UDB
Inspiring Development

2016
ANNUAL REPORT


WOODLAND
MILLS

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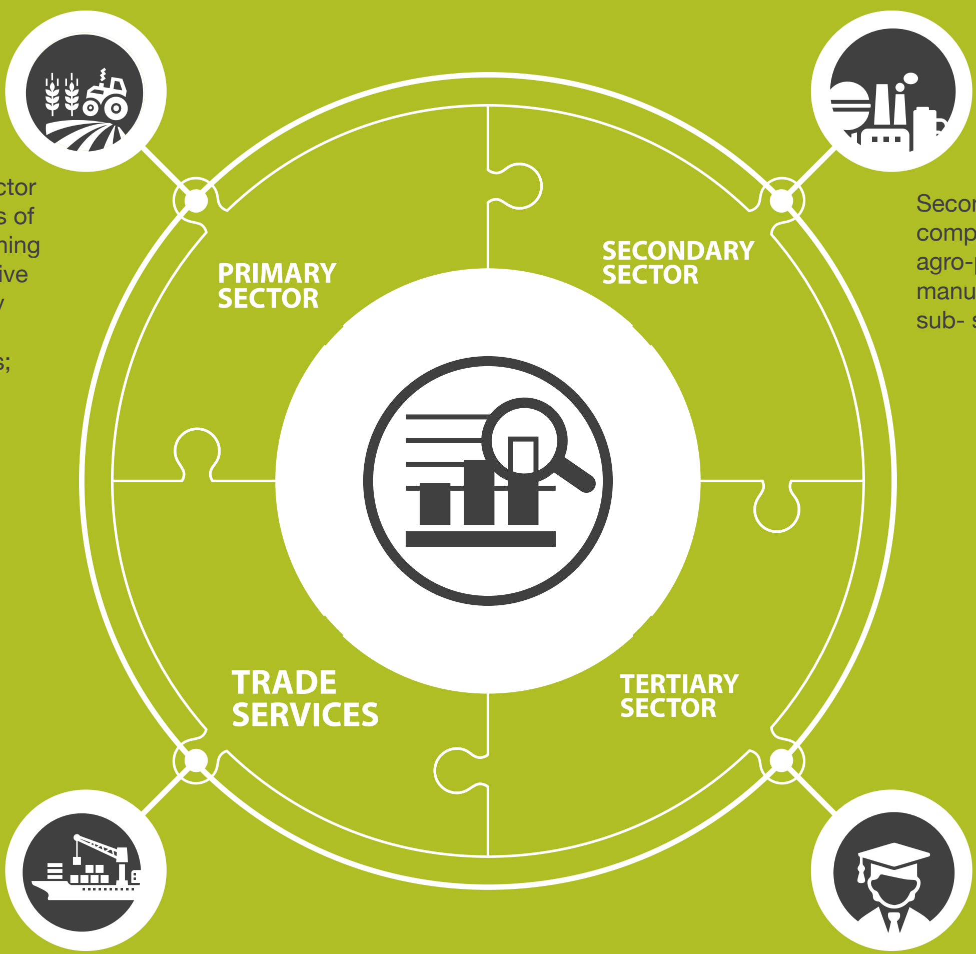
WHO WE ARE

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

PRIORITY SECTORS OF THE ECONOMY

Primary Sector – comprises of forestry, mining and extractive and primary agriculture sub-sectors;



Secondary Sector – comprises of agro-processing and manufacturing sub- sectors;

Trade Services – comprises of trade and commerce.

Tertiary Sector – comprises of education, financial services, health and hotels, hospitality and tourisms sub- sectors;

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

OUR VISION

PROMOTING SUSTAINABLE SOCIO-ECONOMIC DEVELOPMENT THROUGH INNOVATIVE FINANCIAL PRODUCTS AND SERVICES.

OUR MISSION

PROFITABLY FINANCING ENTERPRISES IN KEY GROWTH SECTORS.

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

OUR CORE VALUES

THE BANK IS COMMITTED TO MUTUALLY BENEFICIAL RELATIONSHIPS WITH ITS STAKEHOLDERS.

COMMITMENT:

We are committed to growing and attaining sustainable value for all our stakeholders and will hold ourselves accountable at all times. Our need to exceed our stakeholders' expectations is what drives the manner in which we conduct our business.

EXCELLENCE:

We shall endeavor to excel in whatever we do and we shall always seek innovative customer focused products and services. We are committed to doing whatever we do excellently at all times in pursuit of results.

INTEGRITY:

We will uphold the highest standards of ethics and integrity and endeavor to be transparent in all our actions at all times.

UDBL and its strategy

UDB's strategy maintains its focus on socio-economic transformation but with an emphasis on driving financial and non-financial investments in the key priority sectors as defined by the second National Development Plan (NDP). The Bank's key strategic objectives are as follows:

Grow shareholders value - enhance capital formation and build economic competitiveness in order to promote growth and development.

Invest in key growth sectors - finance viable projects in key growth sectors identified in the National Development Plan by providing specialized financial products for projects.

Rebrand the Bank's image for marketing growth - rebrand the Bank's image to boost its presence in the credit market, increase its visibility and raise its corporate profile.

Improve service delivery- enhance efficient service delivery to especially support the planned growth in the client base in order to be competitive in the market.

UDB 2017 STRATEGIC FOCUS

2017 marks the final year of the Bank's 2013-2017 Strategic Plan. The focus in 2017 will be to design a new strategic plan that shall guide the Bank's strategic direction for the next five years.

The Bank has undertaken an institutional capacity development program which is expected to be concluded in 2017. Implementation of the recommendations from the review will take priority as the Bank's aligns its operations to its mandate.

The Bank also intends to develop appropriate and diverse product portfolios that will meet customers' changing needs. This will entail strengthening the Bank's research and development capability to innovate and come up with new product offerings.

Embracing strategic partnerships is a key factor in driving the growth of the Bank. Strategic partnerships present opportunities for tapping into technical skills, business opportunities, risk sharing, learning among others. Greater emphasis will be placed on identifying and establishing new partnerships. With the above in mind, the Bank is set to fulfill its development mandate as required by people of Uganda.

ENGAGING WITH OUR STAKEHOLDERS

In all of our activities, we maintain an open dialogue with our stakeholders. We believe that this dialogue and the development of strategic partnerships are not only fundamental sources of information but are also important for responsible corporate governance. Stakeholder dialogue is spirited for effective execution of the Uganda Development Bank's mandate.

UDBL STAKEHOLDER MAPPING

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

Special Consideration of Stakeholder Engagement

Stakeholder management is an important aspect of our projects. Most of the projects we work on, involve multiple stakeholders and each one potentially has the ability to speed up, slow down or completely obstruct our progress. Stakeholders may not be in the driving seat, but they can be extremely useful advocates, sponsors and agents of change.

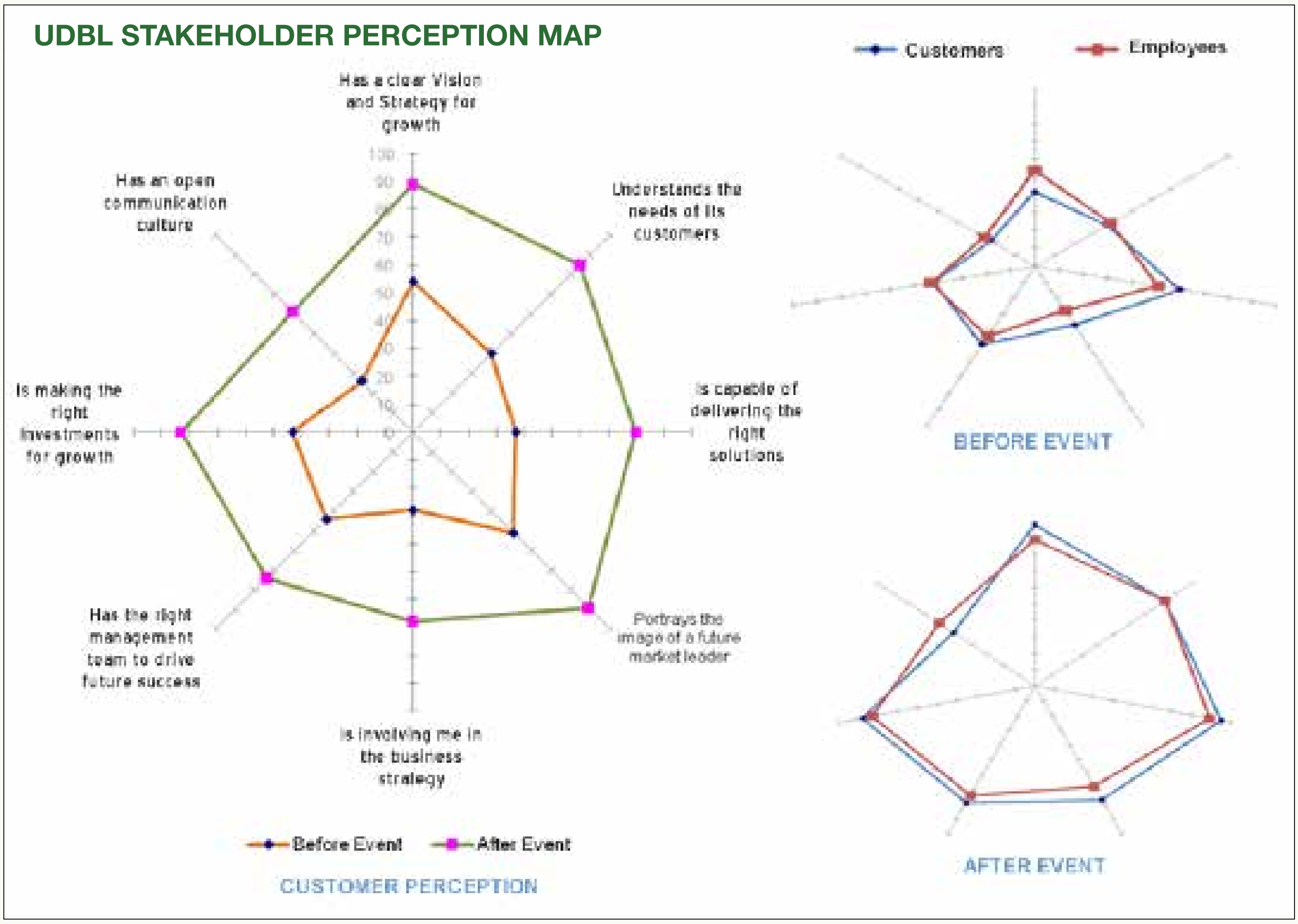
Some times what you may not appreciate, however, is just how deep the benefits of effective stakeholder management can run. Often, the process of managing stakeholders is viewed by the CEO's department as a form of risk management. After all, keeping shareholders happy and meeting their expectations will certainly reduce the risk of negative influences affecting our project. Therefore, this view is not inaccurate, but it does perhaps over-simplify UDBL's business.

We have kept good stakeholder management not only to clear the path of potential obstructions, but to actively support swift progress and ultimately improve the quality of the results we deliver. It's not simply a case of keeping stakeholders happy - it's also about using their time, expertise and influence to assist us in reaching our goals.

Understanding this is arguably what separates the very best project managers from the average performers. In a 2013 post based on The Project Management Book by Richard Newton, Elizabeth Harrin's project management blog highlighted the less obvious benefits of stakeholder management:

Perception Map

The map below describes UDBL's stakeholder expectations;



STAKEHOLDER ENGAGEMENT

1


2


3


4


5


6


1 (L-R) State Minister of Finance for Planning David Bahati, UDBL CEO Mrs.Patricia Ojangole and UDBL Board Member Mrs.Silvia Angey Ufoyuru during the Customer Engagement Forum on 11th Oct. 2016 at Hotel Africana.

2 The CEO and Company Secretary of the Bank during an induction session with the new Minister of State for Finance in charge of Privatisation: Hon Evelyn Anite. The induction was to bring the Minister up to speed on the Bank's operations and development agenda and her role as shareholder of the Bank. This was held on 16th of August 2016.

3 Mrs Patricia Ojangole, UDBL CEO presents a token of appreciation to the members of the KfW Mission that visited the Bank in September 2016 to discuss opportunities for new lines of credit and capacity building grants.

4 (L-R) BADEA Mission to UDBL – Ahmed Abdelrahman Tageldin, Dr. Hasab Elrasoul Elbashir, Mrs Patricia Onjangole UDBL CEO, and Khalid Ahmed Mohammed. This was during their visit to appraise the USD 16 million credit facility request made by the Bank.

5 The CEO and Company Secretary of the Bank meet Mr. Keith Muhakanizi Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development.

6 Customers that were awarded for their exemplary performance during the Customer Engagement Forum held on 11th Oct 2016 at Hotel Africana.

A rice field under the management of Abasaija Kweyamba Mubuku Farming Cooperative Society Limited.

The Bank supports the Cooperative Society in financing seed multiplication for FICA and NASECO seed companies. Abasaijja Kweyamba is currently rated the best small holder farmer organization in seed multiplication in terms of quality and quantity. UDBL intervention has helped the society produce a minimum of MT 400 per season of certified seeds to support the agriculture sector hence reducing the demand-supply parity that is being exploited by fake seed and imports. In addition, the Bank's intervention has contributed to an increase in house hold incomes by approximately UGX 10 million per annum, contributed towards food security in the country through the seed inputs provided by the Society and also provided employment opportunities to the community.

MESSAGE FROM THE CHAIRMAN

UDBL has been in existence since 1972. The Bank has undergone several changes, including reconstitution as a limited liability company. The Bank has a clear mandate and strategy, with its primary purpose being to promote sustainable socio-economic development through innovative financial products and services. In order for us to deliver on this mandate, we have ensured that we operate transparently and professionally. Our transformation is almost complete, and our results show the potential we have to impact our economy.

Despite challenging market conditions, we continued to make progress in our journey to becoming a profitable and well-governed financial institution. The Bank continued facilitating the flow of affordable development credit in the economy by increasing its stock of assets. Uganda Development Bank firmly believes that private sector actors must be supported in order to accelerate growth and wider prosperity.

A key part of our strategic interventions is understanding and meeting the changing needs of our customers around the country. Under the National Development Plan (II) theme of “Growth, Employment and Socio-Economic Transformation for Prosperity”, we continue to build a foundation for repositioning Uganda Development Bank as a partner to the Government.

In 2016, the Ugandan economy grew more slowly than expected due to political and economic cycles. Demand for commodities in international markets fell and consumer and business confidence remained low. To mitigate these cyclical challenges, we continued to engage our shareholders on providing additional capital for the business and to also support the local business community. Our shareholders have agreed to increase our capital and several lines of credit were negotiated and availed to support local import and export ventures.

I wish to thank the Bank’s management and staff for an encouraging set of results and the meaningful impact achieved in our nation’s march to middle income status.

Dr. Samuel Sejjaaka
CHAIRMAN OF THE BOARD

MEET THE BOARD

What makes
Us different?

Prof. Samuel Sejjaaka, PHD
Board Chairperson

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

Age: 53
Appointed: 2012

Other Roles held,
Director in the following public interest institutions:
Board member, Stanbic Bank Uganda Limited;
Board Member, UAP Old Mutual Life Insurance Limited;
Board Chairman, UAP Old Mutual Financial Services Limited; and Chairman, Rexba Limited.

Mr. Charles Byaruhanga
Director

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

Age: 51
Appointed: 2012

BARC

BOARD COMMITTEES

BARC
Board Audit & Risk Committee

BCC
Board Credit Committee

BPGPC
Board Planning and General Purpose Commiittee

Mrs. Silvia Angey Ufoyuru
Director

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

Age: 47
Appointed: 2015
Other Roles held,
Director in the following public interest institutions:
Founder Member and Board of Trustees – Jonam Youth Development Initiative (2009 to date); and
Ex-Officio Member of the Uganda African Peer Review Mechanism (APRM) National Governing Council (2014 to date).

BPGPC
BARC

Mr. Henry Balwanyi Magino
Chartered Secretary, ICSA.

LLB (Makerere)
Pg.Dip (Law Development Center

Age: 56
Appointed: 2015

BCC
BARC

Mr. Nimrod Waniala
Director

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

Age: 65
Appointed: 2015
Other Roles held

Director in the following public interest institutions:
Board Chairman, Uganda Export Promotion Board (UEPB), since October 2016.

BPGPC
BCC

Dr. Stephen Robert Isabalija, PHD
Director

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

Age: 40
Appointed: 2012
Other Roles held,

Director in the following public interest institutions:
Board Chairman, Uganda Rural Electrification Agency; Board member, Uganda Energy Credit Capitalisation Company; Former Board member, Uganda Electricity Generation Company Limited; and Permanent Secretary, Ministry of Energy and Mineral Development.

BPGPC
BCC

CEO's STATEMENT

> We continue to align our focus with providing funding to priority sectors as laid out in the second National Development Plan (NDP II)

Business environment

In 2016, the economy faced a number of challenges due to the continued uncertainty with respect to the recovery in global economic growth, weak commodity prices and geopolitical events in our key trading partners. These challenges contributed to a decline in our export earnings and foreign direct investment flow into the country.

Despite the above challenges, the Board and Management worked tirelessly to place the Bank on a sound footing yielding significant improvement in the overall performance of the Bank.

Progress on our key strategic priorities

Our key priorities for 2016 were in line with our strategic objectives of enhancing socio-economic growth through the private sector by growing the loan book in key priority sectors, improving the quality of the loan book, engaging with our development partners to seek new and additional funding to finance the anticipated growth in the business and human capital development.

With respect to growing the loan book, we were able to register UGX 63.1 billion in new approvals during 2016. 45% of the approvals equivalent to UGX 28.67 billion were in the primary agriculture and agro-processing sector while 20% of the approvals equivalent to UGX 12.8 billion were in the manufacturing sector. We continue to align our focus with providing funding to priority sectors as laid out in the second National Development Plan (NDP II).

We took deliberate strategies to improve the quality of our loan book. Key among the strategies adopted were the strengthening of our risk management capabilities to ensure that all potential and actual project risks were sufficiently mitigated to acceptable levels.

On sourcing funding, our constant engagement with various development partners enabled us secure new lines of credit from Islamic Development Bank (IDB) worth USD 10 million and from Arab Bank for Economic Development (BADEA) worth USD 16 million. These new lines of credit will go a long way in bridging the Bank's funding requirements as we make further pursuits to obtain additional funding from our Development Partners in order to match the growing demand for credit.

The Bank further continued to engage with the Government of Uganda with respect to the proposed capital injection in the Bank. As a result, we were able to see a resurgence in the Government's commitment to capitalizing the Bank.

From the perspective of human capital development, we believe that our staff are critical in driving the achievement of our strategic objectives and long-term sustainability. In 2016, we had 5 of our staff participate in extended learning attachments to Development Bank of South Africa (DBSA), Industrial Development Corporation, South Africa (IDC) and Bank of Industry, Nigeria (BOI). We also had an additional 6 staff participate in the Strathmore Senior Management Leadership Development Program (SMLDP), Women in Leadership Program and the CEO Apprenticeship Program. These learning interventions and more are expected to help build staff competencies that will help steer the Bank in the right direction. We intend to scale up the formal learning interventions as the operations of the Bank grow.

Development Impact created by projects financed

In line with its mandate of creating sustainable socio-economic development, the Bank continued to create significant socio-economic benefits to the country through the projects it's currently financing. The benefits realized include among others the following:

- The projects financed by the Bank generated output and services valued at UGX 4.5 trillion during the year of which UGX 4.271 trillion was generated from the agriculture and agro-processing sector;
- A total of 19,469 workers were employed in UDB funded projects up from 17,079 in 2015. Of these, 81% were engaged in Agricultural and Agro-processing projects;
- The UDB funded projects registered tax revenue contributions of UGX 87.3 billion in 2016 compared to UGX 78.6 billion in 2015; and
- There was USD 77.8 million in foreign exchange earnings realized of which 72% were from projects in the manufacturing sector.

The Bank will continue its efforts in ensuring that the projects it funds create the highest socio-economic impact possible for the benefit of the community within which the project operates and for the country as a whole.

2016 Financial results

The Bank's total asset base grew by 10.2% from UGX 205.6 billion in 2015 to UGX 226.4 billion in 2016. The growth in the asset base was in part attributed to the capital injection from Government of Uganda and utilisation of lines of credit from our development partners. Out of the funding received the Bank was able to grow its gross loan portfolio by UGX 29.8 billion from UGX 153.7 billion in 2015 to UGX 183.5 billion in 2016. This represented a 19.4% growth.

The Bank also achieved growth in its net interest income, registering an increase of 7.92% from UGX16.2 billion in 2015 to UGX 17.5 billion in 2016. This growth was largely attributable to a growth in the gross loan portfolio of 19.4%. The Bank further made deliberate strategies to improve the quality of its loan book during the year. These strategies paid off giving rise to a reduction in loan impairment losses by 27.5%, from UGX 4.5 billion in 2015 to UGX 3.3 billion in 2016. There were efforts geared towards recovery of written off loans which contributed to a 77% growth in other income from UGX 3 billion in 2015 to UGX 5.4 billion 2016. The above gave rise to the growth in profitability of the Bank from UGX 1.9 billion in 2015 to UGX 6.4 billion.

Outlook

In 2017, we will continue pursuing our key priority of funding projects that create high socio-economic impact and that are in line with the Second National Development Plan (NDP) II; improving the quality of our assets but also working on improving our customer experience. We commenced an Institutional Development Program towards the end of 2016 that is geared towards enhancement of the Bank's operations and strategic direction. In 2017, we intend to implement recommendations from the program to better position ourselves in delivering our mandate. 2017 also marks the end of our 5 year strategic plan and we shall once again engage with all key stakeholders in developing the strategic road map for the next 5 years.

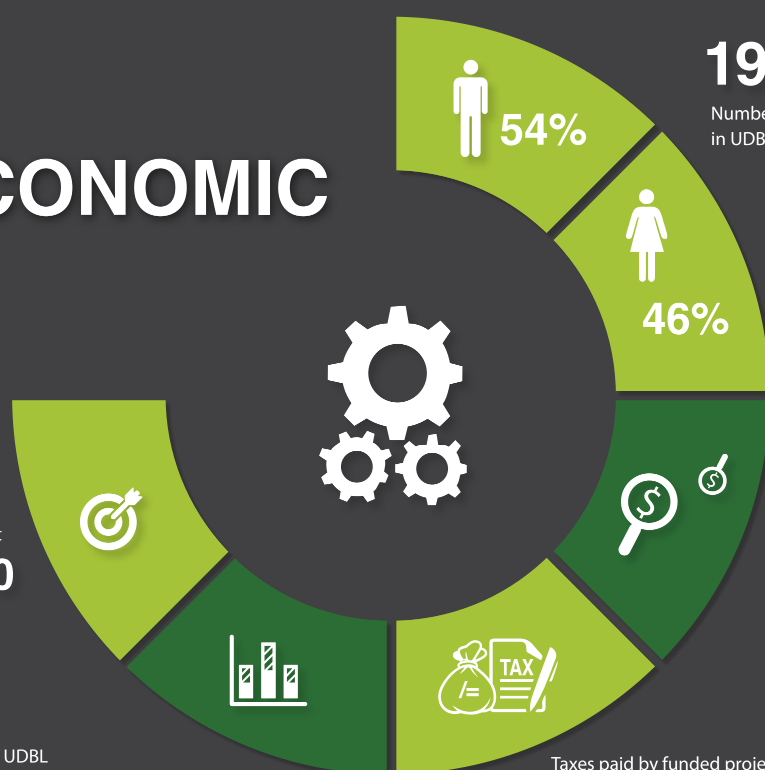
Appreciation

In all these, our customers are key and I would very much like to extend my sincere appreciation to them for their trust. Further, I wish to express my appreciation and gratitude to the Board of Directors for their relentless efforts in strategically guiding the Bank; and to our shareholder, Ministry of Finance, Planning and Economic Development for their patronage and confidence in us as Management. Finally, to my Management Team and Staff, I say ‘’well done”.

Patricia Ojangole (Mrs)

SOCIO-ECONOMIC IMPACT

SOCIO-ECONOMIC IMPACT



19,469
Number of workers employed in UDBL funded projects

Foreign revenue contribution from UDBL funded projects
UGX 77,889,612

Taxes paid by funded projects
UGX 87,398,719,567

Production value of UDBL funded projects
UGX 4,510,460,411,960

Value of financed equipment
UGX 96,679,770,300

EXECUTIVE COMMITTEE (EXCO)

Patricia Ojangole (Mrs)
Chief Executive Oficer

Ladisalo Ategeka
Director Development Finance

What makes Us different?

Andrew Muluubya
Director Management Information Systems

Dorothy Ochola
Head Legal / Company Secretary
She resigned on 31st December 2016

Denis Ochieng
Director Finance

Mwesiga Joshua Allan
Director Human Resources & Administration

Stephen Hamya
Chief Internal Auditor

Corporate Governance

Governance Statement

Uganda Development Bank Limited ensures that its corporate operations and structures are governed by clearly defined principles of good corporate governance to ensure proper governance, transparency and accountability to its stakeholders through the existence of effective systems of self-regulation.

The Board aims to entrench the collective behaviours and practices in the Bank that will ensure delivery of its obligation to sound governance. The Board subscribes, and is committed to, ensuring that the Bank complies with the corporate governance principles of fairness, accountability, responsibility and transparency.

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

The Board strives to embrace relevant local and international best practices and is committed to upholding the fundamental tenets of governance which include independence, social responsibility, discipline, transparency, accountability and fairness to all stakeholders.

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

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

The Board strives to embrace relevant local and international best practices and is committed to upholding the fundamental tenets of governance which include independence, social responsibility, discipline, transparency, accountability and fairness to all stakeholders.

Codes and Regulations

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

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

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

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

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

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

Shareholders' Responsibilities

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

Board and the Directors

Board of Directors

The Board exercises effective control over the Bank and gives strategic direction to the Bank's Management.

The Bank has a broad-based Board of Directors. The Board functions as a full board and through various committees constituted to oversee specific operational areas.

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

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

The Board of Directors is the Bank's highest decision making body and is ultimately responsible for governance. Directors are elected by the shareholders. The Board is constituted of only non-executive directors.

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

Appointments

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

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

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

Succession Planning

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

As part of the Board's responsibility to ensure that effective management is in place to implement the Bank's strategy, management succession planning is an on-going consideration. In 2016, the Bank significantly strengthened its senior leadership team and made 2 (two) key hires at the Executive Committee (ExCo) level.

Skills, knowledge, experience and attributes of Directors

The Board ensures that directors possess the skills, knowledge and experience necessary to fulfil their duties. The directors bring a balanced mix of attributes to the Board, including:

- Domestic and International experience;
- Operational Experience;
- Expertise in Risk Management and Internal Financial Control;
- Corporate Law and Governance;
- Economics;
- Enterprise Development;
- Human Resource Management;
- Experience in the workings of Bi-Lateral and Multi-Lateral Financing Institutions;
- Agri Business Development Financing; and
- Development Project management, among others.

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

The directors' details are provided on page 16.

The Board Charter

Board responsibilities

The Board's responsibilities are collective and include but are not limited to the following:

- Providing oversight to, and supervising management of, the Bank operations and ensuring the establishment of effective internal control systems;
- Protecting the interests of shareholders and other stakeholders of the Bank and taking these into account in directing the affairs of the Bank;
- Determining the aims of the Bank, review, provide input into and approve business plans, strategy, structures, policies and investments and ensure achievement of the Bank's objectives;
- Ensuring that systems are established and implemented to ensure that the Bank is managed with integrity and complies with all legal and regulatory requirements and that it conducts its business in accordance with high ethical standards;
- Ensuring that an effective risk management process exists and is maintained throughout the Bank;
- Being accountable for financial, operational and internal systems of control and overall risk management;
- appointing appropriate Board Committees and determining the composition thereof; and
- Considering and approving the annual financial statements.

Strategy

The Board has overall responsibility for strategy. In executing this role, the Board will appreciate that strategy, risk, performance and sustainability are inseparable and give effect to this by:

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

The Board has overall responsibility for the Bank's strategic direction. The Bank's business plan is reviewed and any updates presented by Management annually and discussed and agreed with the Board.

The Board monitors performance of the Bank against the non-financial and financial objectives on an on-going basis. Financial performance is monitored through quarterly reports from Management, and the attendant risks are monitored by the relevant risk committees, and reviewed by the Board.

Delegation of authority

The Board delegates certain functions to well-structured committees but without abdicating its own responsibilities.

The Board has accordingly established the following committees:

- Board Audit and Risk Committee
- Board Credit Committee
- Board Planning and General Purpose Committee

The committees each have a mandate that is annually reviewed and approved by the Board. Details of how these committees operate follows below.

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

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

The executive committee is set out on page 22.

Board meetings

The Board meets quarterly and the Annual General Meeting (AGM) is held once a year with an additional meeting annually to consider strategy.

Ad-hoc meetings are held when necessary. To enable the Board to use its time most effectively, it maintains a scheduled forward programme of meetings and a rolling agenda. To ensure that the Board can focus on the key matters at the appropriate time, there is sufficient flexibility in the programme for specific items to be added to any particular agenda. To facilitate efficient decision-making, the Management team and other senior executives may be invited to attend part of the meetings to ensure effective interactions with the Board while third party professionals may be in attendance on a need-to basis.

Board effectiveness and assessment

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

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

Induction and training

Directors receive an induction pack upon appointment which pack contains information about the Bank's business. Also included in the pack are the following;

- A Letter of Appointment
- A copy of the Code of Ethics and Code of Business Conduct; and
- The Bank's Memorandum and Articles of Association, among others.

At the time of their appointment, new Directors are also introduced to the senior executive team and receive a brief(s) about the Bank's business, values and governance arrangements. 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.

Conflict of interest

Board members have a fiduciary obligation under Section 198 (c) of the Companies Act, 2012 – to act in the best interests of the company that they serve. Board members must act in good faith in the interests of the company as a whole and this shall include—

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

To address the effect of Section 198 (c) the Board has adopted a conflict of interest declaration policy for situations which may give rise to a conflict of interest on the part of any Director.

The policy gives guidance to Directors as to what situations may be affected and of their obligations to notify the Bank, through the Company Secretary, of any such situations. The policy requires a board member who has a potential or real conflict of interest to declare their interest and leave the room during the entire discussion of the matter and not return until invited in by the other Board members.

Board Committees

The Board has constituted 3 (three) committees to assist it in carrying out its duties and responsibilities. These are; the Board Audit and Risk Committee (BARC), the Board Credit Committee (BCC) and the Board Planning and General Purpose Committee (BPGPC). This does not relieve the Board of any of its responsibilities, and the Board critically evaluates the recommendations and reports of these committees before approving such recommendations or accepting such reports. All Board committees are constituted and chaired by Non-Executive Directors. As at 31st December 2016, the Board of Directors consisted of 6 (Six) members.

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

All Directors who are not members of the Board committees may attend Board committee meetings; however, they will not be able to participate in the proceedings without the consent of the relevant Chairman and will not have a vote.

Board Audit and Risk Committee

The BARC comprises of three independent Non-Executive Directors, one of whom acts as Chairperson. The Chairman of the Board is not a member of the BARC. Mr. Charles Victor Byaruhanga was appointed Chairperson of the BARC with effect from May 2015. The CEO, Head of Internal Audit, Director Finance and Manager Risk attend BARC meetings as permanent invitees.

The Committee is constituted in terms of the Board Charter. Its main function is to advise the Board on all matters relating to corporate governance, business risk and regulatory issues. In particular it monitors financial controls, accounting systems and assesses the processes for

The Board meetings' attendance for the year 2016 was as follows:

Name of Director	7- Jan	12- Jan	9- Mar	15-Mar	29- Mar	19- Apr	29- Ap	31- May	30-Aug	18-Oct	20- Oct	25- Nov	26- Nov
S. Sejjaaka	•	•	•	•	•	•	•	•	•	A	•	•	•
C. Byaruhanga	•	•	•	A	•	•	•	•	•	•	•	•	•
S. R. Isabalija	•	•	•	A	A	•	•	•	•	•	•	A	A
S. A. Ufoyuru	•	•	A	•	A	A	•	•	•	A	A	•	•
H. B. Magino	•	•	•	•	•	•	•	•	•	•	•	•	•
N. Waniala	•	•	•	•	•	•	•	•	•	•	•	•	•

identifying, monitoring and managing business risks. It reviews the Bank's budget, interim and annual financial statements and external audit fees. The Committee also recommends the appointment of the Bank's external Auditors and subsequently reviews and monitor the appointed external Auditors' independence and objectivity, Taking into account relevant professional and regulatory requirements and further, reviewing audit plans presented by external Auditors and considering areas of special concern.

The meetings of the BARC are also attended by the External Auditors on a need to basis. If a special meeting is called, the attendance of non-members is at the discretion of the Chairman of the BARC.

As defined in its charter, the primary objective of the BARC is to assist the Board in fulfilling its responsibilities relative to:

- Corporate governance;
- Compliance with statutory and regulatory legislation, which includes but is not limited to the PERD Act, Companies Act, Common Law, IFRS and tax legislation;
- Risk management; and
- Shareholder reporting.

The Board Audit and Risk Committee has complied with its mandate in the year under review.

Board Audit and Risk Committee record of Attendance

Name of Director	9-Feb	7-Mar	16- May	5- Aug	14-Oct	17-Oct
C Byaruhanga	•	•	•	•	•	•
S. A. Ufoyuru	•	•	•	•	•	•
H. Magino	•	•	•	•	A	•

KEY

• = Attendance;
A = Apology

Board Credit Committee

The Board Credit Committee (BCC) comprises three independent Non-Executive Directors, one of whom acts as Chairperson. The Chairman of the Board is not a member of the BCC. Dr. Stephen Robert Isabalija was appointed Chairperson of the BCC with effect from May 2012. The CEO, Director Development Finance and Director Finance attend BCC meetings as permanent invitees. The Board is satisfied that the collective skills of the members of the BCC are appropriate, relative to the size and circumstances of the Bank.

The role of this Committee is to ensure that effective frameworks for credit governance are in place in the Bank. This involves ensuring that the Management Credit Risk Committee (MRCC) and the credit function operate according to clearly defined mandates and delegated authority.

The Committee reports to the Board on credit portfolios, adequacy of provisions and the status of non-performing loans. It also approves credit applications in the excess of UGX 0.5 billion. The BCC meets as and when required to consider credit applications falling within its ambit and has therefore complied with its mandate.

The Board Credit Committee's attendance for the year 2016 was as follows:

Name of Director	10-Feb	18-Apr	18-May	15- July	22-Aug	14- Oct	20-Oct	2-Dec
S. R. Isabalija	•	•	•	•	•	•	A	•
H. Magino	•	•	•	•	•	A	•	A
N. Waniala	•	•	•	•	•	•	•	•

KEY

• = Attendance;
A = Apology

The Board Planning and General Purpose Committee

The Board Planning and General Purpose Committee (BPGPC) comprises three independent Non-Executive Directors, one of whom acts as Chairperson. The Chairman of the Board is not a member of the BPGPC. Mrs. Silvia Angey Ufoyuru was appointed Chairperson of the BPGPC with effect from May 2015. The CEO Director Human Resource and Administration and the Director Finance attend BPGPC meetings as permanent invitees. The Board is satisfied that the collective skills of the members of the BPGPC are appropriate, relative to the size and circumstances of the Bank.

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

- Assisting the Board to oversee matters pertaining to the Bank's human resource policies, overall compensation, succession planning, business plans and performance goals;
- Assisting the Board in determining the broad policy for executive and Senior Management remuneration, and oversee the Bank's remuneration philosophy;
- Ensuring that the right calibre of Management is recruited and retained. To achieve this, it ensures that Directors and Senior Management are appropriately rewarded for their contributions to the Bank's performance, with specific focus on incentive payments and long-term remuneration structures.
- Assisting the Board in the consideration of performance-related incentive schemes, performance criteria and measurements.
- Assisting the Board in reviewing the CEO's performance against set management and performance criteria and recommending guaranteed and performance-based individual remuneration and other long-term award allocations to the CEO, Company Secretary and Senior Management, among others; and
- In addition, the Committee has oversight over finance matters, including budgeting.

The Planning and General Purpose Committee's attendance for the year 2016 was as follows:

Name of Director	9-Feb	10-Mar	12- Apr	19- May	18- Aug	18-Oct
S. A. Ufoyuru	•	•	•	•	•	•
S. R. Isabalija	•	•	•	•	A	•
N. Waniala	•	•	•	•	•	•

KEY

• = Attendance;
A = Apology

Board Remuneration

Directors receive fixed fees for their services on the Board and its Committees. These fees, comprising an annual retainer and sitting allowances, are recommended to the shareholders at the Annual General Meeting (AGM) for approval.

Particulars of Directors' Remuneration

The Directors' emoluments for the year 2016 was as follows:

Chairman's Allowances (Gross Annual)		Directors' Allowances (Gross Annual)	
Retainer	Sitting Allowance	Retainer	Sitting Allowance
25,000,000	15,000,000	100,000,000	111,000,000

Company Secretary

The Company Secretary ensures that statutory and regulatory procedures are complied with and acts as a custodian of good governance. The Company Secretary attends all Board and Board Committee meetings, and has unrestricted access to the Chairman. The Company Secretary provides a central source of advice and guidance on business ethics, compliance with good corporate governance, and changes in legislation, assisting the Board as a whole and its members individually, with guidance as to how their duties, responsibilities and powers should be adequately discharged and exercised in the best interests of the Bank.

All Directors have unrestricted access to Management, the Company Secretary and all company information and resources including legal advice. The appointment and removal of the Company Secretary is a matter for consideration by the Board as a whole.

Relationship with Shareholders

Annual General Meetings (AGM) are held on an annual basis and act as a major point of contact between the Bank's Management, Directors and shareholders who are not Directors. In addition to the AGMs, informal interactions with the shareholders and Parastatal Monitoring Unit (PMU) are had from time to time. Board of Directors and the Board Committee meetings are held on a quarterly basis.

Going concern

The Directors have sufficient reason to believe that the Bank has adequate resources to continue operating as a going concern.

Internal control environment

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

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

Executive Management Committee (Exco)

All Exco members are appointed by the Board. Exco is responsible for, among others, the implementation of the Bank's Board developed strategies and policies, day-to-day management of the Bank's business and affairs, developing the annual budget and business plans for the Board's approval, implementing Board directives, prioritizing the allocation of capital and managing technical and human resources.

A number of Management Committees have been formed to assist Executive Management and the Board in carrying out its duties and responsibilities. These include:

- The Bank's Executive Committee
- Management Risk and Credit Committee
- IT Steering Committee
- Risk Management Committee
- Assets and Liabilities Committee

All these committees operate in terms of their charters, which define their duties and responsibilities.
Exco is directed by a properly constituted mandate and terms of reference. The senior Management team is evaluated by the Chief Executive Officer who is in turn evaluated by the Board of Directors. The current composition of Exco is reflected on page 22and 23 of this report

Busega Business Centre Limited, a project financed by UDB in partnership with Government through KCCA in order to decongest city traffic coming to and from the highways. The park holds 600 taxis, 150 trucks and is slated to accommodate an additional 200 buses. The complex has lodging facilities for travelers, restaurants, shops, warehouses and a fuel station.

Sustainability Report

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

In fulfilling its mandate, the UDBL is guided by the Second National Development Plan (NDP II), applicable Ugandan laws and regulations, agreements with development partners, Association of African Development Finance Institutions (AADFI) prudential guidelines and local policies. The priorities and sectors that the Bank finances are aligned to those of the Second National Development Plan (NDP II).

