2019

Annual Report

Improving livelihoods of Ugandans

UDB

Inspiring Development

www.udbl.co.ua

Our Mandate

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

Purpose Statement

"To improve the Quality of Life of Ugandans"

High Impact Goals

Reduce Poverty in Uganda – Uplift 500,000 people out of poverty by 2024.

Build a Sustainable Food System in Uganda – Relieve 1,000,000 people out of hunger by 2024.

Industrialize Uganda – Create Ushs 4 trillion in industrial output by 2024.

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Definitions

Value of Output: This is the measure of total economic activity in the production of new goods and services in an accounting period for the UDB funded projects. It is a much broader measure of the economy than the gross domestic product (GDP), which is limited mainly to final output (finished goods and services).

Tax contribution: Refers to the annual direct or indirect taxes paid by funded projects. These include corporation tax, PAYE, VAT (18%), customs taxes, etc.

Foreign exchange earnings: Refers to the foreign currency generated by funded projects expressed in Uganda Shillings equivalent. The foreign currency generated includes earnings arising from the export of goods and services

Jobs created and maintained: Refers to the total number of permanent and temporary workers employed by funded projects and are paid a wage or income.

Profit for the year (Ushs): Annual income statement profit attributable to ordinary shareholders, minorities and preference shareholders.

Earnings per share (Ushs): Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue

Return on average assets (%): Earnings as a percentage of average total assets

Net interest margin (%): Net interest income as a percentage of annual average total loans

Yield on Loans (%): Total Interest Income as a percentage of annual average total loans

Debt to Equity ratio (%): Total Debt as a percentage of Total Equity

Net asset Impairment ratio (%): Provision for credit losses per the income statement as a percentage of closing net loans and advances

Cost-to-income ratio (%): Operating expenses, excluding provisions for credit losses, as a percentage of total income.

Abbreviations and Acronyms

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

Foreword from The Minister of Finance, Planning and Economic Development

The 2019 Annual Report of Uganda Development Bank (UDB) is published in accordance with section 132 of the Company Act 2012. The report provides a summary of the operations and audited financial statements of the Bank for the year ended 31 December 2019.

The performance results presented in the report demonstrates UDB's commitment to sustain its renewed business model and ability to continue to deliver both financial results and solid socio-economic impact results. The Bank was successful in implementing its 2019 strategies and, in general, achieved its intended objectives for the year, notwithstanding challenges in the global environment; dominated by uncertainty and downside risks. The global economy recorded its lowest growth of the decade in 2019, falling from 3.2% in 2018 to 2.3% as a result of protracted trade disputes, high policy uncertainty and a slowdown in domestic investment.

Issues such as poverty & vulnerability, digitization, rising inequality, climate change, growing environmental pressures, changing demographics and youth unemployment continue to present challenges and opportunities to the economy. The Bank's recently revised Strategic Plan 2020-24 addresses these emerging issues and is aligned to the aspirations of Uganda's Third National Development Plan (NDPIII), the global Sustainable Development Goals, and the Paris Agreement on Climate Change. We are confident that the five-year strategy will guide the Bank in supporting the Government's effort towards resource-based industrialization as a means of promoting inclusive growth and building a strong and sustainable economy. As, Government and shareholders, we want to renew our strong resolve to support UDB effort through increased capital injection and good stewardship.

As I conclude, I wish to recognize the valuable contribution made by the Bank's Board of Directors who has provided excellent support and guidance to management. I would also like to appreciate the Bank's customers, financiers, and other stakeholders for the trust, confidence and active contribution and look forward to their continued support.

Finally, let me record my profound appreciation for the sincere and unstinted efforts put in by the Bank's Management and Staff.

Matia Kasaija

Key Priority Sectors

1 AGRICULTURE

The Bank has dedicated lines of credit at concessional terms for primary production, processing and value addition in agriculture.

2 TOURISM AND HOSPITALITY

The Bank finances projects in the tourism sector geared towards enhancing the number of tourist arrivals and creating a memorable experience for tourists. Funding focuses on tourism infrastructure such as the development of accommodation facilities in game parks and other tourist destinations, ecological sites, museums, heritage sites/cultural centres, tourist stopovers, purchase of specialized tourist transport facilities and equipment among others.

3 INDUSTRY

The Bank supports feasible projects in the manufacturing and agro-processing sectors on competitive terms.

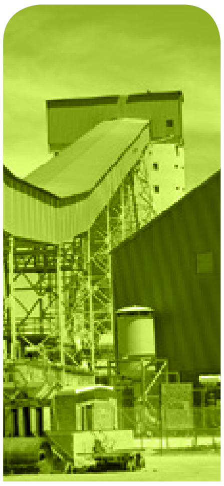
4 HUMAN CAPITAL DEVELOPMENT

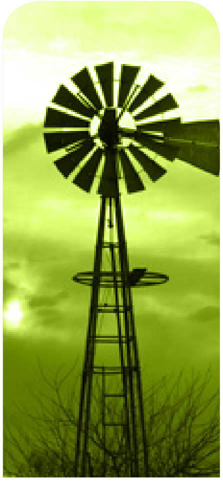
Human Capital Development relates to increasing the stock of a skilled and healthy workforce to enhance production. This encompasses the sectors of Health and Education.

5 INFRASTRUCTURE

The Bank offers financial support for infrastructural development extended to majorly local content projects, exploitation of abundant renewable energy sources among others.







The Bank's Product Portfolio

1 Short Term Loans

These are facilities with a tenure of 1 to 3 years. They are typically for the working capital requirements of a qualifying business. More specifically, they are intended to facilitate key operational requirements that directly aid production such as the purchase of raw materials and productive inputs. They normally complement a running or new project loan and are disbursed when the project is ready to commence operations, but stand-alone facilities can also be considered.

Short term loans may also be used to acquire assets that can generate enough cash flows to service the loan over a tenure not exceeding 3 years. The facility may be accessed by both existing and greenfield projects.

Loan terms vary from project to project, depending on the nature of the business. The exact length of the tenure is determined by the project cash flows and the implementation schedule

2 Medium-Term Loans

These are facilities with a tenure of 4 to 8 years. These are typically intended for projects with a capital expenditure requirement for expansion, refurbishment, re-equipment, and new asset acquisition. They can be extended to both new and existing projects.

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

3 Long Term Loans

These are facilities with a tenure between 5 and 15 years. They are typically projects with a large capital expenditure component to be implemented over a relatively long period. Long term loans are suited for large scale projects such as infrastructural development and others.

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

4 Asset Finance

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

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

5 Equity Investment

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

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

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

6 Trade Finance

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

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

7 Business Advisory Services

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

8 Project Preparation

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

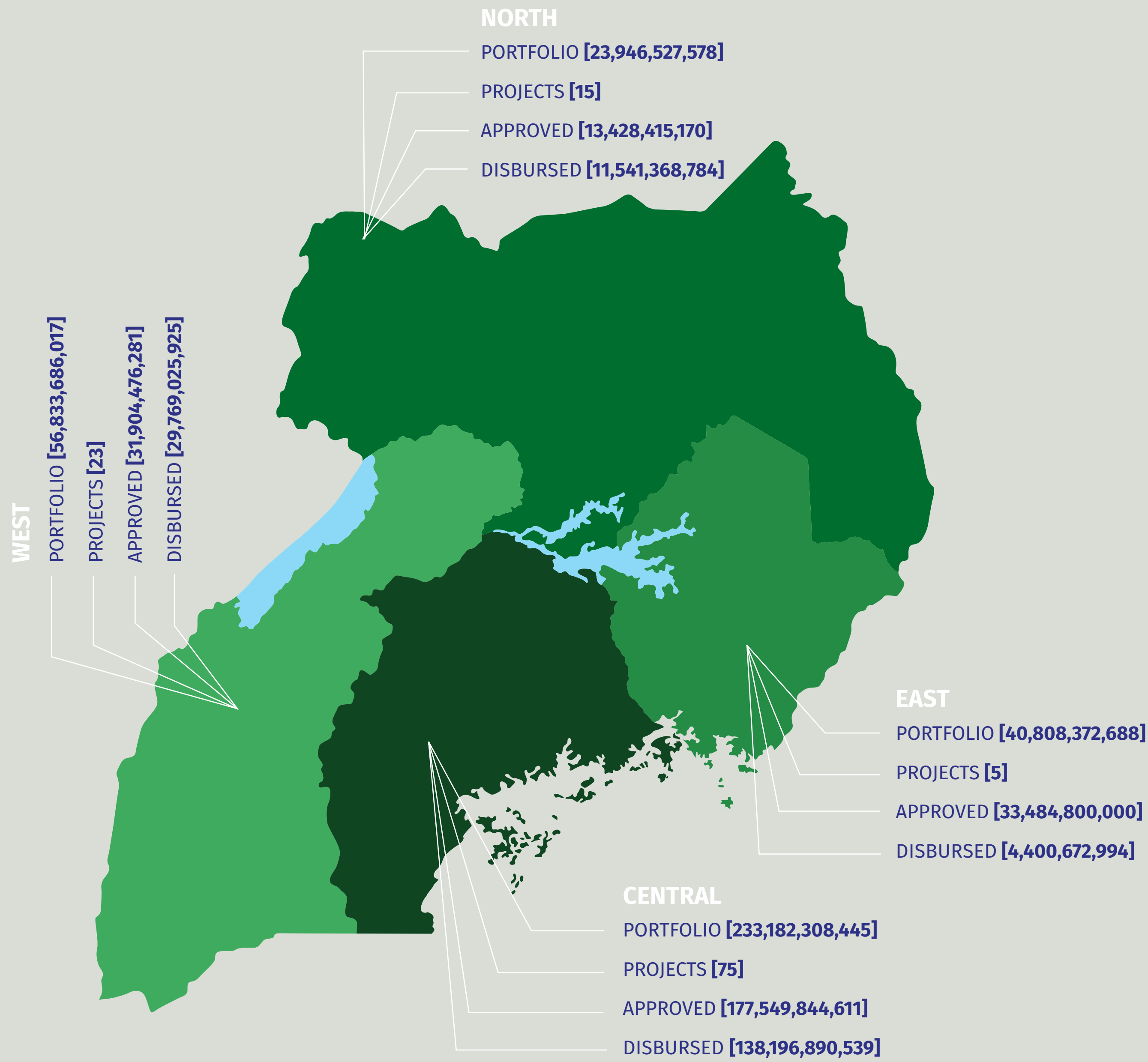
UDB's highly skilled in-house team works in collaboration with local and international experts to deliver the following support services; project identification; Pre and feasibility studies; technical assistance; financial structuring and sourcing and managing project preparation funds.

Company Overview

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

Bank's Footprint

Approvals and disbursements



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

Who We Are

About Uganda Development Bank

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

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

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

c. Acquire shareholding in viable businesses; and

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

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

Vision

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

Mission

"Accelerating socio-economic development through sustainable financial interventions"

Our Values

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

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

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

Our Strategy

Strategic Objectives

Strategic Objective 1
Promote sustainable growth and remain a key player in socio-economic development

Strategic Objective 2
Enhance financial sustainability & funding to facilitate the execution of our mandate

Strategic Objective 3
Strengthen human capital and governance structures for sustainable performance

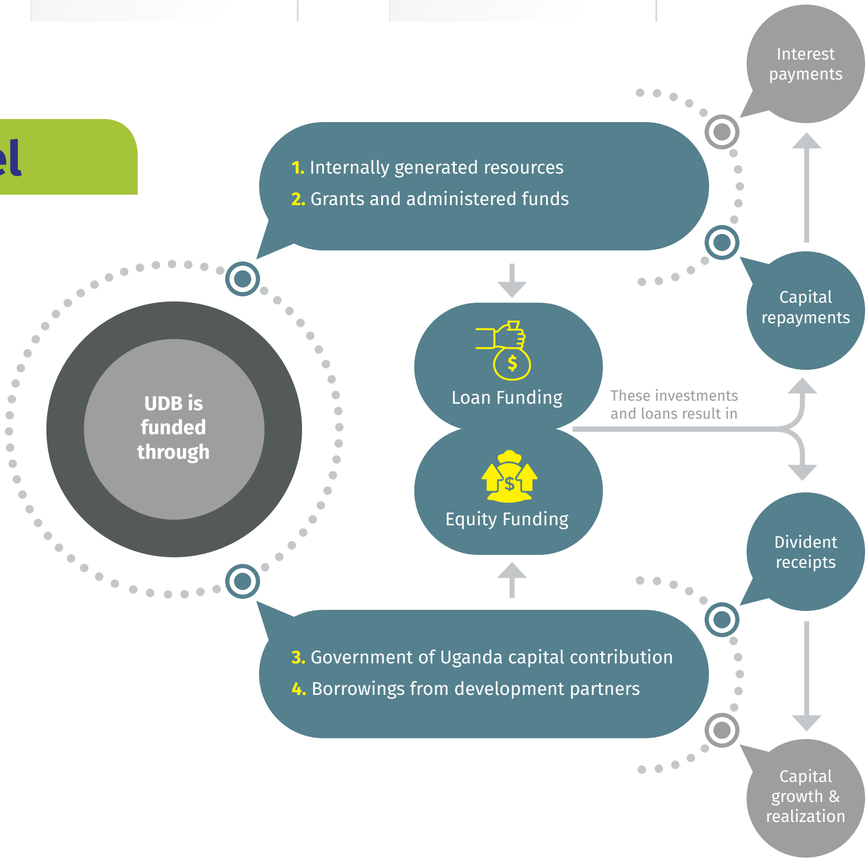
Strategic Initiatives

Strategic Initiative 1
- Grow quality loan book
- Improve customer satisfaction
- Enhance stakeholder engagement
- Enhance financing solutions to meet client needs consistent with NDP sector priorities

Strategic Initiative 2
- Reduce loan losses
- Increase profitability
- Improve shareholder value
- Grow the funding base

Strategic Initiative 3
- Optimize operating efficiency
- Enhance employee engagement
- Improve compliance with policies, procedure and applicable laws
- Improve staff competencies and bench strength
- Undertake work culture change initiatives within the Bank

Our Funding Model



Our Business Model

OUR RESOURCES

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

SUPPORT ACTIVITIES

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

OUTPUTS

LOAN APPROVALS
CUMULATIVE VALUE APPROVED FROM 2015 TO 2019

Ushs **940.7** bn

LOANS DISBURSED
DISBURSEMENTS FROM 2015 TO 2019

Ushs **583.4** bn

TRANSACTIONS APPROVED
DISBURSEMENTS FROM 2015 TO 2019

285

EMPLOYEES TRAINED
2019 TRAINING COST AS A % OF STAFF COST

6%

FUNDING RAISED
VALUE OF FUNDING RAISED FROM 2015 TO 2019

Ushs **377.8**bn

SUSTAINABILITY INITIATIVES
The Bank revised its strategy to include its sustainability agenda over the next five years.

DEVELOPMENT OUTCOMES

TURNOVER AND PROFITABILITY OF PROJECTS FINANCED

TURN OVER 2019
Ushs **1.795**Tn

PROFITABILITY 2019
Ushs **177**bn

JOBS CREATED
DIRECT AND INDIRECT JOBS IMPACT
4,324 (2019); 8,400 (2018)

PRIORITY SECTORS SUPPORTED
CUMULATIVE SECTORAL DISTRIBUTION OF FUNDING APPROVALS

39% Agriculture & Agro-processing;
38% Manufacturing;
11% Infrastructure;
4% Human Capital;
3% Tourism;
4% Other

TAX CONTRIBUTIONS
INCREMENTAL TAX CONTRIBUTIONS MADE **Ushs 8.7 billion (2019); Ushs 14.8 billion (2018)**

2019 FINANCIAL OUTCOMES

TOTAL ASSETS 2019
Ushs **486.4**bn

CUMULATIVE NET PROFIT AFTER TAX FROM 2015 TO 2019
Ushs **36.3**bn

Our Strategy

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

Our 5-year strategy is delivered through annual business plans that are reviewed every quarter with the Executive Committee and the Board. These reviews take into account changes in the operating environment and are guided by robust discussions by the Board and the Executive Committee. Details of the pillars of our strategy and how they address different aspects of our business model can be seen on page 22 of this report.

Focus areas for 2019

2019 was the second year of implementation of the Bank's 2018 – 2022 strategic plan. The Bank implemented several strategies in 2019 that included the following:

Focus Areas	Key Achievements
Review of appropriateness of Business model and Strategy	• Conducted a review of the bank's operating environment and strategy. Premised on the need to further embed sustainability, a new 5 year strategic plan for the bank was developed and will be rolled out effective 2020.
Organisational effectiveness	• Implementation of various operational units in the Bank including project preparation, business advisory services, infrastructure finance and equity finance thereby expanding our product proposition. • Conducted an efficacy audit on the bank's people structure with the view to ensure that the bank's human resource is well organized to support implementation of the strategy; a new structure was developed and will be implemented in 2020. • The Bank implemented its Innovation Program that aims to promote agile and adaptive business practices in the institution. • Implemented various initiatives aimed at developing the bank's research capabilities – including developing the research framework, conducting specialised training and procurement of systems and tools. The medium term aspiration is to transform the unit into a centre of excellence.
Embedding Sustainability	• UDB continued its pursuit of accreditation under the Sustainability Standards Certification Initiative (SSCI), resultant from which a number of policies and processes were reviewed to ensure the Bank is adaptive to the standards. • Nominated as a direct access entity for the Green Climate Fund. • Roll-out of the Environmental and Social (E&S) Risk unit as a pedestal for enhanced environmental and social risk governance management in the bank.
Risk Management	• The Bank achieved an Issuer Default Rating of B+ (with stable outlook) rating by Fitch Rating which renders credence to UDB's ability to meet its credit obligations. • The Bank also achieved an improved A+ rating underscoring UDB's commendable adoption of the AADFI prudential guidelines.

Funding	• Implemented a framework which establishes a blueprint of the UDB's medium term fund-raising activities • Initiated and developed various funding relationships resulting in additional lines of credit including EIB (USD16 Million), Kuwait Fund (USD20 Million) and Msingi. • Realised additional capitalization from the Government of Uganda amounting to Ush 83.7 billion as well as drew down Ushs 49.1 billion from the earlier available lines of credit.
Systems	• Developed and commenced implementation of a medium term digitization strategy of the bank which aims to improve efficiency, technologize the Bank's operations and leverage technology to improve the customer experience whilst also supporting our customers, partners to adopt the 4IR solutions. • Implemented various automations and IT projects in the Bank.
People	• Implemented various competency development programs including a technical assistance program under the auspices of African Development Bank. • Implemented various staff engagement interventions thereby sustaining a retention rate of 97%. • Through a proactive resourcing approach, the bank maintained an optimal staff complement at above 95%, realising a growth in headcount from 59 to 67 staff, in line with the 2019 staff establishment. Relatedly, the bank rolled out an inaugural graduate apprenticeship program aimed at creating a talent feeder for various specialist skills.

The table below summarizes the performance against the 2019 targets and the targeted deliverables for 2019 that will drive the anticipated development impact.

Selected key performance indicator							
	2020	**2019**	**2019**	**2018**	**2018**	**2017**	**2016**
	Target	**Target**	**Actual**	**Target**	**Actual**	**Actual**	**Actual**
							Ushs billions/%age
Funding raised	201	187	132.8	114	84	136	89
Gross loan portfolio	467	375	354.8	325	309	243	183
Loan approvals	304	299	256.4	232	258	167	120
Loans disbursed	217	187	183.9	139	155	95	57
CI with impairment	65%	65%	58%	65%	65%	61%	64%
CI w/o impairment	50%	46%	55.2%	45%	45%	48%	47%
Return on equity	3.3%	4%	3.7%	4%	4%	5%	4%
Return on Assets	2.3%	2.5%	2.6%	3%	3%	3%	3%
Customer Satisfaction score	80%	80%	78%	80%	70%	72%	62%
Employee Engagement score	80%	80%	75%	80%	75%	-	-

Strategic Outlook For 2020

Although the implementation of the 2018-22 strategic plan was ongoing, a revision in the Bank's strategic direction was necessitated by the need to align our planning cycle to that of the National Development Plan, embed the sustainability agenda within the Bank's operations, and strengthen accountability for development impact.

Following the review, the Bank redefined its strategy to cover the period 2020 – 2024. The key outcomes from the review were:

- Main-streaming in the Bank's strategy, the three pillars of sustainability i.e. social, economic and environmental; and
- Articulating the Bank's Purpose Statement and High Impact Goals (HIGs) in line with its mandate as a Development Financial Institution.

The Bank's Sustainability Strategy

For the Bank to embrace and integrate the sustainability agenda in its operations, it developed sustainability strategies built on three (3) pillars of economic, environmental and social, alternatively termed profits, planet, and people. UDB believes that resources are finite, and effort should be made to use them conservatively and wisely.

To deliver its mandate and support the achievement of the Sustainable Development Goals (SDG's) and the Third National Development Plan (NDPIII), the Bank established three High Impact Goals that will guide its interventions in the priority sectors of the economy. The Bank will mainstream cross-cutting priorities of climate change, gender, environmental and social governance in its sustainability agenda. The Bank's detailed interventions will be guided by separate sector strategies and strategies for all cross-cutting priorities that are critical for the achievement of the High Impact Goals. The achievement of these goals will directly impact the SDGs related to hunger, employment, gender empowerment & equality, environment and improved quality of life.

The three goals are cognizant of the key aspects that define the quality of life – incomes, jobs, housing environment, health, and education.

Also, the Government of Uganda, will in the next financial year commence implementation of the 5-year Third National Development Plan (NDP III) whose goal and theme will be ***"Increasing Household Income and Improving Quality of life" and "Sustainable Industrialization for inclusive growth, employment and wealth creation"*** respectively. The goals, therefore, are in alignment with the Government's growth agenda.

Purpose Statement

To strengthen the delivery of development impact, the Bank developed a Purpose Statement, which encapsulates the Bank's raison d'être:

"Improving the quality of life of Ugandans".

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

High Impact Goals

The Bank's High Impact Goals for the next five years will be as follows:

i). Reduce Poverty in Uganda

The Bank intends to uplift 500,000 people above the poverty line by 2024 through poverty reduction programs geared towards agriculture sector yield enhancement initiatives; supporting the provision of sustainable water for crop production & livestock husbandry; harvest and post-harvest loss management; fostering financial inclusion & access to financial services; youth empowerment and entrepreneurship development. The Bank will also support interventions in the health and tourism sectors to the extent that they contribute to poverty reduction.

The Bank's interventions will target locations within the country and related economic activities that shall impact and transform the lives of the communities experiencing a high prevalence of poverty. UDB's interventions to reduce poverty, in general, will address the causes of poverty while focusing on increasing agricultural yield by supporting technology deployment on farms, reducing reliance on rain-fed agriculture and supporting the commercialization of agriculture.

The interventions in agriculture will be along identified value chains with the view of strengthening them to deliver the highest possible impact. The promotion of commercial agriculture through an integrated value chain approach can change the incomes and hence the quality of lives of Ugandans as many are reliant on subsistence agriculture which is vulnerable to climate change. In addition, the Bank will support the adoption and use of alternative clean sources of energy such as solar and wind as these sources are more sustainable and affordable.

ii). Build a Sustainable Food System for Uganda

Agricultural development has tremendous potential to enhance food security while creating opportunities and raising incomes for the poor, the majority of whom live in rural areas. UDB will use affordable finance solutions to support projects that enhance food security but may not attract commercial funding due to perceived high risks in the sector. Also, through partnerships, UDB will support food safety training for farmers. The Bank will support farmers in accessing information related to climate changes and its impact on weather. Agricultural advice delivered by mobile phone is one of the most effective methods of sharing information and can be expanded to include market information.

To address challenges facing the food system in the country, the Bank, through its agricultural financing strategy, shall implement initiatives aimed at the development of select crop and livestock value chains. The Bank shall promote Climate-smart Agriculture (CSA) and organic food production. The principal goal of CSA is food security and development while productivity, adaptation, and mitigation are identified as the three interlinked pillars necessary for achieving this goal. Interventions are thus essential to fund climate-resistant agriculture initiatives as well as enhance and finance post-harvest handling techniques.

The Bank will also support investments that enhance the food security of the country and the reduction of post-harvest losses related to the food system. Investments in silos and storage facilities will be prioritized. In implementing this five-year strategy, UDB will pay particular attention to areas with a high prevalence of poverty and food insecurity as both can be contagious.

iii). Industrialize Uganda

Under this goal, the Bank shall implement its industrial sector strategy targeting cottage, small, medium and large size industries. The specific interventions will seek to address the challenges in the sector with the view to improve the industrial base of the country, promote the adoption of 21st Century Industry technologies that are clean and climate-smart and increase the share of manufactured outputs as a percentage of GDP.

The Bank's intervention in the industry shall comprise of investments in agro-industrialization to among others increased adoption of better production technologies, increase and ensure consistent production and supply of agricultural raw materials for the agro-manufacturing industries, and increase off-farm employment opportunities for Ugandan citizens especially the youth; manufacturing to increase the country's export base and diversify it beyond the agricultural produce/products; and mineral-based industries given the substantial minerals, such as limestone, clay gypsum, and marble which remains largely untapped.

The success of the Bank's five-year strategy will be measured on the extent to which it transforms the quality of life of the Ugandan people.

Graphical Presentation of Key 2020 Priorities and 5-Year Strategic Period

SUSTAINABILITY STRATEGY

Goals

Reduce Poverty	Build a Sustainable Food System for Uganda	Industrialize Uganda
KEY RESULT AREAS		
• Increased yields of selected value chains • Sustainable Water for production for crop & livestock husbandry. • Increased access to medical services • Reduction in post-harvest losses • Financial inclusion for 1,000 small holder farmers • Youth skills and entrepreneurship development • Tourism, hospitality and cultural heritage preservation & promotion	• Increased food production and yields • Increased support for organic farming and the adoption of climate-smart farming techniques	• SME industrial development • Adoption of cleaner production technologies/Climate Smart Industry • Improved capacity of local contractors to undertake infrastructure development • BTVET Institutions developed/rehabilitated • Import Substitution & Export Development resulting in increased foreign exchange earnings • Increased participation of women in industrial development • Health services development through increased output value of medical supplies
SELECT INITIATIVES		
• Develop and Implement agriculture finance strategy • Promote modern methods of production and preservation of livestock feeds mash among others • Finance the development of modern small irrigation schemes • Development of harvesting and post-harvest handling infrastructure (storage facilities, equipment, and machinery) • Improvement of systems and processes through digitalization e.g. weather prediction among others. • Widening the outreach for the farmer group financing model. • Finance the development and rehabilitation of BTVET institutions that address specific and critical needs of the country and priority sectors	• Organize and support smallholder groups (crops/livestock) • Strengthen the specific crop/livestock value chains • Develop and implement concept paper on block farming to support medium to large scale food production • Promotion of climate-smart techniques of farming including organic farming and other practices that enhance agricultural sustainability. • Promote the use of organic inputs e.g. fertilizers, pesticides • Offer advisory services in the promotion of organic farming	• Develop and implement SME lending strategy to drive the Bank's investment in SME's • Facilitate the acquisition of modern energy & resource-efficient technologies • Support local contractors in the implementation of infrastructural projects • Finance the development/rehabilitation of BTVET Institutions to avail the relevant skills & training applicable to the industry sectors • Support the establishment and setup of factories to increase the supply of goods & services • Support large export/import substitution drive • Support investments of private industrial parks and export free zones • Develop and implement a gender strategy/product • Support establishment & growth of women-led/owned industries

DEVELOPMENT IMPACT		
Uplift incomes of 500,000 people above $1.25 a day by 2024	Relieve 1,000,000 people of hunger by 2024	Increase the value of industrial output by Ushs 4 Trillion by 2024

CRITICAL SUCCESS FACTORS		
Funding	**Innovation**	**Operational Excellence**
The Bank looks at raising US$ 500 million over the plan period through debt and equity	Due to the increasingly competitive nature of business, it has become imperative for organizations to embrace innovation as a key ingredient in the achievement of their objectives.	The Bank shall pursue continuous improvement throughout the organization by focusing on the needs of the customer, empowering employees, and optimizing existing processes.

Managing our Key Risks & Opportunities

Anticipating and responding to the Bank's risks and opportunities is a fundamental part of delivering on our mandate and ensuring that we remain sustainable. The Board is ultimately responsible for the effective management of risks and has adopted an enterprise-wide risk management (ERM) framework and approach to managing risk exposures. This approach ensures that the Bank takes a holistic view of the risks inherent in its strategy and operations and that the management of risks is embedded into the mainstream planning, business, and decision-making processes. The Board and management team continuously review the top risks to ensure an appropriate understanding of the Bank's operating environment. Below are the key risks monitored by the Bank and the mitigating actions in place:

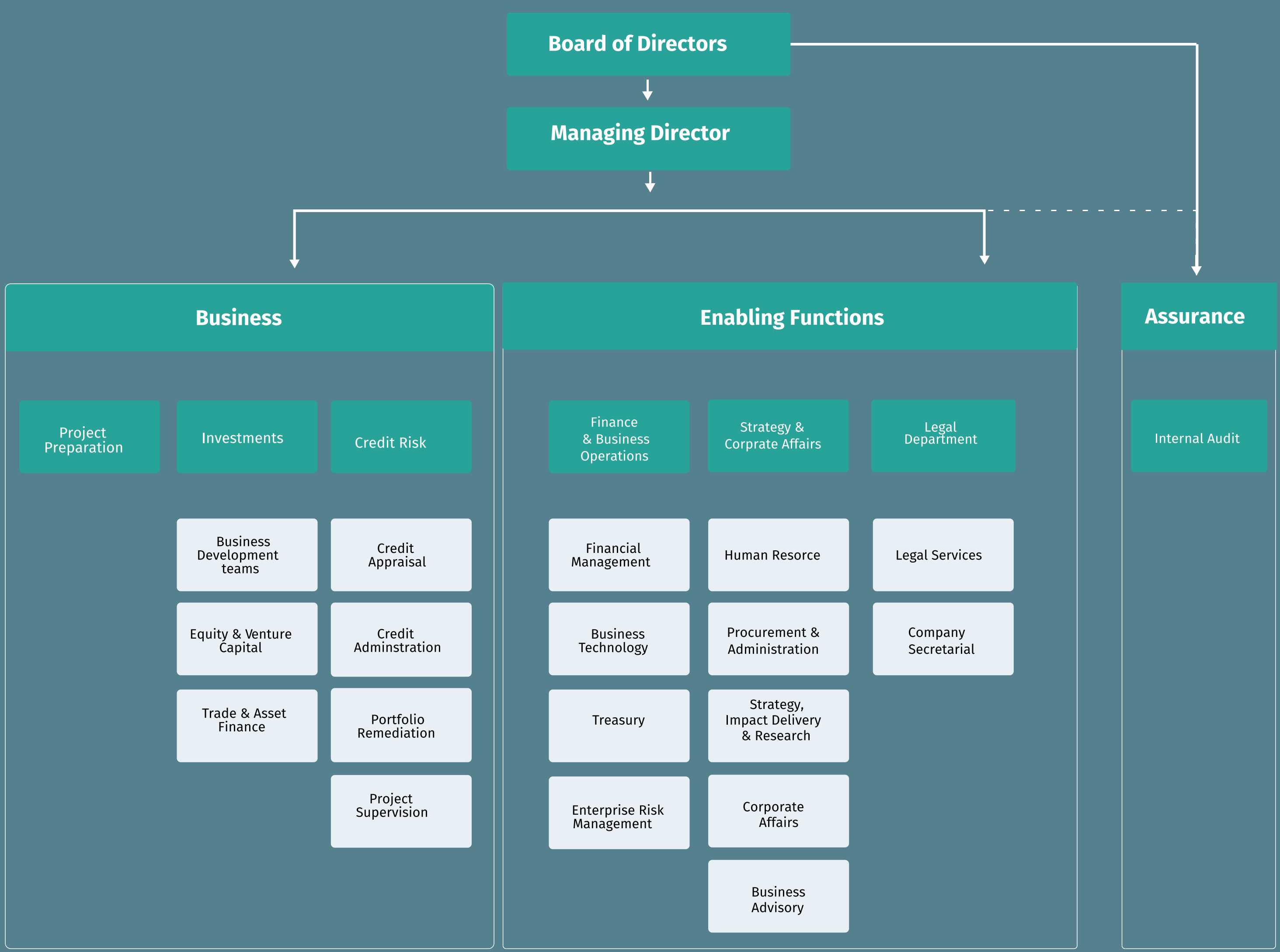
KEY RISKS	RISK MITIGANTS
Strategic Risk – The possibility that unforeseen opportunities or threats may render UDB strategy ineffective or uncompetitive or that events or circumstances may occur which could hinder the ability of UDB to implement its strategy and successfully deliver on its mandate	• Monthly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

Organizational Structure

The Bank continued to implement the Board approved structure with 6 departments, each headed by a Director.

Two of the departments comprising of Investments and Credit are directly involved in transactions, focusing on all priority sectors and performing due diligence on businesses applying for funding. The Investments Department comprises of professionals that prospect for and manage the Bank's investments in projects focusing on the priority sectors as outlined in the country's National Development Plans while the Credit Department manages the credit risk of the loan portfolio. The Bank continued to strengthen the newly established project preparation unit charged with the responsibility of taking prospective project ideas through the respective preparation cycle, right from identification through concept design to commercialization. The business units are supported by 4 departments that provided support in terms of:

- The legal aspects of transactions
- Strategy formulation and implementation monitoring, research and communications
- Resource mobilization
- Business technology services
- Risk management and assurance



With the newly approved 2020 – 24 strategy, the Bank reorganized its operations to enable it to deliver on the sustainability agenda. The Board in December 2019 approved a new organizational structure to be implemented with effect from January 2020.

Engaging with our Stakeholders

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

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

The engagements held in 2019 were very successful and enabled us to attain critical insights into trends in the Development Finance space. They also kept us informed of the most pressing issues in the private and public sectors and therefore informed our business interventions making us more responsive and relevant to our Stakeholders. A series of high visibility activities provided us with excellent opportunities to further furnish the public with information about the Bank's role, socio-economic and financial performance as well as strategic direction moving forward.

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

Below are our Stakeholder Map and a pictorial highlighting the key Stakeholder Interventions held in the year 2019.

Stakeholders	How we engage	What we engage on	Stakeholders' contribution to value creation
Government	Formal meetings; Policy discussions; Conferences; On-site visits	The bank's developmental role; long-term sustainability; financial performance and Shareholder expectations	Provides the link to ensure alignment of UDB with National Development Priorities.
Employees	Staff engagements activities at numerous level; training and development needs analysis; results presentations; performance reviews; internal communication and staff surveys; social media platforms	Strategy, financial performance; people development and training, code of conduct	To enhance employees' engagement and commitment as their efforts contribute to our success.

Stakeholders	How we engage	What we engage on	Stakeholders' contribution to value creation
Customers	Customer surveys; customer engagement forums and communication activities; social media platforms	Customer's needs support (financial and non-financial support); Implementation support (non-funding support); perceptions and expectations; Development impact	Their business provides the basis for our continued growth We endeavor to understand our customers' needs and enhance our development impact
Development Partners	Formal meetings, workshops, website, reports; social media platforms	Funding opportunities, financial performance, future prospects and organisational sustainability	Provide financial resources required to sustain and grow the business
Suppliers	One-on-one meetings, service reviews and presentations and bid invitations	Contract and service agreements and performance.	Suppliers provide the valued expertise, products and services required to maintain our business and facilitate our growth
Community	Project implementation; community surveys; communication activities, corporate social activities and website.	Investment in social-economic development; access to basic services and local labour opportunities.	They are ultimately a key beneficiary of our services and they provide a deeper understanding of our social responsibility expectations, including job creation and environmental impact
Media	Media briefings; press conferences and releases and print media; social media platforms	Key strategic initiatives; project information; operational and financial performances	Raise public awareness of our strategy, products and services as well as our operational results.

Stakeholder Engagement

Board Directors, members of staff of UDB and officials from the Ministry of Finance led by the Permanent Secretary/Secretary to the Treasury, Mr. Keith Muhakanizi during a Stakeholder meeting at the Ministry of Finance.

Dr. Frank Mentrup, Mayor of the City of Karlsruhe and Hon. Matia Kasaija, Minister of Finance during a delegates visit to Uganda.

Gen. Caleb Akandwanaho, Chief Coordinator Operation Wealth Creation addressing guests at the UDB Rwenzori Business Clinic in Kasese.

Dr. Emmanuel Tumusiime Mutebile, Governor Bank of Uganda and Mr. Arshad Rab, Chief Executive Officer European Organisation for Sustainable Development and other dignitaries at a Stakeholders Meeting at the Central Bank of Uganda.

Representatives from NIRSAL Nigeria, UDB Staff and representatives of the Banking fraternity in Uganda at a training on de-risking the agricultural sector at the Protea Hotel Kampala.

Stella Kanyike, Manager Corporate Affairs making a presentation at the launch of the UDB Communication and Stakeholder Engagement Strategy at the UDB Head Office.

The Management team addressing the media during a press briefing announcing UDB's Fitch Rating.

Robert Schofield, Head of EIB's Financial Sector Division covering Africa with Patricia Ojangole, Managing Director UDB at the signing ceremony for the EUR 15m line of credit.

Hon. Syda Namirembe Bbumba, Member of Parliament Nakaseke District and Chairperson National Economy Committee addressing guests during a Stakeholder Engagement Meeting at Kampala Serena Hotel.

Hon. Matia Kasaija and Hon. Evelyn Anite , UDB Shareholders and Mr. Felix Okoboi UDB Board Chairman at the Annual General Meeting at the Ministry of Finance.

Governance

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

Chairman's Statement

While global economic growth witnessed its lowest rate in a decade, falling from 3.2% in 2018 to 2.3% as a result of protracted trade disputes, high policy uncertainty and a slowdown in domestic investment, the Ugandan scene provided an enabling environment for the bank to grow; the economy reported strong growth estimated at 6.3%, largely supported by the expansion of services - where growth averaged at 7.6%; industry with a growth rate of 6.2% and agriculture achieving a 3.8% uplift. This environment facilitated the bank's growth, allowing it to continue to make a commendable contribution towards improving the quality of life of Ugandans.

The year 2020 brings with it new opportunities and new challenges. The COVID 19 global pandemic is set to redefine societies and economies around the globe, Uganda included. UDB recognizes its pivotal role in the creation and maintenance of a robust and resilient local economy during this time and post-COVID 19. We are well positioned to support local businesses during these uncertain times, and I thus wish to reiterate our unwavering commitment to this pivotal role. One undeniable lesson we have already learnt from the pandemic is that a focus on developing, promoting and boosting local industrial capacity is an imperative to national economic resilience.

Strategy

During the year under review, the Bank continued to operate under the Board's approved 5-year strategic plan for the period 2018 – 2022, which was premised on the commitment to pursue 3 goals namely, to promote: sustainable growth; financial sustainability; and operational excellence and governance. The Bank made significant strides in implementing this strategy and has realized significant achievements within the first two years of the strategy period.

While the implementation of this strategy was on-going, a revision was necessitated by the need to align the Bank's planning cycle to that of the National Development Plan, embed all pillars of sustainability within the Bank's operations and strengthen accountability for development impact. Accordingly, the Bank has redefined its strategy for the period 2020 – 2024, wherein the focus of the bank, its Purpose Statement and High Impact Goals (HIGs) have been articulated.

In an effort to strengthen the delivery of development impact, the Bank developed a Purpose Statement which encapsulates the Bank's reason for existence as **"Improving the quality of life of Ugandans".** Similarly, the Bank has determined three High Impact Goals to drive the realization of its Purpose, Mission and Vision which are:

a) Reduce Poverty in Uganda

b) Build a Sustainable Food System for Uganda

c) Industrialize Uganda

Mr. Felix Okoboi
-Board Chairman

In 2019, the Bank's Net Interest Income grew by 17% while the post-tax profit also improved by 7%.

In implementing the various interventions and initiatives to realize these goals, the Bank will ensure the effective integration of responsible environmental, social and governance (ESG) considerations in all UDB investment processes and decision making.

The Board is fully committed to the successful implementation of this Strategic Plan and rallies the support of all stakeholders towards achieving this plan.

Financial Sustainability and Good Corporate Governance

In 2019, the Bank continued to benefit from strong financial support from the Government of Uganda and our development partners typified by a 37% and 22% year on year growth in funding respectively.

The Bank continues to take steps to achieve financial sustainability by ensuring the prudent management of its balance sheet, enhancing revenue whilst optimizing its operating cost and diversifying sources of capital for the Bank. These actions have provided for a firm foundation for a sustained improvement in the Bank's performance against all the key parameters.

In 2019, the Bank's Net Interest Income grew by 17% while the post-tax profit also improved by 7%, from Ushs 9.49 billion to Ushs 10.14 billion. Relatedly, there was a 31% growth in the Bank's assets to 486.37 billion, supported by a 21% growth in net loans and advances. The impairment losses declined by 82%.

The Board of Directors is fully committed to upholding the highest standards of Corporate Governance. In the year under review, the Board approved the amendment of the Strategic Plan and implemented various steps towards improving the Bank's governance environment. To this end, the Board amended all the Committee and Board Charters to enhance effective oversight. Additionally, the Board conducted an evaluation of its performance for the year 2018 and implemented resolutions that aim to enhance areas where the Board's performance required improvement. The Board also conducted a Board of Directors' skills assessment to establish the existing competencies and strategize on how best to enhance the director's skillsets.

The Board also approved the Bank's Communications Strategy which aims to improve the Bank's focus on quality communication, stakeholder engagement as well as public relations.

Furthermore, the Board launched the in-house innovation program ("UDB Ideas") under the theme "Driving Socio-Economic Development through Innovation and Thought Leadership". The program will facilitate the Bank's adaptability in a competitive and rapidly changing economy, by empowering the Bank's staff to think outside the box and adopt best practices to serve its stakeholders more efficiently and thereby, create significant socio-economic impact.

Transformative Development and Outlook

The Board is dedicated to ensuring the Bank continues to deliver its mandate and attains its long-term aspiration of catalyzing Uganda's socio-economic transformation, keeping in line with the national priorities as encapsulated in the National Development Plans and Vision 2040. To this end, the Bank continues to invest its resources in the key priority sectors of the economy demonstrated by the significant portion of the Bank's loan book (73%), approvals (72%) and disbursements (80%) being related to the agriculture and manufacturing sectors in 2019.

In 2020, the Bank will embark on implementing the new Strategic Plan 2020-2024. The Bank will align its resources, the operating structure, policy framework and processes towards this strategy; it will take advantage of the achievements made thus far to improve its operations, and leverage its growing brand health, stakeholder confidence, support and good will of the Government of Uganda, to deliver the expectations of its stakeholders.

Appreciation

On behalf of the Board of Directors, I wish to convey our sincere appreciation to all our stakeholders for the support rendered to the Bank.

Special thanks goes to the Bank's shareholders, the Minister of Finance, Planning and Economic Development, Hon. Matia Kasaija, the Minister of State for Privatisation and Investment, Hon. Evelyn Anite and the entire top management team at the Ministry of Finance, Planning and Economic Development for continuously supporting the Bank in its initiatives towards driving the socio-economic development agenda of this country.

I thank the Managing Director, her Management team and the staff for the progressive hard work through the years and I look forward to their continued commitment.

To my fellow Directors, I appreciate your commitment, oversight, good governance and consistent dedication towards the Bank's pivotal role in the development of our Country.

Mr. Felix Okoboi
Board Chairman

Board of Directors

Mr. Felix Okoboi Board - *Chairperson Independent Non- Executive DIRECTOR*

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

Age: 49 Appointed: 2018

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

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

Ms. Patricia Ojangole *- Managing Director*

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

Age: 42 Appointed: 2018

Directorship in other institutions:- Msingi EA Ltd, New Vision Group and ADFIMI. She also chairs the Management Board of the European Union-funded START facility.

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

Mr. Henry Balwanyi Magino - *Independent Non-Executive Director*

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

Age: 56 Appointed: 2015

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

Committees: Chairperson, Board Audit and Risk Committee

Ms. Silvia Angey Ufoyuru *- Independent Non-Executive Director*

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

Age: 50 Appointed: 2015

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

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

Mr. Nimrod Waniala *Independent -Non-Executive Director*

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

Age: 68 Appointed: 2015

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

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

Mr. Francis Tumuheirwe *- Independent Non-Executive Director*

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

Age: 65 Appointed: 2018

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

Committees: Member, Board Audit and Risk Committee.

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

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

Age: 47 Appointed: 2017

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

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

Managing Director's Statement

4,343
New jobs created

23,970
Jobs maintained

31%
Growth in balance sheet

Ms. Patricia A. Ojangole - Managing Director

Delivering UDB's business strategy

2019 marked the second year of implementation of UDB's Strategic Plan 2018-2022. The Bank's overarching ambition for the year was to consolidate the gains previously registered and set the stage for sustained growth. Against this backdrop, the Bank implemented various initiatives in support of this aspiration and realized various achievements. These include;

- **Implementation of specialized units in the bank** – namely; project preparation unit aimed at increasing the stock of bankable public and private sector projects, business advisory services designed to especially support SME businesses with various skills to increase the level of business success and infrastructure finance unit that seeks to leverage on existing opportunities to increase the level of infrastructure in the country. These have enhanced the bank's product suite and are expected to grow their overall contribution to the business through 2020 and beyond.

- **Funding** – The shareholders continued to honor their commitment to capitalize the Bank and provided a budgetary allocation amounting to Ushs 103 billion in FY2019/2010. Leveraging on its equity, the Bank continued to engage multilateral and bilateral funders and closed the year with a healthy external funding pipeline worth over USD 100 million.

- **External ratings** – At its follow up rating process with Fitch Ratings, the Bank was for the second year running awarded a credit rating of B+ with a stable outlook. The rating and outlook portray UDB in good stead amongst peers and development partners and has had a positive impact on the Bank's financing prospects. The Bank also achieved an improved A+ AADFI rating, once again scooping an award of Best Performing DFI among peers on the African continent.

- **Main-streaming and championing sustainability** – Following its admission to the Sustainability Standards Certification Initiative (SSCI), the Bank has gone beyond the conventional environmental and social governance frameworks and has main-streamed sustainability in a holistic manner as per the stringent requirements of SSCI. Therefore, all decisions and actions at all levels are guided by the principles of sustainability making it the core of UDB's business. Although interest in sustainable financing is growing world over, the sustainability transition in the financial system is not happening at the required scale. Given UDB's experience and leadership role in sustainable finance, the UDB is working with Bank of Uganda and Ministry of Finance to mainstream holistic sustainability in the country's entire financial sector. Together, it is taking this critical sector beyond traditional corporate social and environmental responsibility to holistic sustainability where all financial institutions in the country work towards the same vision of creating a sustainable and prosperous Uganda. This process, if implemented resolutely, will also lead to a resilient and profitable financial sector that is aligned to the development needs of the country. Moreover, it will support in significantly accelerating the fulfilment of UDB's very purpose of existence (raison d'être), which is to improve quality of life of Ugandans.

- **Creating value through partnerships** – The Bank in collaboration with European Organization for Sustainable Development (EOSD) is involved in several joint initiatives as part of transitioning to a 21st century economy. First, EOSD helped to mobilize Euro 300,000.00 and developed a strategic partnership between Europe's largest & prestigious R&D institution "Fraunhofer Institute" Germany with "Makerere University" Uganda. The funding will be used to set up a research institute in Makerere with the technical support of Fraunhofer. The center is expected to develop technologies in renewable energy solutions that can help diversify the countries sources of foreign exchange among others. Second, EOSD & UDBL are in active cooperation on national engineering roster under the "Reshaping Industries for Sustainable Economy (RISE) Program". The objectives of this program include; Harnessing the power of emerging technologies to achieve economic, social and environmental sustainability, support building of local and regional capacities for enabling sustainable industrialization and remodelling of selected industries for ensuring that they thrive in the era of Industry 4.0 and align their business models with the digital age and national development priorities. Lastly, EOSD and UDBL jointly commissioned the Uganda Energy Sector Brief, in partnership with the National Planning Authority. As a next step, an action plan on affordable, reliable & sustainable energy for all Ugandans through specialized financial products led by the UDB is being developed. In addition, EOSD is mobilizing technology companies, including those which specialize in automation and 4IR in Germany, to enter the Ugandan market. Through the above partnerships and programs, UDBL also aims to industrialize the country, make the domestic industry competitive, innovative and sustainable.

The Bank, with the support of Food and Agricultural Organisation (FAO) and the European Union (EU) started implementation of the Agrinvest Project whose impact will be an enlarged and enhanced UDBL agricultural loan portfolio. This enlarged portfolio will in turn generate benefits for small-scale producers in terms of improved access to finance and wider scope for sustainable and profitable value chain investments. Ultimately, poverty reduction, food security and rural job creation will be achieved. Relatedly, the Bank is being supported by Alliance for a Green Revolution in Africa (AGRA) to improve its agriculture finance strategy, which should enable innovative ways of supporting the agriculture sector beyond the usual approaches.

Socio-economic outcomes and impact generated

Resulting from Bank's interventions, several development outcomes were realized during 2019; these include:

- **Jobs created/maintained** – the Bank's operations created/maintained 28,313 jobs in 2019, up from 23,970 in 2018, implying a net of 4,343 new jobs created. Of the total, 36% were held by women and 67% were taken on by the youth.
- **Tax contribution** – the total contribution to government tax revenue by the various companies supported by the Bank improved by 6% during 2019, from Ushs133.1billion in 2018 to Ugs141.7billion.
- **Improvement in private sector performance** – there was a 3% improvement in annual turnover between 2018 and 2019, from 1.738trillion to 1.796Trillion; while profitability of private sector entities financed by the Bank also improved by 9%.

The Bank will continue to strengthen its development impact monitoring, evaluation and learning framework so as to not only ensure that development outcomes generated by the projects funded by the bank are adequately tracked but also support assessment-at-entry with the view to ensure that only projects that demonstrate a high promise to create the highest additionality are financed and supported.

Financial Performance

The Bank's profit after tax for the year improved by 7% from Ushs 9.49 billion in 2018 to Ush 10.14 billion in 2019. This was in part, a result of a 15% growth in the gross loan book from Ushs 309.62 billion in 2018 to Ushs 354.80 billion resulting in a commensurate 18% increase in interest income on loans from Ushs 30.23 billion to Ushs 35.72 billion. As the bank begins to achieve stability in implementing the IFRS 9 Financial Instruments and benefits from improved collections, impairment losses on loans and advances reduced by 82% from Ushs 7.91 billion in 2018 to Ushs 1.40 billion in 2019.

The Bank continued to grow, with the balance sheet growing by 31% to Ushs 486.37 billion from Ushs 370.12 billion in 2018. This growth was mainly supported by a 74% increase of Government of Uganda capital contributions from Ushs 48.15 billion in 2018 to Ushs 83.73 billion in 2019. The Bank also drew down on the lines of credit with its development partners in 2019 giving rise to a 22% increase in borrowing from Ushs 97.03 billion in 2018 to Ushs 118.00 billion in 2019.

The Bank generated various funding relationships that are expected to mature in the short to medium term and will continue to leverage its equity to source alternative funding opportunities to support its investment activities.

Looking Ahead

Cognizant of the need to embed sustainability in our operations and to align our interventions to the national priorities as enshrined in Uganda's Vision 2040 and the new National Development Plan (NDPIII), the Bank has reviewed its strategic plan to cover the next 5-year period 2020-2024 to include a sustainability strategy.

During the year 2020, the Bank will support interventions along the three High Impact Goals i.e. projects and programs that aim to reduce poverty in Uganda, build a sustainable food system in Uganda those that promote Uganda's industrialization. To implement these goals, the bank will prioritize the following initiatives:

i. **Strategies for focus sectors as well as cross cutting issues** – the Bank will develop and implement various sector specific strategies aligned to address the constraints and bottlenecks that face the key sectors in which the Bank intervenes and sections of the economy the Bank supports. Amongst these strategies include agriculture finance strategy, the SME lending strategy, gender financing strategy, green finance strategy among others.

   To complement these strategies, the Bank will implement various programs and approaches to support its High Impact Goals such as programs aimed at reducing post-harvest handling losses, improved access to water for production, yield enhancement initiatives, youth skills and entrepreneurship development among others.

ii. **Funding raising** – Adequate and appropriate funding remains a critical success factor for the Bank to achieve its strategic aspirations and mandate. To this end, the Bank purposes to seek out an appropriate mix of funding that will generate requisite capital to finance its investment needs and at affordable cost. The bank will leverage its paid-up capital to source external funding.

iii. **Enhancing Operational efficiency** - The Bank will seek to digitize several aspects of its operations with aim of leveraging technology to transform customer experience and to expand its outreach. In addition, the bank will focus on building an adequate stock of competencies amongst its staff to ensure that the Bank addresses the institutional needs – both for now and the future.

iv. **Innovation** – Having rolled out its innovation journey during the year and the overwhelming success that was associated with it, the Bank will continue to support activities that will seek to promote a culture of innovation within the Bank and amongst all its human capital.

v. **Implementing Sustainability Initiatives** – The Bank will implement various interventions to align its operations and investments to demands of 21st century economy and to support the attainment of the Sustainable Development Goals. The bank is at the final states of implementing holistic sustainability standards under the SSCI and hopes to be certified during the year. Relatedly, the Bank will continue efforts to green its operations and implement a green finance strategy.

vi. **Improved Stakeholder engagement** – In line with its new medium-term Communications Strategy, the Bank will seek to reinvigorate its communication and stakeholder management approach in order to proactively keep all stakeholders informed of the impact and outcomes of its interventions.

The Bank will prioritize these and a host of other initiatives in 2020 as it commences the implementation of its revised strategy whose intended outcome is to ensure the Bank continues to deliver its mandate as a catalyst of Uganda's socio-economic development.

Appreciation

On behalf of Management and staff, I convey my gratitude to all the stakeholders in our business for supporting the Bank to flourish and make a meaningful contribution in transforming businesses and livelihoods in Uganda.

Specifically, we thank the shareholders, the Ministry of Finance, Planning and Economic Development for their continued support and commitment to the Bank and its activities. I wish to convey our appreciation to the Board of Directors for their stewardship and support, and under whose oversight the Bank continues to thrive.

To my valued colleagues at the Bank; the Management team and all the staff, your continued commitment, zeal and hard work ensured that the Bank posts great results yet again. To our dear clients with whom the Bank conducts business, and our development partners who support our business and progress, we greatly appreciate your continued support and value our partnership. We look forward to more rewarding years ahead as we commit to working and serving you better.

I wish you all a rewarding 2020.

Ms. Patricia A. Ojangole
Managing Director

The Executive Team

***Ms. Patricia Ojangole** - Managing Director*

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

Mr. Mahamoud Andama
Director Investments

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

Mr. Denis Ochieng
Director Finance and Business Operations

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

Ms. Sophie K. Nakandi
Head Legal and Company Secretary

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

Mr. Stephen Hamya
Chief Internal Auditor

B.Com (Accounting) Makerere University Business School; Graduate of the Senior Leadership Development Program of the Strathmore Business School; Member of the Institute of Certified Public Accountants of Uganda (ICPAU); Fellow of the Association of Chartered Certified Accountants (FCCA); Member of the Institute of Internal Auditors (IIA); Associate Member of the Association of Certified Fraud Examiners (ACFE).

Mr. Joshua Allan Mwesiga
Director Strategy and Corporate Affairs

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

Mr. Samuel Edem – Maitum
Director Credit

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

Committed To Good Corporate Governance

Overview

The Corporate Governance Statement stipulates the governance framework that was adopted by the Board of Uganda Development Bank Ltd and the achievements posted in the year 2019.

The Board believes that adherence to sound and effective corporate practices is central to the effective, transparent and seamless operations of the Bank and impacts the Bank's ability **to attract the right human capital, investment partners, stakeholders and enhance shareholder value.** In the year under review, the Bank complied with all applicable laws, rules, regulations, and guidelines on corporate governance.

The Board, Management and Staff of Uganda Development Bank Limited are committed to ensuring that the Bank's operations and processes are governed by clearly defined principles of good corporate governance to ensure proper governance, transparency, and accountability to its stakeholders through the existence of effective policies and systems of self-regulation.

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

The annual report is a demonstration of the Bank's culture of accountability to the shareholders and wider stakeholders. The Bank's performance is disclosed to the shareholders at the Annual General Meeting, through the publication of its financial statements and on its website.

Board and the Directors

Size and Composition of the Board of Directors

The Board of Directors is the Bank's highest decision-making body and is accountable for good governance, monitoring of the Bank's strategy as well as its performance. The Board is mandated with the role of policy approval in addition to the approval of the Budget and financial statements. The Board also ensures the availability of an effective risk management system as well as the internal control environment.

The Bank has a broad-based Board of Directors. The Board functions as a full Board and through various Committees constituted to oversee specific strategic and technical areas.

The size of the Board is determined by the Memorandum and Articles of Association, which currently permits 7 members, 6 being non-executive directors and 1 executive director.

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

The Non-Executive Directors constructively challenge Management's ideas and proposals and bring independent judgment, expertise as well as useful contacts to the Board while Executive Directors, on the other hand, are mandated with the implementation of the strategy as well as Board resolutions and provide useful insight and perspective of the business, therefore, facilitating the Board to issue informed resolutions.

Appointments

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

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

Induction and Training

All new Directors participate in a formal induction process which is presented by the Managing Director as well as Senior Management and coordinated by the Company Secretary. The induction process enables the directors to appreciate the strategic, financial, operational and risk management policies and processes, governance framework, values and key developments in the Bank as well as the environment in which the Bank operates. The induction further enables the directors to meet the Senior Management team. Periodically, the Chairman and Company Secretary review Directors' training needs, in conjunction with individual Directors and match those needs with appropriate external seminars, courses and on-site visits as applicable.

Annually, the Directors approve a Director Development Matrix which entails the various training that they are meant to undertake to augment their oversight role. During the year 2019, all the directors were trained in various disciplines as per the approved Director Development Matrix.

Board Succession Planning

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

As part of the Board's responsibility to ensure that effective management is in place to implement the Bank's strategy, the Board approved a succession plan and development plans to augment the identified successors' capacity in various disciplines were rolled out.

Board Meetings and Attendance

The Board meets at least 4 times in a year and holds a strategy session annually whereas Special Board meetings are held where necessary. During the period ended 31 December 2019, the Board convened 11 times and also, a Board strategy session was held over 2 days during the year. Refer to details on *page 39* for Board attendance during the period. To enable the Board to effectively discharge its responsibilities, the Board approves an annual calendar and to allow the directors sufficient time in preparation for the meetings, the majority of Board and Committee papers are circulated four days before the meeting. To facilitate efficient decision making, the Management team, and other senior executives may be invited to attend part of the meetings to provide additional insight into technical matters at the relevant time during the Board and Committee meetings.

During the year 2019, the attendance of the meetings was good with sufficient justification provided for the absence of directors mainly based on health, travel and conflicting matters of national importance.

Digital Technology

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

The Board Charter

The Board has a charter which sets out the guidelines for the Directors of the Bank in the performance of their functions and responsibilities. It, in particular, provides a governance framework through which the Board can properly conduct its affairs and monitor the operations of the Bank to ensure the fulfillment of its mandate. The Board reviewed the Charter during the year to take into account changing circumstances and alignment to best practice.

Board Committees

The Board delegates some of its responsibilities to Committees but remains accountable to the shareholders. The Committees augment the Board's efficiency but also facilitate detailed discussion of technical issues and application of relevant specialized director expertise to specific areas. The Board is comprised of three Board Committees including the Board Strategic Planning Committee, Board Credit Committee, and the Board Audit and Risk Committee. All Board Committees operate under Board-approved terms of reference which were reviewed during the year to keep abreast of developments in corporate governance as well as reflect the status on the ground. The Chairperson of each Board Committee is a non-executive director and members of each committee are appointed by the Board Chairperson. At a Board meeting following each committee meeting, the Board receives a report on the deliberations, conclusions, and recommendations. The reports of the 3 Board Committees appear on pages 36 to 39 to this report.

To promote investment in sectors that are strategic to the growth and development of the economy, the Board approved the roll-out of the equity finance product and the policy that will govern the operation of the product. The fundamental reason for the Bank's decision to invest in private equity is to provide affordable equity financing to companies in key growth sectors. The constitution of the Equity Investment Committee that is mandated with the oversight of the product commenced and will be operationalized in the year 2020.

Delegation of Authority

The Board delegates certain functions to its Board Committees but without abdicating its responsibilities. The Board also delegates its authority to the Managing Director and Executive Committee to manage the day to day business and affairs of the Bank. The Executive Committee and its subcommittees assist the Managing Director in the execution of her mandate within documented thresholds.

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

The executive committee is set out on page 32.

Board Remuneration

The Board Strategic Planning Committee plays an advisory role in the remuneration of staff and non-executive directors. The Board ensures that Executive Directors are remunerated appropriately to attract and retain talent. Non-Executive Directors are paid a monthly retainer and sitting allowance for the meetings they attend. The Directors proposed remuneration is recommended to the shareholders at the Annual General Meeting (AGM) for approval. No performance-based remuneration is paid to directors. During the period ended 31 December 2019 the Directors were remunerated as per the table below:

	2019	2018	2017
	Ushs millions		
Directors emoluments	425	308	373

Conflict of Interest

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

a) treating all shareholders equally;

b) avoiding conflicts of interest;

c) declaring any conflicts of interest;

d) not making personal profits at the company's expense; and

e) not accepting benefits that will compromise him or her from third parties.

At every meeting involving Board members, directors, and executive management, members are required to disclose any potential conflicts and if required, to withdraw from the proceedings. Declarations of conflict are also made to the

Company Secretary as and when necessary. The declarations are made at each Board meeting and at meetings of the Board committees responsible for considering transactions.

Board Effectiveness and Evaluation

To facilitate continuous improvement, the Board annually evaluates its performance as a whole, Board committees, Chairperson, Managing Director, and Company Secretary. The Assessment for the year was internally facilitated using an approved evaluation tool employing a self-evaluation process. An evaluation of the Chairman is conducted by the other Directors while the evaluation of the performance of individual Directors is assessed by peer directors and discussed between the Chairman and each Director. The last Board evaluation exercise was conducted in 2019 and an action plan to facilitate improvement generated including enhancement of the Board induction manual, enhancement of the communication strategy and enhancement of the Board composition.

Codes and Regulations

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

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

The Bank has a corporate governance culture designed to foster compliance and best practice within the organization in line with international corporate governance trends (including the Companies Act, 2012 and the Financial Institutions Act, 2004 among others). The Bank is therefore committed to complying with legislation, regulations and best practice codes with the ultimate objective of fostering transparency, disclosure, accountability, and probity in its transactions. Whilst the Bank continues to nurture a strong culture of governance and responsibility for risk management, it is constantly monitoring its practices to ensure that they are the best fit for it and serve to enhance business and community objectives.

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

Shareholders' Responsibilities

The Bank recognizes the importance of maintaining transparency and accountability to its shareholders. The Bank provides the shareholders with adequate, timely and sufficient information about the Bank's Strategy. The Annual General Meeting provides a forum for the Board to engage the shareholders although other engagements outside the Annual General Meeting are also held.

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

BOARD COMMITTEE REPORTS

All the Chairpersons of the Board Committees are non-executive directors. The Bank's Board structure is reflected on *page 37.*

A. Board Credit Committee Report

The Board Credit Committee (BCC) comprises of an Independent/Non-Executive Director, Mr. Nimrod Waniala, non-Independent/Non-Executive Mr. John Byaruhanga and the Managing Director, Ms. Patricia Ojangole. The Director Investments and Director Credit attend BCC meetings as permanent invitees. The Committee is also supported by a Board Advisor who brings a wealth of technical experience to the committee. The Board is satisfied that the collective skills of the members of the BCC are appropriate, relative to the size and circumstances of the Bank. The role of this Committee is to ensure that effective frameworks for credit risk governance are in place in the Bank. The Committee reports to the Board on credit portfolios, adequacy of provisions, the status of non-performing loans. The BCC approves credit applications in the excess of Ushs 1.5 billion. The BCC convenes as and when required to consider credit applications falling within its ambit and has therefore complied with its mandate.

During the year, the BCC contributed significantly to the overall funding approvals of Ushs 256.4 billion approved by the Committee in 73 transactions. Details of these and other transactions are provided in the sustainability section of this report.

B. Board Strategic Planning Committee Report

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

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

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

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

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

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

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

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

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

viii. An evaluation of the Bank's, Executive and Staff performance. Based on the achieved performance, the committee recommended the payment of applicable incentives for the year under review.

ix. Amendment of the Human Resource Policies to consider best practices

x. Business Technology and Digitisation Strategy

xi. Green Finance and Investment Strategy

xii. Communication and Stakeholder Engagement Strategy

xiii. Diversity and Inclusion Policy

xiv. Board of Directors Skills matrix

xv. Bank's Succession Plan.

C. Board Audit and Risk Committee Report

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

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

During the year, the Committee carried out its functions through discussions with Executive Management, Internal Audit, External Audit, and the external adviser. The BARC meets at least four times per annum, with authority to convene additional meetings as circumstances require. To execute its key functions and discharge its responsibilities as spelt out in its terms of reference during the period under review, the Committee considered the following and recommend the same to the Board for approval:

i. Evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems, risk management and auditing processes applied within the Bank in the day-to-day management of its business;

ii. The Bank's audited accounts

iii. The pricing model to govern the pricing of loan facilities

iv. The Bank's capitalization Strategy

v. The Finance Policy to the Board

vi. The Bank's uptake of Lines of Credit

Internal Control

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

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

External Auditors

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

The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and audit fees for the financial year ended 31 December 2019.

The Committee:

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

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

Financial Statements

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

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

ii. Reviewed the external auditors' report and Management's response to it;

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

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

v. Received and considered reports from the internal auditors.

Expertise and Experience of the Finance Function

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

Going Concern

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

Risk Management

The Board has assigned oversight of the Bank's risk management function to BARC. The Committee fulfills an oversight role regarding financial reporting risks, internal financial controls, fraud risk, and information technology risks as they relate to financial reporting. The BARC is satisfied that appropriate and effective risk management processes are in place.

BOARD STRUCTURE AND COMPOSITION				
	UDB Board of Directors	**Board Credit Committee**	**Board Strategic Planning Committee**	**Board Audit and Risk Committee**
	Responsible for the performance of the Bank while retaining full and effective control	Considers credit transactions and Risk mandated to it by the Board	Responsible for the strategic direction of the bank; develops compensation policies, resourcing plans and performance goals	Monitors the adequacy of financial controls and reporting, internal control environment and Risk Management
Committee membership and number of meetings attended				
	Full Board Meeting	**Board Credit Committee**	**Board Strategic Planning Committee**	**Board Audit and Risk Committee**
Number of meetings	**11**	**10**	**4**	**5**
Felix Okoboi	11**	1*	Nil	1*
Nimrod Waniala	11	10**	4	Nil
Henry Balwanyi Magino	10	10	Nil	4
Silvia Angey Ufoyuru	9	Nil	3**	5
John Byaruhanga	10	7	3	Nil
Francis Tumuheirwe	8	Nil	Nil	5
Patricia Ojangole	10	9	4	Nil

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

Internal Audit

The Internal Audit department has a functional reporting line to the Committee Chairperson and an administrative reporting line to the Managing Director. The BARC, with respect to its evaluation of the adequacy and effectiveness of internal controls, receives reports from Internal Audit every quarter, assesses the effectiveness of the internal audit function, and reviews and approves the Internal Audit department's Audit Plan.

The BARC is responsible for ensuring that the Internal Audit function is independent and has the necessary resources, standing and authority within the Bank to enable it to discharge its duties. The Internal Audit function's Annual Audit Plan was approved by the BARC. The Committee monitored and challenged, where appropriate, the action taken by management concerning adverse Internal Audit findings. The Committee has overseen a process by which the Internal Audit has performed audits according to a risk-based audit plan where the effectiveness of the risk management and internal controls were evaluated.

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

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

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

Company Secretary

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

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

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

Enterprise Risk Management

Environmental and Social Management Policy and Framework

UDB's ability to manage environmental, social and governance matters demonstrate the leadership and good governance that is essential to sustainable growth, which is why we are progressively incorporating these issues into our investment processes.

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

The Bank developed an Environmental and Social Management (E&S) Framework which it uses for the screening of projects submitted for funding. The framework integrates E&S risk management into UDB's Investment processes. It helps the Bank to avoid transactions that may have significant environmental and social risks by conducting environmental and social due diligence before financial engagement. It also helps the Bank to identify and manage E&S risks of the Bank's portfolio.

2.0 Environmental and Social Governance Assurance Report

During the year, the Bank examined all its financial proposals for Environmental and Social Impact and performed on-going E&S monitoring of projects under implementation. This report provides an update on the impacts and risks to human health, the environment and society, and where necessary provides mitigations or compensation for them by taking appropriate measures, for all projects funded by the Bank.

Also, the bank conducted its carbon footprint assessment which is also detailed in this report.

2.1 E&S Risk Appraisal in the Credit Disbursements

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

In 2019, the bank received and approved 73 investment facilitation requests, valued up to 256.4 billion shillings. A total of 25 projects were subjected to E & S risk analysis (based on perceived risk from the project production process, expected amount of waste disposal and initial E&S assessment during deal review)- the potential risks and impacts analysed and ranked according to the bank ESMS E & S risk category highlighted above.

Table 1: Annual Breakdown of Bank Investment by category in 2019

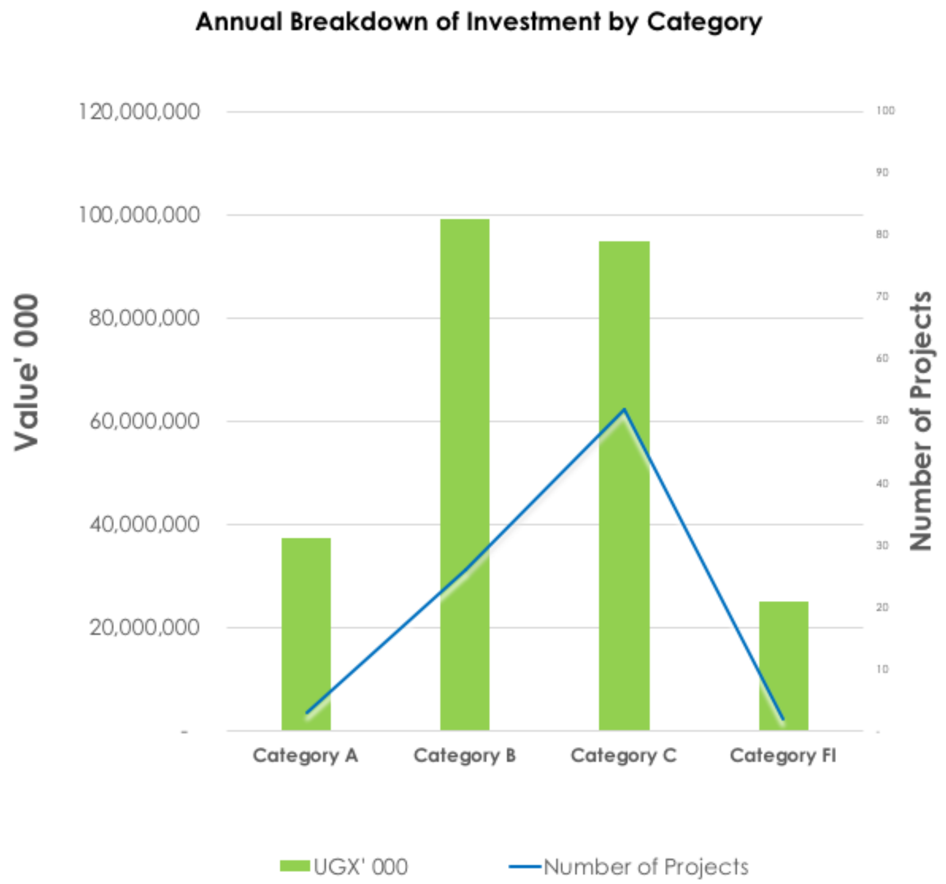
E & S Risk Category	Ushs' 000	% by Volume
Category A	37,500,000	14.6%
Category B	99,146,372	38.7%
Category C	94,721,163	36.9%
Category FI	25,000,000	9.8%
TOTAL	**256,367,536**	**100%**

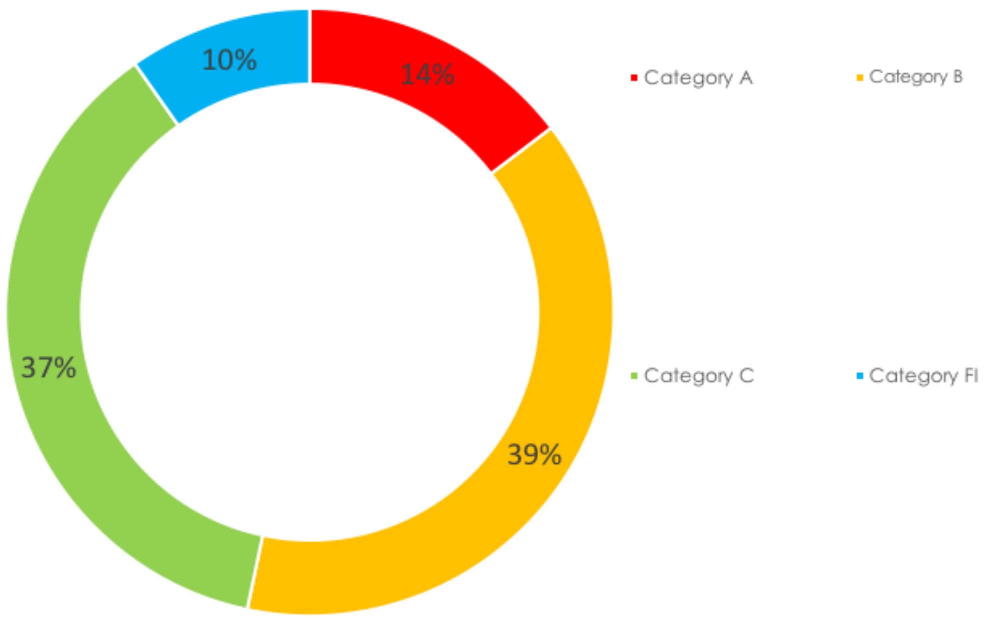
The above is an attestation of the integration of the environmental and social safeguards framework in the financing activities of the Bank since the adoption of the ESMS. 37% of the projects appraised were category C projects with 52 projects, valued at Ushs 94.7 billion out of Ushs 256.4 billion approved in 2019 while 39% of the projects appraised were category B worth Ushs 99.1 billion with a total number of 26 projects. On average, the total financial requests from category B project were about Ushs 1.9 billion minima as compared to Ushs 1.8 billion and Ushs 721million for category C and A projects respectively. These projects are highly concentrated in the manufacturing and agro-processing sectors. They also pose a significant financial risk to the Bank. Due to concentration risk on an industry and sector perspective, there would be a loss in incomes should there be new regulation and stringent enforcement practices, arising from fines and charges or prohibitions from operations if triggered by non-compliance to statutory/institutional requirements and unclean production.

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

2.2 Incident Management and Reporting

In 2019, the Environmental and Social risk desk received only one incident of a reputational nature given a publication relating to child labour employment which appeared in the Daily Monitor, where a client was alleged of exploitation and abuse of minors. The incident was reviewed and investigated. However, it was later proven non-valid after verification of recommendation letter from the area council I and national identity card of the alleged minors.





1.1 Mitigation Measures

The Bank will continue to strengthen the E & S office in the years ahead to ensure effective environmental and social screening for all projects eligible for funding. The Bank will also undertake measures to have a big proportion of its investments in Category C and FI to limit the adverse effects that may arise from changes in technology, national laws and/or charges due to non-compliance, or regional markets could send projects under category A and B into revenue meltdown.

3.0 Greenhouse Gas Assessment 2019 and Looking Ahead in 2020

The Bank conducted its first Greenhouse Gas Assessment in 2019 to track the carbon emissions from its operations. This becomes a baseline for emission inventory and will form a foundation for subsequent years for comparative analysis and decision making to calculate and reduce its carbon footprint.

Carbondioxide emission equivalent inventory from the bank's direct operations and investment projects was undertaken. This was in conformity with standards set by the Intergovernmental Panel on Climate change (IPCC) and to improve disclosure and reduce the environmental impact of its operations.

Greenhouse Gas Assessment was conducted using the Greenhouse Gas Protocol to provide an estimate of the net carbon footprint that resulted from UDB's direct control in its operations. The organizational boundary was used because it defines the activities and operations that constitute the purpose of accounting and reporting greenhouse gas emissions. This is, therefore, a report on the contribution of the bank's operations on its carbon footprint for the year 2019. A sizable proportion of the bank's carbon footprint was linked to employee numbers which stood at 69 in 2019.

UDB carbon footprint uses the operational control approach and categorizes them into different pillars, or scopes, as either direct or indirect. Below are the scopes used:

Scope 1: Direct GHG emissions

These include gases that occur from sources that are owned or controlled by the bank, for example, emissions from combustion in company-owned (vehicles).

Scope 2: Electricity indirect GHG emissions

Emissions from the generation of purchased electricity consumed by the bank.

Scope 3: Other indirect GHG emissions

Emissions that are a result of the financing activities of the bank but occur from sources that are not owned or controlled by the bank. These include emissions from waste, transportation, electricity consumption, and water.

The boundary distinction was laid down to allow UDB to determine and model emission reduction strategies, their payback, and viability.

The total carbon footprint of the bank 349tCO2e has been recorded with staff commuting and business travel -long haul being the largest source. Although, on aggregation with alert datum 20,000 tCO2e, this level of emissions is extremely low-level and can still be cut down.

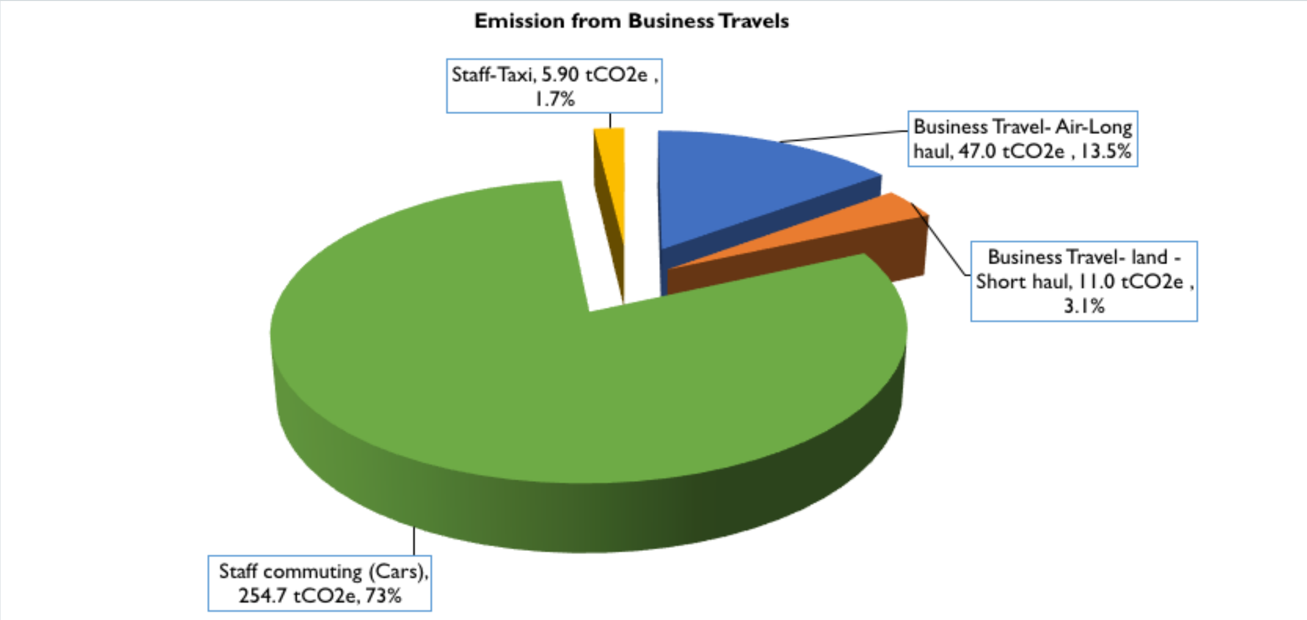
Table 2: 2019 Carbon Footprint Performance Summary

	Net emissions	Employees	Intensity per employee
2019	349 tCO_2e	69	5.1 tCO_2e

Mobility emissions, such as business travel, owned vehicles, and employee commuting accounted for 91.3%. The total distance traveled across all forms of transports contributing to a total mobility emission of 319 tCO2e. Staff commuting was the single largest contributor to total emissions on a gross basis at 73% (254.69tCO2e). Business travel was the second-largest source of emission and subsequently electricity consumption.

Figure 2: Breakdown of mobility gross emissions by source

Building rental-related emissions including purchased electricity, water, waste, and paper consumption accounted for 8.7 % (30.47tCO2e) of the Bank's overall footprint. The emission resulting from utilities consumption (water and electricity) is higher for electricity consumption up to about 19.53 tCO2e compared to water consumption. This is attributed to the full use of electricity for lighting and air conditioning despite the available natural light and window ventilation system in place. Paper consumption represents significant building-related emissions sources at 9.68 tCO2e with waste accounting for 2.8%.



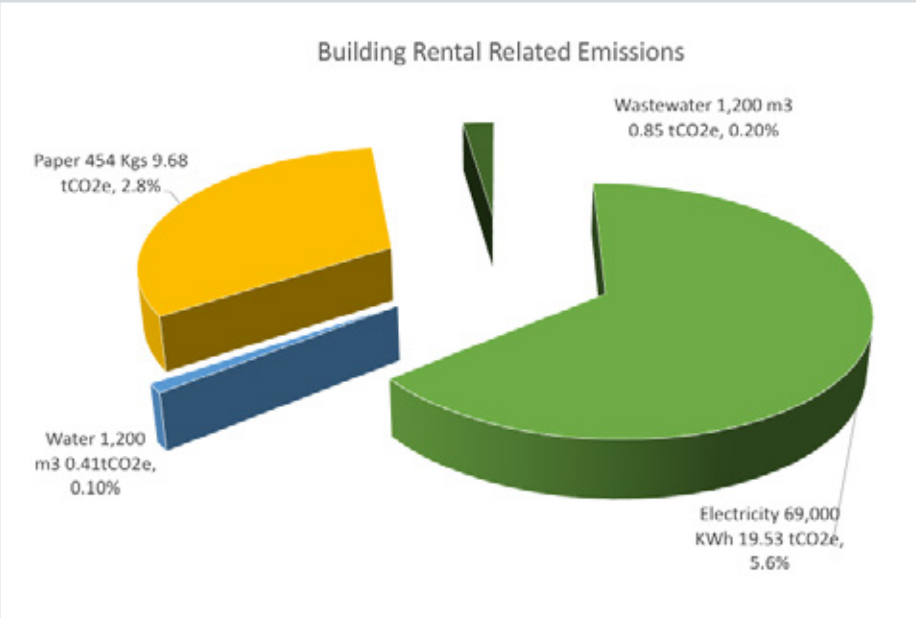


Figure 3: Emissions from Electricity, water, and paper consumption

In addition, the high-water consumption in the bank is mainly from the washroom. Almost 0.5litres of water is used per single staff or visitor during hand-washing. Although, there is potential to cut it down from the current levels using intelligent thermostatic high basin taps.

3.1 Emission Reduction Strategies

In 2020 and beyond, the Bank will take the following measures to reduce its carbon emissions

- Maximize the use of natural light through windows. This shall result in a potential drop in power consumption and subsequently reduced emission from electricity purchased.
- Periodical use and optimization of the ventilation systems, including real-time alignment of lighting and usage of electronic systems. In Other words, open windows and turn off computers and lights when not using them.
- Replace the taps in the handwash areas with intelligent thermostatic high basin taps to reduce water consumption.
- Given the fact that emissions from short and long haul travel from staff commute is difficult to control, the Bank will partner with National Forestry Authority (NFA) and seek an expression of interest to plant trees and also support entities that plant trees to offset this unavoidable emission that will continue to grow as the business grows..

Risk Management & Compliance Overview

In 2019, the Bank reviewed its 2018 - 2022 strategic road map to align itself to the National Planning cycle of government which is a 5 year National Development Plan (III) and to adopt the sustainability development initiatives that are currently shaping the world and especially the development institutions and multilateral agencies in respect to climate change and Sustainable Development Goals 2030. The review of the strategic road-map resulted into the launch of a new 5-year corporate strategy 2020-2024. Significant effort went into creating collaborations and alliances with entities that have already been at the forefront of these climate initiatives and sustainable development initiatives like Development Bank of South Africa (DBSA), and European Organisation for Sustainable Development (EOSD) among others. During the year the Bank maintained a B+/Stable credit rating by Fitch Rating agency; and continued to work on its accreditation with the Green Climate Fund (GCF).

In 2020, the Bank will work towards improving the quality of its loan book and improving process efficiencies and effectiveness across the core process of the Bank. Funding diversification is a key objective of the Bank's funding and liquidity management. The Bank strives to diversify its borrowing in terms of currencies, maturities, instruments and investor types in order to avoid excessive reliance on individual markets and funding sources as it strives to increase the level of capitalization which it can leverage on. This will have an impact on the 3 high Impact Goals that the Bank identified to have intervention to create development outcomes for the country.

The risk environment especially the market factors such as interest rate and foreign exchange movements had no adverse effects on the Bank's returns in 2019, the stability of the USD/Ushs currencies and LIBOR for the borrowed funds. The Bank continues to exercise a high level of risk management awareness and prudence as it looks to be regulated for good governance practices and oversight. The Bank was rated A+ by AADFI and regulation will even make it stronger in years to come.

Risk Management framework

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

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

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

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

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

Managing our risks and opportunities

The Bank's risk management framework comprises risk policies and procedures formulated for the assessment, measurement, monitoring, and reporting of risks including several layers of limits set to manage the exposure to quantifiable risks. The Bank recognizes that effective risk management is based on a sound risk culture, which is characterized, among others, by a high level of awareness concerning risk and risk management in the organization.

The main risks that the Bank identified in its operations were credit risk, market risk, liquidity risk, operational risk, and compliance risk. These risks are managed with the overall objective of maintaining financial soundness and avoiding activities that could threaten the Bank's capital and reputation. Managing these risks also unveils opportunities to the Bank.

Credit Risk

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

UDB's credit risk management aims at preserving the high credit quality of the Bank's portfolios and thereby protecting the Bank's short- and long-term viability. The Bank's credit risk management builds on the principles of (1) appropriate risk diversification within the scope of the mission; (2) thorough risk assessment at the credit appraisal stage; (3) risk-based pricing and risk mitigation; (4) continuous risk monitoring at the individual counter-party level as well as portfolio level; (5) avoidance of undesirable risks to the extent possible.

Key risk indicators monitored are, among others, the asset quality movement in risk class distribution in the lending as well as large exposures to an obligor and sector level.

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

Market Risks

The Bank defines market risk as the risk of valuation loss or reduction in expected earnings stemming from adverse fluctuations in exchange rates, interest rates, credit spreads and cross-currency basis spread.

Market risks predominantly arise from the Bank's core business activities and the liquidity portfolio needed to support these activities. The Bank's strategy is to obtain cost-efficient funding from diversified sources as detailed in the funding strategy and provide lending that is tailored to the needs of its customers through facility structuring. This gives rise to foreign exchange risk and structural interest rate risk due to mismatches in the Bank's assets and liabilities in terms of currency composition, maturity profile and interest rate behaviour. The stability in the interest rates and the slowdown of LIBOR were factors that made for a stable market risk in the year 2019.

The Bank managed its market risks by natural hedging against foreign exchange risk and interest rate risk to protect its earnings and the economic value of its assets and liabilities

Liquidity risk

Key objectives for the Bank's liquidity risk management are to ensure that the liquidity position is strong enough to (1) enable the Bank to carry out its core activities for a defined period under stressed market conditions without access to new funding; (2) secure the highest possible credit rating by international rating agencies; (3) fulfill the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

The liquidity requirement for various time horizons is determined based on analysis and stress testing of future contractual cash flows. A key metric applied is the survival horizon, which measures how long the Bank can fulfill its payment obligations in a severe stress scenario. The target survival horizon is twelve months, which means that the Bank can meet its payment obligations and continue its business operations without disruption for the coming twelve months under stressed conditions.

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

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

Operational Risk

The Bank's operational risk management focuses on proactive measures to ensure business continuity, the accuracy of information used internally and reported externally, a competent and well-informed staff and its adherence to established rules and procedures as well as on security arrangements to protect the physical and IT infrastructure of the Bank.

To manage operational risk, the Bank's activities have been divided into a set of core business processes and sub-processes with designated process owners. The process owners are responsible for identifying, reporting and responding to risks inherent in the processes.

Data on incidents is collected to gain information on the type, cause, frequency and interdependence of various risk events. Incidents reported are reviewed and categorized by Risk Management. The Bank has adopted a categorization based on the Basel Committee's event types comprising (A) internal fraud; (B) external fraud; (C) clients, products and business practices; (D) business disruption and system failures; (D1) execution, delivery and process management; (D2) damage to physical assets; (E) employment practices and workplace safety.

Compliance Risk Management

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

UDB is committed to following best practices and market standards in the areas of Anti Money Laundering and Terrorism Financing and business ethics. The Bank aims at a zero tolerance of bribery and corruption.

In the day-to-day operations, the three lines of defence model define the roles and responsibilities for compliance and integrity risk in the Bank. The first line of defence lies with the respective Bank departments and units, which are responsible for ensuring that compliance risks are identified, understood and reported to the decision-making bodies of the Bank. The second line of defence lies with Risk Management, which assesses and monitors the compliance and integrity risks and coordinates its control activities. Internal Audit is the third line of defence

In managing compliance and integrity risks, the Bank places particular emphasis on preventing bribery, fraud and corruption, money laundering and the financing of international terrorism as well as tax fraud and tax evasion.

Operating Environment

Macro-Economic Environment in 2019 and Outlook

1.0 Global economic growth

The global economy recorded its lowest growth of the decade in 2019, falling to 2.3% as a result of protracted trade disputes, high policy uncertainty and a slowdown in domestic investment. The U.N.'s annual report, the World Economic Situation and Prospects 2020, forecast a modest acceleration in global growth, reaching 2.5% in 2020 and 2.7% in 2021, as trade and investment gradually recover. The report warned that slower world growth "threatens to undermine progress towards eradicating poverty, raising living standards, and creating a sufficient number of decent jobs."

According to U.N. report, 2019 ended up having the slowest global economic expansion since the world financial crisis in 2008-2009, with growth trending down in virtually all major economies and slowing in all geographic areas except Africa. "This slowdown is occurring alongside growing discontent with the social and environmental quality of economic growth, amid pervasive inequalities and the deepening climate crisis. The United States, the world's largest economy, GDP growth of 2.9% in 2018 slowed to 2.2% in 2019 and is projected to fall further to 1.7% in 2020 with a slight increase to 1.8% in 2021. Recent U.S. cuts in the federal funds rate may promote some economic activity, but "continued policy uncertainty, weak business confidence, and slowing job growth are likely to weigh on domestic demand." In China, the world's second-largest economy and the region's powerhouse, the economy grew 6.6% in 2018 then slowed to 6.1% in 2019 and is projected to slip further to 6% in 2020 and 5.9% in 2021.

1.1 Global Financial markets

Global financing conditions eased considerably in 2019. Bond yields in advanced economies fell to unprecedented lows, notwithstanding a pick up towards the end of the year amid improvement in market sentiment. Major central banks, most notably the U.S. Federal Reserve and the European Central Bank (ECB), eased monetary policy last year in the face of softening global economic prospects, heightened downside risks, and persistently low inflation.

The policy rates for major central banks were relatively low in 2019; with the Federal interest rates at 1.75% as at December, the rate for Bank of Japan was at -0.1% and the European Central Bank rate was at nearly 0%. The intention is to boost investment that stimulates growth.

Implication: The projected slow global growth is expected to slow down Uganda's export demand; this may negatively affect the country's foreign exchange earnings and the overall growth of the economy.

Implication: With the declining trend in the global interest rates, Uganda and UDB, in particular, should consider sourcing funds that bear relatively lower interest rates.

1.2 Commodity markets

Global trade growth was at 0.3%, as a result of global trade tensions that fueled policy uncertainty, significantly curtailed investment that pushed global trade growth down.

The prices of most commodities fell in 2019, mainly reflecting deterioration in the growth outlook—especially that of Emerging Markets and Developing Economies (EMDEs), which tend to have a larger income elasticity of demand for commodities. Oil prices averaged $61/bbl in 2019, a 10% fall from 2018 and $5/bbl below previous projections. Prices were supported by production cuts by OPEC and its partners, including the December 2019 decision to remove 0.5 mb/d of production on top of previous reductions of 1.2 mb/d implemented since January 2019. Production has also been constrained in the Islamic Republic of Iran and the República Bolivariana de Venezuela by a variety of geopolitical and domestic factors. However, these pressures were offset by weakening oil demand, as exemplified by downward revisions to demand projections. Oil prices are forecast to decline slightly to an average of $59/bbl in 2020 and 2021. U.S. supply is expected to continue to increase in 2020 as new pipeline capacity comes onstream. The greatest downside risk to the forecast is a further deterioration in growth.

1.3 Growth in Sub-Saharan Africa

Growth in Sub-Saharan Africa moderated to a slower-than-expected 2.4% in 2019. Activity was dampened by softening external demand, heightened global policy uncertainty, and falling commodity prices. Growth is projected to firm to 2.9% in 2020 and strengthen to 3.2% in 2021-22—notably weaker than previous projections, according to World Bank Global Economic prospects report 2020. The growth pickup is predicated on improving investor confidence in some large economies, a strengthening cyclical recovery among industrial commodity exporters along with a pickup in oil production, and robust growth among several exporters of agricultural commodities. Nonetheless, these growth rates will be insufficient to make significant progress in reducing poverty in many countries in the region, highlighting the need for lasting improvements in labor productivity to bolster growth over the medium term. Downside risks to the outlook include a sharper-than-expected deceleration in major trading partners; increased investor risk aversion and capital outflows triggered by elevated debt burdens; and growing insecurity.

Foreign direct investment (FDI) has continued its downward trend, with some of the recent weakness attributable to global policy uncertainty. FDI weakened across all Emerging Markets and Developing Economies (EMDE) regions in the first half of 2019, with the decline being particularly pronounced in EMDEs that had earlier experienced financial pressures (UNCTAD 2019). By contrast, remittances to EMDEs continued to grow and recently surpassed FDI (World Bank 2019).

Implication: The expected capital outflows arising from the increased debt burden will further weaken the sub-Saharan economies, including Uganda.

East Africa region continues to be the fastest-growing sub-region in Africa with a 6.2% growth rate driven by government spending on infrastructure and domestic demand. East African economies have observed a prolonged period of robust growth, outperforming their peers in the continent. The region benefits from improvements in stability, new investment opportunities, and incentives for the development of new industries. In 2019, the two African countries are among the world's 10 fastest-growing economies; Rwanda at 8.7% and Tanzania 6.8%.

However, the worst desert locust infestation in 70 years is ravaging East Africa, potentially endangering economies in a region heavily dependent on agriculture for food security. In recent days, locust swarms have begun to impact South Sudan, Uganda and Tanzania, having already decimated crops throughout Ethiopia, Kenya and Somalia, Eritrea and Djibouti. The FAO estimated that around 8.5 million Ethiopians and 3.1 million Kenyans already face food insecurity. The infestation is "credit negative" for economies heavily dependent on agriculture, which contributes roughly a third of gross domestic product (GDP) across the whole of East Africa and is responsible for more than 65% of employment across the region, except for Kenya, its largest economy.

1.4 Uganda's Economy

The Ugandan economy reported strong growth in 2019, estimated at 6.3%, largely driven by the expansion of services. Services growth averaged 7.6% in 2019, and industrial growth was at 6.2%, driven by construction and mining. Agriculture grew at just 3.8%. Retail, construction, and telecommunications were key economic drivers. Inflation is expected to remain below 5%, strengthening the domestic economy, according to the African Development Bank Economic Outlook report 2020.

Government spending continues to increase, underpinned by public infrastructure and capital investments for the nascent oil and gas industry. Expenditures have increased faster than domestic revenues, widening the fiscal deficit in 2019. The deficit is largely financed through external borrowing, supplemented with domestic securities. Despite the rise in the deficit, Uganda is classified at low risk of debt distress. However, debt reached an estimated 43.6% of GDP in 2019, up from 25% in 2012, raising medium-term concerns. Lending remains within IMF limits, but risks have increased due to higher costs of debt servicing and infrastructure investments.

Exports, dependent on primary products, have not kept up with imports, widening the trade deficit to an estimated 9.4% of GDP in 2019 from 8.3% in 2018. The increasing current account deficit has been largely financed by foreign direct investment (2.6% of GDP) and externally financed projects. External reserves were at a comfortable 4.4 months of imports in 2019, while the exchange rate was stable, averaging 3,702 Ugandan shillings per dollar.

Implication: The widening trade deficit creates inflationary and exchange risks with a destabilizing effect on the relatively stable environment.

The poverty rate fell during the past two decades but rebounded in 2016/17, reaching 21.4%, meaning that 10 million people were living below the national poverty line.

Inflation was subdued in the year to June 2019, with the average annual headline inflation falling to 3.1% from 3.4% in June 2018. The lower inflation was driven mainly by improved crop production due to favourable weather conditions, along with reduced fuel costs.

1.5 The state of Uganda's Banking Industry

The banking industry aggregate assets increased by 10.5%, from USh.27.4 trillion in June 2018 to USh.30.3 trillion as at end June 2019. As the shilling remained stable against the major foreign currencies, banks' deposits with non-resident banks reduced by Ush.439.0 billion to USh.2,243.3 billion, which had increased by USh.1,017.9 billion in the year ended June 2018; hence minimizing the banks' assets exposure to foreign shocks. The relatively low-interest-rate environment boosted private sector credit growth from 10.8% to 13.4% during this period.

The ratio of non-performing loans to gross loans reduced over the year ended June 2019. Asset quality, as measured by the ratio of non-performing loans to total gross loans and advances (NPL ratio) improved from 4.4% (June 2018) to 3.8% (June 2019).

The aggregate profitability of the banking industry improved. However, the persistently loss-making trend of the smaller banks remains a concern. The banking sector's aggregate net-after-tax profit increased by 5.3% from USh.737.7 billion (FY2017/18) to USh.776.7 billion (FY2018/19), largely driven by interest income on advances and treasury securities that increased by 9.3% and 8.3% respectively.

Implication: The positive developments in the Banking industry should encourage growth in private sector credit, that eventually would lead to lower market interest rates and increased access to short and medium term investment funds. UDB's focus will be to fill the credit gap associated to long-term financing.

Inflation was subdued in the year to June 2019

Awards

Certificate of AADFI rating – the Bank obtained an A+ rating in governance, financial and operating standards

2019 Silver Award for excellent financial reporting

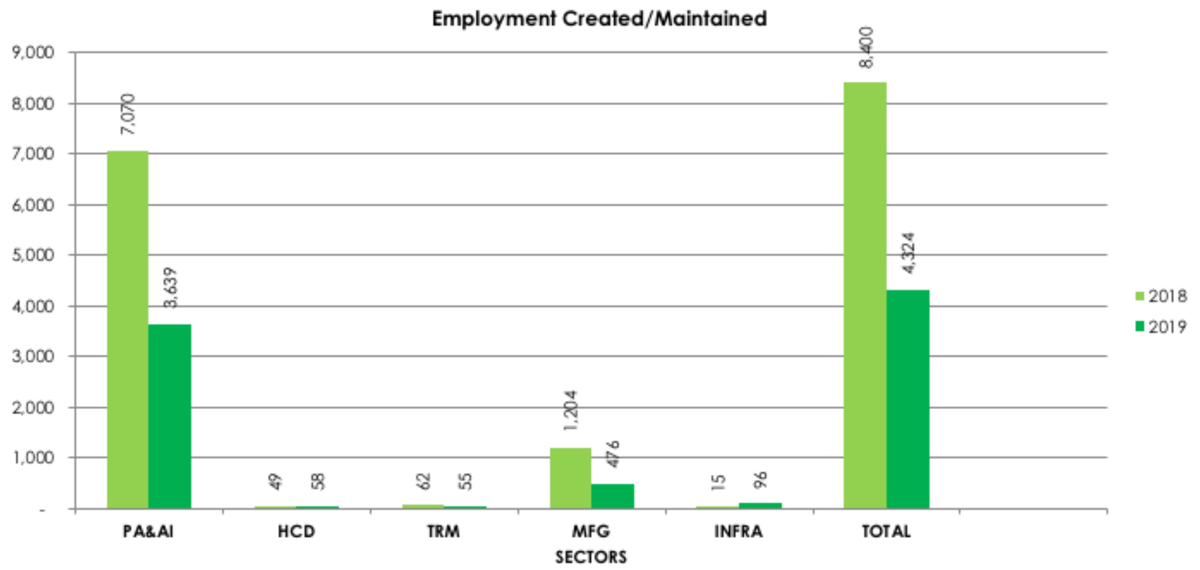
2019 Financial Reporting Award – runner up banking services category

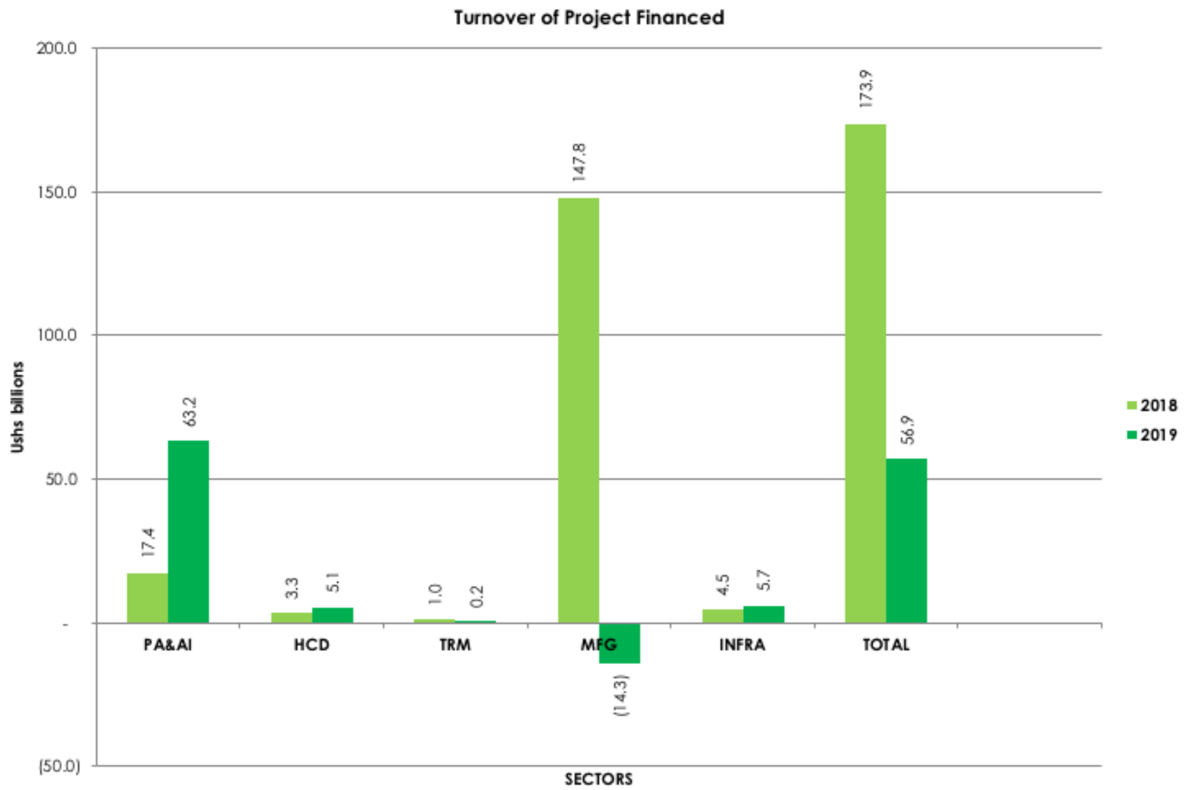
Sustainability Report

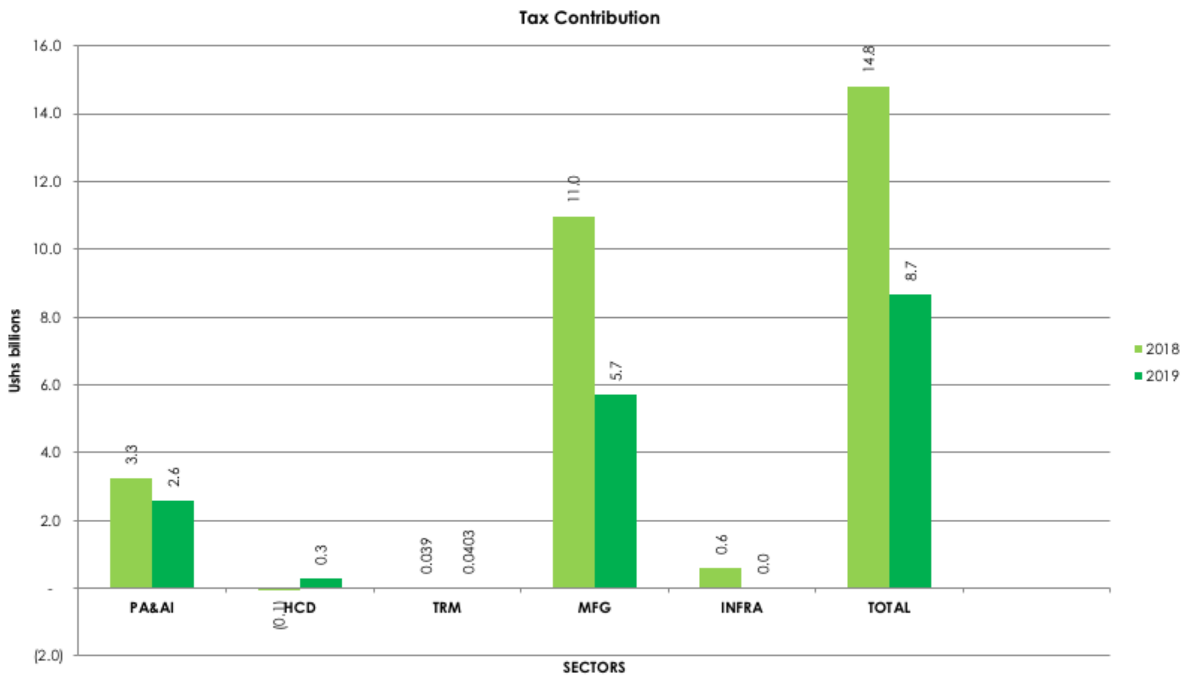
This report focuses on material sustainability areas that affect the long-term success of our business and that relate to any significant impacts we have on the economy, environment or communities in which we operate. It also focuses on issues that are important to our key stakeholders.

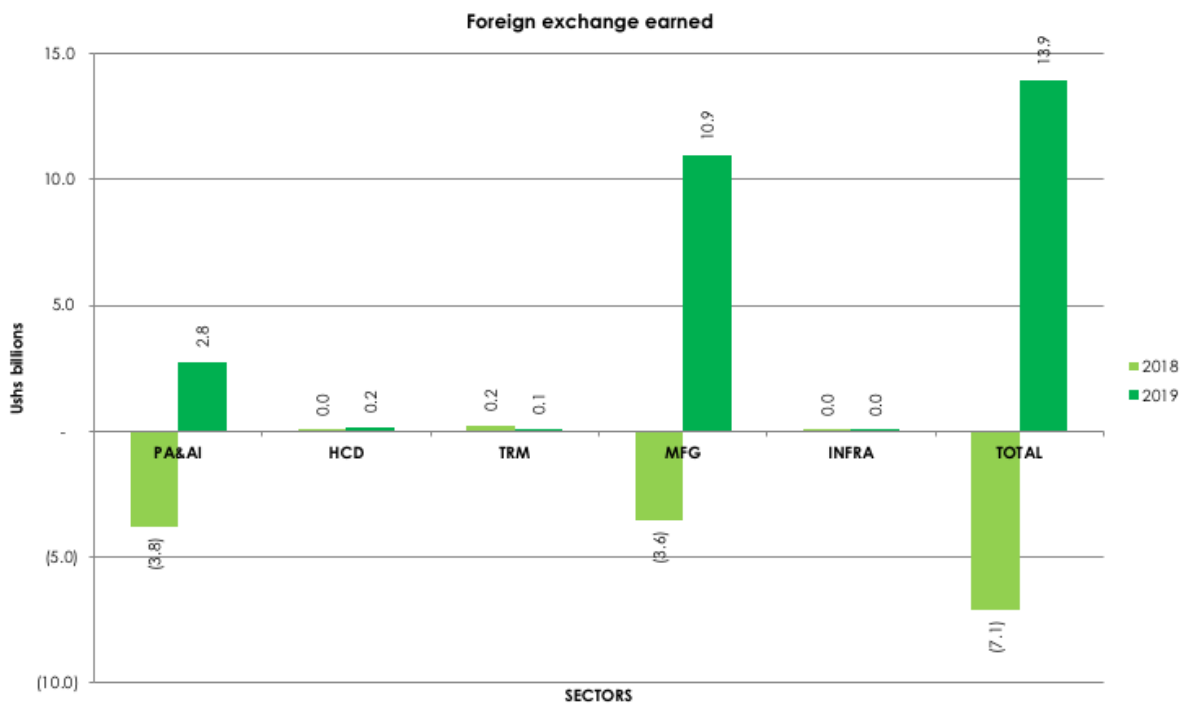
Key Sustainability Highlights

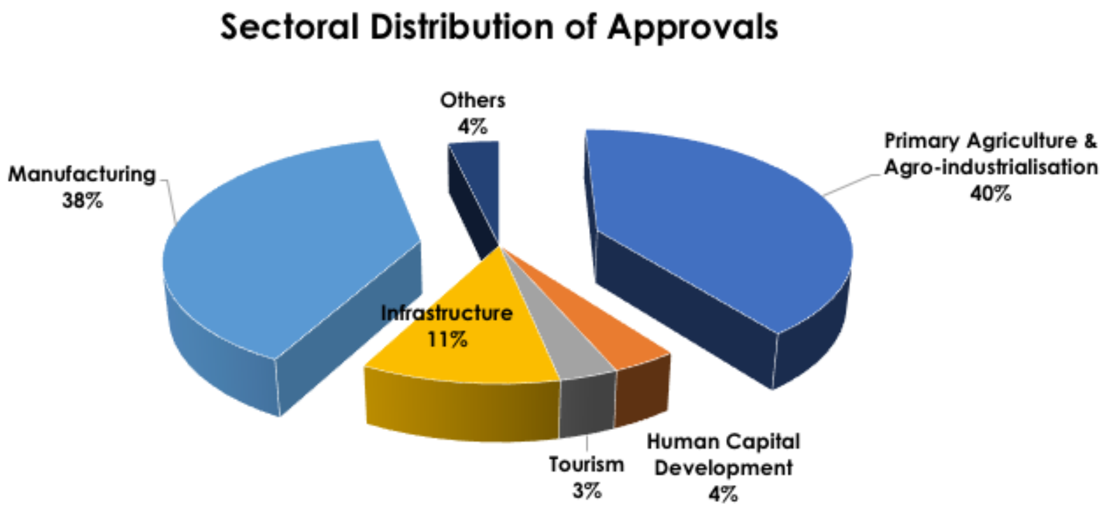
Sector key:- PA&AI: Primary Agriculture & Agro-Industrialisation; HCD: Human Capital Development; TRM: Tourism; MFG: Manufacturing; INFRA: Infrastructure; MOG: Minerals, Oil and Gas; OTHRS: Other sectors where the Bank is withdrawing its investments.



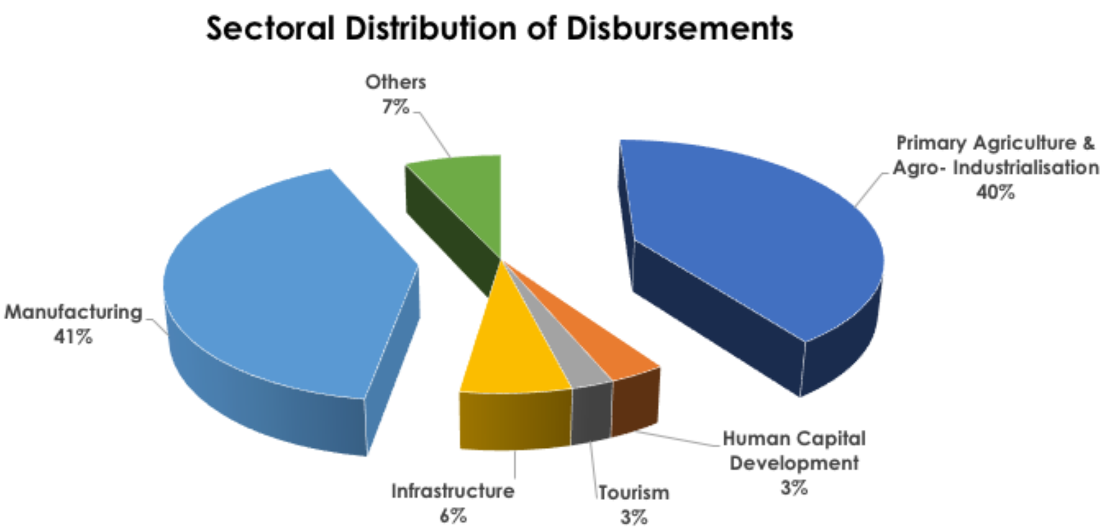



Tax Contribution
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
-
(2.0)
Ushs billions
3.3
2.6
(0.1)
0.3
0.039
0.0403
11.0
5.7
0.6
0.0
14.8
8.7
PA&AI
HCD
TRM
MFG
INFRA
TOTAL
SECTORS
2018
2019

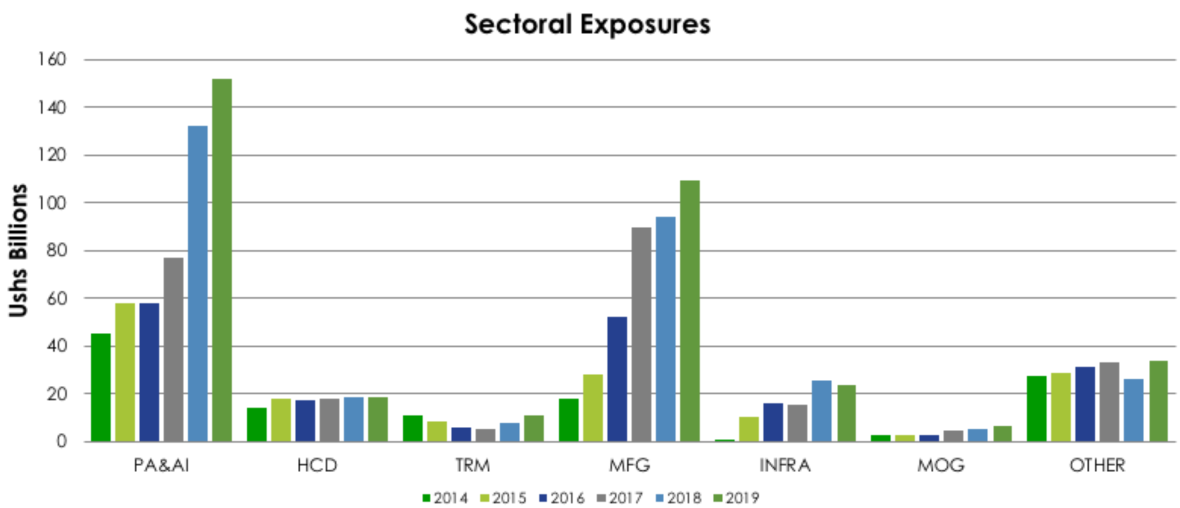

Foreign exchange earned
15.0
10.0
5.0
-
(5.0)
(10.0)
Ushs billions
(3.8)
2.8
0.0
0.2
0.2
0.1
(3.6)
10.9
0.0
0.0
(7.1)
13.9
PA&AI
HCD
TRM
MFG
INFRA
TOTAL
SECTORS
2018
2019



Sectoral Distribution of Approvals
Others 4%
Primary Agriculture & Agro-industrialisation 40%
Manufacturing 38%
Infrastructure 11%
Tourism 3%
Human Capital Development 4%



Sectoral Distribution of Disbursements
Others 7%
Primary Agriculture & Agro- Industrialisation 40%
Manufacturing 41%
Human Capital Development 3%
Infrastructure 6%
Tourism 3%



Sectoral Exposures
Ushs Billions
160
140
120
100
80
60
40
20
0
PA&AI
HCD
TRM
MFG
INFRA
MOG
OTHER
2014 2015 2016 2017 2018 2019

Sustainability Report

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

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

In fulfilling its mandate, UDB is guided by the Country's National Development Plans (NDPs), applicable Ugandan laws and regulations, agreements with Development Partners, Association of African Development Finance Institutions (AADFI) prudential guidelines and local policies.

The Bank also subscribes to the goals and targets of the United Nation's "Transforming our World: the 2030 Agenda for Sustainable Development". The priorities and sectors that the Bank finances are aligned to those of the Country's National Development Plans (NDPs).

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

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

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

Management Approach To Sustainability Governance

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

Sustainability Framework

The Bank uses various benchmarks and international frameworks such as the Global Reporting Initiatives (GRI) G4 guidelines for reporting purposes in addition to internal

The following reports supplement this Sustainability Review:

Our business model and strategy	Financial Sustainability	Corporate governance report

frameworks, policies and procedures. The issues raised by our internal and external stakeholders in our day-today interactions are also taken into account. Accordingly, our report reflects the contribution the Bank makes towards financial, economic, social and environmental development arising from the projects financed by the Bank.

A) Managing Sustainability Risk at a Project Level

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

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

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

B) Creating Socio-Economic Development Impact

i) Introduction

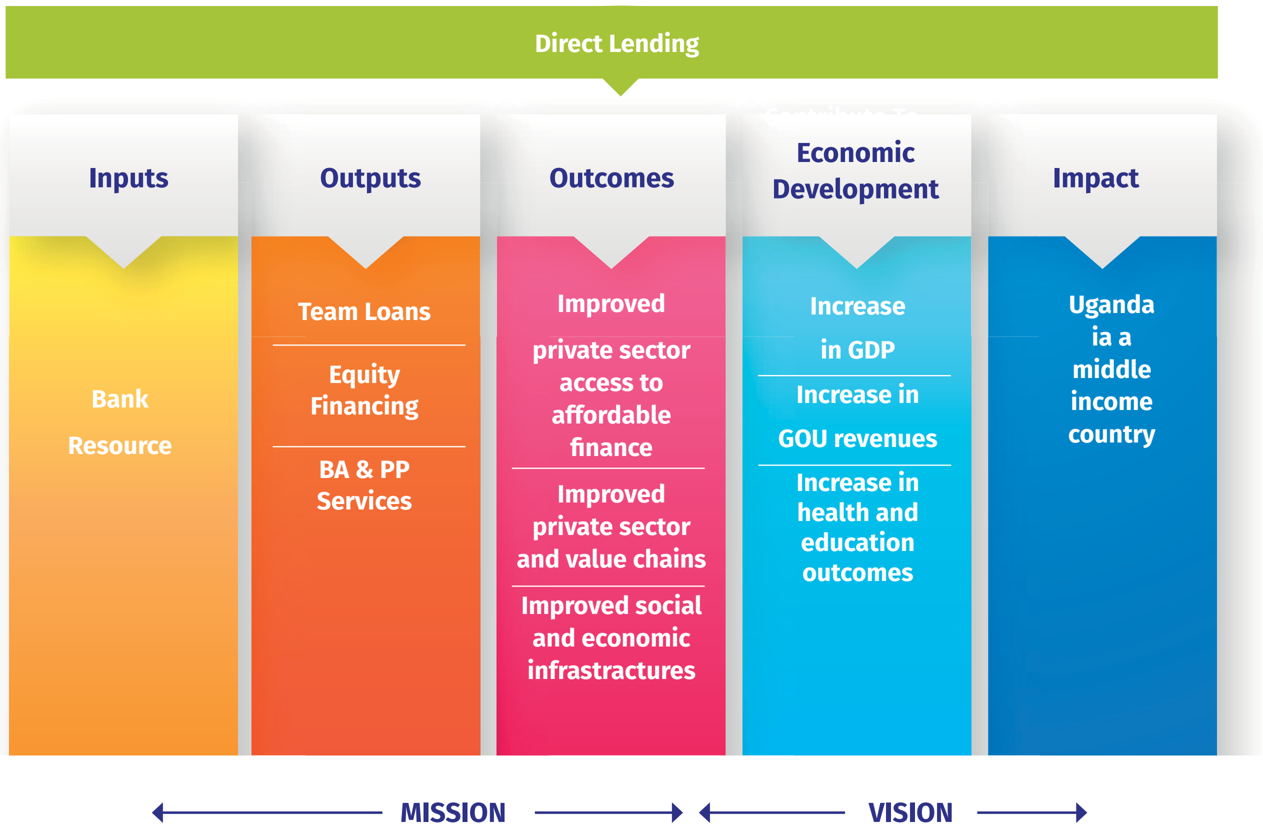
The Bank recognizes that Development Banks worldwide play a pivotal role in the development of countries. A Development Bank is able to contribute to the investments required to stimulate socioeconomic development in the country. In spurring economic development, the Bank continued to make investments in the priority sectors as defined in the Country's National Development Plans (NDPs) namely; Agriculture and Agro-Industrialisation, Manufacturing, Human Capital Development, Tourism, Infrastructure, and Minerals, Oil & Gas sectors.

Implementation of the Monitoring and Evaluation Framework and mainstreaming it in the business operations remains a priority to the bank. The framework establishes what is measured, how it is measured, when it is measured and the roles and responsibilities for data collection, measurement, analysis and reporting. This is done with the purpose of: choosing the right project that shall maximize the development impact (application stage, initial screening, deal review & approval); improving the realisation of projected development impact (pre-application and implementation stage); and proving the actual development outcomes/impact at the project final closure. Below is an illustration of the bank's business cycle:

In keeping with the GoU's Vision 2040, UDB's Vision Statement states that the Bank intends to contribute to economically transforming Uganda. UDB's development outcomes are derived both from the NDPs and from its corporate objectives established by the Board. Every activity undertaken by UDB – whether it is long, medium- or short-term loans, or other products and services to be defined, must contribute to one or more development outcomes. UDB's intended Development Impact can be specifically demonstrated by a Theory of Change (TOC) diagram. A Theory of Change establishes the logical connection between what the Bank does, why it does it, and how it contributes to defined development outcomes. UDB's contribution to economic development is a function of time and attribution of UDB activities to the result or development effect. UDB's Theory of Change is illustrated below

Table 1: Root-Core Development Impact Highlights

	Turnover	Profitability	Tax Contribution	Forex Earnings	Job Created and/or maintained



ii) Overview of Development Outcomes 2019

UDB's mission of accelerating socio-economic development through sustainable financial interventions remains optimistic with positive strides in 2019. The progress in 2019 also marked a transition into the new five-year sustainability strategy for the bank - meeting the needs of the present generation without compromising the ability of future generations to meet their own needs, particularly regarding use and waste of natural resources.

			Ushs Billions	US$ Millions	
2019	1,795.5	177.5	141.7	95.84	28,313
2018	1,738.6	161.9	133.1	81.9	23,970
% change	3	9	6	15	15

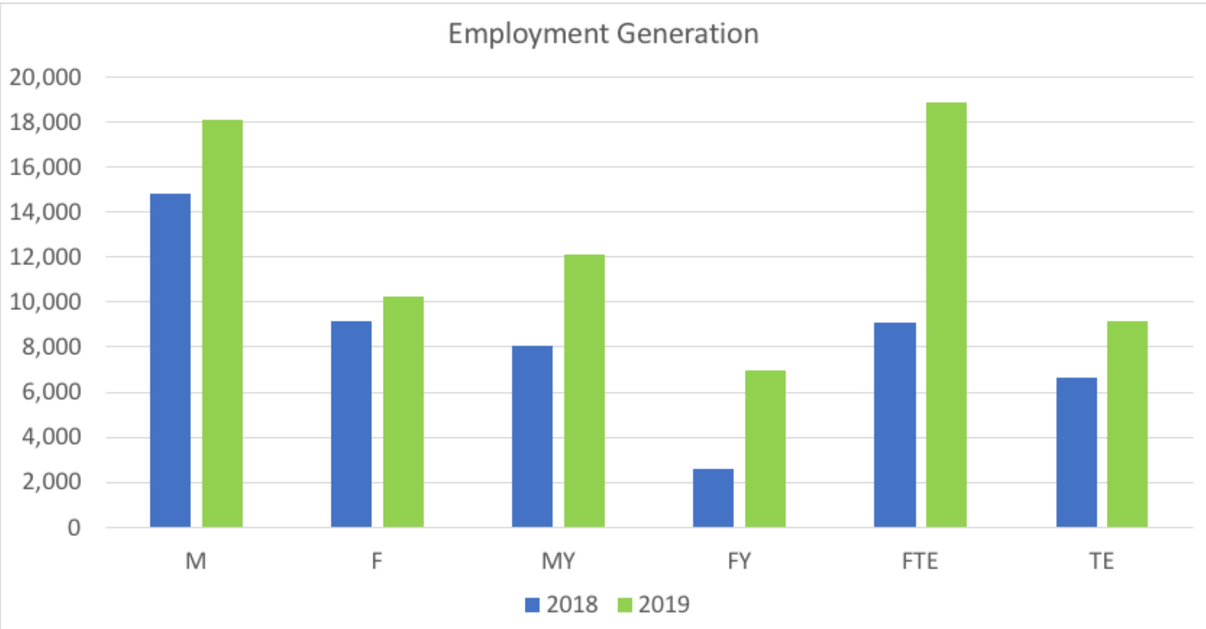
There was positive progress registered across the five root-core performance indicators from table 1 above. Although not very significant, this points to hope for the achievement of the projected development outcomes. Annual turnover of firms increased by 3% from Ushs 1.738Tn in 2018 to Ushs 1.795Tn in 2019. Profitability of enterprises supported increased by 9% from Ushs161Bn in 2018 to Ushs177Bn in 2019. Foreign exchange earnings for the economy increased by 15% from US$81M in 2018 to US$95M in 2019.

To further boost government efforts towards domestic revenue mobilization, enterprises supported by the Bank registered a 6% increase in tax contribution from Ushs 133Bn in 2018 to Ushs 141Bn in 2019. Tax contribution figures combines both corporation tax and pay as you earn. In 2019, corporation tax declined by 1% from 85% in 2018 to 84%, whereas PAYE increased from 15% in 2018 to 16% in 2019. Employment increased by 15%, an upsurge from 23,970 in 2018 to 28,313 in 2019. This implies that 4,343 new jobs were created as 23,970 jobs were maintained.

iii) Key Sustainability Highlights

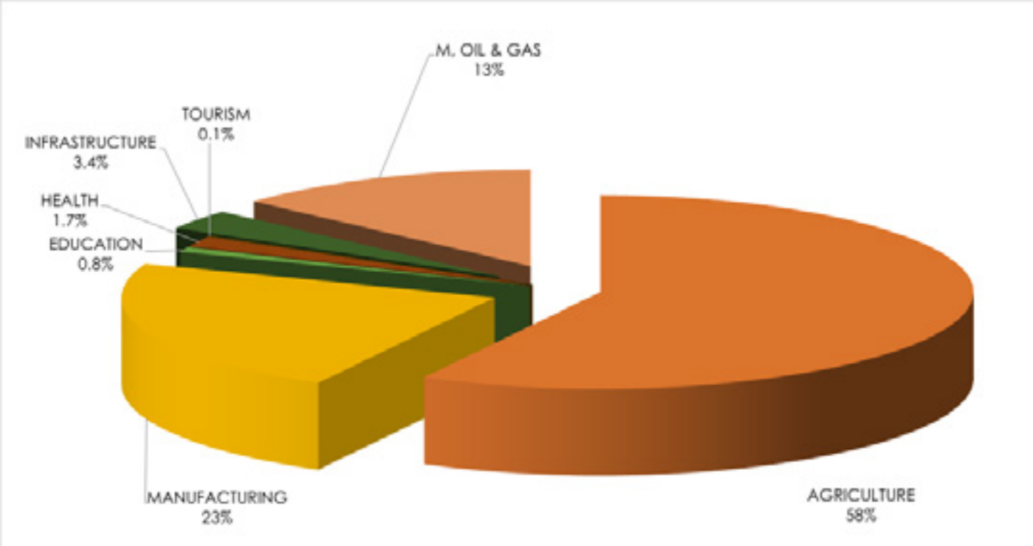
a) Employment Generation

	2018	2019	% Change
Male	14,826	18,095	18
Female	9,144	10,218	11
Male Youth	8,056	12,120	34
Female Youth	2,594	6,975	63
Full Time Employee	9,078	18,872	52
Temporary Employee	6,665	9,159	27



M – Male; F – Female; MY – Male Youth; FY – Female Youth; FTE – Full Time Employees; TE – Temporary Employees

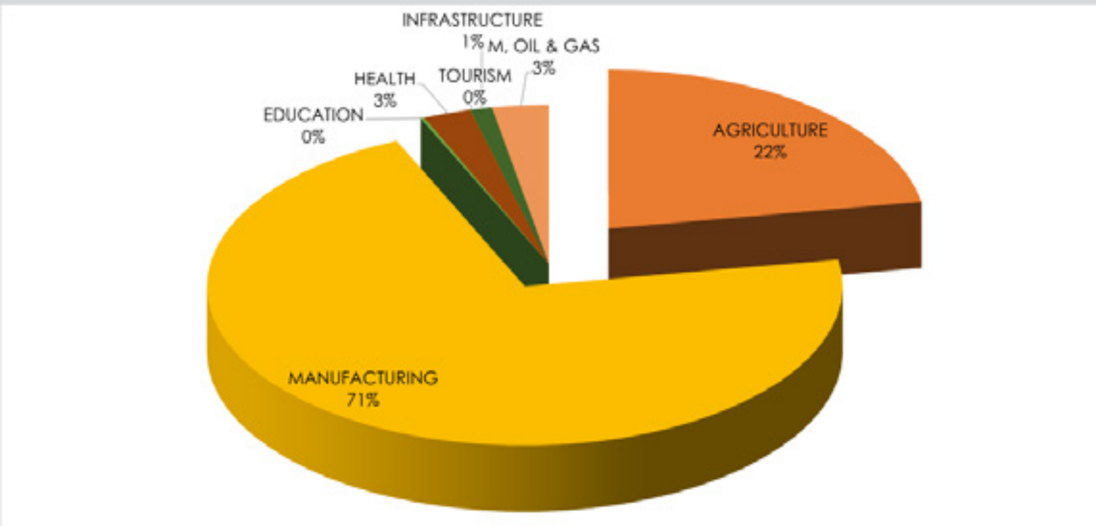
Overall, employment increased by 18% from total employment of 23,970 in 2018 to 28,313 in 2019, with an equivalent of 4,343 new jobs created. There was a 18% increase in male employment compared to 11% increase in female employment.



There was 63% increase in female youth employment compared to 34% male youth employment from 2,594 in 2018 to 6,975 in 2019 and 8,056 to 12,120 in 2018 and 2019 respectively. Full time employment grew by 52% and 27% for temporary employment respectively.

b) Annual Turnover Performance

Overall, annual turnover increased by 3% from Ushs1.738Bn to Ushs 1.795Bn in 2019. Agriculture sector registered the highest contribution to annual turnover at 58%, followed by 23% in manufacturing and 13% in mineral, oil gas sector. Infrastructure, health, education and tourism contributed 3.4%, 1.7%, 0.8% and 0.1% respectively. The high increase in turnover in agriculture sector is attributed to creation of linkages within the value chain and the shift to value addition especially in agro-industries. In manufacturing, the growth in turnover is as a result of production of goods which were originally imported like PVC pipes and the growth of recycling industries.



c) Annual Profitability of Enterprises Supported

There was a 9% increment in profitability of enterprises supported by the bank. Enterprises which maintain a profitable position is a relief to the bank as this reflect improved capacity to meets the operating cost (including loan repayment). Profitability impacts a company's ability to secure financing from a bank, attract investors to fund its operations and grow its business. In 2019, profitability was high in the manufacturing sector at 71%, followed by 22% in agriculture sector. Mineral, oil & gas, health, infrastructure, tourism and education reported the least level of 3%, (for both health and mineral, oil & gas) while tourism and education both recorded less than 1% in overall profitability.

Performance of Foreign Exchange Earned

SECTORS	2018	2019	Percentage Change
AGRICULTURE	48,743,967	51,503,730	5
MANUFACTURING	32,698,096	43,646,365	25
EDUCATION	37,449	105,672	65
HEALTH	260,000	350,000	26
TOURISM	123,251	188,802	35
INFRASTRUCTURE	44,800	49,280	9
M, OIL & GAS	-	-	-
Total	**81,907,564**	**95,843,849**	**15**

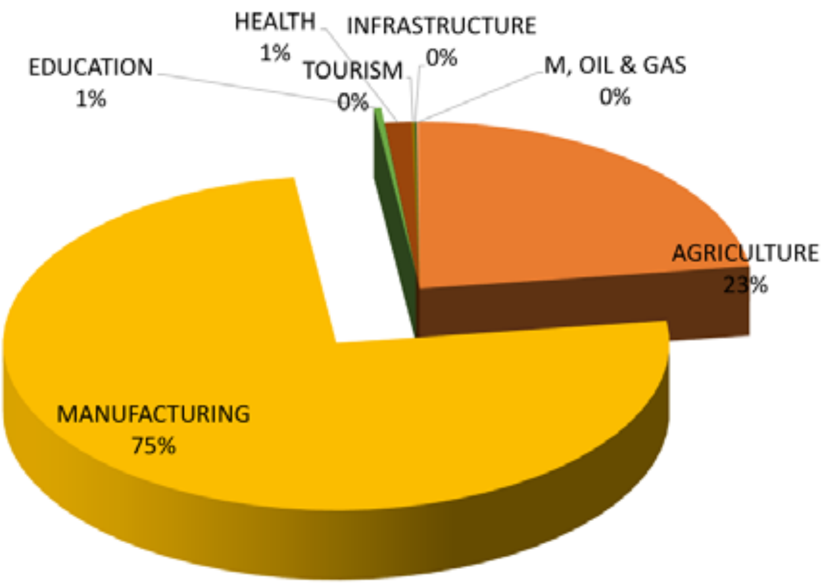
Foreign exchange earned increased by 15% in 2019. The main leading sectors contributing to increased forex earnings include: Education, Tourism, Health, Manufacturing and Infrastructure. Agriculture contributed 5% with 0% from mineral, oil & gas.

The significant contribution from the education sector is attributed to increased number of foreign students in the schools/education services supported. The Tourism and hospitality sector registered over 70% foreign guests, significantly contributing to the forex earnings in 2019. In the case of health sector, this is the cost of treating non-Ugandans at the facilities supported by the bank, an infant stage of health tourism.

The manufacturing and agro-industrialisation sectors also registered increase in exports which attracted forex earnings. Foreign exchange earned through exports plays an important role in the growth process. It enables the country to import those machines and capital goods which it cannot produce domestically. This is capable of further contributing towards improving the balance of payments for the Country.

e) Sector Performance of Tax Contributions

The Bank through the enterprises supported contributed to the revenue mobilization to the government. The bank tracks the contributions from corporation tax and Pay as You Earn as her share of contribution to the domestic revenue mobilization narrative.



In 2019, tax contribution increased by 6% from Ushs 133Bn in 2018 to Ushs 141Bn. Corporation tax contributed the largest share at 84% and 16% PAYE respectively. The manufacturing sector contributed 75% share of tax revenue, followed by 23% in agriculture. Health and education both contributed 1% whereas tourism, infrastructure, mineral oil & gas all had less than 1% contribution. In Uganda today, revenue mobilization remains a key development priority and essential to finance investments in human capital and infrastructure to achieve the SDGs. UDBL contributes to Uganda's effort to generate and collect public revenues through taxes domestically to finance activities and services to improve healthcare, education, infrastructure services among others.

f) Green Finance Outcomes 2019

The green finance transition approach at UDBL builds on a dedicated climate and resource efficiency investments

Allotment of Green Finance and Its Outcomes in 2019

Green Financed and Impacts						
Sectors	**Amount (Ushs Billions)**	**% Allotment**	**GHG Reduced (tCO2e)**	**Water Saved (m3)**	**Primary Energy Saved (GJLHV)**	**No of jobs created/ maintained**
Primary Agriculture	29.7	16.1%	1,854	960	-	22,969
Manufacturing	66.5	36.1%	84,162	7,742	1,999,590	2,550
Grand Total (Directed to Low-Carbon and Climate Resilient)	96.1	52.3%				

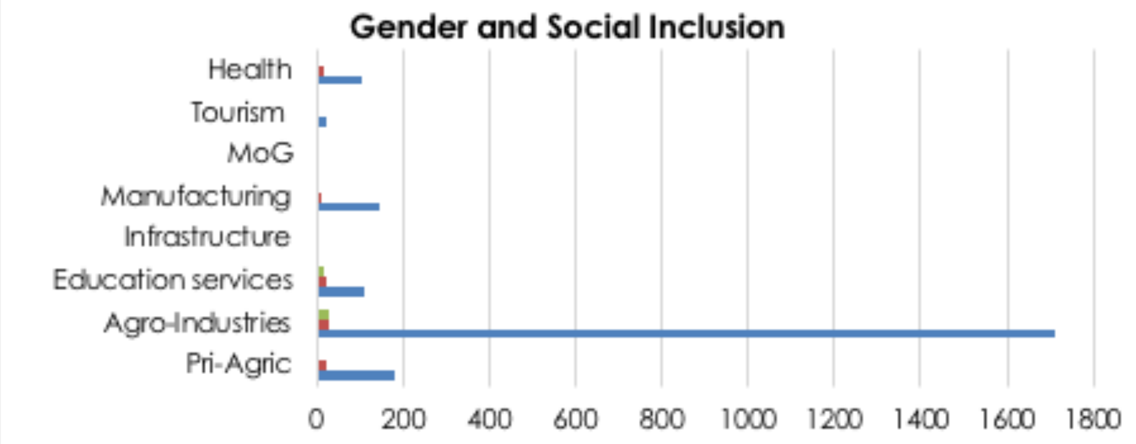
From the above table, the green finance portfolio toward emission sequestration and climate resilient was up to 36% (Ushs 66.47 Bn) for manufacturing sector and 16% (Ushs 29.65 Bn) for Agriculture sector, out of the total amount of funds (Ushs 96.12 Bn) invested by the bank in 2019. Other sectors contributed 0% to emission sequestration.

The 36% allotment of green finance to the manufacturing sector led to a reduction of GHG emission by 84,162tco2e, saved 7,742m3 of water, resulting into 2,550 jobs. Meanwhile, the agriculture sector with a green finance allotment of 16% reduced GHG emission by 1,854tco2e, saved 960m3 of water, maintaining/creating 22,969 jobs.

The high investment in the manufacturing is mainly concentrated in the plastics and paper recycling industries, while for agriculture, mainly included establishment of mini-water storage infrastructures such as earth dams and livestock breed improvement for drought resilience for high milk productivity. There is high potential to spur up low-carbon and climate resilient through proper green design and business models to harness this opportunity across all the sectors.

g) Gender and Social Inclusion

Among the enterprises considered, the employment figures reported as at December 2019 shows 64% share of male employment compared to 36% among the female counterparts. Despite the overall widening employment gap reflected in 2019, out of 10,218 females employed, 2,280 were employed permanently and 115 were reported to be in the senior management of their respective enterprises. This represents 22% of female employment reported in 2019 and 8% of the total employment in the same period. This is very significant in achieving effective and sustainable operation. The proportion of women was highest in agro-processing at 78.9% followed by primary agriculture at 8.3%, while manufacturing at 6.7% and least in the infrastructure sector at 0.1%. This is mainly attributed to factor that the labour requirements for primary and agro-processing are less intensive as compared to manufacturing and infrastructure. It should be noted that the employment slots taken up by the women in the manufacturing, education, tourism, and infrastructure are mainly skilled labour as compared to primary and agriculture. The equal opportunity policy as well as its gender strategy recognizes an inclusive and equal participation of persons with disability (PWDs) and women in its investments for sustainable socio-economic growth and development. These are aligned to SDG 5: Achieve gender equality and empower all women and girls and SDG 8: Promote sustained, inclusive and sustainable economic growth, full, and productive employment and decent work for all. A total of 64 PWDs were employed in the different enterprises supported as of 2019. This is further explained in the chart below.



	Pri-Agric	Agro-Industries	Education services	Infrastructure	Manufacturing	MoG	Tourism	Health
PWDs	8	29	14	3	4	0	3	3
Female in snr. Mgt	24	30	21	1	9	7	8	15
Female permanently employed	180	1,710	108	2	146	7	22	105

C) SECTOR SPECIFIC INTERVENTIONS AND OUTCOMES

During the year, UDB continued to effectively exercise its role as a key agent in the realisation of socioeconomic transformation in the country. The Bank undertook key business initiatives in 2019 which included:

- Roll out of a project investment plan that generated a pipeline of Ushs 238.1 billion, approvals of Ushs 256.4 billion and new disbursements of Ushs 183.9 billion;
- The Project Preparation and Business Advisory Services units introduced in 2018 were operationalised and have shown a promising start. Likewise a policy framework was concluded for the Equity Financing product.
- Implementation of regional business clinics continued, with West Nile and Kigezi regions being the main focus in the year. This served not only to garner new business, but also to improve our brand presence and expand our geographical footprint.

Overall Performance overview

The Bank continued to register an increasing trend in funding with the gross loan book closing at Ushs 354.8 billion compared to Ushs 309.6 billion in 2018. This represented a 15% growth in the loan portfolio. Manufacturing comprised the largest part of the book at 29%, closely followed by Agro-industrialisation at 26% in line with government priorities and reflecting deliberate focus in those sectors in the year 2019. However, there is room for growth in other sectors of Human Capital Development, Tourism and Infrastructure.

A total of 73 facilities worth Ushs 256.4 billion were approved in 2019. This was an increase from the 51 facilities approved in 2018. Manufacturing constituted 42% of approvals, followed by primary agriculture and agro-industrialisation at 30%. Support for manufacturing underscores the Bank's alignment to government initiatives to industrialise as a means of transitioning to a middle income economy. The Bank has been registering growth in these sectors in the last 4 years. Continued growth of the primary agriculture and agro-industrialisation book mirrors a deliberate drive to support agriculture along its value chain in line with government priorities.

Disbursements in 2019 amounted to Ushs 183.9 billion compared to Ushs 154.6 billion in disbursements in 2018. This is reflective of concerted sales drives augmented by improved and streamlined internal processes, increased human resources and new funding that was effectively utilised. Manufacturing accounted for 42% of disbursements in 2019 ahead of agriculture and agro-industrialisation, which accounted for 38%.

Below is an over view of our interventions in the key priority sectors and impact created.

Primary Agriculture And Agro-Industrialisation Sector Agriculture And Agro-Industrialisation Value Chain

Sector Focus

Increase agricultural production and productivity

- Strengthen ecologically sound agricultural research and climate change resilient technologies and practices.
- Increase access to agricultural finance services.
- Accelerate the development and commercialization of the prioritized agricultural commodities.
- Increase market access and improve physical agricultural infrastructure.
- Control pests, diseases and vectors.
- Develop early warning systems to prevent and mitigate shocks affecting nutrition and food security.
- Promote commercialization of agriculture particularly amongst small holder farmers.
- Strengthen Farmer Group formation and cohesion including commodity associations, platforms, federations and co-operatives.
- Enhance Sustainable Land Management Practices (SLM).
- Promote time and labour-saving technologies targeting women farmers.

Increase access to critical farm inputs

- Improve access to high quality animal breeds, seeds and planting materials.
- Enhance access to and use of fertilizers by both women and men.
- Increase access to water for agricultural production (Irrigation, water for livestock, aquaculture-fish ponds/ caging).

Increase agricultural mechanization (Farm Power).

- Improve agricultural markets and value addition for the 12 prioritized commodities
- Promote private sector investment in value addition.
- Build capacities of farmers, trades and processors in quality standards and market requirements.
- Promote investment in storage infrastructures to reduce post-harvest losses.

Sector Specific Challenges

- Increased adulteration and limited supply of agricultural inputs
- Low access to credit
- Natural uncertainties and risks like drought, pests and diseases
- Climate change challenges

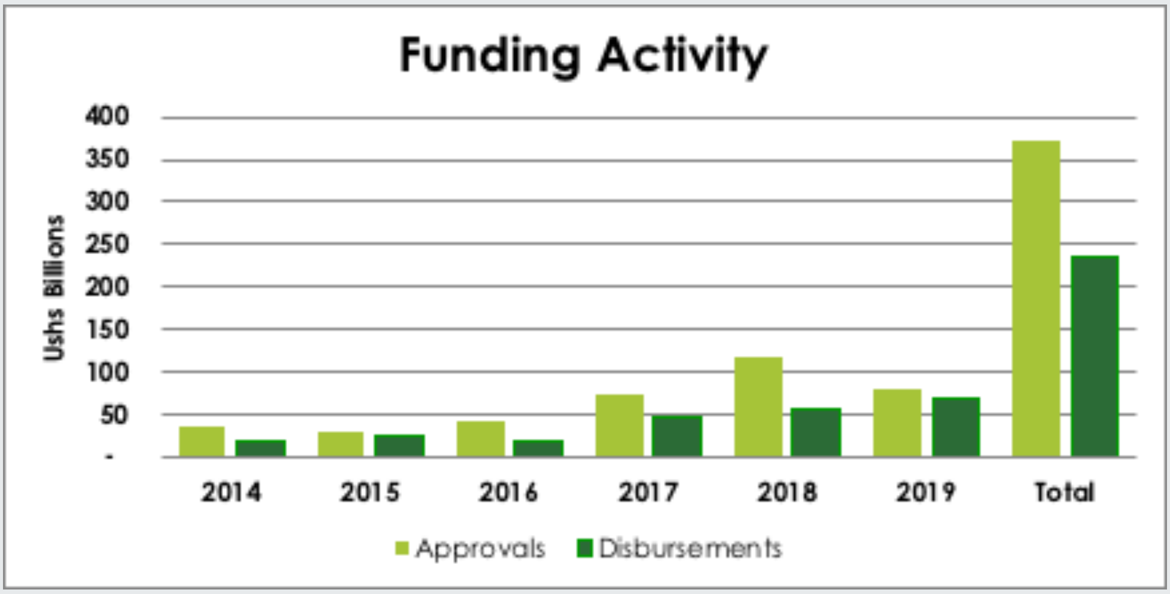
Sector Specific Stakeholders and Engagements

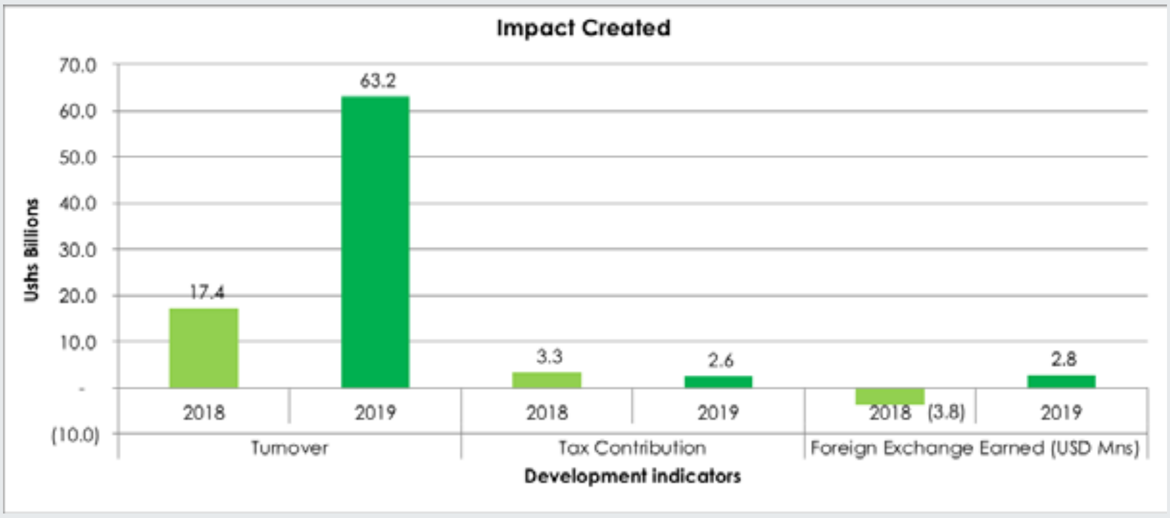
- Food and Agriculture Organisation
- Uganda Coffee Development Authority
- United Nations Capital Development Fund
- Private Sector Foundation of Uganda
- Farmer Associations & Cooperatives
- Uganda National Farmers Federation
- Agence Française de Développement (AFD)
- Diary Development Authority (DDA)

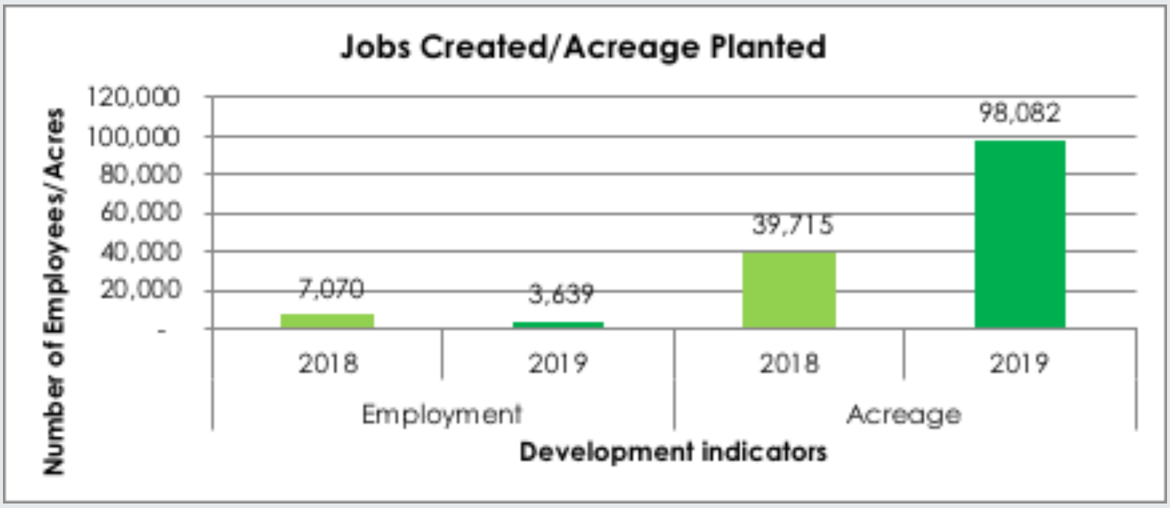
- Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)
- National Agricultural Advisory Services (NAADs)
- National Agricultural Research Organisation
- Operation Wealth Creation (OWC)
- Uganda Industrial Research Institute (UIRI)
- National Animal Genetic Resources Centre & Data Bank (NAGRC)

UDB Interventions

- Use of apex and group lending models to provide access to credit
- Complete the accreditation process for accessing climate change finance
- Enhance the capacity of the Bank to manage & operationalize the climate change finance including participating in climate change capacity building training.
- Outsource the services of experts in areas of crop & livestock husbandry, mechanization and food science in providing capacity building support/advisory services to farmers.
- Support the construction of small-scale irrigation schemes for sustainable use of water resources for irrigation, livestock & aquaculture
- Support women & youth entrepreneurs in the agricultural value chain.
- Support multiplication of improved seed varieties
- Develop collaborative arrangements with research institutions and mandated agencies such as NARO, NAADs, MAAIF.







Financial Outcomes

Size of portfolio **Ushs 156.79 billion (2019)** **Ushs 132.11billion (2018)**

Primary Agriculture and Agro-Industrialisation

Uganda's long-term goal is to industrialize and transform the structure of the economy by 2040. Given the dominance of agriculture as a source of livelihood for the majority of Ugandans, agro-industrialization offers a great opportunity for the country to embark on its long-term aspiration of transitioning into a modern industrial economy. Uganda has a positive trade balance for agro-industrial products and this can be improved by tapping into the growing local market of agro-manufactured products and fully exploiting opportunities available in international markets through export promotion. In addition, the backward and forward linkages between agriculture and agro-industries will help Uganda to upgrade agro-value chains and create employment for its citizens. By strategically and sufficiently investing in the agro-industrialization agenda, Uganda will realize a transformed agricultural sector that is directly linked to agro-industry.

Funding Activity

During the year, the Bank's approved an additional funding to the sector of Ushs 77.89 billion compared to Ushs 116.2 billion in 2018. Ushs 69.1 billion was disbursed in the same year up from Ushs 57.2 billion disbursed in 2018. Total funding approved between 2014 and 2019 totaled Ushs 371.4 billion out of which Ushs 234.32 billion had been disbursed as at 31 December 2019.

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

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

Stakeholder Engagement Activities in the Sector

FAO AGRI- INVEST:- During the year, the Bank engaged with the Food and Agricultural Organisation (FAO) to undertae a project aimed at strengthening blended finance in Uganda through building capacity of Uganda Development Bank to de-risk and increase returns on its agriculture lending and investment portfolio. Expected outcomes will include (i) enhancing UDB's capacities to identify, appraise and finance viable, environmentally friendly and SDG aligned investments in agriculture; and (ii) make selected food value chains more attractive for UDB banking through systematic policy dialogue and technical assistance to value chain actors.

The project is aligned with (i) Uganda's Green Growth Development Strategy 2017/18-2029/30 and with the country's long- and medium-term strategies; (ii) FAO's country programming framework; and (iii) European Union (EU) Delegation Inclusive Green Economy sector.

The project also builds on FAO recognized capacity on technical assistance with specific focus on food security, nutrition, agriculture and rural development and climate-smart agriculture (CSA) as well as FAO Investment Centre's long terms project design and implementation capacity and policy dialogue experience at value chain level.

AGRA Agriculture Finance Strategy:- The bank in partnership with Alliance for a Green Revolution in Africa (AGRA) are developing an agriculture finance strategy and systems that will address the gaps and set a direction of finance. The initiative shall develop a clear agriculture finance strategy that addresses the needs of Small, medium, large farmers, agro processors and value chain actors such as Agricultural SMEs and Farmer groups to effectively participate in the agricultural transformation in Uganda.

French Development Agency (AFD) Technical assistance: - the Bank engaged with AFD for a technical assistance program geared towards transforming small holder farming and promoting value addition through affordable finance and technical assistance. The technical assistance will help enhance project knowledge needed in identification & eligibility of projects; build capacity of the small holder farmers in managing agricultural enterprises; build capacity of agriculture value chain partners; and enhance the capacity of UDBL staff in risk management, appraisal/structuring of agriculture projects and project monitoring.

UDB - National Agriculture Research Organisation (NARO) Partnership:- In order to promote research and make it more productive to both the researchers and the local population, the Bank engaged with NARO to form a partnership aimed at commercializing production and multiplication of climate resilient and sustainable inputs (varieties, breeds, chemicals) and technologies; and promote modern and climate smart methods of production and preservation of livestock feeds (hay, silage, mash among others).

Development outcomes

In 2019, the sector had the highest contribution to jobs created/maintained and foreign exchange income earned. Approximately 22,969 jobs were maintained/created representing a 19% increase from 2018; US$ 51.5 million in foreign exchange earnings was made and tax contribution averaged Ushs 32.4 billion from Ushs 5.01 billion in 2017. There was also a 27% increase in land tilled from 264,703 acres in 2018 to 362,785 acres in 2019. The number of farmers supported increased from 197,369 in 2018 to 225,177 farmers in 2019. Further investments in this sector are expected to increase employment levels, improvement in private sector performance and additional tax contributions to the economy in the coming year.

Outlook

In 2020, the Bank will ride on the initiatives and partnerships undertaken during 2019 to strengthen its interventions in the sector. In addition, the Bank targets to increase its funding approvals and disbursement to Ushs 149.7 billion and Ushs 106.9 billion respectively to support the above initiatives.

Below are some of the projects we financed in 2019:

Case Studies

Sanga Dairy Farmers' Cooperative Society Ltd (SDFC)

Sanga dairy farmers' cooperative society ltd (SDFC) has been in existence since 2012 located in Kiruhura district at Sanga trading centre. SDFC currently has 300 members. With financing from UDBL, milk production and sales have more than doubled from Ushs 331,417,800/= in 2014 to Ushs 2,334,358,260. The good performance is attributed to the Bank's intervention towards acquisition of cooling equipment, purchase of high milk yielding cattle breeds and improvement in feeding.

Bwendero Dairy Farm Limited-Hoima ("BDF" or "the Company")

is an agro-industrial firm located in Hoima District. The farm has a blend of primary agriculture (crop &livestock) and agro processing(maize milling, modern grain handling and storage facilities, in distilling local/ industrial gin using molasses and has recently developed a sugar factory with financing from the Bank.

BDF current factory operations comprise of a 30,000 litre per day distillation plant, 168 TPD maize / cassava mill, a 70TPD Starch fermentation Plant, and a 12TPD Food Grade Carbon Dioxide Plant and a processing plant of 750TCD crushing capacity. The syrup machinery has already been installed and the crystallization machinery is in the final stages of installation. The syrup section is operational, and the factory currently employs 240 operators, 91 cane truck and agricultural machinery drivers and 379 casual laborers working in the cane fields.

The cane needed for the factory lies on 1,583 hectares of land developed by BDF and 37 hectares developed by out growers.

Within the past four years, BDF has undertaken various projects for the good of the community. These are some of the CSR activities offered to the citizens of Kitoba and Hoima at large.

- Building of a Ushs 180 million maternity ward at Kitoba Health Centre-III.
- Upgrading (repairing) roads in Kyabasengya on request from the local government.
- Repaired 50% of roof of Kibanjwa primary school when it was damaged by storm.
- BDF provides up to 70,000 tree seedlings to communities of Kitoba and Bubaale each year.
- BDF provides employment opportunities to more than 400 workers where 90% are residents of Kitoba, Hoima district. The company continues to provide technical training to many school dropout youths of Kitoba such as driving skills, auto mechanics, welding and fabrication, brick-laying, electrical wiring, electrical motor-rewinding which in turn reduce crimes in Kitoba sub-county as the youths become occupied.
- Installed 5 bore hole water pumps in Dwoli, Kizzi and Bubaale.

Twin Brothers Limited

Twin Brothers Ltd (TBL) is one of the leading cotton ginneries in the northern region situated in Aduku, Apac district. The company operates Aduku ginnery in Lira district as well as an oil mill in Lira town. Their business involves, buying, ginning and marketing of lint, cotton cake and oil.

The company sources its cotton from over 1000 farmers in the northern region of Uganda, mainly located in the districts of Lira, Kole, Apac, Gulu, Otuke, Oyam and Pader. It gins and exports their cotton to their regionally and international off takers. The company provides employment to over 100 casual workers each season alongside the over 1,000 farmers that they source their cotton from and have remained a strong contributor towards the forex earnings for the country since they export their cotton. The company has been a customer of the bank for almost 10 years now, with the bank's intervention including the procurement of an oil mill as well as availing working capital each season to support the bulk purchase of seed cotton. The bank's intervention has enabled the company to maintain their position as one of the leading ginneries in the Northern part of Uganda and has promoted exports and generation of forex earnings since all their lint is exported. This contributes to the dollar pool in the economy and comes to over $1m annually. The company sources cotton from over 1,000 farmers in the northern region. Considering that cotton is one of the traditional cash crops for Uganda, providing a market at a local level encourages more farmers to participate in planting the crop. Taxes of over Ushs 150 million have been paid by the business annually for the last five years. The company supports industrialisation. The lint produced encourages set up of textile industries due to availability of raw materials locally.

Manufacturing Sector

Manufacturing Value Chain

Sector Focus

1. Promote the development of value added industries in agriculture and minerals.

- Develop an agro-processing industrial park.
- Develop locally manufactured goods through supporting Micro, Small and Medium Size Industries.
- Build capacity of key stakeholders in specific targeted skills needed for value addition.
- Strengthen the existing network of vocational and technical training institutions to cater for the required skills.
- Support commercial exploitation of key minerals especially iron ore, phosphates, and dimension stones.

2. Increase the stock of new manufacturing jobs.

- Attract labour intensive light manufacturing industries.
- Strengthen technology adaptation and acquisition including availability of advisory services to support local manufacturers.
- Fast track the development of industrial parks.

3. Promote and accelerate the use of research, innovation and applied technology.

- Establish national and regional technology incubation centres for nurturing SMEs and start-up enterprises.
- Establish and foster a national Innovation System for proper and adequate exploration of Research and Development (R&D) outputs and promote emerging technological needs.
- Promote and support technology development, acquisition and transfer.
- Support and incentivise the private sector to contribute to innovations, research and development.
- Strengthen the legal framework associated with intellectual property rights.

4. Promote green industry and climate smart industrial initiatives.

- Popularize and encourage efficient and zero waste technologies and practices.
- Establish and support climate innovation centres to support investment in industries producing and adopting green technologies.
- Develop decentralized village-based agricultural processing centres that incorporate low carbon sources of energy, such as biogas-digesters and solar driers; and
- Build carbon trading capacity within the private sector to harness innovative funding opportunities provided by Clean Development Mechanisms (CDM) and voluntary carbon markets.

Sector Specific Challenges

- High start-up costs for Small, Micro and Medium size Industries
- High cost of credit and unfavourable short tenures that have resulted into financial distress for manufacturing businesses in key growth sectors.
- Inadequate technical, production & management skills in industries.
- Stagnation of Uganda's Export Volumes by value.
- In adequate funding to promote commercialization of projects that have undergone successful incubation

Sector Specific Stakeholders and Engagements

- Uganda Manufacturers Association
- Private Sector Foundation Uganda
- Uganda Export Promotion Board
- Uganda Chamber of Commerce

UDB Interventions

- Provide affordable financial support towards promoting labour light manufacturing industries and, acquisition & transfer of appropriate technology.
- Provide equity funding to start-ups and support these through to growth.
- Provide business advisory services to SMEs.
- Complete the accreditation process for accessing climate change finance
- Leverage the Bank's balance sheet to get alternative financing sources so as to become an engine for the roll-out of long-term financing

where at least %50 of credit to manufacturers is long term in nature in the next two years.

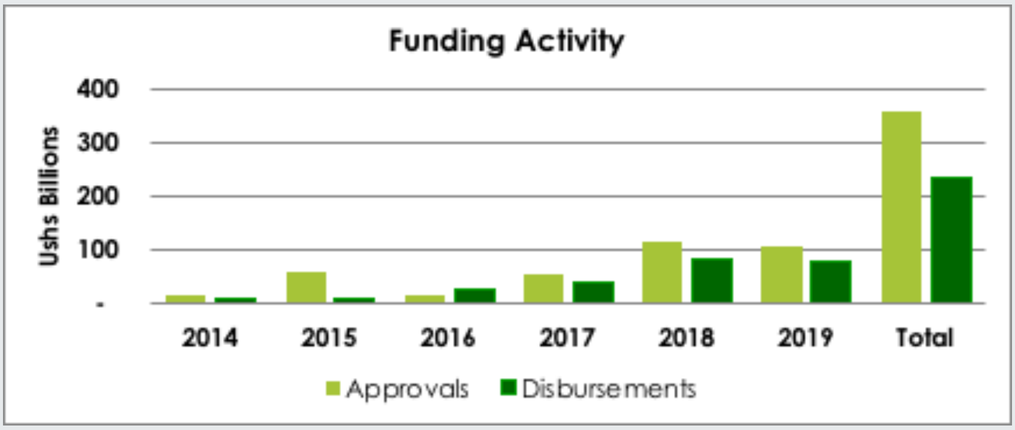
— Leverage the South to South Cooperation with governments and government vehicles for applied technology equipment sourcing from technology exporting countries.

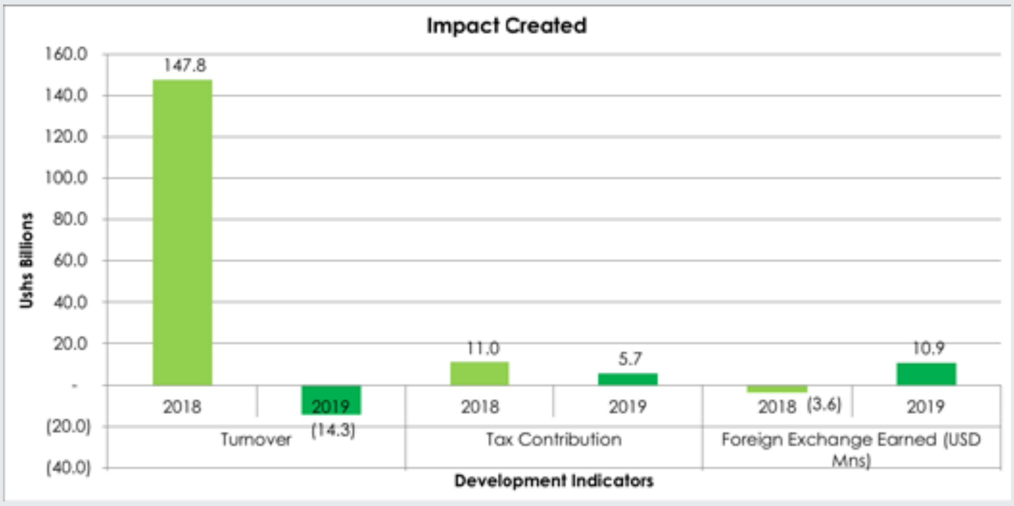
— The bank increased its long-term loans tenure from 10 to 15 years.

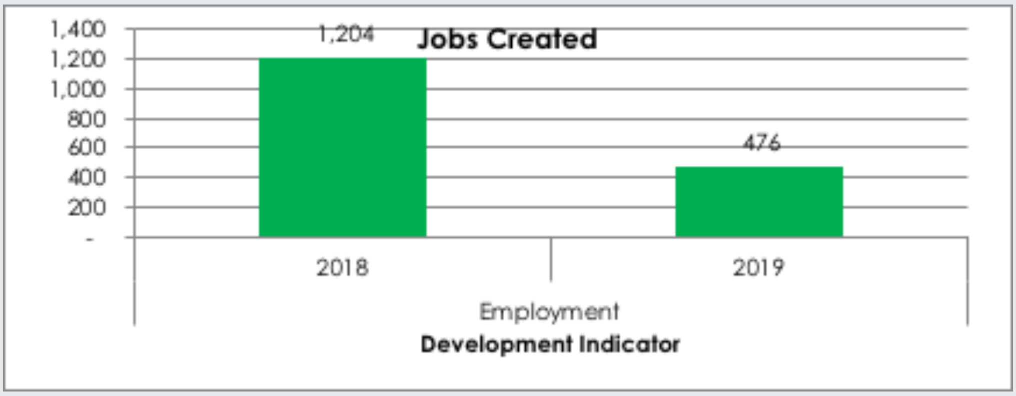
— Support incubation centres & innovative concepts for nurturing SMEs and start- up enterprises with the view to harness local technology innovations & adoption rate.

— Leverage the existence of the African Trade Insurance Agency and Export Credit Guarantee that can guarantee payment for exports to especially volatile countries. This intervention has the potential to more than double the value of Uganda's current exports volume.

— Collaborate with Research Institutions/ other stakeholders in the country in promoting the commercialization of technology incubations in support of SMEs development.







Financial Outcomes

Size of portfolio Ushs 104.42 billion (2019) Ushs 93.94 billion (2018)

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

Funding activity

During the year, the Bank's approved additional funding to the sector of Ushs 107.48 billion compared to Ushs 113.06 billion in 2018 and Ushs 55.5 billion in 2017. Ushs77.7 billion was disbursed in 2019 compared to Ushs 80.8 billion in 2018 and Ushs 37.9 billion in 2017. Total funding approved from 2014 to 2019 totaled Ushs 360.5 billion out of which Ushs 236.21 billion had been disbursed as at 31 December 2019.

The Bank's intervention has mostly been with respect to acquisition of new machinery to expand capacity, as well as working capital to support the increased production.

Stakeholder Engagement Activities in the Sector

Uganda Manufacturers Association remains a key strategic partner in the delivery of our mandate. The Bank continues to work with the association as a channel of information dissemination and source of new business and continues to participate in its events when called upon.

Development outcomes

In 2019, approximately 2,815 jobs were maintained/created; US$ 43.6 million in foreign exchange earnings was made and tax contribution averaged Ushs 106 billion from Ushs 100.7 billion in 2018.

Outlook

In 2020, the Bank has expectations of increasing funding to this sector with targeted new funding approvals of Ushs 89.2 billion. The Bank will continue to seek to address key sector constraints such as the lack of competitively priced long term funding sources; stagnation of Uganda's export volumes by value; inadequate technical, production and management skills in industries and inadequate funding to promote commercialization of projects that have undergone successful incubation.

Case Study

Kiddawalime Bakery Limited-Wakiso

Kiddawalime Bakery Ltd is a leading bakery agro-processing/ manufacturing company in Uganda. It owns a wheat processing plant, Bakery with12 branches/bakeries country with outlets in all major towns of Uganda and manufactures gunny bags used in packaging agricultural produce all financed by UDBL. The Bank supported the company is acquiring poly bag making plant to manufacture packaging bags.

- Kiddawalime Bakery Ltd employs 1,550 staff on permanent basis; these include drivers involved in distribution, bakery staff in the 12 branches country wide, those running outlets, staff in the wheat mill. The number is expected to grow after installation of the Poly Bag making plant that is expected to be commissioned in in mid-March 2020.
- The company's contribution to the revenue tax collections is expected to increase once the plant is commissioned.
- The company supports government initiatives of promoting food security through its wheat processing plant.
- The country is set to gain from technological transfer. The wheat mill technology used by Kiddawalime Bakery is from Italy and is known to be unique and able to save up to 78% in grain to flour conversion.

HUMAN CAPITAL DEVELOPMENT SECTOR

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

The focus of the Bank in education will continue to be on tertiary institutions, particularly those with a vocational skills component. A gap was identified in the possession of appropriate skills on leaving formal education and UDB has undertaken to support efforts towards bridging this gap.

Funding activity

During the year, the Bank approved funding of Ushs 14.77 billion compared to Ushs 1.71 billion in 2018. Ushs 4.6 billion was disbursed in 2019 compared to Ushs 2.85 billion in 2018. Total funding approved from 2014 to 2017 totaled Ushs 34.1 billion out of which Ushs 18.8 billion had been disbursed as at 31 December 2019.

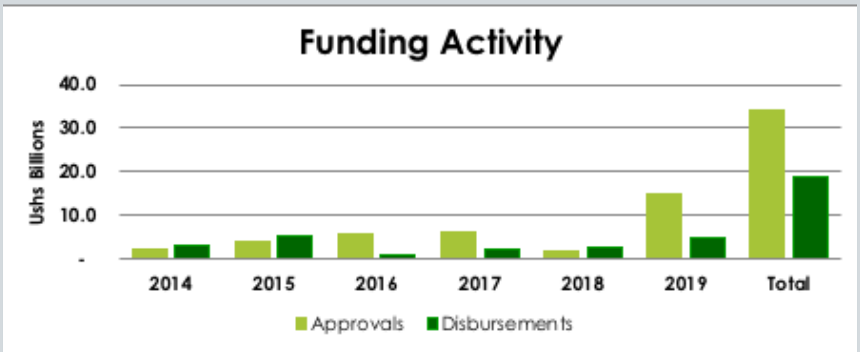
Development outcomes

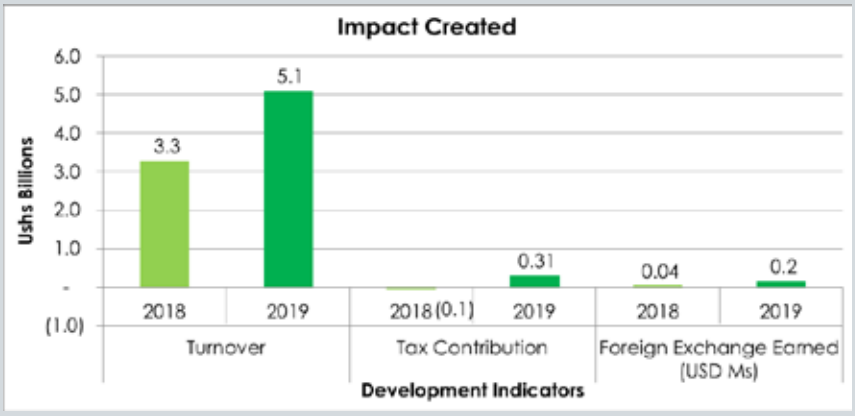
Overall, the sectors contribution towards jobs created/ maintained marginally increased by 5% with 58 new jobs created. The sector contributed Ushs 510 million in tax contribution to the economy and US$ 455,672 in foreign exchange were earned in 2019.

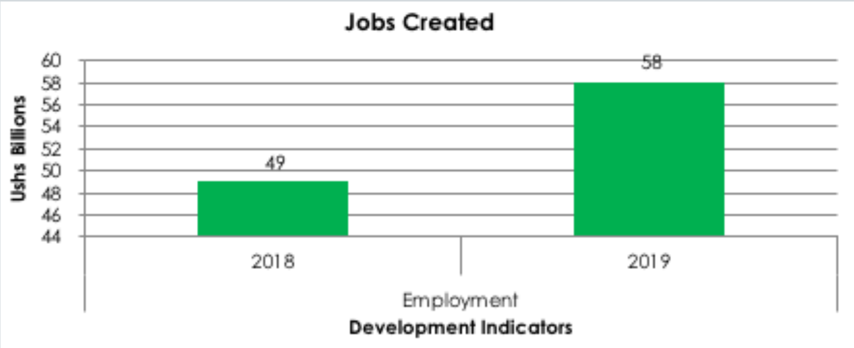
With respect to health services sector, there was an additional 5,060 patient served during the year in hospitals funded by the Bank.

Outlook

In 2020, the Bank has expectations of increasing funding to this sector with targeted new funding approvals of Ushs 20.2 billion. The Bank will continue to address key sector constraints such undeveloped infrastructure that impacts on the quality & access to educational and health services and limited skills of Women & Youth that limits their active participation in gainful economic activities amonth others.







Institute of Health Promotion & Training Uganda LTD-Ntungamo

Institute of Health Promotion and Training Uganda Limited ('IHPTL') runs the St. John's School of Nursing located in Rwashamaire Ntungamo. The school offers vocational nurses training. It commenced operations in 2009 and got a license in 2011 under provisional registration number ME/VOC/126. It has since been fully certified to offer certificate courses in Nursing and Midwifery vide license number MOES/BTVET/ 225 issued in August 2018.

The Bank provided financing to the Institute for the construction and furnishing of a 3-storey classroom block. