some were further deferred given the prolonged impact of the COVID-19 pandemic on several businesses and sectors. This also followed deferment of payments on a case by case basis for the rest of the sectors.
Management monitors the facilities that that have been deferred more than once for consistent review of borrower's future capability to meet their obligations.

To manage the loan book due to COVID-19, management adopted the following strategies;
Undertook close monitoring of accounts that have been deferred more than once and those that had been outstanding for a long time because of circumstances surrounding them that are known by the Bank.
Restructured and deferred client payments based on customer requests; and
Adopted qualitative judgment on some specific borrowers.

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:

	2020	2019
	Ushs '000	Ushs '000
Bank balances	138,125,272	21,689,075
Deposits held in other banks	380,610,389	81,458,271
Loans and advances to customers	511,881,678	334,414,806
Staff loans and advances	6,207,271	3,891,810
Other assets	13,080,854	5,216,463
	1,049,905,464	**446,670,425**

The above table represents the worst case scenario of credit risk exposure to the Bank as at 31 December 2020 and 31 December 2019 without taking into account any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included under Note 20(g) of the financial statements.

	2020			
	Stage 1	Stage 2	Stage 3	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortised cost	361,954,258	30,926,306	154,984,775	547,865,339
Loss allowance	(2,575,874)	(3,736,729)	(27,805,411)	(34,118,014)
Interest income on stage 3	-	-	(1,865,647)	(1,865,647)
Carrying amount	**359,378,384**	**27,189,577**	**125,313,717**	**511,881,678**
Staff loans and advances	8,721,517	49,165	404,950	9,175,632
Loss allowance	(60,056)	(19,285)	(47,295)	(126,636)
Carrying amount	**8,661,461**	**29,880**	**357,655**	**9,048,996**

	2019			
	Stage 1	Stage 2	Stage 3	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortised cost	229,739,320	57,131,911	67,925,007	354,796,238
Loss allowance	(8,148,216)	(11,612,116)	(621,100)	(20,381,432)
Carrying amount	**221,591,104**	**45,519,795**	**67,303,907**	**334,414,806**
Staff loans and advances	6,193,593	558,954	196,620	6,949,167
Loss allowance	(85,560)	(73,620)	(56,452)	(215,632)
Carrying amount	**6,108,033**	**485,334**	**140,168**	**6,733,535**

Collateral security held and other enhancements

The Bank holds collateral and other credit enhancements against certain credit exposures.

49% (2019: 74%) of the total maximum exposure is derived from loans and advances to customers. Investment in fixed deposits represents 36% (2019: 18%) 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 2020 is Ushs 1.28 trillion (2019: Ushs 1.15 trillion).

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment.

See accounting policy note 4 (d).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on the days past due; and
- qualitative indicators;

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by sector, by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined after considering the grace period that might be available to the borrower. If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Incorporating forward looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one best case scenario assigned a 20%

probability of occurring and a worst case scenario assigned a 30% probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental organisations.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk are: GDP growth, inflation, foreign exchange and CBR.
The economic scenarios used as at 31 December 2020 included the following key indicators for Uganda for four years up to 31 December 2024.

Base Case	2021	2022	2023	2024
GDP growth	3.7%	4.9%	5.8%	6.0%
Inflation	4.2%	4.7%	5.2%	4.5%
CBR	7.2%	6.4%	5.6%	4.7%
Exchange rates	3,728	3,792	3,849	3,892

Worst Case	2021	2022	2023	2024
GDP growth	2.07%	2.75%	3.25%	3%
Inflation	4.69%	5.25%	5.81%	5.03%
CBR	7.33%	6.51%	5.70%	4.78%
Exchange rates	3,810	3,875	3,933	3,977

Best Case	2021	2022	2023	2024
GDP growth	4.9%	6.5%	7.7%	8.0%
Inflation	3.7%	4.2%	4.6%	4.0%
CBR	7.1%	6.3%	5.5%	4.6%
Exchange rates	3,661	3,723	3,779	3,822

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 Limited'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.

ii. 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 2020.

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 2020				
Profit before income tax	416,265	416,265	(416,265)	(416,265)
At 31 December 2019				
Profit before income tax	310,455	310,455	(310,455)	(310,455)

i. Interest rate risk (Continued)

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

	Up to 1yr	1 to 3yrs	3 to 5yrs	Over 5yrs	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
31 December 2020					
Financial assets					
Deposits held with banks	380,610,389	-	-	-	380,610,389
Loans and advances	28,817,202	58,557,758	112,656,502	311,850,216	511,881,678
Staff loans and advances	31,977	74,339	421,037	8,521,643	9,048,996
Total financial assets	**409,459,568**	**58,632,097**	**113,077,539**	**320,371,859**	**901,541,063**
Financial liabilities					
Borrowings	14,485,208	35,541,580	35,531,835	39,123,532	124,682,155
Total financial liabilities	**14,485,208**	**35,541,580**	**35,531,835**	**39,123,532**	**124,682,155**
Interest sensitivity gap	**394,974,360**	**23,090,517**	**77,545,704**	**281,248,327**	**776,858,908**

31 December 2019					
Total financial assets	114,922,324	11,479,975	56,623,776	239,580,537	422,606,612
Total financial liabilities	6,730,817	8,725,966	38,824,128	16,260,635	70,541,546
Interest sensitivity gap	**108,191,507**	**2,754,009**	**17,799,648**	**223,319,902**	**352,065,066**

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 2020.

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

31 December 2020

	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	(714)	(714)	714	714
USD	(7,014,883)	(7,014,883)	7,014,883	7,014,883
Total	**(7,015,597)**	**(7,015,597)**	**7,015,597**	**7,015,597**

31 December 2019

	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	(9,723)	(9,723)	9,723	9,723
USD	(2,303,402)	(2,303,402)	2,303,402	2,303,402
Total	**(2,313,125)**	**(2,313,125)**	**2,313,125**	**2,313,125**

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(ii) Currency risk (Continued)

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 2020					
Financial assets					
Cash and cash equivalents	100,331,636	30,666,329	7,125,873	1,434	138,125,272
Deposits held in banks	351,623,437	28,986,952	-	-	380,610,389
Staff loans and advances	6,207,271	-	-	-	6,207,271
Other assets (excluding non-financial assets)	12,908,789	172,066	-	-	13,080,855
Loans and advances	420,888,784	90,992,894	-	-	511,881,678
Total financial assets	**891,959,917**	**150,818,241**	**7,125,873**	**1,434**	**1,049,905,465**
Financial liabilities					
Amounts due to Bank of Uganda	16,321,890	-	-	-	16,321,890
Other liabilities	18,063,149	6,864,427	-	-	24,927,576
Borrowings	-	124,682,155	-	-	124,682,155
UNCDF Fund	2,490,371	-	-	-	2,490,371
European Grant	-		7,125,873		7,125,873
Total financial liabilities	**36,875,411**	**131,546,582**	**7,125,873**	-	**175,547,866**
Net currency position	**855,084,506**	**19,271,659**	**-**	**1,434**	**874,357,599**
31 December 2019					
Total financial assets	337,989,827	108,678,154	-	2,444	446,670,425
Total financial liabilities	2,195,258	102,393,292	18,513	22,542	133,105,476
Net currency position	**307,318,698**	**6,284,862**	**(18,513)**	**(20,098)**	**313,564,949**

(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 111 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	2020	2019
		Ushs'000	Ushs'000
KENGEN	+10%	101	132
Uganda Clays Ltd	+10%	8,118	9,640
The New Vision Ltd	+10%	2,910	2,962
KENGEN	-10%	(101)	(132)
Uganda Clays Ltd	-10%	(8,118)	(9,640)
The New Vision Ltd	-10%	(2,910)	(2,962)

i) 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.

(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. 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 from Development partners. The Bank also obtains 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 (Continued)

	Up to 1 month	1-3months	3-6months	6-12months	1-3yrs	3-5yrs	Over 5yrs	Contractual cashflows	Carrying Amount
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs'000
31 December 2020									
Financial assets									
Cash and cash equivalents	138,125,272	-	-	-	-	-	-	138,125,272	138,125,272
Deposits held in banks	30,507,233	147,535,684	202,567,472	-	-	-	-	380,610,389	380,610,389
Loans and advances	-	3,201,999	9,192,987	16,327,817	58,365,937	112,287,468	348,489,131	547,865,339	511,881,678
Staff loans and advances	-	3,451	18,587	9,936	74,333	421,003	8,521,786	9,048,996	6,207,271
Total financial assets	**168,632,505**	**150,741,134**	**211,779,046**	**16,337,753**	**58,440,270**	**112,708,471**	**357,010,917**	**1,075,649,996**	**1,036,824,610**
Financial liabilities									
Amounts due to Bank of Uganda	1,414,938	-	2,092,017	2,986,888	2,092,017	4,184,035	3,551,994	16,321,890	16,321,890
Other liabilities	2,454,205	2,104,457	2,515,246	2,182,829	8,219,318	857,410	4,910,473	23,243,938	24,927,576
Borrowings	3,539,447	1,086,907	-	9,858,854	35,541,580	35,531,835	39,123,532	124,682,155	124,682,155
European Grant	-	-	-	-	-	-	7,125,873	7,125,873	7,125,873
UNCDF Fund	-	-	-	-	-	-	2,490,371	2,490,371	2,490,371
Total financial liabilities	**7,408,590**	**3,191,364**	**4,607,263**	**15,028,571**	**45,852,915**	**40,573,280**	**57,202,244**	**173,864,227**	**175,547,864**
Net liquidity gap	**161,223,915**	**147,549,770**	**207,171,783**	**1,309,182**	**12,587,355**	**72,135,191**	**299,808,673**	**901,785,769**	**861,276,746**
31 December 2019									
Total financial assets	103,147,346	2,565,508	22,037,702	10,971,604	12,209,559	60,218,082	253,717,606	464,867,407	444,295,687
Total financial liabilities	2,572,007	3,520,394	4,311,958	9,380,720	17,601,777	43,143,337	51,712,072	132,242,265	133,105,476
Net liquidity gap	**100,575,339**	**(954,886)**	**17,725,744**	**1,590,884**	**(5,392,218)**	**17,074,745**	**202,005,534**	**332,625,142**	**311,190,211**

6. 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 2020 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 37 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 4 (d).

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments and;
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

— debt investment securities that are determined to have low credit risk at the reporting date; and
— other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Useful life of property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors.
Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Revaluation of buildings

The freehold land and buildings categories of property and equipment are measured at revalued amounts. The fair value is determined based on the cost of equivalent properties obtained by summing up all the components of the building structure and other improvements.

USE OF ESTIMATES AND JUDGEMENTS (Continued)

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 2020, 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.

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.

1. 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 Bank 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 2020	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 2020	111,285	-	-
Investment property	31 Dec 2020	-	34,151,000	-
Leasehold land	31 Dec 2020	-		2,155,000
Buildings	31 Dec 2020	-		1,703,234
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	511,881,678	-
Staff loans and advances		-	6,207,271	-
Amounts due to Bank of Uganda		-	16,321,890	-
European Grant		-	7,125,873	-
UNCDF Fund		-	2,490,371	
Borrowings		-	124,682,155	-

Fair value hierarchy

31 December 2019	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 2019	127,336	-	-
Investment property	31 Dec 2019	-	31,473,000	-
Leasehold land	31 Dec 2019	-		2,155,000
Buildings	31 Dec 2019	-		1,703,234
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	334,414,806	-
Staff loans and advances		-	3,891,810	-
Amounts due to Bank of Uganda		-	16,017,692	-
Kuwait Special Fund		-	30,777,916	-
UNCDF Fund			664,670	
Borrowings		-	70,541,546	-

There were no transfers between level 1 and level 2 during 2020 or 2019.

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 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Assets				
Financial assets				
Cash and cash equivalents	138,125,272	138,125,272	21,689,075	21,689,075
Deposits held in banks	380,610,389	380,610,389	81,458,271	81,458,271
Equity investments at fair value	111,285	111,285	127,336	127,336
Loans and advances	511,881,678	511,881,678	334,414,806	334,414,806
Staff loans and advances	6,207,271	6,207,271	3,891,810	3,891,810
Other assets	13,080,854	13,080,854	5,216,463	5,216,463
Total financial assets	**1,050,016,749**	**1,050,016,749**	**446,797,761**	**446,797,761**
Financial liabilities				
Amounts due to Bank of Uganda	16,321,890	16,321,890	16,017,692	16,017,692
Borrowings	124,682,155	124,682,155	70,541,546	70,541,546
Kuwait Special Fund	-	-	30,777,916	30,777,916
European Union	7,125,873	7,125,873	-	-
UNCDF Fund	2,490,371	2,490,371	664,670	664,670
Other liabilities	24,927,576	24,927,576	15,103,652	15,103,652

Total financial liabilities	**175,547,865**	**175,547,865**	**133,105,476**	**133,105,476**

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

i. 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.

ii. 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.

iii. 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)	
			2020	**2019**
Loans and advances	DCF method	WACC	13%	13%
Borrowings and KSF	DCF method	WACC	13%	13%

7(b) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

31 December 2020

	Statement of financial position amount	(Current) No more than 12 months after the reporting period	(Non-Current) More than 12 months after the reporting period	(Current + Non-Current) Total
Assets				
Cash and bank balances	138,125,272	138,125,272	-	138,125,272
Deposits held in banks	380,610,389	380,610,389	-	380,610,389
Equity investments at fair value	111,285	111,285	-	111,285
Loans and advances to customers	511,881,678	28,722,803	483,158,875	511,881,678
Staff loans and advances	6,207,271	31,974	6,175,297	6,207,271
Property and equipment	5,152,592	-	5,152,592	5,152,592
Investment Property	34,151,000	-	34,151,000	34,151,000
Other assets	13,080,854	8,500,754	4,580,100	13,080,854
Intangible assets	483,723	-	483,723	483,723
Total assets	1,089,804,064	556,102,477	533,701,587	1,089,804,064
Liabilities				
Amounts due to Bank of Uganda	16,321,890	6,493,843	9,828,047	16,321,890
Borrowings	124,682,155	14,485,208	110,196,947	124,682,155
UNCDF Fund	2,490,371	-	2,490,371	2,490,371
European Union	7,125,873	-	7,125,873	7,125,873
Deferred income tax liability	2,747,128	-	2,747,128	2,747,128
Other liabilities	24,927,576	9,256,735	15,670,841	24,927,576
Total liabilities	**178,294,993**	**30,235,786**	**148,059,207**	**178,294,993**

31 December 2019

	Statement of financial position amount	(Current) No more than 12 months after the reporting period	(Non-Current) More than 12 months after the reporting period	(Current + Non-Current) Total
Assets				
Cash and bank balances	21,689,075	21,689,075	-	21,689,075
Deposits held in banks	81,458,271	81,458,271	-	81,458,271
Equity investments at fair value	127,336	127,336	-	127,336
Loans and advances to customers	334,414,806	32,807,365	301,607,441	334,414,806
Staff loans and advances	3,891,810	656,688	3,235,122	3,891,810
Property and equipment	5,089,650	-	5,089,650	5,089,650
Investment Property	31,473,000	-	31,473,000	31,473,000
Current income tax assets	2,181,171	2,181,171	-	2,181,171
Other assets	5,216,463	1,008,600	4,207,863	5,216,463
Intangible assets	823,629	-	823,629	823,629
Total assets	**486,365,211**	**139,928,506**	**346,436,705**	**486,365,211**
Liabilities				
Amounts due to Bank of Uganda	16,017,692	6,493,843	9,523,849	16,017,692
Borrowings	70,541,546	6,799,811	63,741,735	70,541,546
Kuwait Special Fund	30,777,916	-	30,777,916	30,777,916
UNCDF Fund	664,670	-	664,670	664,670
Deferred income tax liability	5,776,986	-	5,776,986	5,776,986
Other Liabilities	15,103,652	6,560,418	8,543,234	15,103,652
Total liabilities	**138,882,462**	**19,854,072**	**119,028,390**	**138,882,462**

INTEREST AND SIMILAR INCOME

	2020	2019
	Ushs'000	Ushs'000
Interest on loans	44,362,136	35,723,443
Loan appraisal fees	945,894	1,622,086
Penalty fee income on loans	7,637,201	3,662,085
Interest on deposits held in banks	20,115,463	2,307,562
Interest on staff loans	658,994	505,034
Gross interest	**73,719,688**	**43,820,210**
Less: Transfers to Kuwait fund (Note 28)		
Interest earned on loans disbursed out of the fund.	(1,657,346)	(1,798,431)
Interest income	**72,062,342**	**42,021,779**

The transfers to Kuwait fund represent interest income earned from loan facilities disbursed under the Kuwait Special Fund for the period 1 January 2020 to 13 October 2020 in accordance with the Grant Agreement. On 14 October 2020, Kuwait approved the transfer of the fund from liabilities to Equity and thus any interest earned from loan facilities disbursed under the Kuwait Special Fund from that point on was recognised in interest and similar income.

Included within the various line items under interest income for the year ended 31 December 2020 is a total of Ushs 1.9 billion relating to impaired financial assets.

The interest income reported above relates to financial instruments held at amortised cost only.

2. INTEREST EXPENSE AND SIMILAR CHARGES

	2020	2019
	Ushs'000	Ushs'000
Interest expense	4,162,653	3,104,553

Included within interest expense for the year ended 31 December 2020 is interest and amortised commitment fees charged on Badea Original, Badea Trade, Badea Private, IDB, AfDB, India Exim, European Investment Bank and Islamic Corporation for Development lines of credit.

3. NET FOREIGN EXCHANGE GAINS/(LOSS)

	2020	2019
	Ushs'000	**Ushs'000**
Net realised foreign exchange gains	1,441,982	1,423,898
Net unrealised foreign exchange losses	(942,263)	(1,497,292)
	499,719	**(73,394)**

The unrealised component of exchange losses 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 2020 was 1 USD/ Ushs 3,640 (2019: 1 USD/ Ushs 3,665).

4. OTHER INCOME

	2020	2019
	Ushs'000	**Ushs'000**
Dividend income	-	10,595
Rental income	15,720	611,832
Agency fees	1,047,428	931,484
Other income*	825,374	508,783
	1,888,522	**2,062,694**

*Other income above includes loan recoveries, trade finance revenues and gains on disposal of assets out of property and equipment.

5. PERSONNEL EXPENSES

	2020	2019
	Ushs'000	**Ushs'000**
Salaries	10,542,746	8,858,476
Service gratuity	560,600	482,800
NSSF contributions	940,244	794,556
Staff provident fund contributions	641,314	540,540
Staff welfare	788,413	699,610
	13,473,317	**11,375,982**

OTHER OPERATING EXPENSES

	2020	2019
	Ushs'000	**Ushs'000**
Administration expenses	1,565,633	2,361,681
Rent, utilities and maintenance costs	1,084,044	853,850
Expense relating to short term leases*	898,816	905,212
Directors' emoluments	479,150	424,747
Other professional fees	2,889,292	2,800,127
Business promotions and publicity	1,658,698	533,120
Travel and subsistence	185,478	706,449
Auditors' remuneration	121,532	126,236
	8,882,643	**8,711,422**

* Expense relating to short term leases comprises the annual rental charge for premises with Pine Investments Limited.

14. PROFIT BEFORE TAX

Profit before tax is stated after debiting/(crediting):		
	2020	**2019**
	Ushs'000	**Ushs'000**
Depreciation	434,855	413,292
Amortisation of intangible assets	339,906	195,154
Directors' emoluments	479,150	424,747
Auditors' remuneration	121,532	126,236
Net foreign exchange gains/(loss)	499,719	(73,394)
Fair value loss on investment property	(789,532)	(3,323,000)

15. EARNINGS PER SHARE

	2020	2019
Net profit attributable to ordinary equity holders of the Bank (Ushs)	22,108,778,000	10,140,259,000
Weighted average number of ordinary shares in issue during the year	100,000,000	100,000,000
Basic and diluted earnings per share (Ushs)	**221.09**	**101.40**

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

	2020	2019
	Ushs'000	Ushs'000
Current income tax:		
Corporation tax	12,580,300	2,301,307
Rental tax	4,716	188,456
Prior year under provision corporation tax	120	590,394
Prior year over provision deferred tax	(60)	(7,767)
Deferred income tax credit	(3,029,798)	2,172,604
	9,555,278	**5,244,994**

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

		2020	2019
	Rate	Ushs'000	Ushs'000
Profit before income tax		31,664,056	15,385,253
Tax calculated at the statutory rate	30%	9,499,217	4,615,576
Tax effect of:			
Expenses not deductible for tax purposes	0.59%	55,941	39,024
Under provision in prior year current tax	0%	120	590,394
	30.59%	**9,555,278**	**5,244,994**

a) Income tax recoverable

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

	2020	2019
	Ushs'000	Ushs'000
At 1 January	(2,181,171)	(1,243,751)
Charge for the year	12,585,016	2,489,763
Prior year under provision	120	590,394
Tax paid	(9,679,913)	(4,017,577)
At 31 December	**724,052**	**(2,181,171)**

17. CASH AND CASH EQUIVALENTS

	2020	2019
	Ushs'000	Ushs'000
Short term deposits with financial institutions	138,231,630	21,792,506
ECL allowance	(106,358)	(103,431)
	138,125,272	**21,689,075**

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

18. DEPOSITS HELD IN BANKS

	2020	2019
	Ushs'000	Ushs'000
Time deposits	380,871,167	81,502,464
ECL allowance	(260,778)	(44,193)
	380,610,389	**81,458,271**

The average effective interest rate was 9.8% for Uganda Shillings denominated investments (2019: 10.5%) and 2.7 % for USD denominated investments (2019: 1.33%).

As at 31 December 2020, the value of projects that have been appraised and approved but not yet disbursed (due to the phased disbursement/financing structure of projects) was Ushs 263 Billion; the bulk of this money will be disbursed in the year 2021.

The maturity analysis of the deposits held in banks is analysed as follows;

	2020	2019
	Ushs'000	Ushs'000
Amounts due before three months	135,346,974	28,325,000
Amounts due after three months	245,263,415	53,133,271
	380,610,389	**81,458,271**

19. EQUITY INVESTMENTS AT FAIR VALUE

	Ordinary Shares	Original Cost	Fair value 2020	Fair value 2019
		Ushs'000	Ushs'000	Ushs'000
KENGEN	6,431	1,948	1,006	1,322
Uganda Clays Limited	10,147,335	538,036	81,179	96,400
The New Vision Limited	92,674	18,535	29,100	29,614
	10,246,440	**558,519**	**111,285**	**127,336**

Movement in number of shares

	Sector/ Industry	At 1 January 2020		At 31 December 2020
		Opening	Purchases	Closing
		Balance	/(Sales)	Balance
KENGEN	Electric power	6,431	-	6,431
Uganda Clays Limited	Construction	10,147,335	-	10,147,335
The New Vision Limited	Publishing, Printing and Broadcasting	92,674	-	92,674
		10,246,440	**-**	**10,246,440**

		At 1 January 2019		At 31 December 2019
		Opening	Purchases	Closing
		Balance	/(Sales)	Balance
KENGEN	Electric power	6,431	-	6,431
Uganda Clays Limited	Construction	10,147,335	-	10,147,335
The New Vision Limited	Publishing, Printing, Broadcasting	92,674	-	92,674
		10,246,440	**-**	**10,246,440**

Movement in fair value during the year ended 31 December 2020

	2020% in class	2019 % in class	2020% held	2019 % held	Opening Balance	Fair value gain/ (loss)	Closing Balance
					Ushs'000	Ushs'000	Ushs'000

KENGEN	1%	1%	0.1%	0.1%	1,322	(316)	1,006
Uganda Clays Limited	73%	76%	1.1%	1.1%	96,400	(15,221)	81,179
The New Vision Limited	26%	23%	0.1%	0.1%	29,614	(514)	29,100
					127,336	**(16,051)**	**111,285**

Movement in fair value during the year ended 31 December 2019

	2020 % in class	2019 % in class	2020 % held	2019% held	Opening Balance Ushs'000	Fair value Loss Ushs'000	Closing Balance Ushs'000
KENGEN	1%	1%	0.1%	0.1%	1,625	(303)	1,322
Uganda Clays Limited	85%	76%	1.1%	1.1%	192,799	(96,399)	96,400
The New Vision Limited	14%	23%	0.1%	0.1%	31,328	(1,714)	29,614
					225,752	**(98,416)**	**127,336**

Price per share

	2020	2019
	Ushs	**Ushs**
Movement in price per share	**Closing**	**Closing**
KENGEN	156.37	205.52
Uganda Clays Limited	8.00	9.5
The New Vision Limited	314.00	319.56

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

20. LOANS AND ADVANCES

(a) Products

	2020	2019
	Ushs'000	**Ushs'000**
Long term loans	321,294,242	142,325,396
Medium term loans	105,165,825	143,680,471
Trade finance loans	36,871,640	29,248,635
Working capital loans	84,533,633	39,541,736
Gross advances	**547,865,339**	**354,796,238**
Less:		
Interest income on stage 3 loans	(1,865,647)	-
Expected credit loss allowance 20(d)	(34,118,014)	(20,381,432)
	511,881,678	**334,414,806**

All loans and advances above are held at amortised cost;

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

	2020	2019
	Ushs'000	**Ushs'000**
Less than one year	28,604,859	27,613,510
1- 5 years	170,855,438	72,851,895
Over 5 years	312,421,381	233,949,401
	511,881,678	**334,414,806**

(c) **Gross loans to customers by sector composition:**

SECTOR	EXPOSURE			
	2020		2019	
	Ushs'000	Percentage	Ushs'000	Percentage
Agro-Processing	119,284,750	22%	104,997,304	30%
Education Services	14,094,220	3%	11,678,916	3%
Health Care Services	6,152,131	1%	6,997,871	2%
Infrastructure	29,081,201	5%	23,800,957	7%
Manufacturing	160,289,354	29%	109,443,515	31%

Minerals, Oil & Gas	5,759,533	1%	6,419,776	2%
Primary Agriculture	129,031,121	24%	46,795,925	13%
Tourism & Hospitality	24,376,270	4%	10,743,711	3%
Others - Building, Construction and Real Estate	59,796,759	11%	33,918,263	10%
Grand total	**547,865,339**	**100%**	**354,796,238**	**100%**

The weighted effective interest rate on loans at 31 December 2020 was 8.0% (2019: 7.88%) for USD and 13.00% (2019: 12.20%) for Ushs.

(d) Movement in provision for impaired loans and advances

	2020	2019
	Ushs'000	Ushs'000
At 01 January	20,381,432	32,931,046
Additional provisions raised during the year	13,736,582	1,339,977
Recoveries and provisions no longer required	-	-
Written off during the year	-	(13,889,591)
	34,118,014	**20,381,432**

(e) Net impairment loss on financial instruments

	2020	2019
	Ushs'000	Ushs'000
Additional provisions during the year	13,736,582	1,339,977
Provisions on off balance sheet items (Note 32)	820,443	(106,972)
Provisions for low credit risk financial assets	219,512	-
Provision/(Recoveries) for staff loans (Note 21(c))	(88,996)	75,354
Direct write offs	30	95,448
Profit and loss effect	**14,687,571**	**1,403,807**

(f) Impairment and provisioning policies

The Bank recognizes the allowance for expected credit losses on all loans and advances.

Measurement of Expected Credit Losses

The Bank at each reporting date, measures the loss allowance for all loans and advances at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

The Bank measures the loss allowance on loans and advances at an amount equal to the 12-month or lifetime expected credit losses depending on whether or not the credit risk has increased significantly since initial recognition.

(g) Impairment and provisioning policies

The expected credit losses shall be determined as follows:

ECL = PD x LGD x EAD x df.

Expected Credit Losses (ECL; The weighted average of credit losses with the respective risks of a default occurring as the weights.

Probability of Default (PD); This relates an estimate of the likelihood of default over a given time horizon.

Loss Given Default (LGD); This relates to an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

Exposure at Default (EAD); This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Discount Rate (df); This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition.

Further details on how the above parameters are determined are well stipulated in the Bank's loss provisioning process.
Loans and advances are categorized into the following grades:

Status	Days in arrears	Loan category
Stage 1	0-29	Performing
Stage 2	30- 89	Performing with significant increase in credit risk
Stage 3	Over 90	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 are generally updated every three years except when a loan is individually assessed as impaired. 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 for stage 3 facilities was Ushs 743 billion as at 31 December 2020 (2019: Ushs 754 billion).

21. STAFF LOANS AND ADVANCES

a. Staff loans and advances

	2020	2019
	Ushs'000	**Ushs'000**
Staff loans	9,175,632	6,949,167
Provision for impairment	(126,636)	(215,632)
Discount on staff loans marked to market	(2,841,725)	(2,841,725)
	6,207,271	**3,891,810**

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

	2020	2019
	Ushs'000	**Ushs'000**
Within three months	-	-
Between three and six months	-	-
Over six months	6,207,271	3,891,810
	6,207,271	**3,891,810**

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 2020 was 8% (2019: 8%).

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

	2020	2019
	Ushs'000	**Ushs'000**
At 1 January	215,632	808,079
Additional provisions raised during the year	(88,996)	75,354
Recoveries and provisions no longer required	-	-
Loan write- offs	-	(667,801)
As at 31 December	**126,636**	**215,632**

INVESTMENT PROPERTY

	2020	2019
	Ushs'000	**Ushs'000**
At 1 January	31,473,000	34,796,000
**Purchase of Land	3,467,532	
Fair value loss on investment property	(789,532)	(3,323,000)
At 31 December	**34,151,000**	**31,473,000**

The value of the Bank's investment property, commercial towers, on Plot 22 Hannington Road, Kampala at 31 December 2020 has been arrived at on the basis of a valuation carried out as at 31 December 2020 by Reitis Limited (Chartered Surveyors), independent professional valuers that are not related to the Bank. Reitis Limited 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, the bank purchased land worth Ugx 3,467,532 from MTN Uganda. This land was purchased to increase the parking space which is a very significant factor that affects the potential occupancy rates of the property.

During the year ended 31 December 2020, the following amounts were recognised in the Bank's profit or loss:

	2020	2019
Other income	**Ushs'000**	**Ushs'000**
Rental Income	15,720	611,832
Fair value loss on investment property	(789,532)	(3,323,000)
	(773,812)	**(2,711,168)**

	2020	2019
Other operating costs	**Ushs'000**	**Ushs'000**

Property rates	21,262	62,589
Maintenance costs	226,970	81,185
	248,232	**143,774**

21. PROPERTY AND EQUIPMENT

	Freehold Land Ushs'000	Buildings Ushs'000	Furniture and fittings Ushs'000	Motor Vehicles Ushs'000	Computers Ushs'000	Total Ushs'000
COST/VALUATION						
At 1 January 2019	2,155,000	1,703,234	679,170	1,046,325	676,387	6,260,116
Additions	-	-	32,906	-	254,796	287,702
Disposals	-	-	(27,716)	-	(23,925)	(51,641)
Reclassifications	-	-	(8,600)	-	8,600	-
At 31 December 2019	**2,155,000**	**1,703,234**	**675,760**	**1,046,325**	**915,858**	**6,496,177**
Additions	-	-	50,859	-	446,938	497,797
Disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
At 31 December 2020	**2,155,000**	**1,703,234**	**726,619**	**1,046,325**	**1,362,796**	**6,993,974**
DEPRECIATION						
At 1 January 2019	**-**	**108,160**	**296,079**	**185,669**	**451,737**	**1,041,645**
Charge for the year	-	27,040	68,137	190,106	128,009	413,292
Reclassifications			(206)		406	200
Disposals	-	-	(24,685)	-	(23,925)	(48,610)
At 31 December 2019	**-**	**135,200**	**339,325**	**375,775**	**556,227**	**1,406,527**
Charge for the year	-	27,114	70,353	190,627	146,761	434,855
Reclassifications	-	-	(1,278)	-	1,278	-
Disposals	-	-	-	-	-	-
At 31 December 2020	**-**	**162,314**	**408,400**	**566,402**	**704,266**	**1,841,382**
NET CARRYING AMOUNT						
At 31 December 2020	**2,155,000**	**1,540,920**	**318,219**	**479,923**	**658,530**	**5,152,592**
At 31 December 2019	**2,155,000**	**1,568,034**	**336,435**	**670,550**	**359,631**	**5,089,650**

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 2020. The revaluation is carried out every after 3 years and was last done for the year ended 31 December 2018 by East African Consulting Surveyors and Valuers- EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank. 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.

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 867 million. This is disclosed below;

	Freehold Land	Buildings
	Shs'000	**Shs'000**
Cost	1,270,000	950,000
Accumulated depreciation	-	(114,000)
Net book amount	**1,270,000**	**836,000**

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

Range of estimated value of buildings	Ushs 23 billion to Ushs 34.3 billion
Estimated value of bare land (1.272 acres)	Ushs 2.15 billion

24. INTANGIBLE ASSETS

Cost	**2020**	**2019**
	Ushs'000	**Ushs'000**
At 1 January	2,695,824	1,950,843
Additions	-	744,981
At 31 December	**2,695,824**	**2,695,824**
Amortisation		
At 1 January	1,872,195	1,677,040
Charge for the year	339,906	195,155
At 31 December	**2,212,101**	**1,872,195**
Net carrying amount		
At 31 December	**483,723**	**823,629**

Intangible assets comprise the initial cost of the core banking system Rubikon and other software.

25. OTHER ASSETS

	2020	2019
	Ushs'000	Ushs'000
Prepayments	1,427,688	809,861
Security deposits**	198,739	198,739
Other debtors	8,612,702	1,366,138
Prepayment on staff loans marked to market	2,841,725	2,841,725
	13,080,854	**5,216,463**

Security deposits include a deposit to registrar of the high court in respect to UDBL vs KAI .Limited case amounting to Ushs 164 million.

The fair value of other assets approximates the carrying amount

26. AMOUNTS DUE TO BANK OF UGANDA

	2020	2019
	Ushs'000	Ushs'000
At 1 January	16,017,692	9,290,181
Drawn down during the year	6,872,857	9,791,072
Repayments during the year	(6,568,659)	(3,063,561)
	304,198	6,727,511
At 31 December	**16,321,890**	**16,017,692**

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

	2020	2019
	Ushs'000	Ushs'000
Arab Bank for Economic Development in Africa (BADEA Loan 0632)	13,531,855	14,265,005
Arab Bank for Economic Development in Africa (BADEA Trade Finance)	-	406,725
Arab Bank for Economic Development in Africa (BADEA Private sector)	18,018,443	21,019,081
Islamic Development Bank (IDB)	7,997,871	7,465,463
African Development Bank (AfDB Public window)	55,313,266	27,385,272
African Development Bank (AfDB Private window)	18,641,150	-
India Exim Bank	11,179,570	-
	124,682,155	**70,541,546**

The movements in borrowings were as follows:

	2020	2019
	Ushs'000	Ushs'000
Balance as at 1 January	70,541,546	57,478,060
Drawdowns during the year	59,854,520	38,807,670
Interest charge	4,162,653	3,104,553
Repayments during the year	(8,608,318)	(25,425,260)
Foreign exchange losses	(1,268,246)	(3,423,477)
	124,682,155	**70,541,546**

i. BADEA Loan

This represents a US Dollars 4,500,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to the Government of the Republic of Uganda. The entire proceeds of the loan were 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.

As at 31 December 2020, USD 4,336,535 (2019: USD 4,336,535) had been disbursed from the loan account.

ii. 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 UDBL'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 2020, the entire loan amount had been disbursed from the loan account and fully repaid.

iii. BADEA Loan Private sector

This represents a US Dollars 6,000,000 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 solely for financing expenditures and permanent working capital of UDBL's eligible clients in the Republic of Uganda. The loan is repayable in 16 semi-annual instalments after a 2 year grace period.

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 425 basis points.

As at 31 December 2020, the entire loan amount had been disbursed from the loan account.

iv. Islamic Development Bank (IDB)

This represents an asset line of financing equivalent US Dollars 10,000,000 loan from the Islamic Development Bank to Uganda Development Bank Limited with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between Islamic Development Bank and Republic of Uganda dated 18th May 2017.

For each transaction, the sale price shall be determined on the basis of the capital cost plus a mark-up of the US dollar swap rate prevailing at the time corresponding to the capital amortization period plus 135 basis points (One Hundred Thirty-Five basis points) per annum. The sale price shall be paid to the Bank within a period of up to 8 (Eight) years including a gestation period not exceeding 2 (Two) years calculated from the date of first disbursement for that transaction.

The Bank had utilized USD 2,900,000 by 31st December 2020 (2019: USD 2,450,000).

i. African Development Bank (AfDB Public window) USD 15M LINE OF CREDIT

This represents a US dollar 15,000,000 line of Credit from African Development Bank extended to

Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the .Ministry of Finance. The agreement for the line of Credit was signed on 22nd May 2019

Interest is payable on the amount disbursed and outstanding from time to time during each interest period, at the LIBOR rate two (2) business days prior to the commencement of the relevant .Interest Period plus a rate of eighty (80) basis points per annum

UDBL is required to repay the Line of Credit in full over a period of eight (8) years after the expiration of the two-year grace period by means of sixteen (16) equal and consecutive semi-annual instalments payable on each Payment Date. The first of such instalments are payable on the first payment date which immediately follows the expiration of the grace period. It should be noted .that UDBL cannot re-borrow from AfDB amounts repaid under the loan agreement

As at 31 December 2020, the entire amount had been drawn down from the account (2019: USD .(7,430,095

ii. African Development Bank (AfDB Private window) USD 5M LINE OF CREDIT

This represents a US dollars 5,000,000 line of Credit from African Development Bank extended to Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the Ministry of Finance. The agreement for the line of Credit was signed on 7th June 2019.

Interest is payable on the amount disbursed and outstanding from time to time during each interest period, at the LIBOR rate two (2) Business Days prior to the commencement of the relevant Interest Period plus a rate of five hundred (500) basis points per annum.

UDBL is required to repay the Line of Credit in full over a period of eight (8) years after the expiration of the two-year grace period by means of sixteen (16) equal and consecutive semi-annual instalments payable on each payment date. The first of such instalments are payable on the first Payment Date which immediately follows the expiration of the grace period.

It should be noted that UDBL cannot re-borrow from AfDB amounts repaid under the loan agreement.

As at 31 December 2020, the entire amount had been drawn down from the account.

(i) India Exim USD 5M LINE OF CREDIT

This represents a USD 5 million line of Credit from Exim Bank to finance import of goods and services from India from time to time. As per Agreement between UDBL and EXIM, signed on 8th October 2018, the Ministry of Finance, Government of Republic of Uganda fully guaranteed the line of Credit.

Interest on the line of credit is accrued on the outstanding principal amount at an interest rate determined as the sum of the applicable Margin and LIBOR.

As at 31 December 2020, USD 3,405,945 had been disbursed from the loan account.

.The fair values of the borrowings above approximate the carrying amounts

28. KUWAIT SPECIAL FUND

	2020	2019
	Ushs'000	**Ushs'000**
Balance as at 1 January	30,777,916	30,261,377
Agency costs	(1,017,740)	(931,484)
Interest on loans disbursed out of the fund	1,657,346	1,798,431
Effect of foreign exchange movements	311,953	(350,408)
Reclassification to Equity	(31,729,475)	-
Liability as at 14 October	**-**	**30,777,916**
Equity		
Balance as at 14 October	31,729,475	
FX (gain)/loss	(506,923)	
Balance as at 31 December	**31,222,552**	

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

The purpose of the fund was 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. For the period to 13 October 2020, the Bank treated the grant as a liability as it represented funds managed in trust on behalf of the Government of Uganda.

Effective 14 October 2020, Kuwait approved the transfer of the Kuwait Special Fund account from the Bank's liabilities' section to the equity section.

The weighted effective interest rate on loans disbursed as at 31 December 2020 was 10% (2019: 10%).

The fair value of the Kuwait special fund approximates the carrying amount.

29. UNCDF FUND (UN CAPITAL DEVELOPMENT FUND)

	2020	2019
	Ushs'000	**Ushs'000**
Balance as at 1 January	664,670	-
Drawn down during the year	1,805,772	664,057
Agency costs	(29,687)	(537)
Interest on loans disbursed out of the fund	49,616	1,150
Balance as at 31 December 2020	**2,490,371**	**664,670**

UDBL signed a Memorandum of Understanding with UNCDF which defines the conditions for the establishment, financing and management of disbursements to UDBL for the Support to Agricultural Revitalization and Transformation (START) facility through concessional loans, including, inter alia, conditions pertaining to financial control, reporting and auditing arrangements. The maximum contribution of UNCDF to START concessional loan is up to EUR 2,000,000 (Two million Euros) for a period of four years. The annual instalments are EUR 500,000 (Five hundred thousand Euros) per year based on the successful projects financed.

The beneficiaries of loans from the line of credit should be small and medium enterprises (SMEs) i.e. enterprises that employ between 5 to 100 employees with total assets between Ush 10 million but not exceeding 360 million. Loans from the line of credit to beneficiaries must not exceed EUR 100,000.

As per MOU, UDBL may charge 1 % p.a. as agency fees on the outstanding loan book in addition to 3.8% p.a. as Administrative Fees on the outstanding loan book. The fees are computed and charged monthly. The facilities from the line of credit are charged interest at a minimum rate of 10% p.a. and a maximum of 12% p.a.

UDBL is then required to capitalise amounts of interest over and above the agency and administrative fees.

As at 31 December 2020, Ush 2,469,829,420 had been disbursed from the fund (2019: Ugx 664,057,420)

The fair value of the UNCDF fund approximates the carrying amount.

30. EUROPEAN UNION (EU) GRANT

	2020	2019
	Ushs'000	Ushs'000
European Union grant	7,125,873	-

Uganda Development Bank Limited (UDBL) in partnership with European Union (EU) has allocated funds in form of a grant attached to a loan (also known as 'facility') to enable the sector soar through the hardship of COVID-19. The facility seeks to stimulate businesses operating in the tourism sector, which has been heavily impacted by COVID-19 by providing a grant and soft loan with flexible terms aligned to the current needs of the sector. A total approximate pool of Ushs 61.8 billion (Ushs 40 billion Uganda Development Bank loan plus Ushs 21.8 billion EU Grant) has been set aside for this intervention. The EU grant is subject to the signing of an agreement between EU and UDBL.

The facility will have the following components and additional benefits:

I. A non-repayable grant attached to the loan based on the number of staff maintained in the company during the two years' period that will benefit from this intervention in comparison with the number of staff in the company before COVID-19 pandemic (28th February 2020).

II. Concessional loan interest rates not exceeding 12%; however, the effective cost of the facility to the borrower shall not exceed 8%.

III. Extended working capital loan tenor of up to 5 years inclusive of a 2 years' grace period

Business advisory services as a non-monetary intervention.

The beneficiaries of the grant include business entities under Uganda Hotel Owners Association (UHOA) and Association of Uganda Tour Operators (AUTO).

The grant shall be accounted for in accordance with IAS 20.

As at 31 December 2020, EUR 1,602,400 (Ushs equivalent 7.13 billion) had been received from European Union.

31. 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% (2019: 30%). The movement in the deferred income tax liability is detailed below:

	2020	2019
	Ushs'000	Ushs'000
At the start of the year	5,776,986	3,612,149
Deferred tax charge to profit or loss	(3,029,858)	2,164,837
At the end of the year	**2,747,128**	**5,776,986**

Year ended 31 December 2020

	At 1 January 2020	Charge/ (credit) to profit or loss	At 31 December 2020
	Ushs'000	Ushs'000	Ushs'000
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	242,425	(7,586)	234,839
Provisions and unrealised losses	(1,863,070)	(2,785,412)	(4,648,482)
Revaluation of property and equipment	389,470	-	389,470
Fair value gain on investment property	7,008,161	(236,860)	6,771,301
Net deferred income tax liability	**5,776,986**	**(3,029,858**	**2,747,128**

Year ended 31 December 2019

	*At 1 January	Charge/ (credit) to	At 31 December
	2019	profit or loss	2019
	Ushs'000	Ushs'000	Ushs'000
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	173,909	68,516	242,425
Provisions and unrealised losses	(4,956,291)	3,093,221	(1,863,070)
Revaluation of property and equipment	389,470	-	389,470
Fair value gain on investment property	8,005,061	(996,900)	7,008,161
Net deferred income tax liability	**3,612,149**	**2,164,837**	**5,776,986**

32. OTHER LIABILITIES

	2020	2019
	Ushs'000	Ushs'000
Accrual and other liabilities	7,067,041	4,601,944
Deferred arrangement fees	6,859,607	3,464,534
Expected credit loss provision on off balance sheet items	1,683,640	863,197
Staff gratuity	152,502	140,381
Other creditors*	9,164,786	6,033,596
	24,927,576	**15,103,652**

*The other creditors balance includes suspense account, loan payment account, advance rental income and accruals for the quarter ended 31 December 2020.

Staff gratuity

This represents outstanding/unpaid gratuity for employees on contract. The year-end accrual represents gratuity due to employees on contract at a rate of 25% (2019: 25%) of their annual gross salary.

Movement in Provisions during the year;

Description	1 January 2020	Movement	31 December 2020
	Ushs'000	Ushs'000	Ushs'000
Staff gratuity	140,381	12,121	152,502
Leave provision	147,481	76,782	224,263
Total	**287,862**	**88,903**	**376,765**

33. SHARE CAPITAL

	2020	2019
	Ushs'000	Ushs'000
Authorised:		
At 1 January	100,000,000	100,000,000
400 million Ordinary Shares of Ushs 1,000 each	400,000,000	400,000,000
Additional 1.5 billion Ordinary Shares of Ushs 1,000 each	1,500,000,000	
At 31 December	**2,000,000,000**	**500,000,000**
Issued and fully paid up:		
At 1 January	100,000,000	100,000,000
Issue of shares	-	-
At 31 December	**100,000,000**	**100,000,000**

The Bank's authorised share capital is Ushs 2 trillion (2019: Ushs 500 billion) divided into 2 billion shares of Ushs 1,000 each. As at 31 December 2020, the Bank had issued 100 million shares (2019: 100 million). All issued shares are fully paid up.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and other general meetings of the company.

34. GOVERNMENT OF UGANDA CAPITAL CONTRIBUTIONS

	2020	2019
	Ushs'000	**Ushs'000**
At 1 January	183,902,306	100,171,606
Contributions during the year*	509,970,940	87,730,700
Registration fees for 400m additional shares	-	(4,000,000)
At 31 December	**693,873,246**	**183,902,306**

Government of the Republic of Uganda secured a loan from Kuwait fund 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 a loan agreement dated 22 December 2010.
* Included within GOU capital contributions for the year 2020 are funds of Ushs 455 billion from the Ministry of Finance, Planning and Economic Development (MoFPED) to finance the Republic of Uganda's response Plan to the COVID-19 pandemic by leveraging the medical and health sector.

35. ASSET REVALUATION RESERVE

	2020 UShs '000	2019 UShs '000
At 1 January	1,203,464	1,203,464
As at 31 December	**1,203,464**	**1,203,464**

A revaluation of the freehold land and Buildings asset categories is performed every after 3 years. The last revaluation was done for the year ended 31 December 2018. The revaluation was carried out by a professional valuer by the names of East African Consulting Surveyors and Valuers- EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank.

The freehold land and buildings were revalued on the basis of depreciated replacement cost reflecting prevailing market conditions at the time of valuation.

36. COMMITMENTS

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.

	2020	2019
	Ushs'000	**Ushs'000**
Loans approved but not disbursed at year end	258,095,918	191,474,787

37. 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 n. At year end, the Bank had several unresolved legal claims. 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 6.5 billion (2019: Ushs 6 billion), while the timing of the outflow is uncertain.

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2020, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

39. 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:

	2020	2019
	Ushs'000	**Ushs'000**
GoU capital contributions (note 34)	509,970,940	83,730,700
Staff loans: interest earned	659,994	505,034
Staff loans: repayments	1,875,131	889,807
Staff loans: disbursements	3,443,980	3,099,143
Outstanding balances		
Staff loans (note 21)	6,207,271	3,891,810

Key management compensation		
Salaries	2,061,445	1,809,735
NSSF Company contributions	206,145	226,217
Service gratuity	515,361	579,115
	2,782,951	**2,615,067**
Directors' remuneration	**479,150**	**424,747**

40. 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 Audit and Risk 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:

	2020	2019
	Ushs '000	**Ushs '000**
Issued capital	100,000,000	100,000,000
Asset revaluation reserve	1,203,464	1,203,464
GOU capital contribution	693,873,246	183,902,306
Kuwait Special Fund	31,222,552	-
Retained earnings	84,485,757	62,376,979
	910,785,019	**347,482,749**

During the year, the Bank got additional capital contributions from Government of Uganda of Ushs 509,970,940 (2019: Ushs 83,730,700).
Effective 14 October 2020, Kuwait approved the transfer of the Kuwait Special Fund account from the Bank's liabilities' section to the equity section.

41. NET CASHFLOWS FROM OPERATING ACTIVITIES

	2020	2019
OPERATING ACTIVITIES	**Ushs '000**	**Ushs '000**
Profit before taxation	31,664,056	15,385,253
Adjustments for:		
Unrealised foreign exchange gain on borrowings	(1,268,246)	(3,423,477)
Depreciation	434,855	413,492
Amortisation of intangible assets	339,906	195,155
Gain on disposal of fixed assets	-	3,032
Impairment loss on financial assets	14,687,571	1,301,478
Net unrealised exchange (gains)/losses	(499,179)	73,394
Fair value loss on Investment properties	789,532	3,323,000
Fair value loss on equity investments	16,051	98,416
Interest expense on borrowings	4,162,653	3,104,553
Revaluation on Kuwait	444,636	-
Operating profit before changes in operating assets and liabilities	**50,771,295**	**20,474,296**

42. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Borrowings	Amounts due to Bank of Uganda	Contribution from Government of Uganda	Total
	Ushs'000	**Ushs'000**	**Ushs'000**	**Ushs'000**
31 December 2020				
Balance as at 1 January 2020	70,541,546	16,017,692	183,902,306	270,461,544
Changes in financing cash flows				
Proceeds from Debt	59,854,520	6,872,857	509,970,940	576,698,317
Repayments of Debt	(8,608,318)	(6,568,659)	-	(15,176,977)
Total changes from financing cash flows	**121,787,748**	**16,321,890**	**693,873,246**	**831,982,884**

	Borrowings	Amounts due to Bank of Uganda	Contribution from Government of Uganda	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Other changes				
Interest expense	4,162,653	-	-	4,162,653
Foreign exchange gains	(1,268,246)	-	-	(1,268,246)
Total liability related other changes	**2,894,407**	**-**	**-**	**2,894,407**
Balance as at 31 December 2020	**124,682,155**	**16,321,890**	**693,873,246**	**834,877,291**
31 December 2019				
Balance as at I January 2019	57,478,060	9,290,181	100,171,606	166,939,847
Changes in financing cash flows				
Proceeds from Debt	38,807,670	9,791,072	83,730,700	132,329,442
Repayments of Debt	(25,425,260)	(3,063,561)	-	(28,488,821)
Total changes from financing cash flows	**13,382,410**	**6,727,511**	**83,730,700**	**103,840,621**
Other changes				
Interest expense	3,104,553	-	-	3,104,553
Foreign exchange gains	(3,423,477)	-	-	(3,423,477)
Total liability related other changes	**(318,924)**	**-**	**-**	**(318,924)**
Balance as at 31 December 2019	**70,541,546**	**16,017,692**	**183,902,306**	**270,461,544**

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43. RETAINED EARNINGS

	2020	2019
	Ushs '000	Ushs '000
At 1 January	62,376,979	52,236,720
Total comprehensive income for the year	22,108,778	10,140,259
At 31 December	**84,485,757**	**62,376,979**

44. LEASES

The Bank entered into a commercial lease for premises with Pine Investments Limited which expired on 31 January 2019. The contract was renewed for a further 5 years and will expire on 1 February 2023 with a renewable option. There are no restrictions placed upon the lessee by entering into this lease.

The Bank intends to exit these premises by 31 December 2021 to occupy its own premises at UDB-MTN towers.

The lease payments associated with the short-term lease are as follows:

	2020	2019
	Ushs '000	Ushs '000
Within one year	898,816	905,212
	898,816	**905,212**

45. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

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