MANAGEMENT APPROACH TO SUSTAINABILITY GOVERNANCE

The various governance bodies within UDB are responsible for ensuring that sustainability has the priority it deserves across the Bank. Sustainability considerations are embedded in each of the various Board committees as demonstrated by their mandates. UDB applies sound corporate governance structures and processes, which the Board considers pivotal to delivering sustainable growth in the interests of all stakeholders. The Bank's values and Code of Ethics underpin its governance structures and processes, committing the organisation to high standards of business integrity and ethics in all its activities. Governance structures and processes are reviewed regularly, and adapted to accommodate internal developments and reflect international best practice. For details on Corporate Governance, refer to page 24 of this annual report.

SUSTAINABILITY FRAMEWORK

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

MANAGING SUSTAINABILITY RISK AT A PROJECT LEVEL

UDBL applies the national environmental and social safeguards in conducting due diligence on the projects that it finances. These safeguards are based on the National Environment Act (NEA) and applicable social laws as well as international best practices where applicable.

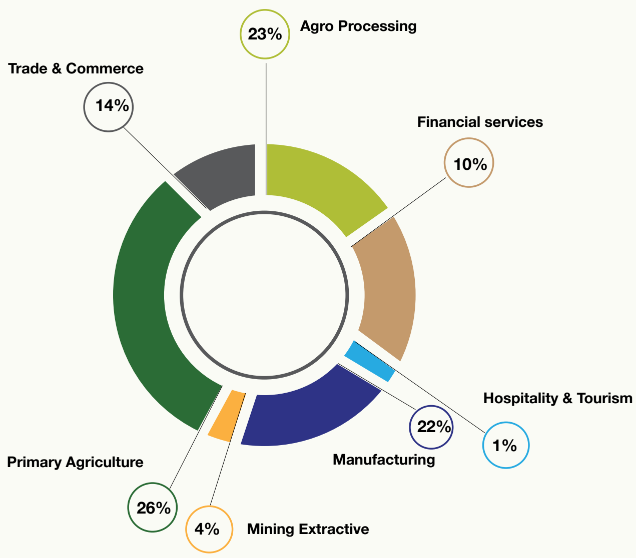
SOCIO-ECONOMIC DEVELOPMENT IMPACT CREATED

The Bank recognizes that development banks worldwide play a pivotal role in the development of countries. A development bank is able to contribute to the investments required to stimulate socio-economic development in the country. In spurring economic development, the Bank has made investments in the agriculture and agro processing sectors, hotel and tourism, education, health and manufacturing sub-sectors among others. Below is an analysis of the social and economic development impact created by the funding interventions made by the Bank in the key priority sectors;

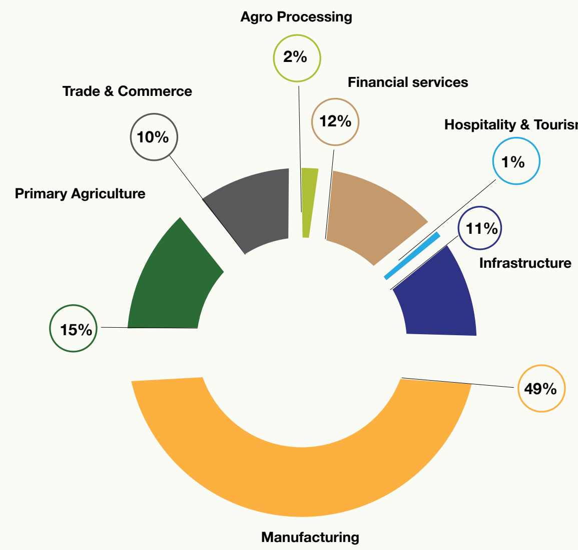
a) Economic Development Impact

Below is an analysis of approvals and disbursements made by the Bank and the impact created as a result of the Bank supporting the underlying sub-sectors.

Approvals



Disbursements

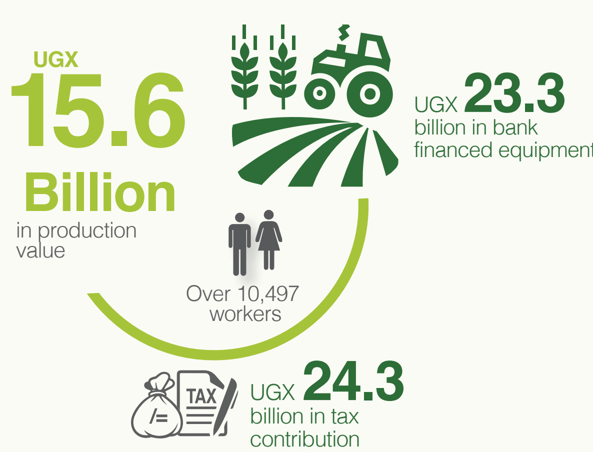


i) Supporting the primary Agriculture and Agro-processing sub-sectors

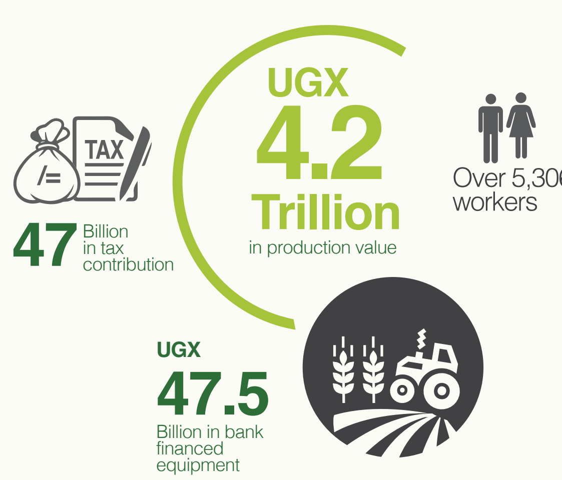
Agriculture has been and remains central to Uganda's economic growth and poverty reduction. It is a major source of raw materials for the Manufacturing sector, a market for non-agricultural output and a source of surplus for investment. Government's strategic investments for modernization of this sector will transform it into a springboard for socio-economic transformation.

Accordingly, UDBL has provided financing across the entire value chain and is currently funding 53 projects with approved loan amounts of UGX 52.8 billion and with an outstanding exposure of UGX 43.4 billion as at 31 December 2016. Several farmer groups and cooperatives have been supported in acquiring agricultural equipment, seedlings and modernized agriculture mechanisms to support or build sustainable agricultural practices. The farmers directly involved in groups funded by UDBL and other agriculture development projects have benefited from agricultural training. Skills acquired have been shared with other farmers within the community. With over 2,000 farmers and 3,000 community members having received training on agriculture in 2016, the production output and value of agriculture related projects has continued to improve as farmers practice modernized farming techniques. The impact created from funding projects in this sector is summarised below;

Primary Agriculture



Agro-processing



Other benefits realized from UDBL financing include:

- Improved livelihoods to farmer's households. This has been a result of increased income resulting from sustainable projects that farmers and workers are part of and are supported by the bank. Farmers have also benefited from capital and entrepreneurship training that is accessible through farmer groups or associations supported by the bank. Some farmers within the community that are not directly involved in UDBL funded projects have adopted some of the sustainable farming techniques that have been taught to farmers.

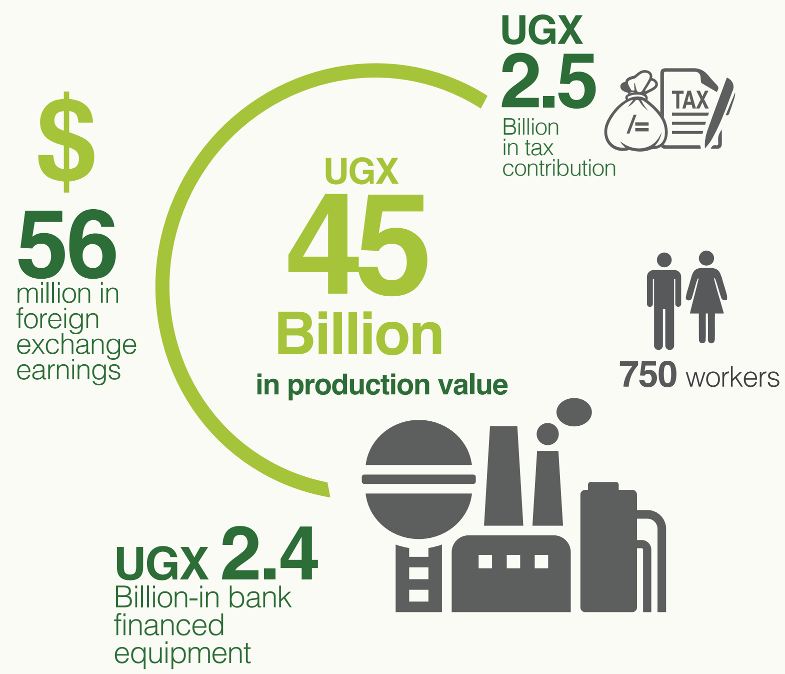
- There has also been an increase in produce because of the ready market provided by the associations or cooperatives that are funded by the Bank and which offer competitive prices to farmers.

ii) Supporting the Manufacturing sub-sector

The Manufacturing sector is characterized by limited value addition with very few capital goods industries and very low utilization of manufacturing capacity. This is further manifested in the absence of manufactured products in the export basket. The Government is therefore keen on diversifying the country's manufacturing sector.

The Bank has therefore intervened in the sector by supporting 11 projects, with approved funding of UGX 64.3 billion and with an outstanding exposure of UGX 48.2 billion as at 31 December 2016.

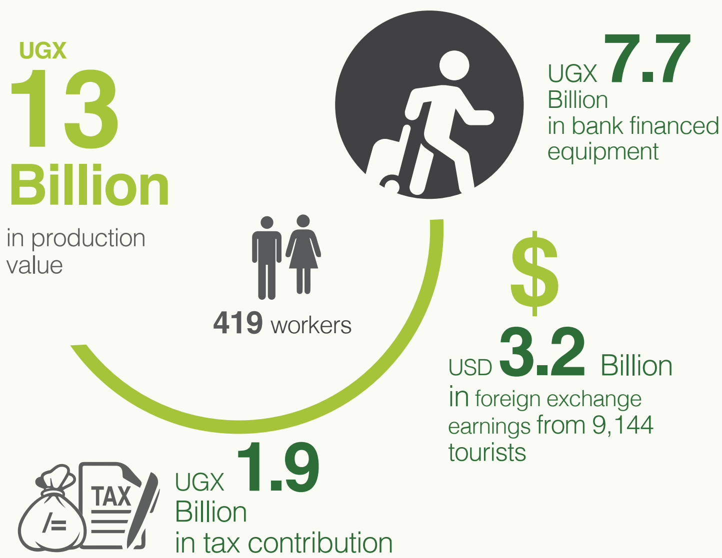
The impact thus created in 2016 was as follows:



iii) Supporting the Hotel and Tourism sub-sector

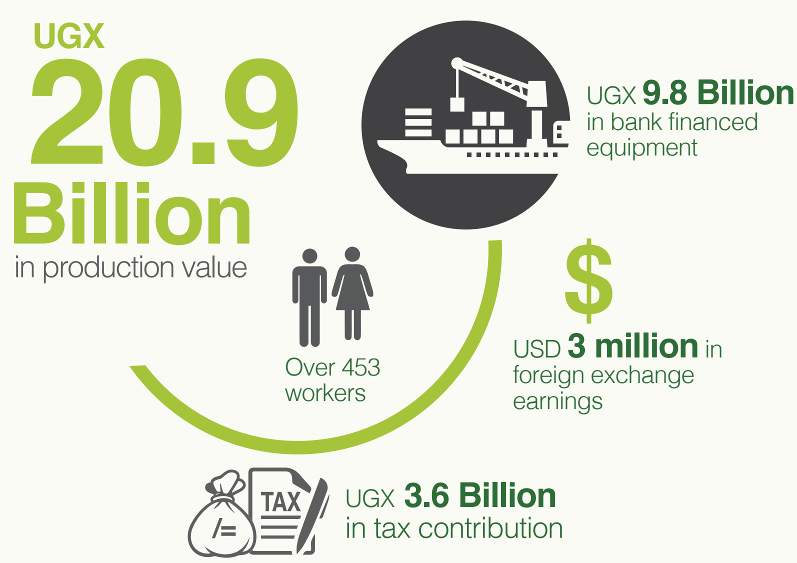
Under the NDP II, tourism is one of the sectors identified with great growth potential yet to be exploited. The sector has been prioritized given the fact that the required investments for the sector are low relative to the potential returns and it needs to be enhanced by Government and the private sector. The Government is expected to provide the necessary inputs like infrastructure to promote the sector. On the other hand, the private sector is expected to make investments in hotels, restaurants, and providing transport and tour services for the sector.

The Bank has intervened in the sector and is currently financing 7 projects with approved loan amounts of UGX 7.4 billion and an outstanding exposure of UGX 6.07 billion as at 31st December 2016. The resultant impact created by the Bank's financing was as follows:



iv) Supporting the Trade Finance sub-sector

The Bank seeks to creatively address financing gaps in the flow of goods and services between different actors in the various trade and related value chains. Our products are designed to meet the unique needs of our clients. The impact created from our financing included the following:



A small holder farmer in her rice field. She is a member of the Opit Farmer's Association in Gulu district.

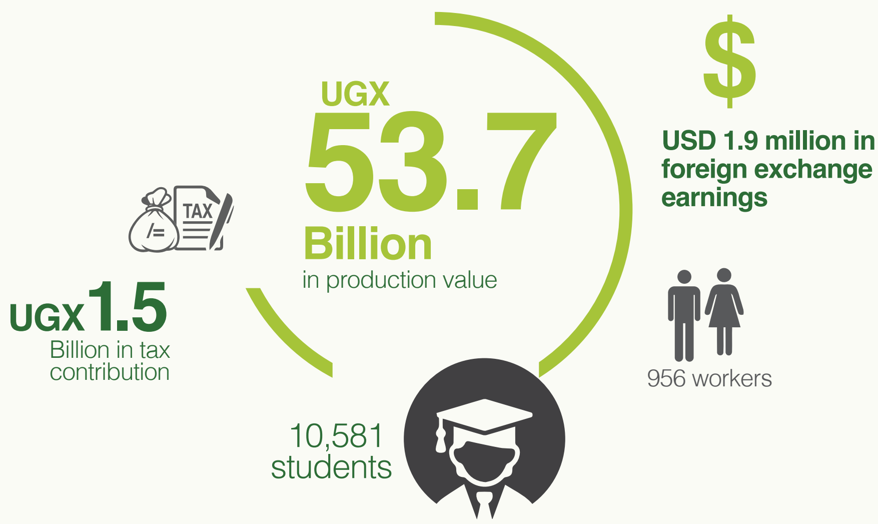
The Bank provides financing to Opit Farmers Association based in Gulu District. The Association specializes in primary production of rice and maize grain under a contract with Opit investments Ltd, a local company involved in agro processing of rice and maize in Gulu and Kampala. The association has over 5,000 members spread around Gulu and the surrounding districts. The Bank's intervention has enabled the Association produce 20,000 metric tons of grain per annum, contributed towards the increase in house hold incomes by 1,000,000 per annum and provide direct and indirect employment opportunities to the community.

b) Social Development Impact

Under the NDP II, Human Capital Development is one of the key fundamentals that need to be strengthened to accelerate the country's transformation and harness 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 Bank has provided support to these sub-sectors as follows;

i) Supporting the Education sub-sector

The Bank has funded over 20 projects and is currently providing approved financing of UGX 14 billion and having a net exposure of UGX 9.2 billion as at 31 December 2016. The impact created as a result of the Bank's interventions includes the following:

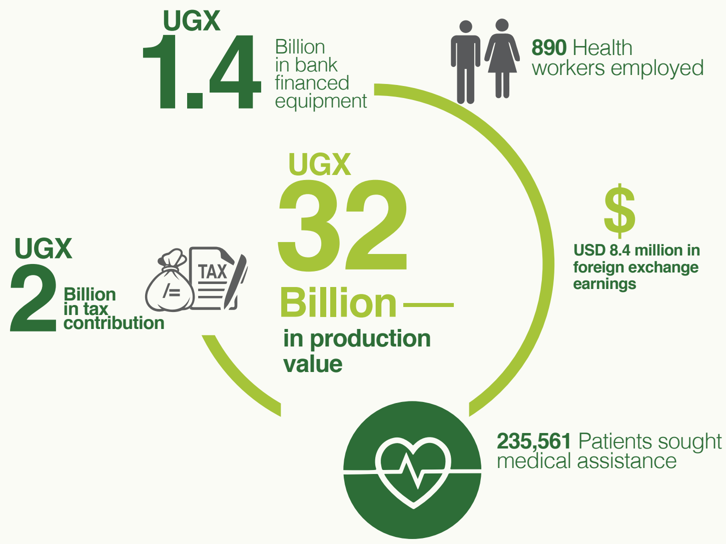


Other benefits realized include:

- The quality of education has improved with expanded or renovated infrastructure and facilities in order to provide a conducive teaching and learning environment for both teacher and students.
- Both teaching and nonteaching staff have benefited from training in entrepreneurship and vocational skills at some of the education institutions, with some of the skills learnt being used to generate secondary income to support their families and livelihoods.
- Local communities have also benefited from education institutions that have been set up within the community since there are services that are brought closer to the community like protected water sources, improvement on the quality of access roads to the institutions and improved security.

ii) Supporting the Health sub-sector

The Bank has funded 3 projects under the Health sub-sector, providing approved financing of UGX 10 billion and having a next exposure of UGX 7.9 billion as at 31 December 2016. The impact created as a result of the Bank's interventions is as follows:



Other benefits include:

- The quality and standard of health services provided at most funded health facilities has improved and some of the services that clients would have sought from other countries like Kenya and India can now be offered at the health facilities. However, this improvement in service provision is offered at a cost that is only affordable to high income classes.
- In some cases, some of the funded health facilities provided free or subsidized health services in 2016 as CSR activities to support health campaigns like The Fight against Cancer.
- There has been a growth in insurance providers in the Health sector. Insurance companies have partnered with some of the health facilities in a bid to provide medical insurance to people that are able to afford it.

Financial Sustainability

For a detailed discussion on the Bank's financial performance, please refer to the financial review on page 48 of this annual report.

As a bank operating within the Ugandan economy and whose mandate is pivotal in promoting socio-economic development in this country, we must ensure that we operate in a sustainable way. This will therefore allow us to pay dividends to our shareholders, salaries to our employees, tax to the Ugandan government as well as support local businesses through the procurement of goods and services.

Below is the Bank's Value Added Statement indicating the wealth that UDBL creates through its activities for our key stakeholders; these being the shareholders, employees, development partners and suppliers. It also illustrates how much we re-invest for future growth.

The total wealth created by the Bank in 2016 was Ushs 25.1 billion as shown in the Value Added Statement below.

	2016	%	2015	%
	Ushs '000		**Ushs '000**	
Interest income	17,759,908		16,339,342	
Interest expense	(272,782)		(135,927)	
Wealth created from operations	17,487,127		16,203,415	
Foreign exchange gains	1,035,409		5,963,366	
Fee and commission income	89,414		762,603	
Other income	6,488,276		3,043,187	
Total wealth created	**25,100,226**	**100**	**25,972,571**	**100**
Distribution of wealth				
Retained for growth	6,449,237	26	1,911,186	7
Employees	7,276,886	29	6,043,446	23
Government	2,644,320	11	866,810	3
Suppliers	4,177,511	17	5,237,379	20
Impairment loss on financial assets	4,116,233	16	11,444,366	44
Depreciation and amortisation	436,039	2	469,384	2
Total wealth distributed	**25,100,226**	**100**	**25,972,571**	**100**

CSR
Creating Value through Partnerships

Corporate Social Responsibility (CSR) initiatives have overcome the stigma of being a distraction; something to be suffered. UDBL recognizes CSR as an opportunity to significantly strengthen our businesses – while building and renewing human, social and natural wealth. Finding the right partner is absolutely critical to the success of a CSR strategy and there are steps that can be taken to ensure a partnership co-creates value for both business and society.

UDBL understands the importance of corporate social responsibility (CSR) and recognizes it as a tool to strengthen our relationships while contributing to society at the same time. In 2016, we continued to demonstrate our commitment to transform lives in communities through the following initiatives.

a) UDB in charity walk to support maternal and child health care

UDBL contributed towards the celebration of Bank of Uganda (BOU) 50 years of existence under the theme "Promoting Financial Stability. " This celebration was marked with a series of events, one of which was a charity walk, held on 17th December 2016. All the proceeds from the charity walk were used to raise funds to purchase maternal and child health care items for health centers in Arua, Gulu, Mbarara and Mbale. The Bank contributed UGX 500,000 towards this cause.

UDB staff among the many that participated in the charity walk to mark Bank of Uganda (BOU)'s 50 years of existence under the theme "Promoting Financial Stability.

b) UDB brings smiles to Karambi Primary School

The staff of the Bank donated an assortment of clothing, scholastic materials and snacks on 10th June 2016 to Karambi Primary School, a week to The Day of the African Child. The staff efforts were matched with a cash donation from the Bank of UGX 3,000,000 to Mount Rwenzori Wonders, a community in Western Uganda that supports vulnerable children. The donation was towards school fees of 50 orphaned children and to help capitalise the income generating businesses of their guardians.

Dr. Jude Kagoro (right), and the Headmaster of Karambi Primary School centre receive a UGX 3 million cheque as part of a donation delivered by UDBL staff to Mt. Rwenzori Wonders, a local charity.

UDBL staff handing over an assortment of clothing and scholastic materials to students of Karambi Primary School.

c) Uganda Development Bank Limited Supports Kabaka's Fistula Fund-raising Charity Golf

The Bank was among the corporate organizations that sponsored events to commemorate His Majesty the Kabaka of Buganda Muwenda Mutebi's birthday whose proceeds went towards a deserving national health project. The Bank sponsored a team to the tune of UGX 500,000 as part of the Kabaka's Fistula Fund Raising coordinated through Uganda Golf Club.

Buganda Kingdom Katikiro (premier) tests out a golf club at the launch of the Golf Tournament.

Developments in the World Economy

Global growth is estimated to have slowed in 2016 to 2.3% as trade stalled, investment decelerated & policy uncertainty increased. Global growth is forecast to increase to 2.7% in 2017, driven by growth in emerging markets and developed economies.

There is prospect for commodity prices, especially oil, to increase in 2017 and commodity exporters are expected to benefit from such price increases. Growth in advanced economies is expected to increase from 1.6% in 2016 to 1.8% in 2017.

Heightened policy uncertainty, weak growth and low inflation characterized advanced economies.

Looking ahead, emerging market economies are expected to accelerate at 4.2% in 2017; growth in the Middle East and North Africa is expected to pick up as oil prices recover; while growth in low-income countries is expected to increase from 4.7 % in 2016 to 5.6% in 2017 as commodity prices moderate. Fiscal stimulus in major economies like the US could lead to stronger than expected growth.

Development in the global financial markets

In line with the US Federal Interest Rate hike in December 2016, several economies raised their rates including Hong Kong, Kuwait, Saudi Arabia, UAE, Turkey and West Africa countries. Many investors expect a shift towards looser fiscal policy and tighter monetary policy in the US.

The forecast by the Federal Open Market Committee (FOMC) is currently for a cumulative 75bps rise in the Federal Interest Rate by the end of 2017. Global capital flows is likely to shift towards the US's assets.

The implication of this improvement in commodity prices is that this is anticipated to improve the export earnings and trade balance of commodity exporters like Uganda. UDBL needs to drive financing of production and export of selected commodities.

Again, the rise in the Federal Interest Rate has increased borrowing rates for countries like Kuwait, Saudi Arabia, UAE and others. This is likely to increase interest costs for new borrowings by UDBL. Thus borrowing costs for countries whose debts are denominated in US Dollars are likely to increase. Uganda is not an exception to this.

1.1 Regional economic environment and future prospects

The Sub-Saharan African countries experienced strong economic growth over the last decade. However, a number of countries in the region have been hit by shocks ranging from sharp decline in commodity prices, tighter financing conditions and severe drought in Southern and Eastern Africa.

Real GDP growth within East African countries remained robust in 2016. For close to 5 years, growth has been stronger in Rwanda and Tanzania, compared to other East African Community member countries. This growth has been supported mainly by large scale investments in infrastructure. However, fiscal risks have increased in several East African countries due to increasing public debt and contingent liabilities. Also, the political uncertainties and instabilities in Southern Sudan and Burundi are derailing the sub- region's growth.

Towards the end of 2016, all countries within East Africa experienced an increasing trend in headline inflation rates mainly arising from high food prices. The implication of the increasing size of the fiscal deficit calls for efficiency in the utilization of public resources and the need to promote commodity exports within and outside the region.

1.2 Development in the Domestic economy

Uganda's Real GDP growth slowed to 4.8% in 2016 and is projected to expand by an average above 5.0% in the medium term. However, business confidence as measured by the Business Confidence Index (BCI) remained generally low at 53.99 as at December 2016. The dominant factors contributing to low BCI were access to credit which scored 33.69 and the financial situations of most businesses which scored 44.15. Business confidence remained low in all sectors in the economy during the two months of November and December 2016.

Uganda's export base remains narrow, heavily dependent on primary commodities like coffee, maize, tea and on a limited scale, some industrial commodities. However imports remain high. This has led to a deterioration in the trade balance in the current account. The trade deficit in the current account moved from $(118) million in January 2016 to $ (69.4) million in December 2016. This led to the depreciation in the end of period exchange rate from $/UGX.3,451.2 in January 2016 to $/ UGX 3,598.2 in December 2016, a 4.3% average annual depreciation rate.

Inflation rates remained largely within the medium term bound, with headline inflation rates declining from 7.4% in January 2016 to 5.7% in December 2016, while core inflation reduced from 6.7% in January to 5.9% in December 2016. The effects of the presidential and parliamentary elections during the first quarter of 2016 contributed significantly to the rise in the inflationary rates in the earlier part of 2016. The implication of the deteriorating trade balance is that Uganda needs to put in place a mechanism of driving commodity exports with clear strategies, taking into account the financing needs, seasonal patterns of trade and broadening of its external market.
Also, the depreciating Shilling will raise the input cost for projects in the country, especially projects that rely on imported inputs. The Government needs to monitor the effects of currency changes on such projects and propose timely corrective actions.

Again, the implication of the decline in the overall business confidence in the country is that it's indicative of lower perception about the business environment in the country by investors. This may impact the supply of credit by the banks in the country and loan repayments by the borowers. Again, the rising inflation rates might heighten the cost of doing business in the country and increase input costs with a deteriorating effect on the balance sheets of most businesses.

1.3 Development in the Banking Industry in Uganda

The Central Bank Rate (CBR) reduced from 17% in January 2016 to 12% in December 2016. In line with that, the average commercial bank prime lending rates for shilling loans declined from 24.3% in January 2016 to 22.72% in December 2016, while the level of private sector credit increased from UGX 11,416.1 billion in January 2016 to UGX 12,072.6bn in December 2016, an increase of 5.75%. The level of domestic credit in the economy increased from UGX 13,394.4 million in January 2016 to UGX 14,401.3million in December, a 7.5% growth in the total domestic credit in the economy.

The asset quality of the Industry deteriorated with the ratio of Non-Performing Loans to Gross Loans, increasing from 5.29% in 2015 to 10.47% by December 2016.

The industry also saw some regulatory reforms instituted in 2016. The Financial Institution Act, 2004 was amended in June 2016 to allow for implementation of agency banking, Islamic banking and bancassurance, revision of capital requirements, reform of the Deposit Protection Fund (DPF) and expansion of the Credit Reference Bureau (CRB) to other providers.

1.4 Economic Outlook for 2017

It is evidenced that the year 2017 will be a challenging year, taking cognition of the current global economic uncertainty and domestic business environment. Heightened policy uncertainty in the United States, the Brexit process, mounting protectionist tendencies, risk of financial market disruption and possible appreciation of the US Dollar are major headwinds to global growth. Upward pressures on global inflation is expected due to recovery in oil and commodity prices.

Emerging market economies are expected to accelerate at 4.2% in 2017, growth in the Middle East and North Africa is also expected to pick up as oil prices recover, while growth in the low-income countries is expected to increase from 4.7 % in 2016 to 5.6% in 2017 as commodity prices moderate. Growth in advanced economies is expected to increase from 1.6% in 2016 to 1.8% in 2017.

Looking forward, the effects of US change in policy will surely be negative for emerging markets and multinational companies whose development models and business strategies have assumed free trade, foreign financing and open capital flows. With the expected hike in the borrowing cost for the US Dollar, denominated debts and possible tax cuts by the US government, lending interest rates and inflation rates are expected to move up.

Uganda's economic outlook remains largely positive. Growth is projected to pick-up to 5.5% in 2017, mainly driven by improved absorption on key projects, implementation of planned infrastructure investments and a rebound in private sector activities. Private sector investment is expected to receive a boost as the monetary policy stance normalizes.

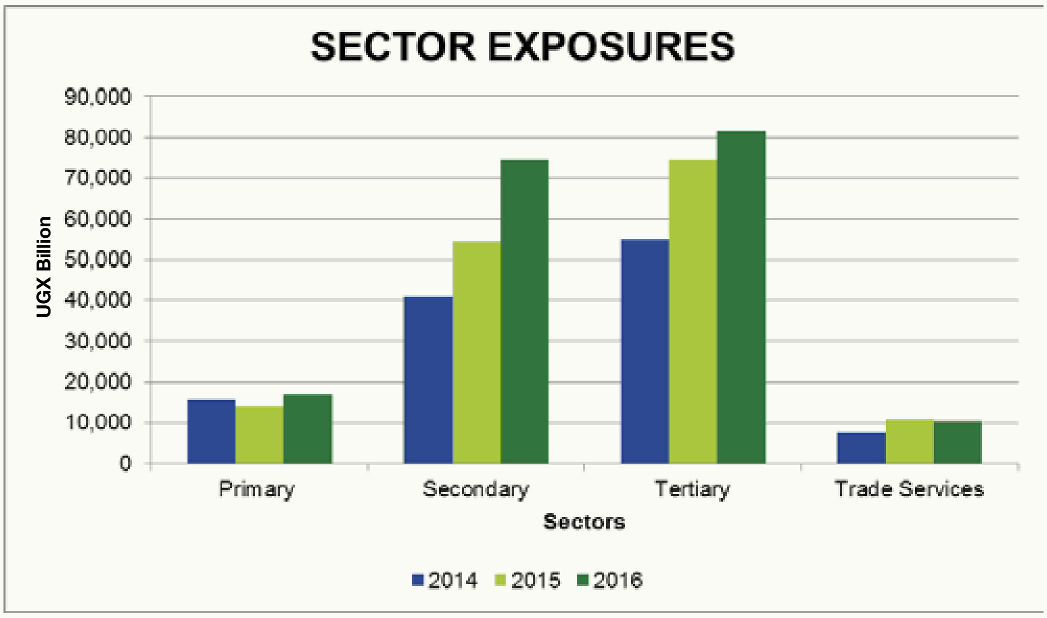
In the medium term, growth is expected to average 6.2% per annum after completion of a number of public investment projects. The budget will focus on financing priority investments in the NDP that include: infrastructure, improving agricultural productivity and value addition, skills development and strategies to stimulate employment. The outlook for inflation remains positive with average inflation projected to remain within single digits.

However, the low Business Confidence Index, the dismal performance of the export sub- sector, the depreciating Shilling and the relatively high lending interest rates are headwinds on the growth prospects of the domestic economy.

Development Financing Highlights

The Bank continues to finance projects in the key priority sectors of the economy that are in position to create a lasting socio-economic impact. These priority sectors are aligned to those in the National Development Plan (NDP) II. Refer to page 5 for details of the priority sectors and respective sub sectors.

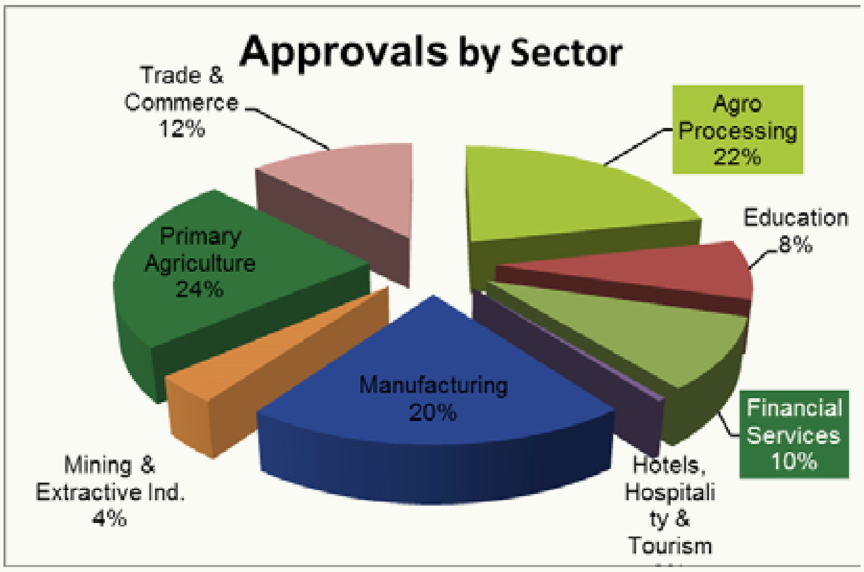
The sector exposures for the Bank as at 31 December and for comparative years were as below. It should be noted that the primary sector and secondary sectors include the Agriculture and Agro-processing sub-sectors respectively.



Similar to 2015, the Bank continued its focus on growing the loan book in the key priority sectors so as to maximize the socio-economic impact created but also greatly improve the quality of the loan book to levels acceptable to the Bank.

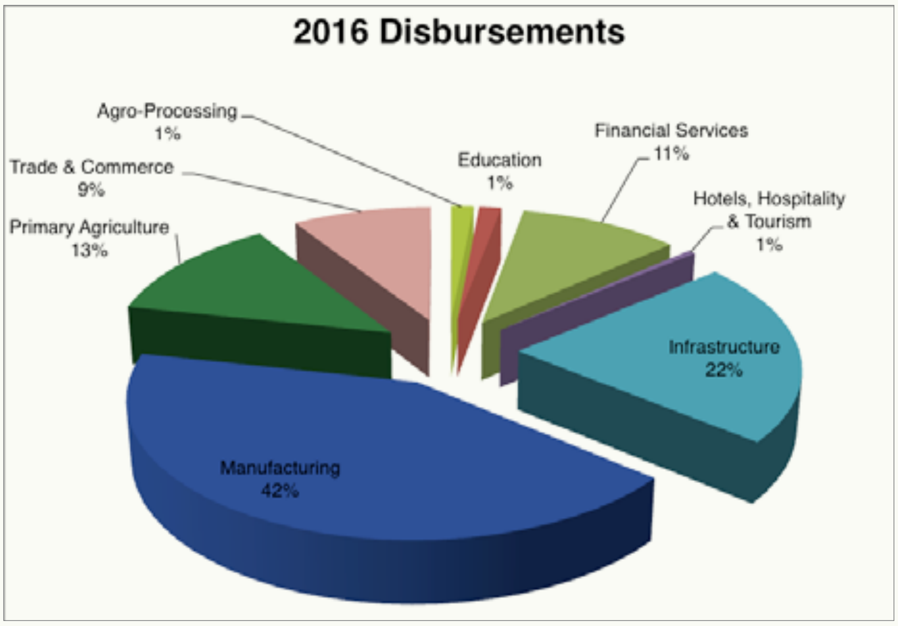
Approvals

In 2016, the Bank approved funding worth UGX 63.1 billion to 37 projects compared to a target of UGX 85 billion. This was however below the approvals of UGX 123 billion in 2015 as the Bank had to take a cautious approach in its lending because of the tough economic situation that prevailed during the year. 55% of the approvals made were towards the primary Agriculture and Agro-processing sectors of which 45% were made directly to beneficiaries in the sector and 10% through financial intermediaries (financial services). This was followed by the Manufacturing sector which formed 20% of the approved facilities.



Disbursements

A total of UGX 59.9 billion was made in disbursements compared to a target of UGX 85.5 billion. The disbursements grew by 5.63% from UGX 56.71 in to 2015. The drawdown of the approved facilities was highest in the Manufacturing and primary Agriculture and Agro processing industry. 42% of the disbursements made were from the Manufacturing sub-sector while, 25% was from the primary Agriculture and Agro-processing sub-sectors including the intermediaries (financial services). it should be noted that disbursements are contingent upon clients fulfilling pre-disbursment conditions and approved drawdown schedules.



Quality of the loan book

The Bank made significant strides in ensuring that it improved the quality of its loan book. The Bank endeavored to strengthen its risk management capabilities such that all potential and actual project risks were identified and sufficiently mitigated to acceptable levels. This also helped in ensuring that new projects that were being appraised and eventually funded did not fall into the non performing category; collection efforts were ramped up to make sure all those that were in arrears normalized their accounts and a dedicated subcommittee was set up by Management to make weekly reviews of all non performing facilities and provide strategies on how to return them to normal status. Further efforts were also made in collecting funds for previously written off loans. This helped increase the pool of resources available for disbursement of new facilities.

Socio-economic impact

The Bank continued to focus on funding projects that created significant socio-economic impact to the economy of Uganda. Despite the challenges the economy faced in 2016, the projects we funded had output or service value equivalent to UGX 4.7 trillion; 19,469 jobs maintained during the year and tax revenue contribution to the tune of UGX 87.3 billion. The details of the socio-economic impact created by projects funded can be found under the sustainability report on page 32.

2016 Financial Highlights

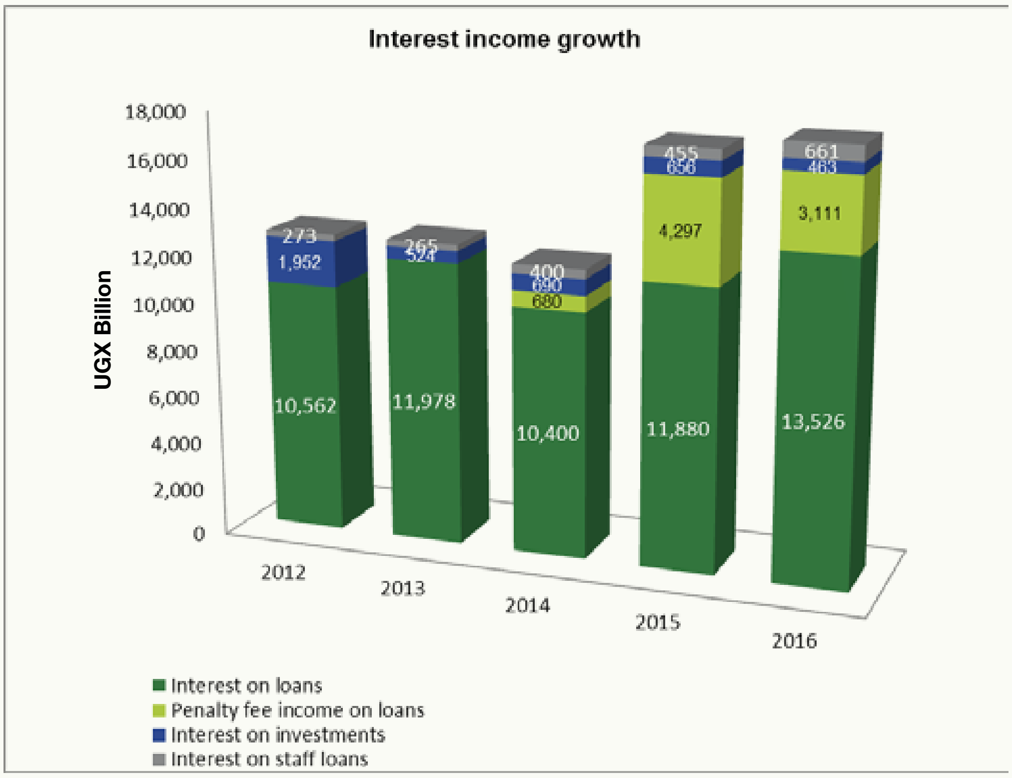
Financial Statistics	2016	2015	2014	2013	2012
	Ushs millions	Ushs millions	Ushs millions	Ushs millions	Ushs millions
Statement of Comprehensive Income					
Gross Interest on loans	17,759,908	16,339,342	11,220,751	11,978,079	10,562,833
Net Interest and fee Income	17,576,541	16,966,018	11,179,559	11,090,048	11,945,356
Net impairment loss on financial assets	(3,315,633)	(4,572,925)	(2,737,214)	(3,188,390)	(7,943,506)
Written off Loans	(800,600)	(6,871,441)	-	-	-
Non-Interest Income	5,388,276	3,043,187	2,671,468	1,893,500	1,665,411
Operating expenses	(11,890,436)	(11,750,209)	(9,764,661)	(9,741,355)	(6,759,901)
Profit before income tax	9,093,557	2,777,996	(6,861,464)	622,339	5,182,188
Profit for the year	6,449,237	1,911,186	4,868,633	515,657	3,674,187
Statement of Financial Position					
Loans and advances (Net)	168,798,158	141,547,988	108,888,434	96,744,236	66,565,242
Total assets	226,427,244	205,557,443	169,972,552	146,898,107	135,520,722
Total liabilities	69,885,970	64,008,583	43,333,165	41,343,738	35,577,007
Total equity	156,541,274	141,548,860	126,606,101	105,554,369	99,943,715
Statement of cash flow	(7,900,747)	(41,735,815)			
Cash flow used in operating activities			(7,847,147)	(29,260,245)	(9,323,930)
Net cash used in investing activities	1,979,093	6,716,212	(9,565,349)	10,914,028	4,496,660
Net cash generated from financing activities	8,841,678	17,293,438	17,293,438	10,790,311	4,567,472
Financial Ratios					
Net interest income margin	11%	12%	10%	11%	14%
Cost income ratio	46%	43%	47%	69%	38%
Return on average assets	3%	1%	3%	0%	3%
Net asset impairment ratio	8%	7.9%	8.8%	8.6%	25.0%
Debt equity ratio	29%	38%	28%	28%	28%

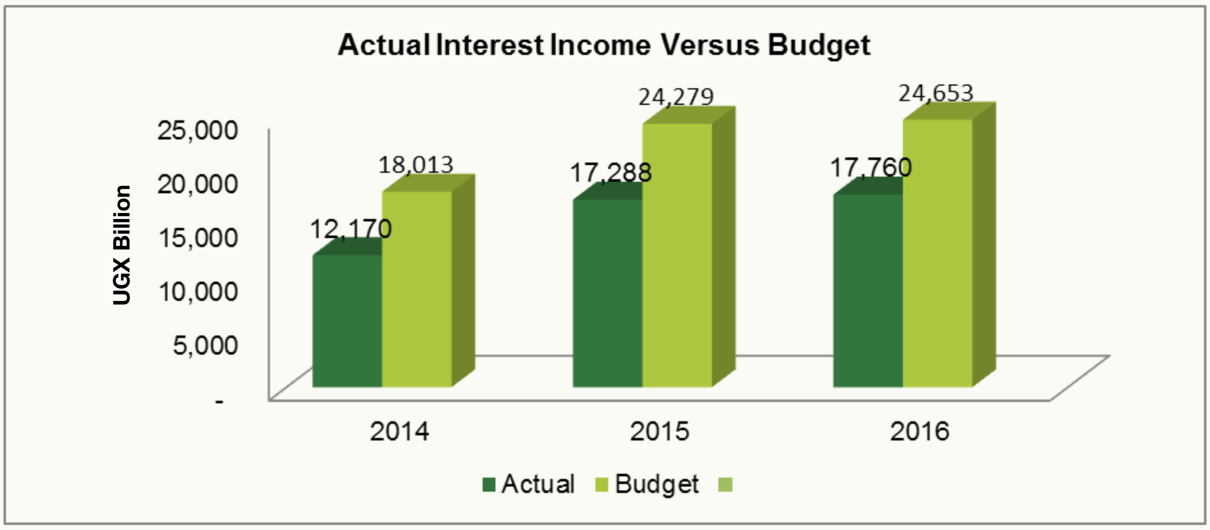
Financial Performance Overview

The performance of the Bank during the year ended 31 December 2016 was impressive compared to the previous year despite the slow start to the year attributed to the elections and the volatile economic environment. The profit for the year increased by 237% from UGX 1.9 billion in 2015 to UGX 6.4 billion. The Bank's performance in 2016 was as follows:

Net Interest and Fee Income

Net Interest and Fee Income increased by UGX 610 million (3.6%) in 2016 compared to 2015. Interest and similar income grew by UGX 1.42 billion (8.69%), majorly attributed to the 19.25% (UGX 27.25Bn) growth in the loan book in 2016.





The actual interest income was below budget because the actual loan book was lower than the target as result of funding constraints.

Other Income

The Bank generated additional UGX 5.3 billion in other income in 2016 which was 77% above that generated in 2015. The additional income was on account of recoveries of written-off loans of UGX 1.3 billion.

Net Impairment Loss and Written off Loans and Advances

The Bank's net impairment charges reduced by 27.5% in 2016 to UGX 3.3 billion due to improvement in the quality of the loan book during the year.

Operating Expenses

Operating expenses increased marginally by 1% to UGX 11.89 billion due to cost management measures implemented to ensure that the Bank's operations were sustainable.

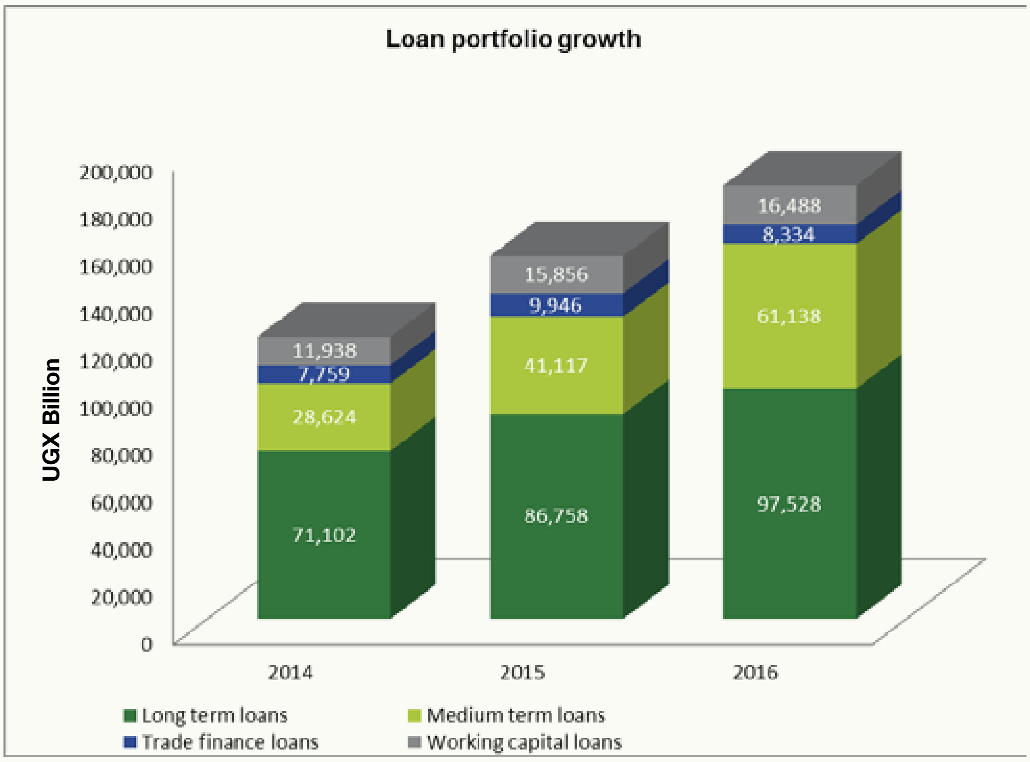
Financial Position Overview

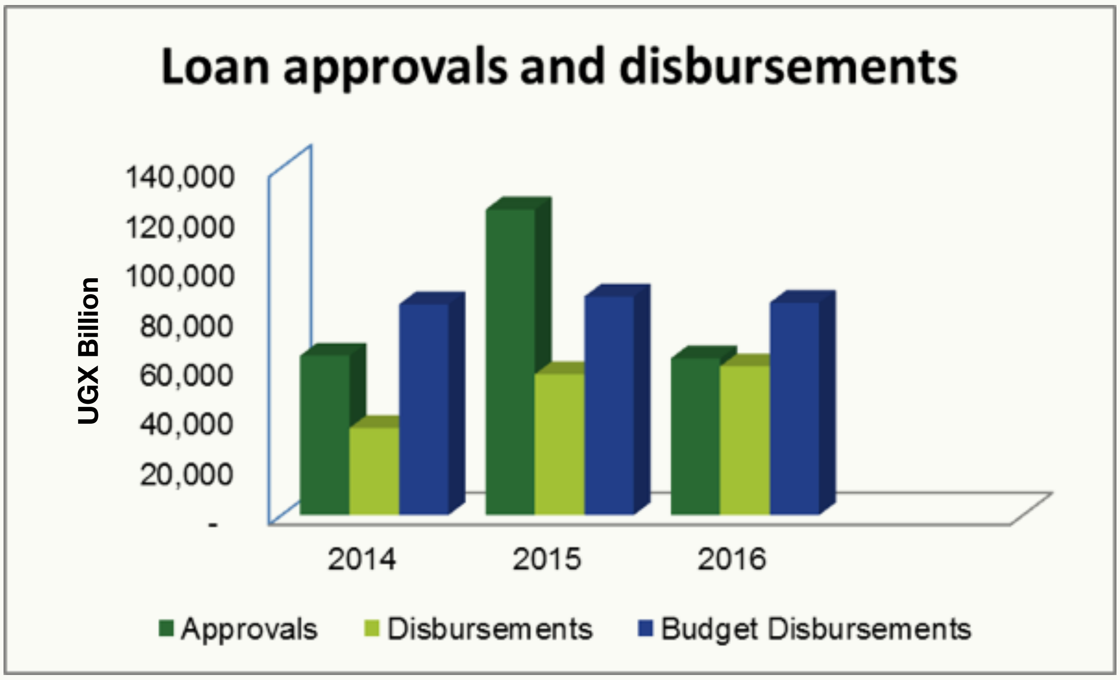
A strong balance sheet is essential to fund the long term growth of the asset portfolio and ensure financial sustainability. The capital injection by the Government of Uganda therefore aims at increasing the capital base to fund growth while ensuring we remain below the prudential debt/equity ratio limit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

In the year, the Bank's balance sheet grew by 10% (UGX 20.87 billion) aided by the capital contribution, profitability and support from our development partners.

Loans and Advances

Net loan and advances grew by UGX 27.25 billion (19.25%) in 2016 compared to a growth of UGX 32.65 billion (30%) in 2015. UGX 59.9 billion was disbursed in 2016 compared to UGX 56.71 billion in 2015 representing a 5.6% growth in disbursements.
The shortfall in disbursements compared to the budget is attributed to delays in fulfillment of pre-disbursement conditions necessary to convert approved loans into disbursements.





Cash and Cash Equivalents and Held-to-maturity Deposits

Cash and cash equivalents increased by UGX 2.92 billion (141.42%) while held to maturity deposits decreased by UGX 3.15 billion (31.27%) by close of 2016 due to increased loan disbursements during the year.

Investment Property

Investment Property increased by UGX 1.1 billon (3.78%) in 2016 due to fair valuation of the investment property.

Other Assets

Other assets decreased by UGX 5.93 billon (38.74%) in 2016 due to receipt of pending reimbursements from the Bank's development partners i.e. Kuwait and BADEA.

Equity and Reserves

Equity and Reserves in 2016 grew by UGX 14.99 billion (10.59%) stemming from profit for the year of UGX 6.4 billion and UGX 6.7 billion of capital contributions received from government of Uganda.

Amounts due to Bank of Uganda

Balances from the Agricultural Credit Facility (ACF) managed by Bank of Uganda marginally reduced by UGX 149 million in 2016 compared to UGX 3.34 billion growth in 2015. There was no significant uptake in the ACF facility in 2016 compared to 2015.

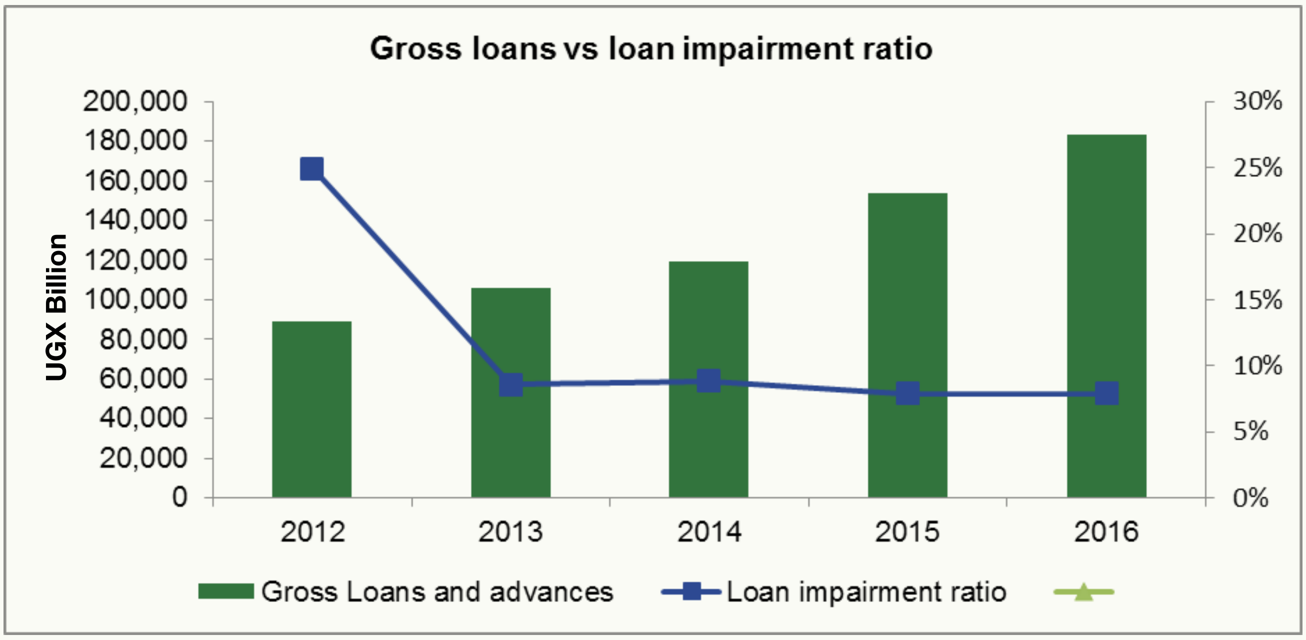
Borrowings

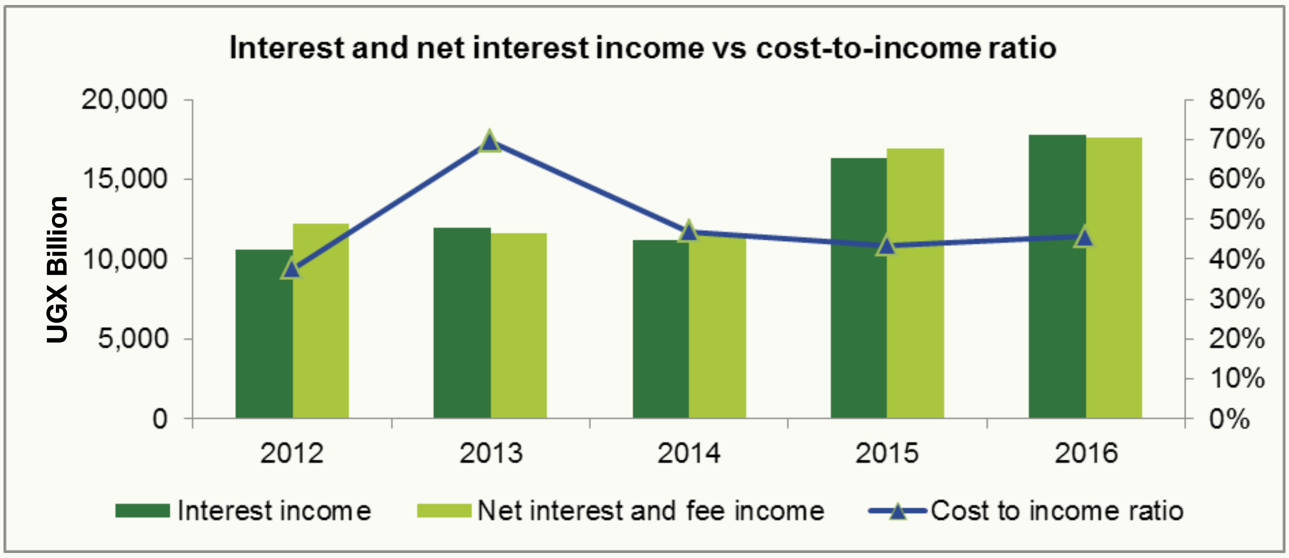
Borrowings comprising of lines of credit from development partners increased by UGX 537 million in 2016 representing a 3.3% growth from UGX 16.26 billion in 2015. The line of credit from Arab Bank of Economic Development in Africa (BADEA) was fully utilized in 2016 to finance the growth of the loan book.

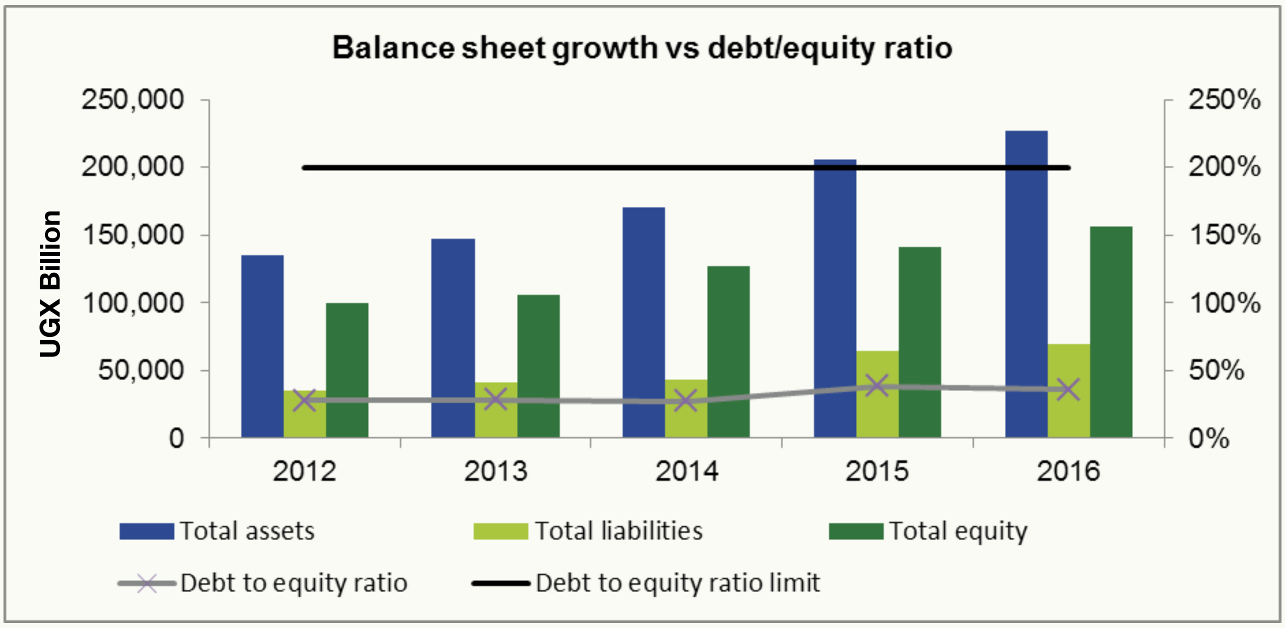
Kuwait Special Fund

The Fund grew marginally by UGX 1.75 Billion (6.55%) due to the depreciation of the Uganda Shilling against the US Dollar as well as the reflows from the projects funded by this fund.

KEY PERFORMENCE INDICATORS







150MT/day wheat flour processing plant at Kiddawalime Bakery Limited.

The Bank provided financing to Kiddawalime Bakery Ltd for 150MT/day wheat flour processing plant. The bakery has since grown from 6 production centres to 11 spread out in all regions of the country. The Bakery provides employment to 1,550 staff and has added an additional 45 staff since the installation of the processing plant. The company contributes tax revenues to government through its value addition activities and also supports government initiatives of promoting food security. The wheat mill technology employed is unique and able to provide savings of up to 80% grain to flour conversion.

Risk Management and Compliance

Risk Management framework

The Bank is exposed to various risks that arise from its operations in the financial services space. Some of these risks are; Credit, Foreign Exchange, Operational, Liquidity and Compliance risks among others.

In the financial services industry managing of associated risks is an integral part of business and if not attended to can be disastrous to the Bank and the industry at large. Identification and treatment of risk and compliance related matters that arise are a continuous process that the Bank follows in its day to day operations.

Risk Governance is an enabler to good risk management and for that reason the Bank's Board of Directors has the ultimate responsibilities for the establishment and oversight of the Bank's Enterprise Risk Management framework. The framework articulates the risk management process followed in the Bank and there is responsibility set out all levels, from the Board; who set the tone through to management; who supervise and manage implementation of strategy to the individual staff; who are involved in the day to day activities of the Bank.

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

Risk Governance is an enabler to good risk management and for that reason the Bank's Board of Directors has the ultimate responsibilities for the establishment and oversight of the Bank's Enterprise Risk Management framework

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

Managing our risks and opportunities

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

Credit Risk

This is the risk of financial loss to the Bank arising from non-performance by a counter party to a financial instrument due to failure to meet its contractual obligation. Such financial instruments include loans and advances, including the advancement of securities and contracts to support customer obligations such as letters of credit and performance guarantees. In recent times there has been an increase to the extent of exposure to credit risk due lax in credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of counterparties across the Banking Industry.

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

Uganda Development Bank Limited has in place a monitoring unit which provides the relevant information for Management to make its experienced judgments about the quality of the loan portfolio and provides the foundation upon which Credit Risk loan loss or provisioning methodology is built. The same information is used by Management to monitor the condition of the loan portfolio and aging categorization of each individual exposure and collective loan loss exposures which then is used to provide for allowances and impairment the loan book based on International Financial Reporting Standards (IFRS) requirements on impairment.

Market Risks

Market risk is the risk of financial loss resulting from movements in market prices. Market risk is rated based upon, but not limited to, an assessment of the sensitivity of the financial institution's earnings or the economic value of its capital to adverse changes in interest rates and foreign exchanges rates. The nature and complexity of interest rate risk exposure arising from non-trading positions held by the Bank can exacerbate market risk if not mitigated.

Uganda Development Bank Limited uses a combination of hedging practices and local market scenarios to illustrate the effect of market risk factors on its earnings and capital; this has made the Bank able to minimize earning and capital erosion. The Bank has maintained its net open position in the 6-19% range throughout 2016.

Currency Risk

Currency risk is a financial risk that exists to Uganda Development Bank Limited due to an exposure arising majorly from currency mismatches between the Banks asset currencies and the liability currencies. All UDBL's lines of credit are denominated in foreign currency and any asset funded by these lines of credit in the base currency immediately poses a currency risk exposure to the Bank. The Bank's base currency is the Uganda Shilling.

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

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

Funding Risk

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

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

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

Operational Risk

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

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

Strategic Risk

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

Compliance Risk Management

This is the risk of legal or regulatory sanctions, financial loss or loss of reputation that the Bank may suffer as a result of its failure to comply with all laws, regulations, code of conduct and standards of good practice applicable to its operations. Much the Bank does not operate under any regulatory regime, it has to comply with all relevant laws of the land and there is a process in the Bank that allows for continuous monitoring of compliance to the internal policies and procedures and all statutory requirements.

In an effort to align its self with international best practices and standards, the Bank through its Management and the Board of Directors decided to become member to Association of African Development Finance Institutions (AADFI) and Uganda Bankers Association (UBA). To this end, the Bank is subjected to annual assessments on its adherence to the AADFI Prudential Standards and Guidelines Rating Systems, which covers Governance, Financial and Operational standards.

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

Internal Assurance

To ensure compliance with set internal controls, the Bank's internal audit function operates under a mandate from the Board Audit and Risk Committee. The Internal audit's primary objective is to provide assurance to the Committee on the adequacy and effectiveness of the risk management framework and the quality of controls in the Bank's operational activities.

It assists the Executive Committee in meeting their business objectives by examining the Bank's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks.

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

UDB IN A SYNDICATED FUNDING OF A USD35 MILLION BIO-FUELS PLANT BY KAKIRA SUGAR LIMITED.

On 23rd January 2017 His Excellency, General Yoweri Kaguta Museveni the president of the republic of Uganda officially commissioned the Bio-fuels Plant at Kakira.

It is one the largest Bio-fuel plant in the region, UDBL was one of the consortium banks that raised funding to the tune of USD 25 Million towards the financing of Kakira Sugar Limited's forward integration expansion strategy of diversifying their product range.

Human Capital Management

By the end December 2016, the Bank's total staff complement was 49, of whom 28 were male while 20 staff (or 42%) were females.

HR plays a very pivotal role in sustainably securing the future success of an organization. In doing so, the HR function is guided by its long-term aspiration of leveraging on partnerships to create an environment where employees can thrive and are enabled to deliver sustainable organizational performance. At UDBL, we pride ourselves in ensuring that we deliberately create and consistently nurture a conducive work environment that supports ***Our People*** to not only be productive but to also flourish and grow.

The Bank has an expansive Employee Value Proposition (EVP) underpinned by various key levers including: cultivating a supportive and congenial culture; nurturing a learning organization; supporting career progression; providing appropriate and commensurate compensation and total rewards; all the while leveraging on our unique corporate philosophy and business mandate.

The Bank provides a congenial environment grounded on openness and trust, where free-thinking and innovation freely abound. UDBL operates in an open-door office environment that allows for staff, regardless of cadre, to easily interact. This has gone a long way in facilitating productive team synergies in the Bank as well as cutting on would-be red tape practices, thereby enhancing operational efficiency.

Further, the Bank facilitates regular staff feedback sessions including town-hall meetings, team building sessions, employee satisfaction and engagement surveys, celebration of team members' personal milestones, among other avenues through which Management and staff solicit and provide feedback on any emerging concerns. Additionally, we have in place a staff-nominated representative who acts as the employees' focal point in this feedback structure.

Employee Development

As a precursor to delivering our strategic business objectives, the Bank firmly believes that the staff has to be adequately skilled for their current and future roles. In this regard, we invest substantial financial resources in providing training and learning opportunities for our staff, with a bias not only on the technical-hard skills relevant to specific jobs but also on relevant non-functional competencies.

To complement this effort, we have also partnered with other Development Financial Institutions (DFI's) in Africa and beyond, to support as well as provide technical support and knowledge transfer especially in the areas of development finance and technology. These strategic partners among others include the Development Bank of South Africa (DBSA), the Industrial Development Corporation (IDC) and the Bank of Industry, Nigeria. In 2016 alone, 5 staff participated in extended learning attachments to DBSA and Bank of Industry, Nigeria. We intend to scale up the learning attachments and exchange program as the scope of our business operations and the size of the Bank grows.

Leadership Development

At UDBL, we have a firm belief that professional and leadership capabilities lie at the heart of ensuring that an organization not only delivers its business aspirations but also ensures its long term sustainability. In this respect,


6

1 Mr. Patrick Dlamini (right), CEO of DBSA introduces UDBL's Alex Area and Susan Nangwale to his team.

2 Team "Furious" celebrate their win at a recent team building event

3 Employee wellness is a key enabler of staff productivity

4 A cross section of staff participate in activities at the end of year party

5 Our staff graduating from the senior management leadership development program

6 Staff take time off to participate in team building event

the Bank continues to commit a sizeable budget in bolstering professional as well as leadership and managerial competencies. In 2016, three staff participated in the Senior Management Leadership Development Program (SMLDP) with Strathmore Business School while three others took part in the Women in Leadership Program and the CEO Apprenticeship Program; numerous other staff were sponsored to undertake various specialist professional certification courses and the Continuous Professional Development (CPD) workshops.

Staff Welfare

As part of our EVP, the Bank facilitates various welfare provisions including but not limited to pension schemes, a generous medical aid package, access by staff to credit on preferential terms and an expanded GPA scheme among other perks. These perks, together with other constituents of our EVP, have ensured that UDBL is favored amongst the top employer brands in the country.

Business Technology

As a launchpad, the Bank started the year with a comprehensive third party system review of all the business systems with the aim of identifying and closing out any anomalies of implementations from previous years that could have gone unattended to. This review provided the Bank with a mechanism of validating the extent to which the business-technology strategy goals were realized.

Focus in 2016 was subsequently turned to addressing control anomalies of the core banking systems implementations from previous years as well as the overall security of the Bank's data systems. The Bank now has a holistic view of the existing system's gaps with solutions being implemented to close them out.

Moving forward, the Bank plans to consolidate the gains made towards technology leveraging while keeping an eye to emerging threats as well as technology utilization opportunities.

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
Dr.Samuel Sejjaaka	Chairperson
Mr.Charles Byaruhanga	Director
Dr.Stephen.R. Isabalija	Director
Mr.Nimrod Waniala	Director
Mrs.Silvia AngeyUfoyuru	Director
Mr. Henry BalwanyiMagino	Director

SECRETARY

Ms. Susan Amolo
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

NC BANK Uganda Limited

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

AUDITORS

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

DELEGATED AUDITORS

Ernst & Young
18 Clement Hill Road
Shimoni Office Village
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THE REPUBLIC OF UGANDA

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

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

MISSION: "To Audit and report to Parliament and thereby make an effective contribution to improving public accountability and Value for Money spent."

IN ANY CORRESPONDENCE ON:
THIS SUBJECT PLEASE QUOTE NO: **DCG.48/354/02/17**

UGANDA DEVELOPMENT BANK LTD.
CEO
DIRECTOR OF
DIRECTOR ADMIN
BANK SECRETARY
03 APR 2017
HEAD MIS
DIRECTOR FINANCE
RISK MGMT SECTION
AUDIT SECTION

30th March, 2017

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

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA DEVELOMENT BANK LIMITED FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER 2016

In accordance with Article 163 (4) of the Constitution, I forward herewith audited financial statements of Uganda Development Bank Limited for the financial year ended 31st December 2016 together with my report and opinion thereon.

John F. S. Muwanga
AUDITOR GENERAL

Copy to: The Hon. Minister of State for Finance- Privatization Unit

" The Permanent Secretary/Secretary to the Treasury
Ministry of Finance, Planning & Economic Development

" The Chairperson, Board of Directors (UDBL)

" The Chief Executive Officer, Uganda Development Bank

" M/s Ernst & Young
Certified Public Accountants
Kampala

Member of the International Organisation of Supreme Audit institutions (INTOSAI)
Member of the Africa Organisation of Supreme Audit institutions (AFROSAI)

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA DEVELOPMENT BANK LIMITED FOR THE YEAR ENDED 31ST DECEMBER 2016

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the financial statements of Uganda Development Bank Limited set out on pages 10 to 57, which comprise the statement of financial position as at 31st December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Uganda Development Bank Limited as at 31st December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of Uganda, 2012. The other information does not include the financial statements and my 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 inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the audit of the financial statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on other Legal Requirements

As required by the Companies Act of Uganda, 2012, I report to you based on my audit, that:

(i) I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purposes of my audit;

(ii) In my opinion, proper books of account have been kept by the Bank so far as appears from my examination of those books; and

(iii) The Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account

John F. S. Muwanga

AUDITOR GENERAL

13th March, 2017

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of Uganda Development Bank Limited ("the Bank" or "the Company") for the year ended 31 December 2016, which disclose the state of affairs of the Bank.

1. INCORPORATION

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

2. PRINCIPAL ACTIVITIES

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

3. RESULTS

The results for the year are summarised below:

	2016	2015
	Ushs '000	**Ushs '000**
Profit before tax	9,093,557	2,777,996
Income tax expense	(2,644,320)	(866,810)
Profit for the year	**6,449,237**	**1,911,186**

4. RESERVES

The reserves of the Bank are set out on page 12.

5. DIVIDENDS

The directors do not recommend the payment of a dividend in respect for the year ended 31 December 2016 (2015: Nil).

6. DIRECTORS

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

7. RISK

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

i) Credit Risk
Credit risk is the risk that a borrower is unable to meet financial obligations to the lender. Uganda Development Bank Limited measures, monitors and manages credit risk for each borrower and also at the portfolio level. The Bank has a standardised credit approval

ii) Credit Risk (continued)
process, which includes a well-established procedure of comprehensive credit appraisal and rating.

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

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

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

8. THE AADFI PRUDENTIAL STANDARDS, GUIDELINES AND RATINGS SYSTEM

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

In 2015, 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 83% representing a "High" performance level (a score of 60% is deemed to be average). The directors are committed to continuous improvement in the Bank's rating.

9. AUDITORS

In accordance with Article 163 of the Constitution of the Republic of Uganda, Section 17 of the Public Enterprises Reform and Divestiture Act, Cap.98 and Sections 13 (1) (a), 17 and 23 of the National Audit Act, 2008, the financial statements of the company shall be audited once every year by the Auditor General. Section 23 of National Audit Act, 2008 permits the Auditor General to appoint private auditors to carry out such audit on his/her behalf. For the year ended 31 December 2016, Ernst & Young were appointed to act on behalf of the Auditor General.

10. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on **27th February 2017**.

By order of the Board,

……………………….
Company Secretary

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

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

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

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

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

The financial statements were approved by the Board of Directors on **27th February 2017** and signed on its behalf by:

....	....
Chairperson	Director

STATEMENT OF COMPREHENSIVE INCOME

	Note	2016	2015
		Ushs '000	**Ushs '000**
Interest and similar income	7	17,759,909	16,339,342
Interest expense and similar charges	8	(272,782)	(135,927)
Net interest income		**17,487,127**	**16,203,415**
Fee and commission income		89,414	763,271
Fee and commission expense		-	(668)
Net interest and fee income		**17,576,541**	**16,966,018**
Net foreign exchange gains	9	1,035,409	5,963,366
Fair value gains on investment property	21	1,100,000	-
Other income	10	5,388,276	3,043,187
Net impairment loss on loans and advances	19(e)	(3,315,633)	(4,572,925)
Written off loans	19(f), 20(d)	(800,600)	(6,871,441)
Operating income after impairment losses		**20,983,993**	**14,528,205**
Personnel expenses	11	(7,276,886)	(6,043,446)
Depreciation and amortisation	22, 23	(436,039)	(469,384)
Other operating expenses	12	(4,177,511)	(5,237,379)
Profit before income tax	**13**	**9,093,557**	**2,777,996**
Income tax expense	15(a)	(2,644,320)	(866,810)
Profit for the year		**6,449,237**	**1,911,186**
Other comprehensive income, net of tax		-	-
Total comprehensive income net of tax		**6,449,237**	**1,911,186**
Basic/diluted earnings per share	**14**	**64.49**	**22.99**

STATEMENT OF FINANCIAL POSITION

	Note	2016	2015
		Ushs '000	Ushs '000
ASSETS			
Cash and cash equivalents	16	4,984,744	2,064,720
Held to maturity investments	17	6,919,893	10,067,871
Equity investments at fair value	18	173,559	209,926
Loans and advances	19	168,798,158	141,547,988
Staff loans and advances	20	2,622,532	2,121,021
Current income tax recoverable	15(b)	-	1,408,463
Investment property	21	30,200,000	29,100,000
Property and equipment	22	2,873,520	2,966,891
Intangible assets	23	468,697	748,871
Other assets	24	9,386,140	15,321,692
Total assets		**226,427,243**	**205,557,443**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	30	100,000,000	83,123,443
Revaluation reserve		294,700	294,700
GOU capital contribution	31	12,415,774	20,749,144
Retained earnings		43,830,810	37,381,573
Total equity		**156,541,284**	**141,548,860**
Liabilities			
Amounts due to Bank of Uganda	25	11,242,259	11,391,197
Borrowings	26	16,797,855	16,260,506
Kuwait Special Fund	27	28,365,633	26,619,105
Deferred income tax liability	28	5,967,856	5,506,301
Current income tax payable	15(b)	13,169	-
Other liabilities	29	7,499,187	4,231,474
		69,885,959	**64,008,583**
Total equity and liabilities		**226,427,243**	**205,557,443**

The financial statements were approved for issue by the Board of Directors on **27th February 2017**, and signed on its behalf by:

....
Chairperson

....
Director

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	GOU capital Contribution	Revaluation Reserve	Retained earnings	Total
		Ushs'000	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**
At 1 January 2015		74,866,655	15,974,359	294,700	35,470,387	126,606,101
Total comprehensive income for the year		-	-	-	1,911,186	1,911,186
Contributions by equity holders						
GoU capital contribution	31	-	13,031,573	-	-	13,031,573
Issue of shares	31	8,256,788	(8,256,788)	-	-	-
Balance at 31 December 2015		**83,123,443**	**20,749,144**	**294,700**	**37,381,573**	**141,548,860**
At 1 January 2016		83,123,443	20,749,144	294,700	37,381,573	141,548,860
Total comprehensive income for the year		-	-	-	6,449,237	6,449,237
Contributions by equity holders						
GoU capital contribution	31	-	8,543,187	-	-	8,543,187
Issue of shares	31	16,876,557	(16,876,557)	-	-	-
Balance at 31 December 2016		**100,000,000**	**12,415,774**	**294,700**	**43,830,810**	**156,541,284**

STATEMENT OF CASH FLOWS

		2016	2015
OPERATING ACTIVITIES	**Note**	**Ushs '000**	**Ushs '000**
Profit before taxation		9,093,557	2,777,996
Adjustments for:			
Unrealised foreign exchange loss on borrowings		1,563,666	2,193,214
Depreciation	22	155,865	162,343
Amortisation of intangible assets	23	280,174	307,041
Write-off of fixed assets		11,781	-
Gain on disposal of property and equipment		(5,390)	-
Fair value loss on equity investments	18	36,367	50,368
Interest expense on borrowings	8	272,782	135,928
		11,408,802	5,626,890
Increase in loans and advances		(27,250,170)	(32,659,554)
Decrease/(increase) in other assets		5,935,552	(11,630,805)
Increase in other liabilities		3,267,713	1,012,119
Increase in staff loans and advances		(501,511)	(480,524)
Cash used in operations		**(7,139,614)**	**(38,131,874)**
Income tax paid	15	(761,133)	(1,274,799)
Net cash flows used in operating activities		**(7,900,747)**	**(39,406,673)**
INVESTING ACTIVITIES			
Acquisition of property and equipment	22	(74,275)	(261,898)
Acquisition of intangible assets	23	-	(1,801)
Proceeds from sale of property and equipment		5,390	-
Movement in fair value of investment properties	21	(1,100,000)	-
Movement in held to maturity investments		3,147,978	6,979,911
Net cash flows generated from investing activities		**1,979,093**	**6,716,212**
FINANCING ACTIVITIES			
Decrease/(increase) in amounts due to Bank of Uganda	25	(148,938)	3,328,894
Proceeds from borrowings	26	-	10,295,206
Repayment of borrowings	26	(1,299,099)	(1,251,446)
Increase in amounts due to the Kuwait Fund	27	1,746,528	4,713,377
(Decrease)/increase in contributions from the Government of Uganda	31	(8,333,370)	4,774,785
Increase in share capital	30	16,876,557	8,256,788
Net cash flows from financing activities		**8,841,678**	**30,117,604**
Increase in cash and cash equivalents		2,920,024	(2,572,857)
Cash and cash equivalents at 1 January		2,064,720	4,637,577
Cash and cash equivalents at 31 December	**16**	**4,984,744**	**2,064,720**

NOTES TO THE 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, 2012 of Uganda.

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

b) Basis of measurement

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

- Equity investments at fair value through profit or loss
- Investment property
- Freehold land and buildings

c) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Foreign currency

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

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

Foreign currency differences arising on re-translation are generally recognised in profit or loss.

b) Revenue recognition

(i) Interest income and expense

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

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

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

Interest income and expense presented in profit or loss include:

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

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

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

(ii) Fees and commission income

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

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

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

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

(iii) Other income

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

(iv) Dividends

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

c) Income tax expense

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

(i) Current income tax

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

(ii) Deferred income tax

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

Deferred income tax is not recognised for:

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

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

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

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

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

d) Financial assets and financial liabilities

(i) Initial recognition

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

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

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

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

(ii) Classification

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

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

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

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

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised In other comprehensive income is recognised in profit or loss.

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

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

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

Financial liabilities

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

(iv) Offsetting

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

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

(vii) Identification and measurement of impairment

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

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

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

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

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

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

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

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of de recognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

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

e) Cash and cash equivalents

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

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

f) Loans and advances

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

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

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

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

g) Investment securities

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

(i) Held-to-maturity

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

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

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

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

(ii) Fair value through profit or loss

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

(iii) Available for sale

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

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

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

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

h) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

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

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

j) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

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

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

Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The core-banking system acquired in the prior year has a useful life of five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

k) Share capital

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

l) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

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

(iii) Termination benefits

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

m) Contingent liabilities

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

n) Earnings per share

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

o) New and amended standards and interpretations

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

- IFRS 14: Regulatory Deferral Accounts (Effective 1 January 2016)
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Effective 1 January 2016)
- IAS 16 and IAS 41: Accounting for bearer plants (Effective 1 January 2016)
- IFRS 11: Accounting for the acquisition of interests in a Joint Operation (Effective 1 January 2016)
- IAS 27: Equity method in separate financial statements (Effective 1 January 2016)
- IAS 1: Presentation of financial statements - Disclosure initiative (Effective 1 January 2016)
- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28
- Annual Improvements 2012-2015 Cycle - These improvements were effective for annual periods beginning on or after 1 January 2016 and include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in method of disposal
- IFRS 7 Financial Instruments: Disclosures – Servicing Contracts and Applicability of the offsetting disclosures to condensed interim financial statements
- IAS 19 Employee Benefits – Discount Rate: regional market issue
- IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

Standards issued but not yet effective

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

IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued in May 2015 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently considering engaging a consultant to assist management in assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 9: Financial instruments

IFRS 9, as issued in July 2015, reflects the completion of all the phases of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, impairment as well as hedge accounting.

Classification and measurement of financial instruments

Financial Assets:

Financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics.

Equity securities are measured at fair value through profit or loss unless the entity chooses, on initial recognition, to present fair value changes in other comprehensive income (OCI).

This option is irrevocable and applies only to equity instruments, which are not held for trading. Unlike debt instruments, gains and losses in OCI are not recycled on sale and there is no impairment accounting.

Derivatives are also measured at fair value through profit or loss. In comparison to IAS 39, there is no divergence of embedded derivatives for financial assets recorded at amortised cost or FVOCI.

The de-recognition principles in terms of IAS 39 remain the same in IFRS 9.

Financial Liabilities:

For liabilities designated at fair value through profit and loss, the change in the fair value of the liability attributable to changes in credit risk is presented in OCI. All other classification and measurement requirements in IAS 39 have been carried forward into IFRS 9.

Impairment of financial assets:

The expected credit loss model applies to debt instruments recorded at amortised cost or at fair value through other comprehensive income (such as loans, debt securities and trade receivables), lease receivables and most loan commitments and financial guarantee contracts.

Entities are required to recognise either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

The measurement of expected credit losses would reflect a probability-weighted outcome, the time value of money and reasonable and supportable information.

Effective date and transition:

The standard applies to annual periods beginning on or after 1 January 2018, although early application is permitted. Retrospective application is required, however, transition reliefs are provided (including no restatement of comparative period information). Entities will only be permitted to early apply a previous version of IFRS 9 if their date of initial application is before 1 February 2015. However, if an entity has early applied a previous version of IFRS 9 before 1 February 2015, the entity is permitted to continue to apply that version until IFRS 9 becomes mandatorily effective in 1 January 2018.

Moreover, it will be possible to apply early just the new accounting treatment of fair value gains and losses arising from own credit risk on liabilities designated at fair value through profit or loss without applying the other requirements of IFRS 9, until IFRS 9 becomes mandatorily effective.

The Bank is currently considering engaging a consultant to assist management in assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The key features of the new standard are:

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The new standard's transition provisions permit certain reliefs. The new standard requires lessees and lessors to make more extensive disclosures than under IAS 17. The amendments however do not have any impact on the financial statements of the Bank.

Amendments to IAS 7 Statement of cash flows

The improvements to disclosures require companies to provide information about changes in their financing liabilities. The amendments will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).

The improvements are part of the Board's Disclosure Initiative—a portfolio of projects aimed at improving the effectiveness of disclosures in financial reports.

The IAS 7 amendments become mandatory for annual periods beginning on or after 1 January 2017. The impact of the amendments is being assessed by the Bank.

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

- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (Effective date postponed indefinitely)
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (Effective 1 January 2017)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (Effective 1 January 2018)

4. FINANCIAL RISK MANAGEMENT

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

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

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

The Banks' Audit and Governance Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

a) Credit risk

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

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

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

Impaired loans and advances

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

Allowances for impairment

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

The detailed disclosures relating to credit risk have been included in note 19 (loans and advances).
The Bank's maximum exposure to credit risk is represented by the following balances:

	2016	2015
	Ushs '000	**Ushs '000**
Bank balances (Note 16)	4,984,744	2,064,720
Held to maturity investments (note 17)	6,919,893	10,067,871
Loans and advances to customers (Note 19)	183,487,873	153,678,505
Staff loans and advances (Note 20)	5,354,981	4,499,547
Other assets	7,250,882	13,006,913
	207,998,373	**183,317,556**

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2016 and 31 December 2015 without taking into account any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

b) Market risks

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

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

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

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

(i) Interest rate risk

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

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

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

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

	Up to 1yr	1 to 3yrs	3 to 5yrs	Over 5yrs	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
31 December 2016					
Assets					
Held to maturity investments	6,919,893	-	-	-	6,919,893
Loans and advances	25,370,274	30,697,942	60,764,187	51,965,755	168,798,158
Staff loans and advances	80,128	592,975	1,417,958	531,471	2,622,532
Total assets	**32,370,295**	**31,290,917**	**62,182,145**	**52,497,226**	**178,340,583**
Liabilities					
Borrowings	505,259	625,049	-	15,667,547	16,797,855
Total liabilities and equity	505,259	625,049	-	15,667,547	16,797,855
Interest sensitivity gap	**31,865,036**	**30,665,868**	**62,182,145**	**36,829,679**	**161,542,728**
31 December 2015					
Total assets	25,361,027	54,327,075	31,269,480	42,779,298	153,736,880
Total liabilities and equity	1,236,283	1,964,335	2,062,088	10,997,800	16,260,506
Interest sensitivity gap	**24,124,744**	**52,362,740**	**29,207,392**	**31,781,498**	**137,476,374**

(ii) Currency risk

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

The bank's currency position is as follows:

	Uganda shillings	US Dollars	Euro	KES	GBP	Total
	Ushs'000	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**
31 December 2016						
Assets						
Cash and cash equivalents	4,258,836	725,908	-	-	-	4,984,744
Held to maturity investments	-	6,919,893	-	-	-	6,919,893
Staff loans and advances	2,622,532	-	-	-	-	2,622,532
Other assets (excluding non-						
financial assets)	35,276	6,789,184	548,805	-	-	7,373,265
Loans and advances	114,489,942	54,308,216	-	-	-	168,798,158
Total assets	**121,406,586**	**68,743,201**	**548,805**	**-**	**-**	**190,698,592**
Liabilities and equity						
Amounts due to Bank of Uganda	11,242,259	-	-	-	-	11,242,259
Other liabilities	6,710,944	230,677	548,530	-	9,036	7,499,187
Borrowings	-	16,797,855	-	-	-	16,797,855
Kuwait special fund	-	28,365,633	-	-	-	28,365,633
Total liabilities and equity	17,953,203	45,394,165	548,530	-	9,306	63,904,934
Net currency position	103,453,383	23,349,036	275	-	9,306	126,793,658
31 December 2015						
Total assets	95,697,636	74,964,130	212,439	1,513	33,242	170,908,960
Total liabilities	15,486,597	43,015,685	-	-	-	58,502,282
Net currency position	**80,211,039**	**31,948,445**	**212,439**	**1,513**	**33,242**	**112,406,678**

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

Equity price risk

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

At the reporting date, the exposure to equity securities at fair value was Ushs 174 million. An increase and a decrease of 10% in the share prices could have the following impact on the statement of comprehensive income:

2016		
	Change	**Effect on**
	Year-end share price	**profit before tax**
		Ushs'000
KENGEN	+10%	27
Uganda Clays Ltd	+10%	3,044
The New Vision Ltd	+10%	565
2015		
KENGEN	-10%	(27)
Uganda Clays Ltd	-10%	(3,044)
The New Vision Ltd	-10%	(565)

(C) Liquidity risk

Liquidity risk arises in the general funding of the bank's activities and in the management of positions. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for financial institutions to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the bank and its exposure to changes in interest and exchange rates. The bank maintains adequate resources to meet its obligations.

	Up to 1 month	1-3months	3-6months
	Ushs '000	Ushs '000	Ushs '000
31 December 2016			
Assets			
Cash and cash equivalents	4,984,744	-	-
Held to maturity investments	6,919,893	-	-
Loans and advances	-	12,667,012	4,959,512
Staff loans and advances	-	3,191	62,994
Other assets (excluding non- financial assets)	-	3,606,461	-
Total assets	**11,904,637**	**16,276,664**	**5,022,506**
Liabilities and equity			
Amounts due to Bank of Uganda	-	-	-
Other liabilities	444,785	-	1,692,351
Borrowings	-	-	-
Kuwait special fund	-	-	-
Total liabilities and equity	**444,785**	**-**	**1,692,351**
Net liquidity gap	**11,459,852**	**16,276,664**	**3,330,155**
31 December 2015			
Total assets	21,924,036	6,283,243	4,629,951
Total liabilities and equity	88,755	2,170,991	-
Net liquidity gap	**21,835,281**	**4,112,252**	**4,629,951**

5. USE OF ESTIMATES AND JUDGEMENTS

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2016 is set out below in relation to the impairment of financial instruments and in the following notes:

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

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

Impairment of loans and advances

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

The individual component of the total allowance for impairment applies to loans and advances evaluated individually for impairment and is based on management's

6- 12months	1-3yrs	3-5yrs	Over 5yrs	Total
Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
-	-	-	-	4,984,744
-	-	-	-	6,919,893
7,743,751	30,697,942	60,764,187	51,965,754	168,798,158
13,943	592,975	1,417,958	531,471	2,622,532
-	3,766,804	-	-	7,373,265
7,757,694	**35,057,721**	**62,182,145**	**52,497,225**	**190,698,592**
-	-	-	11,242,259	11,242,259
783,419	-	-	4,578,632	7,499,187
505,239	625,049	-	15,667,547	16,797,855
-	-	-	28,365,633	28,365,633
1,288,658	**625,049**	**-**	**59,854,071**	**63,904,934**
6,469,036	**34,432,672**	**62,182,145**	**(7,356,846)**	**126,793,658**
6,597,099	57,425,853	31,269,480	42,779,298	170,908,960
1,133,972	1,964,335	2,062,088	51,082,141	58,502,282
5,463,127	**55,461,518**	**29,207,392**	**(8,302,843)**	**112,406,678**

best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired loan is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit function.

A collective component of the total allowance is established for:

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

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

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

6. FAIR 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.

a) Valuation models

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

- **Level 1:** inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- **Level 2:** inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- **Level 3:** inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank's current valuation techniques include comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

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

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

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

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

At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	Ushs' 000	**Ushs' 000**	**Ushs' 000**	**Ushs' 000**
Equity investments at fair value	**173,559**	**-**	**-**	**173,559**
Investment property	-	30,200,000	-	30,200,000
	173,559	**30,200,000**	**-**	**30,373,559**
At 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	Ushs' 000	Ushs' 000	Ushs' 000	Ushs' 000
Equity investments at fair value	209,926	-	-	209,926
Investment property	-	29,100,000	-	29,100,000
	209,926	**29,100,000**	**-**	**29,309,926**

c) Accounting classifications and fair values

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

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Assets				
Financial assets				
Cash and cash equivalents	4,984,744	4,984,744	2,064,720	2,064,720
Held to maturity investments	6,919,893	6,919,893	10,067,871	10,067,871
Equity investments at fair value	173,559	173,559	209,926	209,926
Loans and advances	168,798,158	168,798,158	141,547,988	141,547,988
Staff loans and advances	2,622,532	2,622,532	2,121,021	2,121,021
Other assets	9,386,140	9,386,140	15,321,692	15,321,692
Total financial assets	**192,885,026**	**192,885,026**	**171,333,218**	**171,333,218**
Financial liabilities				
Amounts due to Bank of Uganda	11,242,259	11,242,259	11,391,197	11,391,197
Borrowings	16,797,855	16,797,855	16,260,506	16,260,506
Kuwait Special Fund	28,365,633	28,365,633	26,619,105	26,619,105
Other liabilities	7,499,177	7,499,177	4,231,474	4,231,474
Total financial liabilities	**63,904,924**	**63,904,924**	**58,502,282**	**58,502,282**

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

7. INTEREST AND SIMILAR INCOME

	2016	2015
	Ushs'000	Ushs'000
Interest on loans	14,184,862	11,880,693
Penalty fee income on loans	3,110,738	4,297,288
Interest on investments	462,680	656,249
Interest on staff loans	660,787	455,857
Gross interest	**18,419,067**	**17,290,087**
Less: Transfers to Kuwait fund (Note 27)		
Interest earned on loans disbursed out of the fund	(659,158)	(950,745)
Interest income	**17,759,909**	**16,339,342**

8. INTEREST EXPENSE AND SIMILAR CHARGES

	2016	2015
	Ushs'000	Ushs'000
Interest expense	**272,782**	**135,927**

9. NET FOREIGN EXCHANGE GAINS

	2016	2015
	Ushs'000	**Ushs'000**
Net realised foreign exchange (losses)/gains	(1,005,424)	1,083,465
Net unrealised foreign exchange gains	2,040,833	4,897,901
	1,035,409	**5,963,366**

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

Financial assets and liabilities denominated in foreign currencies are translated into Uganda Shillings using the rate ruling at the reporting date. The exchange rate for US Dollars to Uganda Shillings as at 31 December 2016 was 1 USD/ Ushs 3,613 (2015: 1 USD/ Ushs 3,429)

10. OTHER INCOME

	2016	2015
	Ushs'000	**Ushs'000**
Dividend income	4,052	2,822
Rental income	2,236,026	2,086,629
Agency fees	296,263	375,548
Other income	2,851,935	578,188
	5,388,276	**3,043,187**

11. PERSONNEL EXPENSES

	2016	2015
	Ushs'000	**Ushs'000**
Salaries	5,410,770	4,423,417
Service gratuity	279,755	278,437
NSSF contributions	516,008	436,398
Staff provident fund contributions	327,575	301,488
Staff welfare	515,797	392,084
Discount on staff loans marked to market	226,981	211,622
	7,276,886	**6,043,446**

12. OTHER OPERATING EXPENSES

	2016	2015
	Ushs'000	**Ushs'000**
Administration expenses	2,354,743	3,439,613
Rent, utilities and maintenance costs	1,425,879	1,405,782
Directors' emoluments	257,303	252,396
Auditor's remuneration	139,586	139,586
	4,177,511	**5,237,379**

13. PROFIT BEFORE TAX

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

	2016	2015
	Ushs'000	**Ushs'000**
Depreciation (Note 22)	155,865	162,343
Amortisation of intangible assets (Note 23)	280,174	307,041
Directors' emoluments	257,303	252,396
Auditors' remuneration	139,586	139,586
Net foreign exchange gains	1,035,409	5,963,366
Fair value gains on investment property	1,100,000	-

14. EARNINGS PER SHARE

	2016	2015
Net profit attributable to ordinary equity holders of the Bank (Ushs 000's)	6,449,237	1,911,186
Weighted average number of ordinary shares in issue during the year (Ushs 000's)	100,000,000	83,123,443
Basic/ diluted earnings per share (Ushs)	**64.49**	**22.99**

15. TAXATION

(a) Income tax expense

	2016	2016
	Ushs'000	**Ushs'000**
Current income tax:		
Corporation tax	1,511,957	-
Rental tax	670,808	625,989
Prior year over provision	-	(7,305)
Deferred income tax (Note 28)	461,555	248,126
	2,644,320	**866,810**

15. TAXATION (CONTINUED)

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

	2016	2015
	Ushs'000	Ushs'000
Profit before income tax	9,093,557	2,777,996
Tax calculated at the statutory rate of 30% (2015: 30%)	2,728,067	833,399
Tax effect of:		
Expenses not deductible for tax purposes	(664,677)	(585,273)
Income subjected to rental tax	670,808	625,989
Over provision in prior year current tax	-	(7,305)
Deferred income tax prior year adjustment	89,878	-
	2,644,320	**866,810**

(b) Current income tax payable/ (recoverable)

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

	2016	2015
	Ushs'000	Ushs'000
At 1 January	(1,408,463)	(752,348)
Charge for the year	2,182,765	625,989
Prior year over provision	-	(7,305)
Tax paid	(761,133)	(1,274,799)
At 31 December	**13,169**	**(1,408,463)**

16. CASH AND CASH EQUIVALENTS

	2016	2015
	Ushs'000	Ushs'000
Short term deposits with financial institutions	**4,984,744**	**2,064,720**

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

17. HELD TO MATURITY INVESTMENTS

	2016	2015
	Ushs'000	Ushs'000
Short term deposits with financial institutions	**4,984,744**	**2,064,720**

The average effective interest rate was 13.50% for Uganda Shillings denominated investments (2015: 10.43%) and 3.45% for USD denominated investments (2015: 3.82%).

18. EQUITY INVESTMENTS AT FAIR VALUE

	Ordinary	Original	Fair value	Fair value
	Shares	**Cost**	**2016**	**2015**
KENGEN	6,431	1,948	1,284	1,556
Uganda Clays Limited	10,147,335	538,036	121,768	152,210
The New Vision Ltd	92,674	18,535	50,507	56,160
	10,246,440	**558,519**	**173,559**	**209,926**
Movement in number of shares				
		At 1January		**At 31 December**
		2016		**2016**
		Opening	**Purchases**	**Closing**
		Balance	**/(Sales)**	**Balance**
KENGEN		6,431	-	6,431
Uganda Clays Limited		10,147,335	-	10,147,335
The New Vision Limited		92,674	-	92,674
		10,246,440	**-**	**10,246,440**
		At 1 January		**At 31 December**
		2015		**2015**
		Opening	**Purchases**	**Closing**
		Balance	**/(Sales)**	**Balance**
KENGEN		6,431	-	6,431
Uganda Clays Limited		10,147,335	-	10,147,335
The New Vision Limited		92,674	-	92,674
		10,246,440	**-**	**10,246,440**
Movement in fair value at 31 December 2016				
		Opening	**Fair value**	**Closing**
		Balance	**loss**	**Balance**
		Ushs'000	**Ushs'000**	**Ushs'000**
KENGEN		1,556	(272)	1,284
Uganda Clays Ltd		152,210	(30,442)	121,768
The New Vision Ltd		56,160	(5,653)	50,507
		209,926	**(36,367)**	**173,559**
Movement in fair value at 31 December 2015				
		Opening	**Fair value**	**Closing**
		Balance	**gain/(loss)**	**Balance**
		Ushs'000	**Ushs'000**	**Ushs'000**
KENGEN		1,743	(187)	1,556
Uganda Clays Ltd		202,947	(50,737)	152,210
The New Vision Ltd		55,604	556	56,160
		260,294	**(50,368)**	**209,926**
			2016	**2015**
			Ushs'000	**Ushs'000**
Movement in price per share			Closing	Closing
KENGEN			199.59	241.90
Uganda Clays Limited			12.00	15.00
The New Vision Ltd			545.00	606.00

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

19. LOANS AND ADVANCES

(a) Products

	2016	2015
	Ushs'000	**Ushs'000**
Long term loans	97,527,566	86,758,083
Medium term loans	61,138,439	41,117,706
Trade finance loans	8,334,124	9,946,466
Working capital loans	16,487,744	15,856,250
Gross advances	**183,487,873**	**153,678,505**
Less:		
Individually assessed impairment losses	(8,037,128)	(6,223,695)
Collective impairment losses	(6,652,587)	(5,906,822)
	168,798,158	**141,547,988**

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

	2016	2015
	Ushs'000	**Ushs'000**
Less than one year	25,370,274	15,170,157
1- 5 years	91,462,130	84,446,494
Over 5 years	51,965,754	41,931,337
	168,798,158	**141,547,988**

19. LOANS AND ADVANCES (CONTINUED)

(c) Gross loans to customers by sector composition:

	2016		2015	
PRIMARY SECTOR	**Ushs'000**	**%**	**Ushs'000**	**%**
Forestry	3,980,000	2%	3,950,000	3%
Mining and extractive	2,560,000	1%	2,700,000	2%
Primary agriculture	10,340,000	6%	7,500,000	5%
Primary sector- Total	**16,880,000**	**9%**	**14,150,000**	**9%**
SECONDARY SECTOR				
Agro-processing	24,300,000	13%	27,228,505	18%
Manufacturing	50,257,873	27%	27,310,000	18%
Secondary sector- Total	**74,557,000**	**41%**	**54,538,505**	**36%**
TERTIARY SECTOR				
Construction and real estate	29,980,000	16%	35,850,000	23%
Infrastructure	16,180,000	9%	-	-
Education	9,180,000	5%	9,680,000	6%
Financial services	12,240,000	7%	12,340,000	8%
Health	7,940,000	4%	8,470,000	5%
Hotels, hospitality and tourism	6,070,000	3%	8,090,000	5%
Tertiary services- Total	**81,590,000**	**44%**	**74,430,000**	**48%**
TRADE SERVICES				
Trade and Commerce	10,460,000	6%	10,560,000	7%
Grand Total	**183,487,873**	**100%**	**153,678,505**	**100%**

The weighted effective interest rate on loans at 31 December 2016 was 8% (2015: 9%) for USD and 11% for Ushs (2015: 12%).

(d) Movement in provision for impaired loans and advances

	2016	2015
	Ushs'000	**Ushs'000**
At 1 January	**12,130,517**	**10,536,508**
Additional provisions raised during the year	5,070,903	12,453,051
Recoveries and provisions no longer required	(1,725,142)	(1,429,952)
Written off during the year	(786,563)	(9,429,090)
At 31 December	**14,689,715**	**12,130,517**

(e) Net impairment loss on loans and advances

Additional provisions as above	5,070,903	12,453,051
Direct write offs through SOCI	(612,570)	(6,871,441)
Recoveries and provisions no longer required	(1,725,142)	(1,429,952)
Net provision for staff loans (Note 20c)	582,442	421,267
Profit and loss effect	**3,315,633**	**4,572,925**

19. LOANS AND ADVANCES (CONTINUED)

(f) Analysis of written off loans

	2016	2015
	Ushs'000	Ushs'000
Component earlier provided for individually	173,993	2,557,649
Component written off through statement of comprehensive income	612,570	6,871,441
	786,563	**9,429,090**

(g) Impairment and provisioning policies

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

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

Loans and advances are categorised into the following grades:

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

Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2016 or 2015. As an internal requirement, the forced value of the collateral security is over and above the amounts of loans and advances disbursed. The value of the banks collateral held was Ushs 518 billion as at 31 December 2016 (2015: Ushs 224.95 billion).

20. STAFF LOANS AND ADVANCES

(a) Staff loans and advances

	2016	2015
	Ushs'000	Ushs'000
Staff loans	5,354,981	4,499,547
Provision for impairment	(1,109,188)	(1,060,842)
Discount on staff loans marked to market	(1,623,261)	(1,317,684)
	2,622,532	**2,121,021**

20. STAFF LOANS AND ADVANCES (CONTINUED)

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

	2016	2015
	Ushs'000	Ushs'000
Within three months	3,191	73,543
Between three and six months	62,994	22,411
Over six months	2,556,347	2,025,067
	2,622,532	**2,121,021**

The weighted effective interest rate on loans at 31 December 2016 was 8% (2015: 8%).

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

	2016	2015
	Ushs'000	Ushs'000
At 1 January	1,060,842	639,575
Additional provisions raised during the year	591,068	421,267
Recoveries and provisions no longer required	(8,626)	-
Loan write- offs	(534,096)	-
As at 31 December	**1,109,188**	**1,060,842**

(d) Analysis of written off staff loans

	2016	2015
	Ushs'000	Ushs'000
Component earlier provided for individually	346,066	-
Component written off through statement of comprehensive income	188,030	-
	534,096	**-**

21. INVESTMENT PROPERTY

	2016	2015
	Ushs'000	Ushs'000
At 1 January	29,100,000	29,100,000
Fair value gain on investment property	1,100,000	-
At 31 December	**30,200,000**	**29,100,000**

The fair value of the Bank's investment property, commercial towers, on Plot 22 Hannington Road, Kampala at 31 December 2016 has been arrived at on the basis of a valuation carried out as at 31 December 2016 by East African Consulting Surveyors and Valuers- EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank. EACSV are members of the Uganda Institute of Professional Engineers, Land/ Quantity Surveyors.

22. PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Furniture and fittings	Motor Vehicles	Computers	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
COST / VALUATION						
At 1 January 2015	**1,208,000**	**1,352,000**	**454,476**	**528,946**	**232,653**	**3,776,075**
Additions	-	-	21,939	-	239,959	261,898
At 31 December 2015	**1,208,000**	**1,352,000**	**476,415**	**528,946**	**472,612**	**4,037,973**
Additions	-	-	39,600	-	34,675	74,275
Adjustment to match fixed assets register	-	-	799	-	(9,316)	(8,517)
Write offs	-	-	(45,144)	-	(6,933)	(52,076)
Disposals	-	-	(60,329)	-	(52,790)	(113,120)
At 31 December 2016	**1,208,000**	**1,352,000**	**411,341**	**528,946**	**438,24**	**3,938,535**
DEPRECIATION						
At 1 January 2015	**-**	**-**	**260,444**	**493,308**	**154,987**	**908,739**
Charge for the year	-	27,040	51,817	31,976	51,510	162,343
At 31 December 2015	**-**	**27,040**	**312,261**	**525,284**	**206,497**	**1,071,082**
Charge for the year	-	27,040	39,222	-	89,603	155,865
Adjustment to match fixed assets register	-	-	4,757	3,662	(8,648)	(229)
Write offs	-	-	(41,650)	-	(6,933)	(48,583)
Disposals	-	-	(60,329)	-	(52,790)	(113,120)
At 31 December 2016	**-**	**54,080**	**254,261**	**528,946**	**227,729**	**1,065,015**
NET CARRYING AMOUNT						
At 31 December 2016	**1,208,000**	**1,297,920**	**157,080**	**-**	**210,520**	**2,873,520**
At 31 December 2015	**1,208,000**	**1,324,960**	**164,154**	**3,662**	**266,115**	**2,966,891**

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

23. INTANGIBLE ASSETS

Cost	2016	2015
	Ushs'000	Ushs'000
At 1 January	1,575,164	1,573,363
Additions	-	1,801
At 31 December	**1,575,164**	**1,575,164**
Amortisation		
At 1 January	826,293	519,252
Amortisation for the year	280,174	307,041
At 31 December	**1,106,467**	**826,293**
Net carrying amount		
At 31 December	**468,697**	**748,871**

24. OTHER ASSETS

	2016	2015
	Ushs'000	Ushs'000
Prepayments	389,614	214,332
Commitment fees and LCs cash collateral (Afriexim Bank)	883,844	917,614
Cash collateral for issued Letters of Credit (LCs)	861,800	1,182,833
Other debtors	5,627,621	11,689,229
Prepayment on staff loans marked to market	1,623,261	1,317,684
	9,386,140	**15,321,692**

The other debtors balance includes loan disbursements made using UDBL funds pending reimbursement by the different development partners as at 31 December 2016. These mainly relate to BADEA receivable of Ushs 5.62 billion (2015: BADEA receivable of Ushs 4.66 billion and Kuwait receivable of Ushs 6.98 billion)

25. AMOUNTS DUE TO BANK OF UGANDA

	2016	2015
	Ushs'000	Ushs'000
At 1 January	**11,391,197**	**8,062,303**
Drawn down during the year	875,239	3,875,083
Repayments during the year	(1,024,177)	(546,189)
	(148,938)	3,328,894
At 31 December	**11,242,259**	**11,391,197**

The Agriculture Credit Fund (ACF) is a scheme set up by Government of Uganda (GoU) for supporting agricultural expansion and modernisation in partnership with commercial banks and other qualifying financial institutions collectively referred to as Participating Financial Institutions (PFIs). The Government through Bank of Uganda, refinances, at no interest, 50% of the loan amount offered to qualifying agricultural projects.

26. ORROWINGS

	2016	2015
	Ushs'000	**Ushs'000**
Japan Bank for International Cooperation (JBIC)	625,049	1,825,893
Arab Bank for Economic Development in Africa (BADEA)	16,172,806	14,434,613
	16,797,855	**16,260,506**

i) JBIC loan

	2016	2015
	Ushs'000	**Ushs'000**
Balance as at 1 January	**1,825,893**	**2,477,064**
Repayments during the year	(1,299,099)	(1,251,446)
Foreign exchange loss	98,255	600,275
Balance as at 31 December	**625,049**	**1,825,893**

This represents a US Dollars 2,500,000 loan agreement signed between the Bank and Japanese Bank for International Cooperation (JBIC). The loan carries interest at LIBOR plus 0.4375%. Interest payments are due on 15 March and 15 September following the date on which the loan is disbursed to the sub-borrower. Under the agreement, principal repayments were to commence on 15 September 2010 until 15 March 2017 at USD 179,000 per instalment. The loan is guaranteed by the Ministry of Finance, Planning and Economic Development.

The loan to the Bank was on lent to Phoenix Logistics in accordance with the terms of the agreement signed between the Bank and JBIC. This loan is being serviced by the Government of Uganda and the Bank has not received repayments from Phoenix Logistics over the period and as such the loan facility is categorised as a non-performing loan.

ii) BADEA Loan

	2016	2015
	Ushs'000	**Ushs'000**
At 1 January	**14,434,613**	**2,410,541**
Drawn down during the year	-	10,295,206
Interest	272,782	135,927
Foreign exchange loss	1,465,411	1,592,939
At 31 December	**16,172,806**	**14,434,613**

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

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

As at 31 December 2016, USD 4,336,535 had been disbursed from the loan account (2015: USD 4,336,535).

27. KUWAIT SPECIAL FUND

	2016	2015
	Ushs'000	Ushs'000
Balance as at 1 January	**26,619,105**	**21,905,728**
Agency costs	(296,263)	(375,548)
Interest on loans disbursed out of the fund	659,158	950,745
Amounts due to exchange rates	1,383,633	4,138,180
	1,746,528	4,713,377
Balance as at 31 December	**28,365,633**	**26,619,105**

This represents a grant of US Dollars 7 million to the Government of Uganda to be used in the creation of a Trust Fund in Uganda Development Bank Limited ("the Bank"). The Bank is required to establish in its books a Special Account to which the Grant as well as income accruing as a result of the investment and utilisation of the grant is to be credited.

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

28. DEFERRED INCOME TAX LIABILITY

Deferred income tax is calculated in full, on all temporary differences under the liability method using a principal tax rate of 30% (2015: 30%). The movement in the deferred income tax liability is detailed below:

	2016	2015
	Ushs'000	**Ushs'000**
At the start of the year	5,506,301	5,258,175
Charge to profit or loss	461,555	248,126
At the end of the year	**5,967,856**	**5,506,301**

Year ended 31 December 2016	**At 1 January 2016**	**Charge/ (credit) to profit or loss**	**At 31 December 2016**
	Ushs'000	**Ushs'000**	**Ushs'000**
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	188,892	(50,324)	138,568
Short term timing differences	(495,034)	(428,239)	(923,273)
Tax losses carried forward	(710,907)	710,907	-
Capital gains/revaluations	6,523,350	229,211	6,752,561
Net deferred income tax liability	**5,506,301**	**461,555**	**5,967,856**

28. DEFERRED INCOME TAX LIABILITY (CONTINUED)

Year ended 31 December 2015	At 1 January 2015 Ushs'000	Charge/ (credit) to profit or loss Ushs'000	At 31 December 2015 Ushs'000

Deferred income tax liabilities/ (assets)

Accelerated depreciation	154,600	34,292	188,892
Short term timing differences	(1,419,775)	924,741	(495,034)
Tax losses carried forward	-	(710,907)	(710,907)
Capital gains/revaluations	6,523,350	-	6,523,350
Net deferred income tax liability	**5,258,175**	**248,126**	**5,506,301**

29. OTHER LIABILITIES

	2016	2015
	Ushs'000	Ushs'000
Accrual and other liabilities	2,920,551	1,732,402
Deferred arrangement fees	2,162,634	2,370,911
Staff gratuity	89,908	79,664
Other creditors	2,326,094	48,497
	7,499,187	**4,231,474**

Staff gratuity

This represents outstanding/unpaid gratuity for employees on contract. The yearend accrual represents gratuity due to employees on contract at a rate of 20% (2015: 20%) of their annual gross salary.

30. ISSUED CAPITAL

	2016	2015
	Ushs'000	Ushs'000
At 1 January	83,123,443	74,866,655
Issue of shares	16,876,557	8,256,788
At 31 December	**100,000,000**	**83,123,443**

The bank's authorised share capital is Ushs 100 billion (2015: Ushs 100 billion) divided into 100 million shares of Ushs 1,000 each. As at 31 December 2016, the bank had issued 100,000,000 shares (2015: 83,123,443). All issued shares are fully paid up.

31. GOVERNMENT OF UGANDA CAPITAL CONTRIBUTION

	2016	2015
	Ushs'000	**Ushs'000**
At 1 January	**20,749,144**	**15,974,359**
Contributions during the year	6,699,984	-
Transfers from Kuwait loan1	1,843,203	13,031,573
Accumulated contributions converted to equity	(16,876,557)	(8,256,788)
	(8,333,370)	4,774,785
At 31 December	**12,415,774**	**20,749,144**

1Government of the Republic of Uganda secured a loan from Arab Economic Development amounting to Kuwaiti Dinars 3,000,000. The entire proceeds of the loan were passed on to the Bank for the capitalisation of the Bank per a loan agreement dated 22 December 2010.

32. 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.

	2016	2015
	Ushs'000	**Ushs'000**
Loans approved but not disbursed at year end	**124,970,560**	**49,130,092**

33. CONTINGENT LIABILITIES

	2016	2015
	Ushs'000	Ushs'000
Pending court cases:		
Two Ways Import and Export Limited	100,000	100,000
Intra Commodities Limited	141,673	141,673
Ivan Ssebowa	120,000	120,000
Jomayi Stones & Concrete Products Limited	-	1,070,000
Other pending court cases	695,000	465,673
	1,056,673	1,897,346
Letters of credit	-	5,104,339
Contingent liabilities	**1,056,673**	**7,001,685**

Possible legal claims against the Bank:

(a) Intra Commodities Limited v Farm 2 Market Limited and Uganda Development Bank Limited H.C.C.S No.11/2013

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

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

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

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

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

(c) Two Ways Import and Export Limited and 2 others V UDBL H.C.C.S No.31/2013

The Plaintiffs filed the suit challenging the Bank's action to recall a facility granted by the Bank to the 1st Plaintiff and for declarations that the Plaintiffs were not indebted to the Bank. The suit also challenges the attempt by the Bank to commence recovery proceedings against the 2nd and 3rd Plaintiffs who were the guarantors of the facility.

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

The Plaintiff's claim may be rejected by court judgement entered against the Plaintiffs for the payment of the outstanding loan amount. However, in the event of an adverse judgement, the Bank may be liable to pay a sum of up to Ushs 100,000,000 on account of the costs of the suit and of the counterclaim due to the Plaintiff and the Bank's lawyers.
The outcome of this case cannot be determined at the moment and as such, no provision has been made in the financial statements.

Other pending litigations:

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

34. ASSETS PLEDGED AS SECURITY

As at 31 December 2016, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

35. 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:

	2016	2015
	Ushs'000	**Ushs'000**
GoU capital contribution (note 31)	6,699,984	-
Transfers from Kuwait loan (note 31)	1,843,203	13,031,572
Issue of shares (noted 31)	16,876,557	8,256,788
Staff loans: interest earned	660,786	455,857
Staff loans: repayments	1,031,116	665,832
Staff loans: disbursements	**2,183,012**	**1,965,312**
Outstanding balances		
Staff loans (note 20)	2,622,532	2,121,021
	2016	2015
	Ushs'000	**Ushs'000**
Key management compensation		
Salaries	1,767,556	1,371,441
Short term employment benefits	430,081	279,960
	2,197,637	**1,651,401**
Directors' remuneration	**257,303**	**252,398**

36. EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date that required adjustment to the financial statements. (2015: Nil)

Financial Definitions

Profit for the year (Shs)	Annual income statement profit attributable to ordinary shareholders, minorities and preference shareholders
Earnings per share (Shs)	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue
Return on average assets (%)	Earnings as a percentage of average total assets
Net interest margin (%)	Net interest income as a percentage of annual average total loans
Yield on Loans (%)	Total Interest Income as percentage of annual average total loans
Debt to Equity ratio (%)	Total Debt as a percentage of Total Equity
Net asset Impairment ratio (%)	Provision for credit losses per the income statement as a percentage of closing net loans and advances
Cost-to-income ratio (%)	Operating expenses, excluding provisions for credit losses, as a percentage of total income

ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institution
ADFIMI	Association of Development Finance Institution in Member Countries of the Islamic
AfDB	African Development Bank
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
BADEA	Arab Bank for Economic Development in African
BCI	Business Confidence Index
BSC	Balanced Scorecard
CEO	Chief Executive Officer
COSASE	Committee on Statutory Authorities and State Enterprises
CPD	Continuous Professional Development
DBSA	Development Bank of South Africa
DDF	Department of Development Finance
DFI	Development Finance Institution
EVP	Employee Value Proposition
GDP	Gross domestic product
GPA	Gross Personal Accident
GRI	Global Reporting Initiatives
ICT	Information and communication technology
IDB	Industrial Development Bank
IFRS	International Finance Reporting Standards
KACITA	Kampala City Traders Association
MTEF	Medium-Term Economic Frame work
NDP	National Development Plan
NPA	National Planning Authority
PFMA	Public Finance Management Act
PPP	Public Private Partnership
SMLDP	Senior Management Leadership Development Program
UBA	Uganda Bankers Association

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