



UGANDA DEVELOPMENT BANK LIMITED

ANNUAL REPORT

2010





**Project
Finance**

**Project Advisory
Services**

**Property
Management**

**Trade
Financing**

**Equity
Investment**

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UNACOFF Cotton - Nebbi

Letter of Transmission

SC 26/ 3

25th July 2011

The Hon. Minister of Finance Planning and Economic Development
Ministry of Finance
P.O Box 8147,
KAMPALA.

Attention: Mrs Maria Kiwanuka

Dear Madam,

LETTER OF TRANSMISSION OF THE UDBL ACCOUNTS FOR THE FINANCIAL YEAR 2010

Pursuant to Section 12 of the Public Enterprise Reform and Divestiture Statute, the Board of Directors herewith submits to you the Annual Report of the Uganda Development Bank limited for the Bank's financial year ending 31st December 2010.

The Report gives overviews of the Global economic events, the Uganda economy, and highlights of the Bank's operations during the financial year 2010. It also shows the Banks financial operations as at 31st December 2010.

Yours sincerely,
UDBL BOARD OF DIRECTORS



JAMES KAHOZA
CHAIRMAN UDBL BOARD OF DIRECTORS
UGANDA DEVELOPMENT BANK LIMITED

Enclosures



Mayi Kayegi Hotel - Mbale Municipality

Chairman's Message



I have pleasure in presenting to you the Annual Report and the Financial Statements of Uganda Development Bank Ltd for the year ended 31st December 2010. The year 2010 was viewed as a year marked by some striking success, but also beset with continuing challenges.

During the year 2010, the Bank continued to carry its mandate as laid down in the Public Enterprise Reform and Divestiture Statute and the Bank made the following achievements:

- The Risk Management Procedures Manual was developed and approved by the Board and the Risk Management Department of the Bank became operational effective 1st July 2010.
- The Lending and Investment Policy of the Bank was reviewed and the revised guideline is now being implemented.
- Witnessed the conclusion of a long standing dispute between the Bank and Oil Seeds (U) Ltd, when the Supreme Court delivered judgment in favour of UDBL.
- Concluded and received a payment of Ushs 3.4 billion pursuant to an out-of-court settlement executed between the Bank and Basajjabalaba Hides & Skins.

Although important achievements have been registered in 2010, and new initiatives embraced, we were humbled by the stark realities of the challenges.

The bank's total assets rose from Ushs 98,390,104,000 to Ushs 102,654,589,000 between 2009 and 2010, an increase of 4.3%. The bank's total liabilities increased from Ushs 11,067,635,000 to 11,766,666,000 between 2009 and 2010, a rise of 6.3%.

The bank's Shareholders' fund increased from Ushs 87,322,469,000 in 2009 to Ushs 90,887,923,000 in 2010, a rise of 4.1%. The rise in equity has been as a result of increase in the retained earnings and some capital contribution by the government. The size of the loan portfolio increased from Ushs 40,507,674,000 to Ushs 56,312,513,000 between the two periods; reflecting an increase of 39%.

On a more challenging note, Profit before tax declined by 70.1% between 2009 and 2010, which finally caused the comprehensive income (profit for the year) to decline by 49.1%, from Ushs 1,412,329,000 to Ushs 719,396,000 between the two periods under review.

The ratio of Profit before tax to Average Assets declined from 2.2% in 2009 to 0.57% in 2010, a decline of 1.63 percentage points.

It is clear from the above that a great deal still needs to be done to improve performance. At the very least, the challenges call for greater

effort, more innovation, stronger capacity and stricter discipline in execution of the Bank's mandate.

Overall, the Bank continued to fulfill its mandate by supporting critical sectors of the economy namely export processing, manufacturing for value addition and in sectors such as Education, Health, Hotels and Tourism.

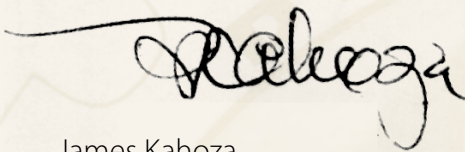
During the period, the Bank's resources have been bolstered by the operationalization of Lines of Credit such as from Islamic Development Bank (IsDB), Fund for Arab Economic Development (KF) and The African Export-Import Bank (AFRIEXIM Bank). In this regard, it is important to report that Management is quite conscious of the challenges ahead but very much encouraged by such opportunities available to the Bank.

Finally, I wish to thank the Board and Management of the Bank for their support, dedication and loyalty which contributed to the above achievements in 2010.

My gratitude also goes to our clients as well as other stakeholders for their unflinching support and cooperation.

Further, I want to pay specific tribute to the staff of the Bank; for their tireless effort; even in the face of challenges.

Let me conclude by expressing my sincere appreciation to our shareholders, the Government of Uganda; more specifically the Ministry of Finance, Planning and Economic Development for the unequivocal support to the Bank.



James Kahoza
CHAIRMAN
BOARD OF DIRECTORS
UGANDA DEVELOPMENT BANK LTD

Board Of Directors



Mr. James Kahoza
Chairman

Mr. Kahoza has been Chairman of the Board of Directors of UDB since 2002. He is also currently serving as Chairman of the Public Procurement & Disposal of Public Assets Authority and board member of Kakira Sugar Works Ltd. He worked in the Civil Service for many years where he held various senior positions, notably Secretary to the Treasury and Auditor General. As Secretary to the Treasury, he served at different times on several Boards including Bank of Uganda, East African Development Bank, Coffee Marketing Board and Cooperative Bank. He also served as Alternative Governor for Uganda for the World Bank and the International Monetary Fund. He holds a Bachelor of Science (Economics) degree from the London University.



Mrs. Maria Kiwanuka
Director

Mrs. Kiwanuka is the General Manager of Radio One and Radio Two, the most technologically advanced radio stations in Uganda. A financial economist by profession, she worked for more than ten years with the World Bank and her area of focus were the East Asian and Southern African regions. Over this period, she was Economist/Financial Analyst on various projects notably the Swaziland Urban Development Project, Uganda Public Expenditure/Public Investment Review, Burma Infrastructure Rehabilitation Project and Malawi Transport Sector Review. She holds a Master of Business Administration Degree from the London Business School, University of London and a Bachelor of Commerce Honours Degree from Makerere University, Kampala. She is also a member of the Boards of Directors of Aga Khan Foundation (East Africa), Nabagereka Development Trust and Nkumba University. Mrs Maria Kiwanuka was appointed the Minister of Finance, Planning and Economic Development and resigned on 8th June 2011.



Mr. George W. Nyeko
Director

Mr. Nyeko was recently promoted to the position of Board Secretary at the Bank of Uganda. Previously he served as the Deputy Director Human Resource Department at the Bank of Uganda and has more than 20 years experience handling human resource management issues. Before joining Bank of Uganda, he was a lecturer at Nsamizi Training Institute where he taught Personnel Management and Economics. He is board member in various organizations including

CCF International Inc., Ambassadors of Hope, African Evangelical Enterprises and Kampala School of Theology. He is also a member of the Board of Trustees Insurance and Pension Scheme of Bank of Uganda. He holds a Master of Arts degree in Organisational Leadership from the Pacific University USA and a Master of Arts degree in Management from Webster University.



Mr. Charles Ocici
Director

Mr. Ocici is the founding Executive Director of Enterprise Uganda, an institution aimed at helping create long-lasting small and medium scale enterprises through delivery of non-finance business support services. Previously he worked with PTA Bank as a senior officer and prior to that, spent 3 years as Team Leader with the Privatisation Unit overseeing privatization of public enterprises. He also worked with Uganda Commercial Bank for 8 years. He is a board member of Post Bank Ltd and a guest lecturer on the Master of Business Administration programme at Makerere University. He holds a Master of Business Administration (Finance) Degree (with Distinction) from Stirling University Britain and a Master of Science (Investment Analysis) Degree from University of Stirling Britain.



Mr. Samson H.K. Wako
Director

Mr. Wako is an architect and has over 25 years of architectural practice experience. He has been a partner in a firm called Plan Systems Architects since 1983 and prior to that worked with Peatfield and Bodgener, a firm of Chartered Architects. In 1979 he was appointed lecturer at the School of Building and Civil Engineering of the Uganda Polytechnic Kyambogo where in 1988 he was appointed head of the Architectural studies department. On creation of Kyambogo University, he continued as head of the Architectural studies department, a post he continues to hold to-date. He is also a member of the sub-committee of the Works and Estates Committee of the University Council. He holds a Bachelor of Architecture degree from the University of Nairobi and has attended several professional training courses in his field.



Mr. Mulassanyi David John
Director

Mr. Mulassanyi is a former member of the Parliament of Uganda. After his term of service, he served as Manager Corporate Communications of Mukwano Industries, one of the largest manufacturing companies in Uganda. He has served at different points in his career in the education sector and also served as Chairman of the Education Committee in Kabale District. He is presently the chairman of the UDBL Staff Provident Scheme.

The Board's role in the day-to-day operations of UDBL

All the above mentioned directors are non-executive and are accordingly not involved in the day-to-day operations of the Bank.

Ownership Structure of UDBL

UDBL is wholly owned by the Government of Uganda.





Zigoti Medical Centre

Management Team



Mr. Gabriel Otuda Etou
Chief Executive Officer

Mr. Etou is a Mechanical Engineer by profession and holds a Bachelor of Science Honours Degree in Mechanical Engineering from Makerere University. He is a member of the Uganda Institute of Professional Engineers (MUIPE)

He joined UDB as a Senior Project Analyst in July 1998, having previously worked in several companies as an engineer. He has received extensive training both as an Engineer and also as a Project Analyst. He was appointed Chief Executive Officer of the Bank effective 11/01/2010



Mrs Priscilla Mugisha
Bank Secretary

Mrs. Mugisha is a lawyer by profession and a Chartered company secretary. She is an Associate Member of the Institute of Chartered Secretaries and Administrators of the United Kingdom and holds a Bachelor of Laws Honours Degree from Makerere University and a post graduate Diploma in Legal Practice from the Law Development Centre.

Mrs. Mugisha joined the Legal Department of UDB in November 1992 and worked at various levels in the department before she rose to the office of Bank Secretary in September 1999. She is a member of the Uganda Law Society and is also a member of the Institute of Corporate Governance, Uganda.



Mrs. Ann N. Muguluma
Director Finance

Mrs. Muguluma joined the Accounts department of UDBL in May 1995 and worked at various levels in the department before she rose to the office of Director Finance in December 2008. Mrs. Muguluma holds a Bachelor of Commerce degree from Makerere University. In addition she is a Fellow of the Association of Chartered Certified Accountants and holds a Masters in Business Administration from the Edinburgh Business School.



Ms Florence Mirembe
Director Administration

Ms Florence Mirembe was promoted to the post of Director Administration in May 2010 after working as a Principal Human Resources officer since November 2008. She holds a Degree of Social work and Social Administration from Makerere University and a Post graduate diploma in Human Resources Management from the Uganda Management Institute.

Prior to joining UDBL, Florence worked with various public and private institutions in various including Umeme as Education and Training Manager and the Uganda Finance Trust as Chief Manager Human Resources and Administration.



Mr. Wilber Grace Naigambi
Head of the Management Information System Department

Mr. Wilber Grace Naigambi is currently Head of the Bank's Information Management System (MIS). He holds a Master of Science Degree in Mathematics from Makerere University and a Bachelor of Science Degree from Makerere University. Mr. Naigambi has over the years also received extensive training as a Computer Programmer and Systems Administrator.

Prior to joining UDB in 1992, Mr. Naigambi worked as a Lecturer at Makerere University from 1989 to 1992 during which time he also developed computer software for the University Students' Record System as well as Software Programmes for some private companies in Kampala.



Mr. Steven Opeitum
Director Development Finance

Mr. Steven Opeitum has more than 23 years experience in Project Planning, Appraisal, Monitoring and evaluation.

He holds a Masters degree in Project Planning and National Development from the University of Bradford and a Bachelor of Arts in Economics and Rural Economy from Makerere University. He has attended several courses and workshops related to his job.

He was appointed Director Development Finance Department with effect from 12/01/2010

Company Information

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Plot No. 15A , Ruth Tower

Clement Hill Road
P.O. Box 7210, Kampala

COMPANY SECRETARY

Mrs Priscilla Mugisha

SOLICITORS

J.B. Byamugisha Advocates

East African Development Bank Building
4 Nile Avenue
P.O. Box 9400, Kampala

Nangwala, Rezida & Co.

Advocates & Legal Consultants
Chambers Suite No 5 & 6
2nd Floor Block B,
Plot 7/9 Buganda Road,
P.O. Box 10304, Kampala

LIGOMARC Advocates

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

BANKERS

DFCU Bank Limited

P.O. Box 70, Kampala

Standard Chartered Bank Uganda Limited

P. O. Box 7277, Kampala

Citigroup

P.O. Box 7505, Kampala

AUDITORS

The Auditor General

Office of the Auditor General
P.O Box 7083, Kampala

DELEGATED AUDITORS

Ernst & Young

Ernst & Young House
18 Clement Hill Road
Shimoni Office Village
P.O. Box 7215, Kampala



Family Holdings trading as Standard College - Ntungamo

Executive Summary

Globally, economic recovery has been proceeding along multiple tracks since the financial crisis of 2008/09. On average, the Global economy grew by 4.4%. The advanced economies are recovering slowly and continue to face high unemployment. In contrast, emerging economies have seen a robust recovery, and some faster growing economies are experiencing inflation pressures amid signs of overheating. Low income economies are seeing a relatively rapid return to pre-crisis growth rate.

The extent of economic recovery varies across countries. Developing Asia has taken the lead with a projected growth rate of 8.4% in 2011 and 2012. Sub-Saharan Africa is projected to grow at a rate of 5.5% and 5.9% in the next two years, which is the highest of any region outside Asia. Growth in Central and Eastern Europe is projected to lag behind other developing and emerging economies.

Global Trade is projected to recover further. Total trade flows are expected to expand by 7.4% and 6.9% in 2011 and 2012 respectively, significantly faster than the rate of GDP growth.

The Ugandan economy grew by 6.3% in the financial year 2010/2011, which is 0.8 percentage points above the revised growth rate of 5.5% registered in the financial year 2009/10. This growth showed that the country had recovered from the effects of the global economic crisis.

Uganda's sectoral contribution to GDP shows that the share of agriculture, forestry and fishing in total GDP at 2002 constant prices has continued to decline from 14.7% in 2009/10 to 13.9% in 2010/11. The share of services in total GDP increased to 52.4%, while industry had a share of 25.3%; and this highlights the growing importance of these sectors in the economy.

Headline Inflation increased to 16% per annum in May 2011 and Core Inflation, which measures the changes in the general price level of all items excluding food crops, electricity, fuel and Utilities increased to 11.3% in May 2011 from 4.8% in November 2010

The exchange rate movement shows that between July 2010 and March 2011, the shillings depreciated by 4.4% over the first 9 months of the FY 2010/11 ending March.

The financial sector which comprises of Commercial Banks, the Central Bank, Insurance, Foreign Exchange Bureaus and other activities auxiliary to financial intermediation is estimated to have grown by 10.3% in the FY 2010/11 compared to 36.1% in 2009/10

The total assets of the banking sector increased by 36.1% from Ushs 8,595bn as at 31st Dec' 2009 to Ushs 11,296bn as at end Dec'2010. Total

deposits rose by 42.5%, from Ushs 5,631 billion at the end of December 2009 to Ushs 8,024 billion at the end of December 2010, while total advances grew by 35.1%, from Ushs 4,039 billion

Commercial banks profit after tax for the year 2010 increased by 13.8%, to Ushs 268.7bn compared to Ushs 236.1 bn in 2009.

Average commercial banks lending rates remained relatively high. Nominal weighted average lending interest rates of commercial banks were in the range of 18.5% to 20.6%. Demand deposits rates fell slightly from 1.3% recorded in the financial year 2009/10 to 1.2%, and there were marginal increases in the savings and time deposit rates. The rates on saving and time deposits rose to 2.4% and about 10.0% respectively in February 2011 from the respective rates of 2.3% and 8.4%, within the same period of the financial year 2009/10.

During the financial year 2010/11, the Management of Uganda Development Bank Ltd made the following achievements:

- The Risk Management Procedures Manual was developed and approved by the Board and the Risk Management Department of the Bank became operational effective 1st July 2010.
- The Lending and Investment policy of the Bank was reviewed and the revised policy guideline is now being implemented
- Witnessed the conclusion of a long standing dispute between the Bank and Oil Seeds (U) Ltd, when the Supreme Court delivered judgment in favour of UDBL.
- Concluded and received a payment of Ushs 3.4 billion pursuant to an out-of-court settlement executed between the Bank and Basajjabalaba Hides & Skins

In areas of Capacity Building and Training, a number of staff received training and capacity building courses in various fields both within and outside the country

The Bank was also connected to Citi Direct System. The system supports the Bank's Trade Finance operations by facilitating online payments; and this has improved the Bank's efficiency in disbursements.

In terms of portfolio performance, the total gross loans outstanding as at the end of 2010 stood at Ushs 51,362,097,728 and the sectors most heavily financed by the bank during the financial year 2010 was Manufacturing which accounts for 49% of the total project loans, 22% was for Agro-processing and 27% for other manufacturing, Social services that covers education and health stood at 22%, Hotels & Tourism at 12%, Construction and real estates; and Mining and Quarrying follows at 6% and 5% respectively. General Trade which covers the financing of direct exports, importation of agro-chemicals and petroleum products followed at 2%

The Trade Finance portfolio size rose from Ushs **1,637,729,290** as at 31st December, 2009 to **Ushs 17,025,921,993** as at 31st December 2010, an increase of 940% between the two periods under review. This was a quantum leap over a short period of time that needs to be sustained; while mindful of the quality of the portfolio.

A further analysis of the bank's financing of exports and non-export sector shows that the share of the export sector was 39%, while the non-export sector took 61%.

The analysis of the bank's portfolio in terms of its regional distribution shows that the share of

Kampala at 46.4%, followed by Eastern region with a share of 18.5% and Central having a share of 15.6% respectively. Northern region carries a regional share of 11.9% and finally Western, with a share of 7.6%.

A close analysis of items in the statement of comprehensive incomes shows that Interest and similar income increased from Ushs 7,572,270,000 to Ushs 7,582,467,000 over the period 2009 and 2010, a marginal increase of 0.13 %. On the other hand, there was no interest expense in 2009 but interest expense was Ushs 39,591 in 2010.

Operating expenses as a percentage of net operating income decline from 60.2% in 2009 to 49.2% in 2010

Overall, the above increases in items of expenditure relative to income resulted into a fall in profit before tax by 70.1% between 2009 and 2010, a decline of more than a half from Ushs 1,989,363,000 to Ushs 574,800,000, which finally caused the comprehensive income (profit for the year) to decline by 49.1%, from Ushs 1,412,329,000 to Ushs 719,396,000 during the periods under review..

A further analysis of items in the statement of financial position shows that the bank's total assets rose from Ushs 98,390,104,000 to Ushs 102, 654, 589,000 between 2009 and 2010, an increase of 4.3%

The bank's total liabilities increased from Ushs 11,067,635,000 to 11,766,666,000 between 2009 and 2010, a rise of 6.3%. The rise was as a result of increases in amounts due to Bank of Uganda and the amount of Trust funds.

Similar analysis shows that the bank's Shareholders' fund increased from Ushs 87,322,469,000 in 2009 to Ushs 90,887,923,000 in 2010, a rise of 4.1%. The rise in shareholders' fund was as a result of the increase in the retained earnings and some capital contribution by the government.

The Average Assets of the Bank, which is measured by the Average values of assets at the beginning and end of the year rose from 91,883,502,000 in 2009 to 100,522,347,000 in 2010, an increase of Ushs 8,638,645,000, which is a 9.4% increase.

.In the year ahead, the Bank's strategic initiatives will focus majorly on the completion of the process of developing its 5 years Strategic Business Plan that will clearly identify the Bank's strategic priorities in line with its mandate; and proactively embracing a more innovative approach in its endeavor to deepen its lending operations.



Mt of Olives College Ltd - Kakiri

1.0 Background

1.1 Overview of the Global Economy

The operations of any Bank, Uganda Development Bank Ltd *inclusive* are directly affected by economic and financial developments not only in the local economy, but also in other parts of the world. It is therefore important for the Bank, to have up to date information on the developments in both the local and global economies.

Some of the key macro economic indicators that impact on the performance of the economy are: trend in the growth of Gross Domestic product (GDP), inflation, exchange rates, interest rates, and Balance of payments amongst others.

At a global level, the economy made a strong return to growth in the year 2010. But the rate of recovery is projected to slow marginally over the coming years. Earlier fears of double dip recession appear unfounded with renewed private demand compensating for fiscal consolidation in the advanced economies.

Financial conditions have improved, but currency and commodity markets remain volatile and the prospect for future stability is uncertain as reform of financial regulation and supervision remain very much work in progress. The recent turmoil in North Africa and the Middle East has raised concerns over future disruption to energy supplies.

Globally, economic recovery has been proceeding along multiple tracks since the financial crisis of 2008/09. On average, the Global economy grew by 4.4%; and the advanced economies are recovering slowly and continue to face high unemployment. In contrast, emerging economies have seen robust recovery, and some faster growing economies are experiencing inflationary pressures amid signs of overheating. Low income economies are seeing a relatively rapid return to pre-crisis growth rate.

Higher commodity prices are supporting growth in commodity exporting countries, but are sparking concerns over the affordability of food for the poorer segment of the population in some low and middle income countries.

Global GDP is forecast to grow by about 4.5% over the next few years, with rates in advanced economies expected to grow several percentage points below those in the emerging economies.

The extent of economic recovery differs across countries. Developing Asia has taken the lead with a projected growth rate of 8.4% in 2011 and 2012. Sub-Saharan Africa is projected to grow at a rate of 5.5% and 5.9% in the next two years, which is the highest of any region outside Asia.

Growth in Central and Eastern Europe is projected to lag behind other developing and emerging economies.

Global Trade is projected to recover further. Total trade flows are expected to expand by 7.4% and 6.9% in 2011 and 2012 respectively, significantly faster than the rate of GDP growth.

Commodity prices have increased more than expected, reflecting a combination of strong growth in demand and negative supply shocks. Global consumer price inflation is projected to rise significantly, mainly driven by fuel prices. Inflation will remain higher in emerging and developing economies than in advanced economies, reflecting the decreasing relative importance of oil in the latter. There will therefore be only a small effect of this on the growth of the advanced economies, but the challenges will be greater in emerging and developing economies, where the consumption share of food and fuel is higher and the credibility of monetary policy are weaker. Although inflation may be higher for some times, forecasts suggest no major adverse effect on growth. However, risks to the recovery from additional disruption to oil supply are a concern.

Table 1.1: Percentage change in commodity prices

Projected

| Years: | 2010 | 2011 | 2012 |
|-----------------------------------|------|------|------|
| Advanced Economies | 1.6 | 2.2 | 1.7 |
| Emerging and Developing Economies | 6.2 | 6.9 | 5.3 |

Source: IMF , World Economic outlook, April 2011

1.2 Regional Economies -East Africa Community-EAC

The recent performances of the EAC member states have been impressive. Since 2005, the EAC has grown significantly faster than the rest of Sub-Saharan Africa. Three of the five countries in the EAC (Uganda, Rwanda and Tanzania) were among the top 20 fastest growing economies in the world between 2005 and 2009. Uganda and Rwanda posted the most rapid growth rates, on the whole leading to a greater economic convergence between the member states although Burundi continues to lag behind. Deeper regional integration is likely to raise productivity and reduce costs.

Table 1.2a : GDP trends for EAC economies

Projected

| Years | 2010 | 2011 | 2012 |
|----------|------|------|------|
| Burundi | 3.9 | 4.5 | 4.8 |
| Kenya | 5 | 5.7 | 6.5 |
| Rwanda | 6.5 | 6.5 | 7 |
| Tanzania | 6.5 | 6.4 | 6.6 |
| Uganda | 5.0 | 6.3 | 7.0 |

Source: IMF , World Economic outlook, April 2011

Table 1.2b: Inflation trends in EAC economies

| Years | Projected | | |
|----------|-----------|------|------|
| | 2010 | 2011 | 2012 |
| Burundi | 6.4 | 8.4 | 13.4 |
| Kenya | 3.9 | 7.2 | 5 |
| Rwanda | 2.3 | 3.1 | 5.5 |
| Tanzania | 10.5 | 6.3 | 7 |
| Uganda | 9.4 | 11.1 | 11 |

Source: IMF , World Economic outlook, April 2011

The East African Community countries is in the preparation for the negotiations of the East African Monetary Union (EAMU) whose objectives is, among others, to lower business transaction costs, increase currency stability and price convergence amongst the partner states. A high level task force has been established to produce a draft EAMU protocol. Studies are underway to review the macroeconomic convergence criteria for the community which will set the basis for continued integration.

1.3 Uganda's Macroeconomic context

The Ugandan economy grew by 6.3% in the financial year 2010/2011, which is 0.8 percentage points above the revised growth rate of 5.5% registered in the financial year 2009/10. This growth showed that the country had recovered from the effects of the global economic crisis. The growth was largely due to the good performance of manufacturing, construction, wholesale and retail trades sectors.

The sectoral contribution to GDP shows that the share of agriculture, forestry and fishing in total GDP at 2002 constant prices has continued to decline from 14.7% in 2009/10 to 13.9% in 2010/11. The share of services in total GDP increased to 52.4%, while industry had a share of 25.3%; and this highlights the growing importance of these sectors in the economy.

The major drivers of growth in the 2010/11 financial year was the services sector which is estimated to have grown by 8% compared to 7.5% for the industrial sector and 0.9% for the agricultural sector. In comparison with the financial year 2009/10, both industrial and services sectors registered higher growth rates. However, the agricultural sector registered a lower growth rate than last financial year, mainly due to the poor performance of the cash crop and fish sub-sectors.

Headline Inflation increased to 16% per annum in May 2011 and Core Inflation, which measures the changes in the general price level of all items excluding food crops, electricity, fuel and Utilities increased to 11.3% in May 2011 from 4.8% in November 2010. The rise in Inflation has been attributed to increased demand in the region for food products, which has resulted into higher prices of food in domestic and regional markets, high global food prices, and the increase in global crude oil prices and exchange rate depreciation.

On the exchange rate, within the period July 2010 and March 2011, the shillings depreciated by 4.4% over the first 9 months of the financial year 2010/11 ending March.

The depreciation of the shillings was due to;

- Increased domestic demand for dollars in Uganda,
- Insufficient external receipts from exports, donor disbursements and workers'

remittances and Foreign Direct Investments.

- Global developments mainly due to the improvement of US economic outlook that led to the strengthening of the dollars
- The strengthening of the US dollars against the Euros as concerns about fiscal challenges in some Euro countries re- emerged.

As at the end of March 2011, the stock of external reserves at Bank of Uganda stood at US dollars 2.36 bn, which is sufficient to cover 4 months of future import demand of goods & services. This is quite below the EAC benchmark of at least 6 months for member countries.

1.4 Sectoral Performance of the Economy

The Agricultural sector, including forestry and fishing is projected to have grown by 0.9% down from 2.4% in the financial year 2009/10. The slow growth rate is attributed to a decline in the performance of the cash crops sub-sector which registered a -15.8% growth rate, while the forestry and fish sub-sector had slower growth rates of 2.8% respectively, compared to the respective growth rates of 2.9%, and 2.6% achieved in 2009/10.

The industrial sector continued to perform well with the sector growing at 7.5% compared to a growth rate of 6.5% in 2009/2010. This growth rate is mainly attributed to the good performance of the construction activities.

The construction sub-sector which covers public and private sector construction services grew by 7.7% compared to 5.9% registered in 2009/10. Private construction was stimulated by a fall in the cement prices and increased local production of cement. In 2010/11, local cements production increased by 34.7%. Growth was also boosted by the increased activity in the public civil construction works for roads and bridges among others.

The recovery of the formal manufacturing sub-sector also contributed to the good growth performance of the sector. The sub-sector is projected to have grown by 7.2% in 2010/11 compared to 6.1% in 2009/10. The growth in formal manufacturing was spurred mainly by Beverages and Tobacco processing, Bricks and Cement, Paper & Printing, Chemicals, Paint and Soap, as well as Metal products.

Informal manufacturing activities grew by 4.3%, and this performance was below the 8.2% increase registered during the fiscal year 2009/10. The decline in performance of the informal activities is attributed to the poor performance in grain production and, therefore, a decrease in grain milling. The growth in food processing was boosted by the long second rain in 2010 that extended into the first quarter of 2011, thus favoring food crops production activities.

Mining and Quarrying activities grew by 15.8% in the fiscal 2010/11, the same growth attained in 2009/10. The growth in the mining and quarrying activities was mainly driven by continued increase in demand for cement whose main raw materials is limestone.

The service sector continues to be a major driver for economic growth. The service sector grew by 8.0% in 2010/11, an increase from 7.4% in the previous year. This buoyancy in the service sector is due to stronger performance of the telecommunications, financial and trade activities.

Transport and telecommunication sub-sector is estimated to have grown by 13.9% in 2010/11, a

lower growth rate than the 17.5% realized in 2009/10.

Telecommunication services continues to be the fastest growing sector in the country and was estimated to have grown by 21.2% during the FY 2010/11, while financial services sector recorded strong growth of 10.3% in real terms. This growth has been driven by increased competition among service providers, which has resulted into significant price reduction and increased innovation that has led to new products being offered on the market.

The wholesale and retail trade activities are estimated to have registered a growth of 3.0% in the fiscal year 2010/11, a recovery from a modest growth of 0.7% in 2009/10

For the period ending March 2011, the overall Balance of Payments position was estimated at a deficit of approximately US dollars 634.6 millions compared to a surplus of US dollars 221.3 millions recorded in the corresponding 12 months ended March 2010. The worsened position was largely attributed to the deterioration of the current account balance.

The current account deficit widened to US dollars 1,974.4 million during the period April 2010 to March 2011 from a deficit of US dollars 1,249.6 million registered in the previous period. The widening of the current account was on account of higher growth in imports of goods & services compared to exports between the two periods.

1.5 Performance of the financial sector and the state of the Banking industry in Uganda during 2010/11

The financial sector which comprises of Commercial Banks, the Central Bank, Insurance, Foreign Exchange Bureaus and other activities auxiliary to financial intermediation is estimated to have grown by 10.3% in the FY 2010/11 compared to 36.1% in 2009/10. The lower growth experienced by the sector in 2010/11 was due to the reduced activities in the treasury bills market due to the lower rates offered. Consequently, growth of net interest income reduced from 69.1% in 2009/10 to 27.0% in 2010/11.

The Banking sector remained stable and registered rapid growth during the financial year 2010/11. There was sustained profitability, a rise in deposit levels and adequate capitalization, which all points to a robust sector and confirms enhanced public confidence in the banking system. Despite the slow recovery of the global economy, the level of financial intermediation continued to rise during the financial year 2010/11.

The total assets of the banking sector increased by 36.1% from Ushs 8,595bn as at 31st Dec' 2009 to Ushs 11,296 bn as at end Dec'2010. Total deposits rose by 42.5%, from Ushs 5,631 billion at the end of December 2009 to Ushs 8,024 billion at the end of December 2010, while total advances grew by 35.1%, from Ushs 4,039 billion to Ushs 5,457 billion over the same period.

Banks remained well capitalized and complied with the regulatory capital adequacy requirements on an ongoing basis. The core capital of commercial banks grew by 22.8%, from Ushs 1,043 billion in December 2009 to Ushs 1,281 billion in December 2010 bolstered by fresh capital injections and retention of significant profits by some banks from the previous year.

Commercial banks profit after tax for the year 2010 increased by 13.8%, to Ushs 268.7bn compared to Ushs 236.1 bn in 2009. All banks held sufficient liquidity to meet their ongoing operational

requirements with the total liquid assets to deposits ratio averaging 39.7%, which comfortably exceed the statutory minimum requirements of 20%.

Total non-performing loans as a percentage of total advances reduced from 4.2% at the end of 2009 to 2.1% in 2010, reflecting a marked improvement in the quality of the credit portfolio.

Average commercial banks lending rates remained relatively high. Nominal weighted average lending interest rates of commercial banks were in the range of 18.5% to 20.6%. Demand deposits rates fell slightly from 1.3% recorded in the financial year 2009/10 to 1.2%; there were marginal increases in the savings and time deposit rates. The rates on saving and time deposits rose to 2.4% and about 10.0% respectively in February 2011 from the respective rates of 2.3% and 8.4%, in the same period of the financial year 2009/10.

In a bid to further strengthen the soundness of the banking sector, BOU revised the minimum capital requirement for banks in November 2010 from Ushs 4.0 billion to Ushs 25.0 billion. The revision stemmed from the need to ensure that banks hold sufficient capital to support growth, cushion risk and maintain levels that are comparable to other EAC countries. Under the revised capital requirements, existing banks were required to hold minimum capital of Ushs10.0 billion by 1st March 2011 and build it to Ushs 25 billion by March 2013.

Bank of Uganda also licensed two commercial banks namely; Imperial Bank (Uganda) Ltd and ABC Capital Bank Ltd. Africa Banking Corporation Ltd, a Kenyan based commercial bank acquired a 40% stake in Capital Finance Corporation which was a credit institution and has since transformed into ABC Capital Bank. Over the same period, the industry experienced a notable expansion in the number of service outlets, with 393 bank branches and 598 ATMs by the end of financial year 2010/11.

During the period, BOU also embarked on the process of amending some section of the Financial Institution Act, 2004 to allow banks offer Islamic banking and Insurance products within their product range to foster financial sector deepening and inclusion. BOU in addition proposed amendments to the Capital Adequacy Requirements Regulations (2005) to incorporate a capital charge for market risk, which exist in banks' securities portfolios and foreign exchange activities and suggested reforms to the Deposit Protection Fund intended to merge the separate funds under the Financial Institutions Act,(2004) and the Micro Finance Deposit Institution Act (2003), for increased efficiency.

2.0 Evaluation of the operations of Uganda Development Bank Ltd

The annual assessments of the Bank's operations serve three main purposes:

- (i) The process provides a systematic evaluation of the bank's performance in achieving the set development goals
- (ii) It helps the bank in singling out factors that inhibit effective operations, so that corrective actions can be undertaken
- (iii) It informs the bank's management and Board of Directors on the appropriate policy and administrative reforms that warrant putting in place.

2.1 Development and Review of Policies and Procedures

During the financial year 2010/11, the Management of Uganda Development Bank Ltd implemented the following:

- The Risk Management Procedures Manual was developed and approved by the Board and the Risk Management Department of the Bank became operational effective 1st July 2010.
- The lending and Investment policy of the Bank was reviewed and approved by the Board and is now being implemented.

2.2 Legal Services

The Bank through its Legal Department;

- Witnessed the conclusion of a long standing dispute between the Bank and Oil Seeds (U) Ltd, when the Supreme Court delivered judgment in favour of UDBL.
- Concluded and received a payment of Ushs 3.4 billion pursuant to an out-of-court settlement executed between the Bank and Basajjabalaba Hides & Skins.

2.3 Human Resource and Administration

In areas of Capacity Building and Training, a number of staff received training and capacity building courses in various fields both within and outside the country.

The various courses and trainings attended by staff during the financial year 2010/11 included the following:

- Drafting legal contracts
- Structured Trade Finance
- Risk Management
- Procurement
- Financial Reporting Standard
- General Office Administration
- Disaster Preparedness Planning and Management of IT projects

The Bank also sponsored some staff for Bachelor Degrees, Masters' Degrees and Professional courses like ACCA and ICSA. A total of 32 staff benefited from such training.

The Bank also entered into a memorandum of understanding with Industrial Development Bank of Kenya (IDB) with a view to build capacity among staff and sharing Knowledge, skills and experience between the two institutions. Five UDBL staff have so far benefited from this co-operation. Further, the Bank also initiated a discussion with the Industrial Development Corporation (IDC) of South Africa, and was signed the Co-operation Agreement which shall cover various areas of capacity building and project financing.

In order to boost its operational capacity, the Bank recruited six new staff during the financial year 2010/1 and they were deployed in the various departments of the Bank.

The department also initiated the use of serially numbered preprinted confirmation of payments; and this has reduced on the paperwork in the cash office with the associated cost savings.

2.4 Risk Management operations

In July 2010, the UDBL's Board of Directors approved the establishment of the Risk Management Department of the Bank; which is now fully operational.

2.5 Information and communications Technology Management

In 2010/11, the Bank's department of Management Information System (MIS) accomplished the following;

- Redesigned the Bank's website and introduced new features such as online applications for loans and tenders can invitation over the website
- Enhanced the power back up systems of the Bank, thus reducing interruptions in the Bank's operations arising from power failures by almost 80%.The power back up now covers all the major IT equipments of the Bank.
- Improved on the Bank's recovery site with a view of ensuring continuity in the Bank's operations in circumstances where there are failures at the operational centres.
- Enhanced the security functions of the Bank by broadening the areas monitored by the CCTV system.

2.6 Development Finance

Project and Trade financing are the core business of the bank with the loan portfolio ranging from short, medium to long term. Largely, the Bank's portfolio is for the acquisition of fixed assets, working capital and Trade financing. Repayment periods range averagely from 5 to 6 years for project finance; and from 3 months to 2 years for working capital and Trade financing. Where practicable, the bank correlates the client's repayments to its cash flow.

During the year 2010, UDBL disbursed loans to various sectors of the economy as presented in table 2.4 below. The table shows the sectoral composition of the loan portfolio in the year 2010. The total gross loans outstanding as at the end of 2010 stood at Ushs 51,362,097,728.

The sectors most heavily financed by the bank during the financial year 2010 included

- Manufacturing which accounts for 49% of the total project loans of which 22% was for Agro- processing and 27% for other manufacturing.
- Social services that covers education and health stood at 22%
- Hotels & Tourism at 12%,
- Construction and real estates; and Mining and Quarrying follows at 6% and 5% respectively
- General Trade which covers the financing of direct exports, importation of agro-chemicals and petroleum products followed at 2%

The sectors with the least loans were Agriculture at primary level and Transport and Communication each stood at 2%.

Table 2.2a: Shows Sectoral disbursements of UDBL Loans in percentage term for 2010

| Sectoral Distribution of UDBL PROJECTS, 2010 | | | |
|--|--------|------------------|---------|
| | Sector | percentage share | Ranking |
| Primary Agriculture, Forestry& Fishing (PA) | PA | 2 | 7 |
| Mining & Quarrying (Q) | Q | 5 | 6 |
| Construction & Real Estate (CR) | CR | 6 | 5 |
| Agro Processing (AP) | AP | 22 | 2 |
| Other Manufacturing (M) | M | 27 | 1 |
| Hotels & Tourism (H) | H | 12 | 4 |
| Social Services (S) | S | 22 | 2 |
| General Trade (T) | T | 2 | 7 |
| Transport & Communication © | C | 2 | 7 |

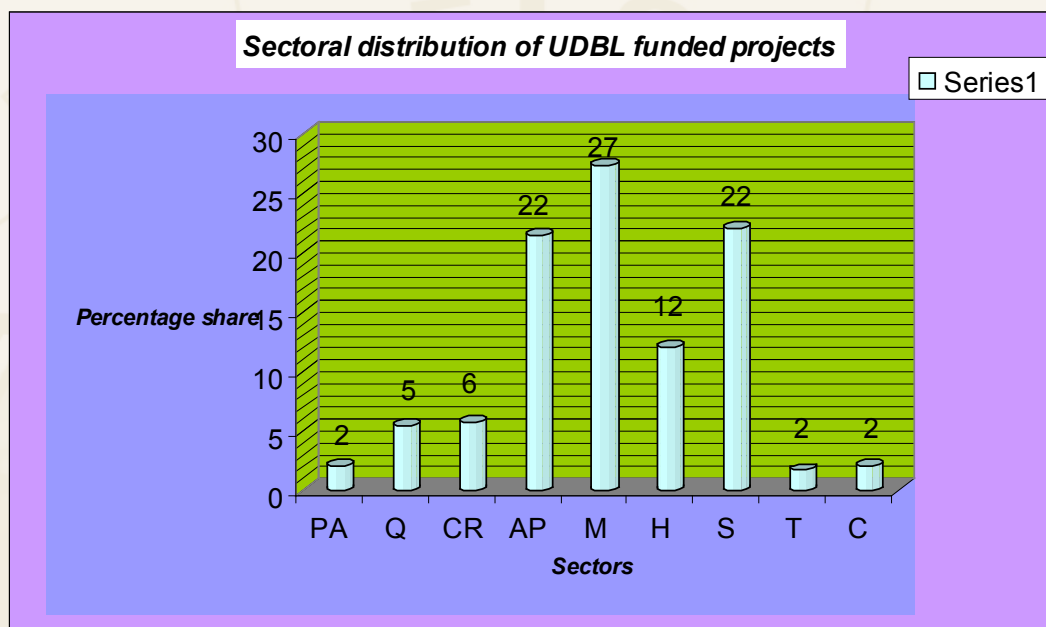
Source: UDBL data base

Key

PA=Primary Agriculture, Q= Mining & Quarrying, CR= Construction & Real Estate, AP=Agro-Processing, M =other manufacturing, H=Hotels & Tourism, S=Social Services, T =General Trade and C=Transport & Communication

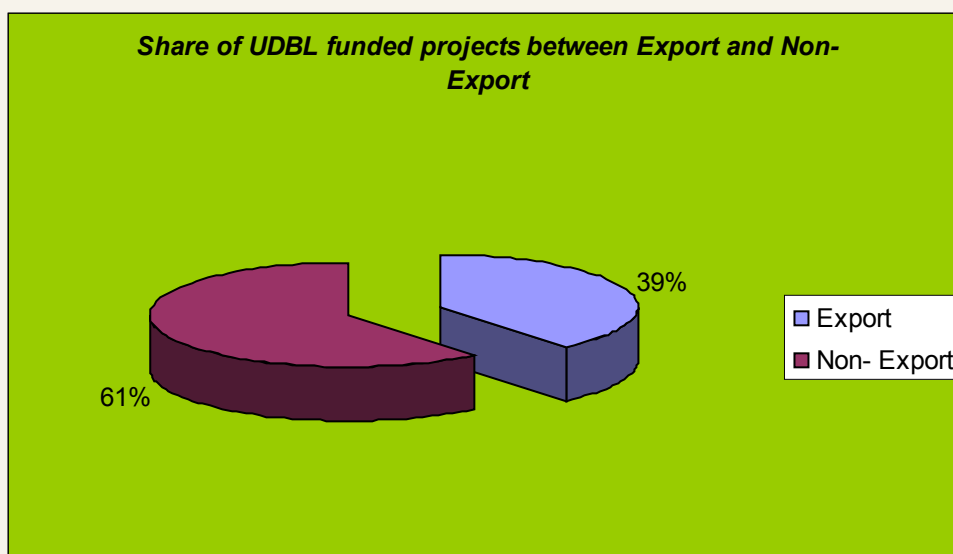
Figure 2.2b further shows the above statistics in form of a Bar Chart.

A further analysis of the bank's financing of exports and non- export sector shows varying share of the portfolio between the two sectors. The share of the export sector was 39%, while the non-export sector took 61%. Please, refer to the Pie Chart in 2.2c.

Fig: 2.2 b showing the distribution of UDBL project portfolio among sectors for 2010.

Source: UDBL data as in table 2.1 above.

Figure 2.2c: Shows the distribution of UDBL Projects between exports and Non- export in 2010



Source: analysis based on UDBL data base.

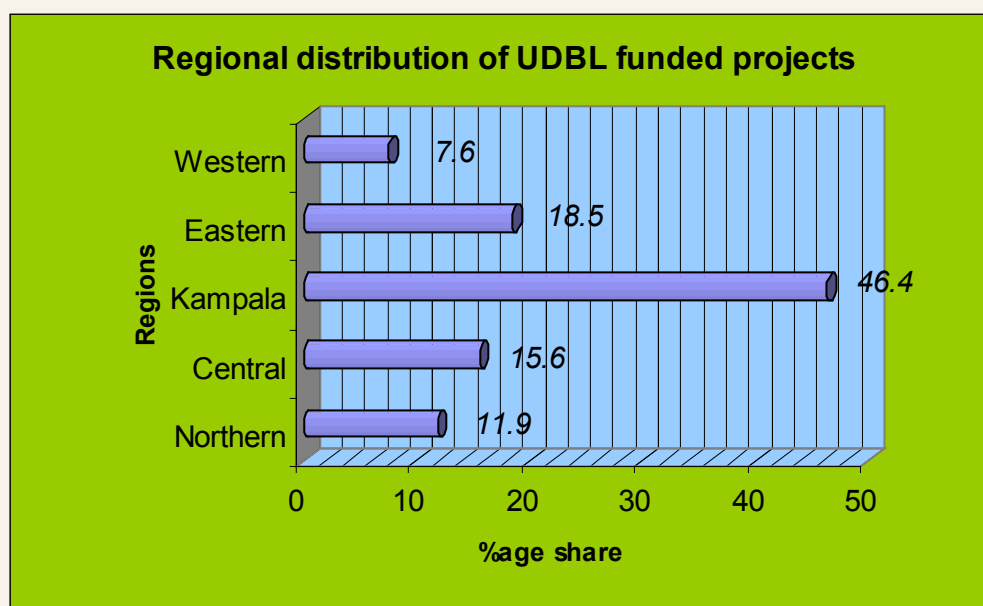
2.7 Regional Distribution of the bank's Portfolio

The analysis of the bank's portfolio in terms of its regional distribution shows a much skewed share in favour of Kampala at 46.4%, followed by Eastern region with a share of 18.5% and Central having a share of 15.6% respectively. This can be partly attributed to the fact that Central region is the business hub of the Country, and well endowed with adequate infrastructure that makes it attractive to most entrepreneurs. Northern region carries a regional share of 11.9% and finally Western, with a share of 7.6%.

Table 2.7a: Regional share of UDBL projects, 2010

| Regional Distribution of UDBL projects, 2010 | | | |
|--|----------|-------------|---------|
| No. | Regions | % age share | Ranking |
| 1 | Northern | 11.9 | 4 |
| 2 | Central | 15.6 | 3 |
| 3 | Kampala | 46.4 | 1 |
| 4 | Eastern | 18.5 | 2 |
| 5 | Western | 7.6 | 5 |
| Total | | 100 | |

Source; UDBL database

Figure 2.7b: Shows regional distribution of UDBL Loans 2010

Source: analysis based on UDBL data as in 2.3

Figure 2.7b further provides a pictorial presentation of the regional share of the UDBL loan portfolio as at the end of 2010. The vertical axis shows the regions and the horizontal, the amount of loans in percentage as at the close of 2010.

3.0 Analysis of items in the statements of comprehensive income and Financial position

3.1 Analysis of items in the statements of comprehensive income

The analysis of the income and expenditure pattern of the bank over a period of two years; 2009 and 2010 shows varying trends.

Analysis of statement of comprehensive income

Table 3.2: Income and Expenditure analysis

| | 2009 | 2010 | % age change |
|---|-----------|------------|--------------|
| Interest and Similar Income | 7,572,270 | 7,582,467 | 0.13 |
| Interest and Similar Expenses | 0 | 39,591 | 39,591 |
| Net Interest Income | 7,572,270 | 7,542,876 | -0.39 |
| Net operating income | 9,663,890 | 12,508,272 | 29.4 |
| Operating Expenses | 5,815,736 | 6,176,504 | 43.4 |
| Impairment losses on loans & advances | 1,858,791 | 5,756,968 | 208.6 |
| Other income | 2,091,620 | 4,965,396 | 137.4 |
| Profit before tax | 1,989,363 | 574,800 | -70.1 |
| Profit for the year/Total comprehensive income | 1,412,329 | 719,396 | -49.1 |

Source: UDBL Financial statements 2010

Interest and similar income increased from Ushs 7,572,270,000 to Ushs 7,582,467,000 over the period 2009 and 2010, a marginal increase of 0.13 %. On the other hand, there was no interest expense in 2009 but interest expense was Ushs 39,591 in 2010. The slight increase in Interest income was attributed to the rise in interest income from loans, which rose marginally from Ushs 5,372,780,000 to Ushs 6,286,363,000, an increase of 17%, but greatly offset by a decline in interest from investments by the Bank which declined from Ushs 2,199,490,000 in 2009 to Ushs 1,296,104,000 in 2010; a decline of 41%.

Other income sources that also contributed significantly to the increased performance were appraisal fees which rose from Ushs 274,025,000 to Ushs 461,392,000, an increase of 68.4%, foreign exchange gains which increased from Ushs 278,031,000 in 2009 to Ushs 2,601,054,000 in 2010, a phenomenal rise of 835.6% over the two periods; gains from the sale of shares which increased from Ushs 1,838,000 in 2009 to Ushs 526,086,000 in 2010. There was a marked decline in dividend income during the period under review, from Ushs 349,343,000 in 2009 to Ushs 2,440,000 in 2010, a decline of 99.3%.

Operating expenses as a percentage of net operating income decline from 60.2% in 2009 to 49.2% in 2010. The improvement in the ratio has been attributed mainly to the decline in provision for staff housing loans, reduced losses in value of shares and sale of shares. This was further boosted by the rise in other income from Ushs 2,091,620,000 in 2009 to Ushs 4,965,396,000 in 2010, an increase of 137.4%.

Staff related expenses increased from Ushs 2,265,804,000 in 2009 to Ushs 3,154,053,000 in 2010, an increase of 39.2%. This can be attributed to increases in salaries, service gratuity, and NSSF contribution. These increases came about as a result of the fact that staff number increased in the year 2010, the promotion of some staff to higher levels and the general upward adjustment in staff salaries that was implemented in 2010. Other major items of expenditure that showed increases were depreciation and maintenance expenses.

Overall, the above increases in items of expenditure relative to income resulted into a fall in profit before tax of 70.1% between 2009 and 2010, a decline of more than a half from Ushs 1,989,363,000 to Ushs 574,800,000, which finally caused the comprehensive income (profit for the year) to decline by 49.1%, from Ushs 1,412,329,000 to Ushs 719,396,000 between the periods under review.

3.2 Analysis of item in the statement of financial position

Analysis of statement of statement of Financial position

| | 2009 U 'shs' '000' | 2010 U shs '000' | % age change |
|-------------------|-----------------------|---------------------|--------------|
| Total Assets | 98,390,104 | 102,654,589 | 4.3 |
| Total Liabilities | 11,067,635 | 11,766,666 | 6.3 |
| Total Equity | 87,322,469 | 90,887,923 | 4.1 |

Source: UDBL Financial statements 2010

The bank's total assets rose from Ushs 98,390,104,000 to Ushs 102, 654, 589,000 between 2009 and 2010, an increase of 4.3%. The increase has been attributed mainly to the rise in the amount

of loans and advances, other assets, income tax recoverable and deferred tax assets. The value of Investment property remained the same over the period under review.

The bank's total liabilities increased from Ushs 11,067,635,000 to 11,766,666,000 between 2009 and 2010, a rise of 6.3%. The rise was as a result of increases in amounts due to Bank of Uganda.

The bank's Shareholders' fund increased from Ushs 87,322,469,000 in 2009 to Ushs 90,887,923,000 in 2010, a rise of 4.1%. The rise in equity has been as a result of increase in the retained earnings and some capital contribution by the government.

3.3: Analysis of performance ratios

The Average Assets of the Bank, which is measured by the Average values of assets at the beginning and end of the year rose from 91,883,502,000 in 2009 to 100,522,347,000 in 2010, an increase of Ushs 8,638,645,000, which is a 9.4% increase during the periods under review.

Table 3.3: Some key performance measures

| In percentage terms | 2009 | 2,010 | % point changes |
|---------------------------------|-------------------|--------------------|-----------------|
| | % ages | % ages | |
| <u>Operating Expenses</u> | 6.3 | 6 | 0.3 |
| Average Asset | | | |
| <u>Net operating income</u> | 10.5 | 12.4 | 1.9 |
| Average Asset | | | |
| <u>Profit before tax</u> | 2.2 | 0.57 | 1.63 |
| Average Asset | | | |
| <u>Comprehensive income</u> | 1.5 | 0.72 | 0.78 |
| Average Asset | | | |
| <u>Administrative Expenses</u> | 1.79 | 1.57 | 0.22 |
| Average Asset | | | |
| Operating cost to Income ratios | 60.2 | 49.2 | 11 |
| Staff cost to Income ratio | 23.4 | 25.1 | -17 |
| Average Asset | 91,883,502 | 100,522,347 | |

Notes:
Income = Interest & similar incomes+ other incomes
Average Asset= opening asset value + closing asset value/2

Source: UDBL Financial statements 2009

An analysis of the ratio of the profits for the year to Average Assets of the bank provides a good indicative measure of the overall profitability outcomes of the bank operations. The ratio of the bank's profit (comprehensive income) for the year to average assets for 2009 stood at 1.5% and 0.72% in 2010, a decline of 0.78 percentage points. This is a marked decline in the overall profitability index over the period. The decline has been attributed to the decline in net interest income of the Bank during the periods under review, a rise in operating expenses and increased level of impaired loans and advances.

The level of impaired loans and advances rose from Ushs 1,858,791,000 in 2009 to Ushs 5,756,968,000 in 2010, which is a rise of 208.6%. The sharp rise in the level of impaired loans and advances is mainly due to the introduction of a new product; Trade Finance for which the Bank has completed the learning curve and the Manual to guide its operation is in place.

Net operating income over average assets rose from 10.5% in 2009 to 12.4% in 2010, a rise of 1.9 percentage points. The ratio of Profit before tax to average assets declined from 2.2% in 2009 to 0.57% in 2010, a decline of 1.63 percentage points. It is important to note that this ratio has been on a sharp declining trend since 2008; ie from 16.9% in 2008 to 2.2% in 2009 and finally to 0.57% in 2010. Administrative expenses as a proportion of average assets, that provides a proxy measure of administrative efficiency declined from 1.79% in 2009 to 1.57% in 2010, which points to a slight efficiency gains in the Bank's administrative effort.

The ratio of the Bank's operating cost to total income declined from 60.2% in 2009 to 49.2% in 2010. The ratio of staff cost to total income rose from 23.4% in 2009 to 25.1% in 2010; which depicts a high level of staff expenditure relative to income. Attempts to reduce this ratio should focus more on boosting the Bank's income.

The average number of staff during the financial year 2009 was 37 and the average number in 2010 was 42. Correspondingly, total income for the Bank in 2009 was Ushs 9,663,890,000 and Ushs 12, 547, 863,000 in 2010. This implies, on average, income generated per staff in 2009 and 2010 were Ushs 261,186,216 and Ushs 298,758,643 per annum respectively. The analysis shows some marginal improvement in the level of productivity gains as a result of additional staff.

4.0 Trade Finance operations

Uganda Development Bank Ltd is committed to consolidating Trade Finance as one of its core products within its portfolio range. Despite the enormous challenges experienced during the initial stages of its implementation, the Bank was able to learn from its mistakes and re-designed a new path for the Trade Finance operations for better outcomes. This has led to a remarkable improvement in terms of quality and size of the portfolio. .

The portfolio size rose from Ushs **1,637,729,290** as at 31st December, 2009 to **Ushs 17,025,921,993** as at 31st December 2010, an increase of 940% during the periods under review. This was a quantum leap over a short period of time that needs to be sustained; while mindful of the quality of the portfolio.

4.1: The Bank's Strategic Outlook

In the year ahead, the Bank's strategic initiatives will focus majorly on the following:

- Completion of the process of developing its 5 years strategic plan that will clearly identify the Bank's strategic priorities in line with its mandate. Further, the Bank will;
- Proactively embrace a more innovative approach in its endeavor to deepen its lending operations.
- Automate its operation and integrate its Management Information System for better delivery of services and improved data quality for effective Management decision making.
- Develop and Implement a Business Continuity Plan for the Bank
- Review internal processes, systems and policies with a view to embrace new challenges posed by the business environment.

In addition, the Bank will make a concentrated effort to strengthen its risk management capabilities, which is essential for it to manage the higher risks that emanate from the increased lending operations of the Bank and preserve value for the Bank's portfolio.

Report Of The Directors

The directors submit their report and the audited financial statements of Uganda Development Bank Limited (“the Bank”) for the year ended 31 December 2010, which show the state of the Bank’s affairs.

1. 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 investing in equity of viable businesses.

2. 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.

2.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Uganda Development Bank Limited measures, monitors and manages credit risk for each borrower and also at the portfolio level. The Bank has a standardised credit approval process, which includes a well established procedure of comprehensive credit appraisal and rating.

2.2 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.

2.3 Operational risk

Operational risk can result from a variety of factors, including failure to obtain proper internal authorisation, improperly documented transactions, inadequate training and employee errors. The Bank mitigates 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.

2.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank's objective to managing liquidity is to ensure that there will always be sufficient liquidity to meet its liabilities and other obligations when they fall due under both normal and stressed conditions in line with the Bank's Policies without incurring unacceptable losses or risking damage to the Bank's reputation.

3. RESULTS

The results for the year are set out on page 7.

4. DIVIDENDS

The directors do not recommend the payment of a dividend (2009: Nil)

5. RESERVES

The reserves of the company are set out on page 9.

6. DIRECTORS

The directors who served during the year and to the date of this report were as follows. The directors were in office for the entire period unless otherwise stated.

| | | |
|----------------------|---|----------|
| Mr. James Kahoza | - | Chairman |
| Mr. George W. Nyeko | - | Director |
| Mrs. Maria Kiwanuka | - | Director |
| Mr. Charles Ocici | - | Director |
| Mr. Samson H. Wako | - | Director |
| Mr. David Mulassanyi | - | Director |

7. AUDITORS

The auditors, Ernst & Young, were appointed by the Auditor General in accordance with powers vested in the Auditor General under the constitution of the Republic of Uganda.

8. FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 30/05/2011.

By order of the Board

Statement Of Directors' Responsibilities

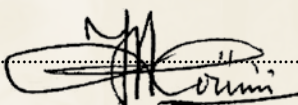
The Ugandan Companies Act (Cap 110) require the directors of the Bank to prepare financial statements for each financial year, which give a true and fair view of the state of financial affairs of the Bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that 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.

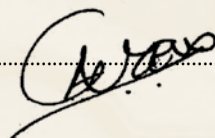
The directors are ultimately responsible for the Internal Control. The directors delegate the responsibility for the internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability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

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act (Cap 110). 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 Bank and of its operating results. The directors further accept the 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.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

The financial statements which appear on pages 7 to 41 were approved by the Board of Directors on 30/05/2011 and signed on its behalf by:

Director : 

Director : 



Bomah Hotel Ltd - Gulu

Report Of The Independent Auditors' To The Auditor General

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Uganda Development Bank Limited, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 7 to 41.

Directors' Responsibility for the Financial Statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required the Ugandan Companies Act (Cap 110), 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.

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Uganda Development Bank Limited as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Ugandan Companies Act (Cap 110).

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Ugandan Companies Act (Cap 110) we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our 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.

KAMPALA**2011**

Statement of Comprehensive Income

| | Note | 2010 | 2009 |
|---|-------|--------------------|--------------------|
| | | Ushs 000 | Ushs 000 |
| Interest Income | | | |
| Interest and similar income | 4 | 7,582,467 | 7,572,270 |
| Interest and similar expenses | | <u>(39,591)</u> | <u>-</u> |
| Net interest income | | 7,542,876 | 7,572,270 |
| Other income | 5 | <u>4,965,396</u> | <u>2,091,620</u> |
| Net Operating Income | | 12,508,272 | 9,663,890 |
| Operating expenses | 6 | (6,176,504) | (5,815,736) |
| Impairment losses on loans and advances | 11(d) | <u>(5,756,968)</u> | <u>(1,858,791)</u> |
| Profit before tax | | 574,800 | 1,989,363 |
| Income tax credit/ (expense) | 8(a) | <u>144,596</u> | <u>(577,034)</u> |
| Profit for the year | | 719,396 | 1,412,329 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>719,396</u> | <u>1,412,329</u> |

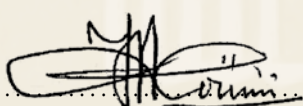



Layz Agrico - Mukono

Statement Of Financial Position

| ASSETS | Note | 2010 | 2009 |
|--|-------|---------------------------|--------------------------|
| | | Ushs 000 | Ushs 000 |
| Cash and balances due from banking institutions | 9 | 2,518,143 | 2,698,270 |
| Financial assets at fair value through profit and loss | 10 | 564,256 | 4,607,509 |
| Loans and advances | 11 | 56,312,513 | 40,507,674 |
| Staff loans and advances | 12 | 1,405,398 | 1,101,106 |
| Investments- held to maturity | 13(a) | 17,505,839 | 25,037,488 |
| Investment in associate | 13(b) | - | 762,170 |
| Other assets | 14 | 1,053,320 | 857,063 |
| Income tax recoverable | 8(c) | 507,043 | 336,771 |
| Deferred tax asset | 15 | 299,900 | - |
| Property and equipment | 16 | 934,800 | 890,027 |
| Investment property | 17 | 21,500,000 | 21,500,000 |
| Intangible assets | 18 | 53,377 | 92,026 |
| TOTAL ASSETS | | <u>102,654,589</u> | <u>98,390,104</u> |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Other liabilities | 19 | 1,597,837 | 1,794,485 |
| Trust funds | 20 | 5,354,547 | 4,727,379 |
| Amounts due to Bank of Uganda | 21 | 4,814,282 | 3,667,602 |
| Deferred tax liability | 15 | - | 878,169 |
| TOTAL LIABILITIES | | <u>11,766,666</u> | <u>11,067,635</u> |
| EQUITY | | | |
| Issued capital | 22 | 41,284,546 | 41,284,546 |
| Capital contribution pending allotment | 23 | 26,908,114 | 24,062,056 |
| Retained earnings | | 22,695,263 | 21,355,116 |
| Credit risk reserve | 24 | - | 620,751 |
| TOTAL EQUITY | | <u>90,887,923</u> | <u>87,322,469</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>102,654,589</u> | <u>98,390,104</u> |
| LIABILITIES | | | |

The financial statements were approved by the Board of Directors on 30/05/2011 and were signed on its behalf by:

.....Director

.....Director



Lachen Investment Ltd (Apartments) - Bunga

Statement Of Changes In Equity

| | Note | Issued capital | Credit risk reserve | Government capital contribution | Retained earnings | Total |
|--|------|----------------|---------------------|---------------------------------|-------------------|------------|
| | | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 |
| At 1 January 2009 | | 41,284,546 | 2,509,330 | 11,877,759 | 18,054,208 | 73,725,843 |
| Government contributions during the year | 23 | - | - | 12,184,297 | - | 12,184,297 |
| Transfer from risk reserve | 24 | - | (1,888,579) | - | 1,888,579 | - |
| Total comprehensive income for the year | | - | - | - | 1,412,329 | 1,412,329 |
| At 31 December 2009 | | 41,284,546 | 620,751 | 24,062,056 | 21,355,116 | 87,322,469 |
| Government contributions during the year | 23 | - | - | 2,846,058 | - | 2,846,058 |
| Transfer from risk reserve | 24 | - | (620,751) | - | 620,751 | - |
| Total comprehensive income for the year | | - | - | - | 719,396 | 719,396 |
| At 31 December 2010 | | 41,284,546 | - | 26,908,114 | 22,695,263 | 90,887,923 |



Margaritha Palace Hotel - Lira

Statement Of Cash Flows

| | | 2010 | 2009 |
|--|-------------|---------------------|--------------------|
| OPERATING ACTIVITIES | Note | Ushs 000 | Ushs 000 |
| Cash used in operations | 27 | (15,306,667) | (1,813,480) |
| Income tax paid | 8 | <u>(1,203,745)</u> | <u>(990,794)</u> |
| Net cash used in operating activities | | <u>(16,510,412)</u> | <u>(2,804,274)</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | 16 | (306,206) | (403,711) |
| Purchase of intangible assets | 18 | (3,601) | (77,460) |
| Placements with banking institutions | | 7,531,649 | (7,935,809) |
| Sale of quoted equity investments | | - | 428,714 |
| Proceeds from sale of shares | | 4,582,117 | 17,168 |
| Proceeds from sale of investment | | 450,000 | - |
| Proceeds on disposal of fixed assets | | <u>83,588</u> | <u>1,590</u> |
| Net cash generated from/ (used in) investing activities | | <u>12,337,547</u> | <u>(7,969,508)</u> |
| FINANCING ACTIVITIES | | | |
| Receipts / (payment) to Bank of Uganda | | 1,146,680 | (1,545,626) |
| Contribution from Government of Uganda | | <u>2,846,058</u> | <u>12,184,297</u> |
| Net cash generated from financing activities | | <u>3,992,738</u> | <u>10,638,671</u> |
| Net decrease in cash and cash equivalents | | (180,128) | (135,111) |
| Cash and cash equivalents at 01 January | | <u>2,698,270</u> | <u>2,833,381</u> |
| Cash and cash equivalents at 31 December | 9 | <u>2,518,143</u> | <u>2,698,270</u> |



Oasis Nursery Ltd - Mukono

Notes To The Financial Statements

1. Corporate Information

Uganda Development Bank Limited promotes economic development in Uganda through providing short, medium and long term secured loans to commercial enterprises and investing in equity securities of Companies. It is a limited liability company incorporated under the Ugandan Companies Act and Statutory Instrument no. 26. It is domiciled in Uganda and is wholly owned by the Government of the Republic of Uganda. Its registered office is located on Plot no. 15A, Clement Hill Road, Kampala, Uganda.

The financial statements of Uganda Development Bank Limited for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 30/05/2011.

2. Accounting policies

The principal accounting policies applied in the presentation of these financial statements are set below. These policies have applied consistently, unless otherwise stated.

Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Ugandan Companies Act.

The measurement basis applied is the historical cost basis, except for financial assets and financial liabilities designated at fair value through profit or loss, and investment property which have all been measured at fair value. The financial statements are presented in Uganda Shillings, and all values are rounded to the nearest thousands (Ushs 000) except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.1.

2.1 Significant Accounting Judgments and Estimates

In the process of applying the Bank's accounting policies, management has exercised judgments and estimates in determining amounts recognised in the financial statements. The most significant use of judgment and estimates are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Impairment losses on loans and advances

The Bank reviews its individually significant loans at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

Impairment losses on loans and advances (cont'd)

Loans and advances that are considered significant have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether the provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc), concentrations of risk and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in Note 11.

Held-to-maturity financial assets

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such assets to maturity. If the Bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. All the assets are then classified as available for sale and measured at fair value with the fair value gains and losses recognised through equity.

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical,

models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The carrying amount of assets and liabilities subject to significant estimation are as follows:

| | 2010 | 2009 |
|------------------------|------------|----------------|
| | Ushs 000 | Ushs 000 |
| Assets | | |
| Loans advances | 56,312,513 | 40,507,674 |
| Income tax recoverable | 507,043 | 336,771 |
| Investment Properties | 21,500,000 | 21,500,000 |
| Deferred tax asset | 299,900 | - |
| Liabilities | | |
| Deferred tax liability | <u>-</u> | <u>878,169</u> |

2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those used in the previous financial year.

New and amended standards and interpretations

Amendments to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009

Improvements to IFRSs

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations effective 1 January 2010

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases

- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives

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 listed below. This listing 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.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The Bank has not early adopted the amended standard.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

2.3 Summary of Significant Accounting Policies

Foreign Currency

Functional and presentation currency

Uganda Shillings (Ushs) is the company's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to other operating expenses' in the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and held-to-maturity investments. Management determines the classification of its investments at initial recognition.

Date of recognition

Purchase or sales of financial assets that require delivery of assets within the time frame generally established by recognition or convention in the market place are recognized on the trade date that the Bank becomes party to the contractual provision.

Initial recognition of financial instrument

The classification of instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

a) Financial assets at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that

would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

b) *Held-to-maturity*

Held-to-maturity financial investments are those non derivatives which carry fixed or determinable payments and have fixed maturities and which the company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in interest and similar income in the statement of comprehensive income. The losses arising from impairment of such investments are recognized in the statement of comprehensive income line 'impairment losses on financial investments'.

c) *Due from banks and loans and advances to customers*

"Due from banks" and "Loans and advances to customers non derivatives" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale and are not classified as financial assets held for trading', designated as 'financial investment-available for sale' or financial assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in 'Credit loss expense'.

Derecognition of financial assets and liabilities

a) *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired: or
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass – through' arrangement: and
- Either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

b) Financial liabilities

A financial liability is derecognized when the obligation under liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability. And the recognition of a new liability and the difference in the respective carrying amounts is recognized in statement of comprehensive income.

Determination of fair value

The fair value for financial instrument traded in active markets at the reporting date is based on their quoted market price or deal price quotations (bid price for long position and ask price for short positions) without any deduction for transaction cost. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument

Impairment of Financial Assets

The company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a

result of one or more events that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is expecting significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter Bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a) *Due from Banks and loans & advances to customers*

For amounts due from Banks and loans and advances to customers carried at amortized cost, the company first assesses individually whether objective of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exist for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write – off is later recovered, the recovery is created to the 'credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of the company's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographic location, collateral type past- due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss

experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Due from banks' and 'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank, upon initial recognition, designates as available for sale; or
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from Banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in 'Credit loss expense'.

b) Renegotiated loans

Where possible, the company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payment are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans original effective interest rate.

Offsetting

Assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

a) Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or the financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit - losses. The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original interest rate applied to the new carrying amount.

b) Fee and commission income

The company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees

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

Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, and amounts due from other financial institutions on demand or with an original maturity of three months or less. These are measured at amortised cost.

Property and equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization of the period or method, as appropriate, and treated as changes in accounting estimates.

Free hold land is not depreciated. Depreciation on other assets is calculated using the straight-

line method to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

| | |
|----------------------------------|---------|
| Motor vehicles | 5 years |
| Furniture, Fixtures and fittings | 8 years |
| Computer equipment | 4 years |

An item of property 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 carrying amount of the asset) is recognized in 'Other operating income' or 'other operating expense' in the statement of comprehensive income in the year the asset is derecognised. The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end

Intangible Assets

Other intangible assets include the value of computer software. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as a date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses

Intangible Assets (cont'd)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible asset to their residual values over their estimated useful lives as follows:

| | |
|-------------------|---------|
| Computer software | 3 years |
|-------------------|---------|

An intangible asset shall be derecognized on disposal or when there are no future economic benefits arising from its use.

Investment Property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and future economic benefits is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the assets is recognized in the statement of comprehensive income in the period of derecognition.

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

Impairment of non financial assets

The company assesses at each reporting date whether there is an indication that any asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Retirement Benefits

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salary. The company's contributions are charged to the statement of comprehensive income in the period to which they relate.

Provisions

Provisions are recognised when the company has a legal or constructive obligation as result of past events and it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Where the

effect of time value of money is material, the amount of a provision shall be the present value of the expenditures expected to settle the obligation.

Taxes

a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxation is provided in the statement of comprehensive income on the basis of the results included therein adjusted in accordance with the provisions of the Income Tax Act Cap 340.

Current tax is measured using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period

b) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

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

Unquoted investments

Unquoted investments are stated at cost less impairment loss where a range of reasonable fair value estimates is significant and the probabilities of various estimates cannot be reasonably assessed.

Quoted investments

The quoted investments are stated at fair value based on their quoted market values as at 31 December 2010.

3. Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Non financial risks.

This note presents information about the bank's exposure to each of the above risks, the bank's objectives, policies and processes for measuring and managing risk and the bank's management of capital.

3.1 Market Risks - Sensitivity Analysis

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize 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 modeling) and the sensitivity of future earnings and capital to varying foreign exchange rates. The 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 modeling, the Bank uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the Bank's earnings and capital.

a) Interest Rate Risks – increase / decrease of 10% in net interest margin

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 recognized at their fair value.
- the interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modeling 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.

b) Foreign Exchange Risks – appreciation/depreciation of Ushs against other currencies by 10%

- the foreign exchange risks sensitivity analysis is based on the follow assumptions;
- foreign exchange exposures represent net currency positions of all currencies other than Uganda Shillings.
- the currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective
- the base currency in which Uganda Development Banks business is transacted is Uganda Shillings.

3.2 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-Bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank's objective to managing liquidity is to ensure that, there will always be sufficient liquidity to meet its liabilities and other obligations when they fall due under both normal and stressed conditions in line with the Bank's Policies without incurring unacceptable losses or risking damage



Western Meridian Hotel - Bushenyi

The table below summarises the net position as at 31 December 2009

| 31 December 2009 | Up to 1 month | 1-3 month | 3-6 month | 6- 12 months | 1-3yrs | 3-5yrs | Over 5yrs | Total |
|---|----------------------|------------------|-------------------|---------------------|------------------|------------------|---------------------|-------------------|
| | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 |
| Assets | | | | | | | | |
| Property and equipment | - | - | - | - | - | - | 890,027 | 890,027 |
| Intangible assets | - | - | - | - | - | - | 92,026 | 92,026 |
| Investment property | - | - | - | - | - | - | 21,500,000 | 21,500,000 |
| Financial assets measured at fair value | - | - | - | - | - | - | 4,607,509 | 4,607,509 |
| Other financial investments | - | - | - | - | - | - | 762,170 | 762,170 |
| Investments held to maturity | - | - | 24,034,459 | - | - | 1,003,029 | - | 25,037,488 |
| Staff loans and advances | 2,025 | 3,033 | 3,033 | 3,050 | 669 | 1,089,296 | - | 1,101,106 |
| Other assets | 14,554 | 37,973 | 389,577 | 414,959 | - | - | - | 857,063 |
| Tax recoverable | - | - | - | 336,771 | - | - | - | 336,771 |
| Loans and Advances | 4,230,023 | 1,747,499 | 3,762,478 | 14,792,311 | 9,040,129 | 4,516,409 | 2,418,825 | 40,507,674 |
| Cash and Bank balances | 2,698,270 | - | - | - | - | - | - | 2,698,270 |
| Total assets | 6,944,872 | 1,788,505 | 28,189,547 | 15,547,091 | 9,040,798 | 6,608,734 | 30,270,557 | 98,390,104 |
| Other payables | - | - | 1,794,485 | - | - | - | - | 1,794,485 |
| Deferred tax liability | - | - | - | - | 878,169 | - | - | 878,169 |
| Trust funds | - | - | - | - | - | - | 4,727,379 | 4,727,379 |
| Due to Bank of Uganda | - | - | - | 3,667,602 | - | - | - | 3,667,602 |
| Share Capital | - | - | - | - | - | - | 41,284,546 | 41,284,546 |
| Capital contribution | - | - | - | - | - | - | 24,062,056 | 24,062,056 |
| Retained Earnings | - | - | - | - | - | - | 21,355,116 | 21,355,116 |
| Credit risk reserve | - | - | - | - | - | - | 620,751 | 620,751 |
| Total Equity and liabilities | - | - | 1,794,485 | 3,667,602 | 878,169 | - | 92,049,848 | 98,390,104 |
| Net liquidity gap | 6,944,872 | 1,788,505 | 26,395,062 | 11,879,489 | 8,162,629 | 6,608,734 | (61,779,291) | - |

3.3 Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Bank's business strategies.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income and equity.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010.

| Currency | Increase/(decrease) in basis points | Effect on Profit or Loss | Increase/(decrease) in basis points | Effect on Profit or Loss |
|------------|--|-----------------------------|--|-----------------------------|
| | 2010 | 2010 | 2009 | 2009 |
| | Ushs million | | Ushs million | |
| USD | +400/(300) | 633/(475) | +400/(300) | 294/(220) |
| UGX | +200/(200) | (1,188)/1,188 | +200/(200) | (1,187)/1,187 |

The table below summarizes the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off statement of financial position items.

| 31 December 2010 | | Up to 1yr | 1 to 3yrs | 3 to 5yrs | Over 5yrs | Non-interest bearing | Total |
|--------------------------------------|-------------------|-------------------|------------------|------------------|---------------------|-----------------------------|-----------------|
| Assets | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 |
| Property and equipment | - | - | - | - | - | 934,800 | 934,800 |
| Intangible assets | - | - | - | - | - | 53,377 | 53,377 |
| Investment property | - | - | - | - | - | 21,500,000 | 21,500,000 |
| Tax recoverable | - | - | - | - | - | 507,043 | 507,043 |
| Financial assets at fair value | - | - | - | - | - | 564,256 | 564,256 |
| Other financial investments | - | - | - | - | - | - | - |
| Investments held to maturity | 17,505,839 | - | - | - | - | - | 17,505,839 |
| Staff loans | 417,228 | 316,284 | 155,938 | 515,948 | - | - | 1,405,398 |
| Other assets | - | - | - | - | - | 1,053,320 | 1,053,320 |
| Deferred tax asset | 299,900 | - | - | - | - | - | 299,900 |
| Net advances to Customers | 30,991,806 | 9,914,608 | 8,868,323 | 6,537,776 | - | - | 56,312,513 |
| Cash and Bank balances | - | - | - | - | - | 2,518,143 | 2,518,143 |
| Total assets | 49,214,773 | 10,230,892 | 9,024,261 | 7,053,724 | 27,130,939 | 102,654,589 | |
| Equity and Liabilities | | | | | | | |
| Other liabilities | - | - | - | - | - | 1,597,837 | 1,597,837 |
| Trust funds | - | - | - | - | - | 5,354,547 | 5,354,547 |
| Due to Bank of Uganda | - | - | - | - | - | 4,814,282 | 4,814,282 |
| Share capital | - | - | - | - | - | 41,284,546 | 41,284,546 |
| Capital contribution | - | - | - | - | - | 26,908,114 | 26,908,114 |
| Retained Earnings | - | - | - | - | - | 22,695,263 | 22,695,263 |
| Total Equity and liabilities | 49,214,773 | 10,230,892 | 9,024,261 | 7,053,724 | (75,523,650) | 102,654,589 | |
| Interest sensitivity gap | 49,214,773 | 10,230,892 | 9,024,261 | 7,053,724 | (75,523,650) | - | |
| 31 December 2009 | | | | | | | |
| Total assets | 47,407,323 | 9,040,798 | 4,516,409 | 5,728,077 | 31,697,497 | 98,390,104 | 98,390,104 |
| Total Equity and liabilities | - | - | - | - | (98,390,104) | (98,390,104) | (98,390,104) |
| Interest rate sensitivity gap | 47,407,323 | 9,040,798 | 4,516,409 | 5,728,077 | (66,692,607) | - | |

3.4 Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The Bank operates wholly within Uganda and its assets and liabilities are reported in Uganda shillings.

The Bank's currency position is as follows:

| 31 December 2010 | Uganda shillings Ushs 000 | US Dollars Ushs 000 | Other Ushs 000 | KES Ushs 000 | Total Ush'000 |
|-------------------------------------|------------------------------|------------------------|-------------------|-----------------|--------------------|
| Assets | | | | | |
| Property and equipment | 934,800 | - | - | - | 934,800 |
| Intangible assets | 53,377 | - | - | - | 53,377 |
| Investment property | 21,500,000 | - | - | - | 21,500,000 |
| Financial assets at fair value | 564,256 | - | - | - | 564,256 |
| Investments held to maturity | 17,505,839 | - | - | - | 17,505,839 |
| Staff loans and advances | 1,405,398 | - | - | - | 1,405,398 |
| Tax recoverable | 507,043 | - | - | - | 507,043 |
| Other assets | 1,053,320 | - | - | - | 1,053,320 |
| Deferred tax asset | 299,900 | - | - | - | 299,900 |
| Loans and advances | 40,487,060 | 15,825,453 | - | - | 56,312,513 |
| Cash and Bank balances | <u>1,844,760</u> | <u>582,391</u> | <u>89,595</u> | <u>1,397</u> | <u>2,518,143</u> |
| Total assets | 86,150,753 | 16,407,844 | 89,595 | 1,397 | 102,654,589 |
| Equity and Liabilities | | | | | |
| Other liabilities | 1,597,837 | - | - | - | 1,597,837 |
| Trust funds | - | 5,354,547 | - | - | 5,354,547 |
| Due to Bank of Uganda | 4,814,282 | - | - | - | 4,814,282 |
| Share capital | 41,284,546 | - | - | - | 41,284,546 |
| Capital contribution | 26,908,114 | - | - | - | 26,908,114 |
| Retained Earnings | <u>22,695,263</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>22,695,263</u> |
| Total Equity and liabilities | 97,300,042 | 5,354,547 | - | - | 102,654,589 |
| Currency gap | (11,149,289) | 11,053,297 | 89,595 | 1,397 | - |
| 31 December 2009 | | | | | |
| Total assets | 89,960,800 | 8,024,844 | 116,554 | 287,906 | 98,390,104 |
| Total Equity and liabilities | (93,662,725) | (4,727,379) | - | - | (98,390,104) |
| Currency gap | <u>(3,701,925)</u> | <u>3,297,465</u> | <u>116,554</u> | <u>321,704</u> | <u>-</u> |

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Dollar, with all other variables held constant, on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of comprehensive income or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the dollar would have resulted in an equivalent but opposite impact.

| Currency | Change in currency rate in % | Effect on profit before tax | Change in currency rate in % | Effect on profit before tax |
|----------|------------------------------|-----------------------------|------------------------------|-----------------------------|
| | 2010 | 2010 | 2009 | 2009 |
| | | Ushs million | | Ushs million |
| USD | +12% | 1,326 | +12% | 396 |
| EURO | +8% | 7 | +8% | 9 |
| KES | +5% | - | +5% | 16 |

Equity Price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale.

3.5 Credit risk

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees.

The table below represents the credit risk exposure to the Bank at 31 December 2010, without taking account of any collateral held or other credit enhancements attached.

| | 2010 Ushs000 | 2009 Ushs000 |
|---|-------------------|-------------------|
| Balances due from Banking institutions (Note 9) | 2,518,143 | 2,698,270 |
| Investment in financial instruments (Note 10) | 564,256 | 4,607,509 |
| Investments held to maturity (Note 13) | 17,505,839 | 25,037,488 |
| Loans and advances to customers (Note 11) | 56,312,513 | 40,507,674 |
| Staff loans and advances (Note 12) | 1,405,398 | 1,101,106 |
| Other assets (Note 14) | <u>1,053,320</u> | <u>857,063</u> |
| | <u>79,359,469</u> | <u>74,809,110</u> |

The above represent a worse case scenario of credit risk exposure to the Bank as at 31 December 2010 and 2009 without taking account of collateral held or other credit enhancements attached. The exposures set out above are based on the carrying amounts as reported in the statement of financial position.

As shown above, 71% of the total maximum exposure is derived from loans and advances to customers (2009: 54%) whilst 22% represents deposits and balances due from Banking institutions (Investments held to maturity) (2009: 33%)

Loans and advances to customers are secured by collateral in form of charges over land and building and/or plant and machinery or corporate guarantees.

Management is confident in its ability to continue to control and sustain minimum exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following;

- The Bank exercises stringent controls over the granting of new loans;
- 57% of the loans and advances portfolio are neither past due nor impaired; and
- All the loans and advances to customers are backed by collateral.

Exposure to credit risk

| Loans and advances to customers | 2010 | 2009 |
|--------------------------------------|-------------------|-------------------|
| | Ushs 000 | Ushs 000 |
| As at 31 December 2010 | | |
| Neither past due nor impaired | 39,287,011 | 33,811,428 |
| Past due but not impaired | | |
| Past due 30 to 90 days | 1,635,002 | 1,327,502 |
| Past due 90 to 180 days | 12,446,212 | 1,155,452 |
| Past due 180 to 365 days | 3,030,721 | 633,631 |
| Impaired | <u>12,751,324</u> | <u>13,224,819</u> |
| | 69,150,270 | 50,152,832 |
| Less allowance for impairment | | |
| Collectively assessed | 486,433 | 64,157 |
| Individually assessed | <u>12,351,324</u> | <u>9,581,001</u> |
| Total Carrying Values | <u>56,312,513</u> | <u>40,507,674</u> |

Collateral and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

3.6. Fair Value of Financial Instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair values of the Bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Bank at the balance sheet date.

3.7. Capital Management

The primary objective of the Bank's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characterized of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payable to shareholders, return capital to shareholders or issue securities.

No changes were made in the objectives, policies or processes during the year end 31 December 2009 and 31 December 2010.

| | 2010 | 2009 |
|---------------------------------------|------------------|------------------|
| | Ushs 000 | Ushs 000 |
| 4. INTEREST AND SIMILAR INCOME | | |
| Interest income from loans | 6,286,363 | 5,372,780 |
| Interest on investments | <u>1,296,104</u> | <u>2,199,490</u> |
| | <u>7,582,467</u> | <u>7,572,270</u> |
| 5. OTHER INCOME | | |
| Appraisal fees | 461,392 | 274,025 |
| Dividend income | 2,440 | 349,343 |
| Gain on sale of shares | 526,086 | 1,838 |
| Gain on sale of assets | 77,588 | 1,590 |
| Foreign exchange gain | 2,601,054 | 278,031 |
| Fair value gain on equity investments | 12,778 | - |
| Rental income | <u>1,284,058</u> | <u>1,186,793</u> |
| | <u>4,965,396</u> | <u>2,091,620</u> |
| 6. OPERATING EXPENSES | | |
| Administrative expenses | 1,579,513 | 1,646,276 |
| Maintenance expenses | 768,147 | 695,957 |
| Depreciation | 255,433 | 164,965 |
| Amortisation of intangible assets | 42,249 | 65,229 |
| Staff costs (note 7) | 3,154,053 | 2,265,804 |
| Directors' remuneration | 25,539 | 26,180 |
| Provision for staff housing loans | - | 26,408 |
| Auditors' remuneration | 39,400 | 39,400 |
| Loss in value of shares | - | 753,178 |
| Loss on sale of investment | 312,170 | - |
| Loss on sale of shares | - | <u>132,339</u> |
| | <u>6,176,504</u> | <u>5,815,736</u> |
| 7. STAFF EXPENSES | | |
| Salaries | 2,287,573 | 1,519,518 |
| Service gratuity | 186,586 | 153,440 |
| Staff long service award | 228,064 | 233,094 |
| NSSF Contribution | 165,666 | 103,002 |
| Staff welfare | 216,235 | 256,750 |
| Discount for staff loans | <u>69,929</u> | <u>-</u> |
| | <u>3,154,053</u> | <u>2,265,804</u> |
| 8. TAXATION | | |

| | | |
|---|------------------|------------------|
| a) Statement of comprehensive income | | |
| Current income tax | 1,080,279 | 722,048 |
| Deferred tax-current year (note 14) | (1,054,811) | (39,812) |
| Under/Over provision in respect of prior years. | | |
| -Current tax | (46,806) | (103,859) |
| -Deferred tax | (123,258) | (1,343) |
| | <u>(144,596)</u> | <u>577,034</u> |
| b) Reconciliation of Income tax expense | | |
| | 2010 | 2009 |
| | Ushs 000 | Ushs 000 |
| Profit before tax | <u>574,800</u> | <u>1,989,363</u> |
| Tax at applicable rate of 30% | 172,440 | 596,809 |
| Tax effect of non-taxable income | (146,948) | (109,178) |
| Tax effect on non-deductable expenses | - | 194,605 |
| Over provision in prior year | (170,088) | (105,202) |
| | <u>(144,596)</u> | <u>577,034</u> |
| c) Statement of financial position | | |
| At 1 January | (336,771) | 35,834 |
| Charge for the year | 1,080,279 | 722,048 |
| Tax paid During the year | (1,203,745) | (990,794) |
| Over/Under provision | <u>(46,806)</u> | <u>(103,859)</u> |
| At 31 December | <u>(507,043)</u> | <u>(336,771)</u> |
| 9. CASH AND BALANCES DUE FROM BANKING INSTITUTIONS | | |
| Cash on hand | 113 | 16 |
| Balances due from Banking institutions | <u>2,518,030</u> | <u>2,698,254</u> |
| | <u>2,518,143</u> | <u>2,698,270</u> |

10. INVESTMENTS**a) Financial assets at fair value through profit and loss**

| | Number of Ordinary Shares | Original cost Ushs 000 | Market value 2010 Ushs 000 | |
|-------------------------------------|----------------------------------|---------------------------|-------------------------------------|------------------------------------|
| KENGEN | 6,431 | 1,948 | 3,139 | |
| Uganda Clays Limited | 10,147,335 | 538,036 | 507,367 | |
| The New Vision Ltd | <u>92,674</u> | <u>18,535</u> | <u>53,750</u> | |
| | <u>10,246,440</u> | <u>558,519</u> | <u>564,256</u> | |
| Movement in number of shares | | | | |
| | At 1 January 2009 | Disposals | At 31 December 2009 | |
| EA Breweries | 1,115,520 | (1,115,520) | - | |
| KENGEN | 6,431 | - | 6,431 | |
| Uganda Clays Limited | 10,147,335 | - | 10,147,335 | |
| The New Vision Ltd | <u>92,674</u> | <u>-</u> | <u>92,674</u> | |
| | <u>11,361,960</u> | <u>(1,115,520)</u> | <u>10,246,440</u> | |
| Movement in fair value | | | | |
| | At 1 January 2010 Ushs 000 | Disposals Ushs 000 | Fair value Gain/loss Ushs 000 | At 31 December 2010 Ushs 000 |
| East African Breweries | 4,056,031 | (4,582,117) | 526,086 | - |
| KENGEN | 1,945 | - | 1,194 | 3,139 |

| | | | | |
|--------------------------------|------------------|--------------------|-----------------|----------------|
| Uganda Clays Limited | 507,367 | - | - | 507,367 |
| The New Vision Ltd | <u>42,166</u> | - | <u>11,584</u> | <u>53,750</u> |
| | <u>4,607,509</u> | <u>(4,582,117)</u> | <u>538,864</u> | <u>564,256</u> |
| Movement in share price | | | | |
| | 2010 | | 2009 | |
| | Ushs 000 | | Ushs 000 | |
| East African Breweries | - | | 3,630 | |
| KENGEN | 488 | | 321 | |
| Uganda Clays Limited | 50 | | 125 | |
| The New Vision Ltd | <u>580</u> | | <u>1,450</u> | |

The quoted investments are stated at fair value based on their quoted market values as at 31 December 2010.

During the year ended 31 December 2010, the Bank sold 1,115,520 shares in East African Breweries Ltd at Ushs 4.6 billion.

| 11. LOANS AND ADVANCES | | | |
|--|---------------------|--------------------|--|
| (a) Lines of credit | 2010 | 2009 | |
| | Ushs 000 | Ushs 000 | |
| Loan from JBIC | 5,371,326 | 4,741,552 | |
| Uganda development Bank funds | <u>63,778,944</u> | <u>45,411,280</u> | |
| Gross advances | 69,150,270 | 50,152,832 | |
| Allowances for impairment losses –note 11(d) | <u>(12,837,757)</u> | <u>(9,645,158)</u> | |
| | <u>56,312,513</u> | <u>40,507,674</u> | |
| (b) The maturity analysis of loans and advances to customers is as follows; | | | |
| | 2010 | 2009 | |
| | Ushs 000 | Ushs 000 | |
| Within three months | 13,029,395 | 17,575,667 | |
| Between three and six months | 10,854,297 | 3,762,478 | |
| Over six months | <u>32,428,821</u> | <u>19,169,529</u> | |
| | <u>56,312,513</u> | <u>40,507,674</u> | |
| 11. LOANS AND ADVANCES | | | |
| (c) Gross loans to customers by industry | 2010 | 2009 | |
| | Ushs 000 | Ushs 000 | |
| Trade and commerce | 28,539,663 | 438,779 | |
| Agriculture | 1,112,849 | 16,279,035 | |
| Manufacturing | 11,399,496 | 18,877,582 | |
| Tourism, hotel and service | 15,851,288 | 11,027,085 | |
| Building and construction | 3,257,952 | 2,431,990 | |
| Food processing | 4,251,728 | 1,098,361 | |
| Others | <u>4,737,294</u> | - | |
| | <u>69,150,270</u> | <u>50,152,832</u> | |

The effective interest rates on advances as at 31 December 2010 were 17% (2009:18%).

| (d) Movement in provision for impaired loans and advances | | | |
|---|------------------------------|------------------------------|--------------------|
| As at 31 December 2010 | | | |
| | Individually assessed | Collectively assessed | Total |
| | Ushs 000 | Ushs 000 | Ushs 000 |
| At 1 January 2010 | 9,581,001 | 64,157 | 9,645,158 |
| New provisions created | 8,898,339 | 422,276 | 9,320,615 |
| Recoveries and provisions not required | <u>(3,766,709)</u> | - | <u>(3,766,709)</u> |
| Net increase in provisions | 5,131,630 | 422,276 | 5,553,906 |
| Debts written off during the year | <u>(2,361,307)</u> | - | <u>(2,361,307)</u> |
| At 31 December 2010 | <u>12,351,324</u> | <u>486,433</u> | <u>12,837,757</u> |
| Net charge to Statement of comprehensive income | | | |
| Increase in provisions as above | 5,131,630 | 422,276 | 5,553,906 |
| Recovery of previously written off loans | (108,113) | - | (108,113) |
| Direct write offs during the year | <u>311,175</u> | - | <u>311,175</u> |
| | <u>5,314,692</u> | <u>422,276</u> | <u>5,756,968</u> |
| At 1 January 2009 | 8,549,601 | - | 8,549,601 |
| New provisions created | 2,339,370 | 64,157 | 2,403,527 |
| Recoveries and provisions not required | <u>(761,679)</u> | - | <u>(761,679)</u> |
| Net increase in provisions | 1,577,691 | 64,157 | 1,641,848 |
| Interest accrued on impaired Loans | (544,736) | - | (544,736) |
| Debts written off during the year | <u>(1,555)</u> | - | <u>(1,555)</u> |
| At 31 December 2009 | <u>(9,581,001)</u> | <u>(64,157)</u> | <u>(9,645,158)</u> |
| Net charge to Statement of comprehensive income | | | |
| Net Increase in Provisions as above | 1,577,691 | 64,157 | 1,641,848 |
| Direct write offs during the year | <u>216,943</u> | - | <u>216,943</u> |
| | <u>1,794,634</u> | <u>64,157</u> | <u>1,858,791</u> |
| | 2010 | 2009 | |
| | Ushs 000 | Ushs 000 | |
| 12. STAFF LOANS AND ADVANCES | | | |
| Gross balance on staff housing loans | 1,460,983 | 1,171,439 | |
| Allowances for impairment losses | <u>(55,585)</u> | <u>(70,333)</u> | |
| | <u>1,405,398</u> | <u>1,101,106</u> | |
| The maturity analysis of staff loans and advances is as follows: | | | |
| Within three months | 268,368 | 5,058 | |
| Between three and six months | 53,937 | 3,033 | |
| Over six months | <u>1,083,093</u> | <u>1,093,015</u> | |
| | <u>1,405,398</u> | <u>1,101,106</u> | |
| The effective interest rate on advances was at 31 December 2010 was 8 % (2009: 8%) | | | |
| 13. FINANCIAL INVESTMENTS | 2010 | 2009 | |
| | Ushs000 | Ushs000 | |
| (a) Investments held to maturity | | | |
| Deposits due from banking institutions | 17,505,839 | 24,034,459 | |
| Corporate bond | - | <u>1,003,029</u> | |

| | | | | |
|------------|---|----------------------|-------------------|-------------------|
| | | | <u>17,505,839</u> | <u>25,037,488</u> |
| (b) | Investment in Associate – Kajjansi Roses | | | |
| | Shares | No. of shares | Ownership | |
| | Ordinary shares | 561,275 | 28% | 160,170 |
| | Preference shares | 60,445 | - | <u>602,000</u> |
| | | | = | <u>762,170</u> |

The investment in Kajjansi Roses was sold off by the Bank during the year ended 31 December 2010.

| | | | |
|------------|------------------------------|------------------|-----------------|
| 14. | OTHER ASSETS | 2010 | 2009 |
| | | Ushs 000 | Ushs 000 |
| | Prepayments | 575,307 | 756,467 |
| | Afrexim bank cash margin | 369,184 | - |
| | Rent receivable | 40,937 | 23,105 |
| | Withholding tax | 40,886 | 40,886 |
| | Other assets | 97,566 | 107,165 |
| | Provision for doubtful debts | <u>(70,560)</u> | <u>(70,560)</u> |
| | | <u>1,053,320</u> | <u>857,063</u> |

15. DEFERRED TAX

Deferred tax is calculated on all temporary differences under the liability method using the principal tax rate of 30%.

Deferred tax assets and liabilities and the deferred tax charge/(credit) as at 31 December 2010 are attributed to the following items:-

| | At 1 January 2010 | Prior year over provision | Charge to profit or loss | At 31 December 2010 |
|---|----------------------|---------------------------------|-----------------------------|---------------------------|
| | Ushs'000 | Ushs'000 | Ushs'000 | Ushs'000 |
| Arising from: | | | | |
| Accelerated tax depreciation | 88,228 | - | 17,964 | 106,192 |
| Specific provisions | (21,100) | - | 4,425 | (16,675) |
| Service gratuity | (17,964) | - | (3,518) | (21,482) |
| Fair value gains of financial assets | 1,006,998 | - | (1,005,277) | 1,721 |
| Deferred income | (123) | (123,258) | (68,405) | (191,786) |
| Write down of equity investments | <u>(177,870)</u> | - | - | <u>(177,870)</u> |
| Net deferred tax (asset)/liability | <u>878,169</u> | <u>(123,258)</u> | <u>(1,054,811)</u> | <u>(299,900)</u> |

16. PROPERTY AND EQUIPMENT

| | Freehold Land | Furniture fixtures and fittings | Motor vehicles | Computers | Total |
|----------------------------|------------------|---------------------------------------|-------------------|--------------|----------------|
| | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 | Ushs 000 |
| Cost | | | | | |
| At 01 January 2009 | 52,323 | 1,188,064 | 371,661 | 953,029 | 2,565,077 |
| Additions during year | - | 37,115 | 177,477 | 189,119 | 403,711 |
| Disposal | - | <u>(1,451)</u> | - | <u>(405)</u> | <u>(1,856)</u> |
| At 31 December 2009 | 52,323 | 1,223,728 | 549,138 | 1,141,743 | 2,966,932 |

| | | | | | |
|----------------------------|---------------|------------------|----------------|------------------|------------------|
| Additions during the year | - | 49,631 | 191,590 | 64,985 | 306,206 |
| Disposal | - | (9,030) | (231,129) | (597) | (240,756) |
| At 31 December 2010 | <u>52,323</u> | <u>1,264,329</u> | <u>509,599</u> | <u>1,206,131</u> | <u>3,032,382</u> |
| Depreciation | | | | | |
| At 1 January 2009 | - | 918,549 | 285,080 | 710,164 | 1,913,793 |
| Charge for the year | - | 48,075 | 36,409 | 80,484 | 164,968 |
| Disposal | - | (1,451) | - | (405) | (1,856) |
| At 31 December 2009 | - | 965,173 | 321,489 | 790,243 | 2,076,905 |
| Charge for the year | - | 48,086 | 93,765 | 113,582 | 255,433 |
| Disposal | - | (3,030) | (231,129) | (597) | (234,756) |
| At 31 December 2010 | - | <u>1,010,229</u> | <u>184,125</u> | <u>903,228</u> | <u>2,097,582</u> |
| Net Book Value | | | | | |
| At 31 December 2010 | <u>52,323</u> | <u>254,100</u> | <u>325,474</u> | <u>302,903</u> | <u>934,800</u> |
| At 31 December 2009 | <u>52,323</u> | <u>258,555</u> | <u>227,649</u> | <u>351,500</u> | <u>890,027</u> |

17. INVESTMENT PROPERTY

| | 2010 | 2009 |
|---------------------|-------------------|-------------------|
| | Ushs 000 | Ushs 000 |
| Investment property | <u>21,500,000</u> | <u>21,500,000</u> |

The investment property comprises of a residential house at Munyonyo and commercial towers, on plot 22 Hannington Road, Kampala. The fair value as at 31 December 2010 has been arrived at by the directors based on the valuation report dated 11 March and 25 March 2009 respectively by East African Consulting Surveyors & valuers (Chartered Surveyors), independent professional valuers that are not related to the Bank. East African Consulting Surveyors & valuers are members of the Uganda Institute of Professional Engineers, Land/Quality Surveyors and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transactions prices for similar properties. All of the Bank's investment property is held under freehold interest.

| 18. INTANGIBLE ASSETS | 2010 | 2009 |
|-----------------------|----------------|----------------|
| | Ushs 000 | Ushs 000 |
| Cost | | |
| At 1 January | 648,294 | 570,834 |
| Additions | <u>3,601</u> | <u>77,460</u> |
| At 31 December | <u>651,895</u> | <u>648,294</u> |
| Amortisation | | |
| At January | 556,268 | 491,039 |
| Charge for the year | <u>42,250</u> | <u>65,229</u> |
| At 31 December | <u>598,518</u> | <u>556,268</u> |
| Net Book Value | | |
| At 31 December | <u>53,377</u> | <u>92,026</u> |

The intangible asset comprises of the Solomon accounting software.

| 19. OTHER LIABILITIES | | |
|--------------------------|----------------|----------------|
| Accruals and liabilities | 1,327,318 | 1,636,442 |
| Provision for gratuity | <u>270,519</u> | <u>158,043</u> |

1,597,837

1,794,485

Other liabilities are non- interest bearing and are normally settled on a 60-day term.

| 20. TRUST FUNDS | 2010 | 2009 |
|---|------------------|------------------|
| | Ushs 000 | Ushs 000 |
| Japan Bank for international co-operation | 5,354,547 | 4,727,500 |
| Collection not yet remitted | - | (121) |
| | <u>5,354,547</u> | <u>4,727,379</u> |

JBIC Loan

Uganda Development Bank Limited entered into an agreement with Japan Bank for International Corporation. In this agreement, it was stated that GOU would guarantee a loan of US\$ 2,500,000 from JBIC to UDBL for onward lending to Phenix Logistics. A special clause in this agreement was to have these funds (loan receivable and payable) appear on the statement of financial position of Uganda Development Bank Limited.

In the opinion of the directors, there is no credit exposure to the Bank in case the recovery of the amounts disbursed becomes doubtful.

| 21. AMOUNTS DUE TO BANK OF UGANDA | 2010 | 2009 |
|---|------------------|------------------|
| | Ushs 000 | Ushs 000 |
| Principal outstanding – Export Refinance | 2,341,374 | 2,341,374 |
| Principal outstanding – Agriculture Credit facility | 1,146,679 | - |
| Accrued Interest | <u>1,326,229</u> | <u>1,326,228</u> |
| | <u>4,814,282</u> | <u>3,667,602</u> |

The Export Refinance Facility from Bank of Uganda was on lent to Basajjabalaba Hides and Skins Limited. Uganda Development Bank Limited received the facility at an interest rate of 5.5% p.a, repayable in 4 years with one year of grace. The facility was disbursed to Basajjabalaba Hides and Skins Limited at an interest rate of 12%. The security to the Bank of Uganda is a demand promissory note for the total amount. On 4th September 2003, by mutual agreement, Bank of Uganda put a halt to enforcing the recovery of this loan. During the financial year ended 31 December 2010, the Bank managed to recover Ushs 3.4 billion of the Ushs 5.5 billion that was owed from Basajjabalaba. The balance owing of Ushs 2.1 billion was written off.

The Agriculture Credit Fund (ACF) is a scheme set up by the Government of Uganda (GoU) for supporting Agricultural expansion and modernization 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.

| 22. SHARE CAPITAL | 2010 | 2009 |
|---|--------------------|--------------------|
| | Ushs000 | Ushs000 |
| Authorized: | | |
| 100,000,000 ordinary shares of Ushs 1000 each | <u>100,000,000</u> | <u>100,000,000</u> |
| Issued and fully paid | | |

| | | |
|--|-------------------|-------------------|
| 41,284,546 ordinary shares of Ushs 1000 each | <u>41,284,546</u> | <u>41,284,546</u> |
| The issued share capital is wholly subscribed by the Government of Uganda. | | |

23. GOVERNMENT OF UGANDA CAPITAL CONTRIBUTION PENDING ALLOTMENT

| | 2010 | 2009 |
|--|-------------------|-------------------|
| | Ushs000 | Ushs000 |
| At 1 January | 24,062,056 | 11,877,759 |
| Additional contributions during the year | <u>2,846,058</u> | <u>12,184,297</u> |
| At 31 December | <u>26,908,114</u> | <u>24,062,056</u> |

On 28 September 2009, Bank of Uganda at the request of the Ministry of Finance Planning and Economic Development transferred a sum of 10,647 million to Uganda Development Bank Limited by way of capital contribution from the Government of Uganda. In addition the Bank also received a capital contribution of 764 million and 466 million transferred by the Government of Uganda through Ministry of Finance Planning and Economic Development on 5 May and 7 July 2009 respectively. In 2010 the Bank received additional capital contribution of 2,846 million. These amounts had not yet been allotted by year end.

24. CREDIT RISK RESERVE

| | 2010 | 2009 |
|--|----------------|----------------|
| | Ushs000 | Ushs000 |
| | <u>-</u> | <u>620,751</u> |

The credit risk reserve represents amounts by which allowances for impairment of loans and advances determined in accordance with the Bank's policy exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated from retained earnings in accordance with the Bank's accounting policies.

25. CONTINGENT LIABILITY AND COMMITMENTS**Contingent Liabilities**

As at 31 December 2010, there were no contingent liabilities.

26. ASSETS PLEDGED AS SECURITY

As at 31 December 2010, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

27. NOTES TO THE CASH FLOW STATEMENT

| | 2010 | 2009 |
|--|------------------|----------------|
| | Ushs000 | Ushs000 |
| OPERATING ACTIVITIES | | |
| Profit before taxation | 574,800 | 1,989,363 |
| Adjustments for: | | |
| Depreciation | 255,433 | 164,968 |
| Amortisation of intangible assets | 42,250 | 65,229 |
| Gain on disposal of fixed assets | (77,588) | (1,590) |
| Loss on sale of investment | 312,170 | - |
| Fair Value Loss on Equity Investments | (12,778) | 753,178 |
| Gain on investment property | - | - |
| Unrealised exchange loss | 627,168 | (72,359) |
| Loss on sale of shares | <u>(526,086)</u> | <u>130,501</u> |
| | 1,195,369 | 3,029,290 |
| Increase in loans and advances | (15,804,838) | (7,687,320) |
| Increase/(Decrease) in other receivables | (196,257) | 2,155,772 |
| (Decrease)/Increase in other liabilities | (196,649) | 1,156,698 |
| (Decrease) in collections not yet remitted | - | (45,147) |

| | | |
|---------------------------------|---------------------|--------------------|
| Increase in staff housing loans | <u>(304,292)</u> | <u>(422,773)</u> |
| Cash used in operations | <u>(15,306,667)</u> | <u>(1,813,480)</u> |

28. RELATED PARTY DISCLOSURES.

The Bank is owned by the Government of Uganda which controls 100% of the voting rights in the Bank.

A listing of members of the Board of Directors who held office during the year and up to the date of these financial statements is shown on page 1 of this report. The total remuneration for directors was as follows:

| | 2010 | 2009 |
|--|------------------|-------------------|
| | Ushs 000 | Ushs 000 |
| Director's remuneration: | | |
| Other (sitting allowance) | <u>25,539</u> | <u>26,180</u> |
| Key management remuneration: | | |
| Salaries | 862,942 | 603,880 |
| Allowances | <u>143,444</u> | <u>3,753</u> |
| | <u>1,006,386</u> | <u>607,633</u> |
| Contribution from Government of Uganda: | | |
| Amount received during the year | <u>2,846,058</u> | <u>12,184,297</u> |





Akony Kori Ltd - Lira



Mutuma Commercial Agencies - Iganga



Mbarara General Enterprise - Mbarara

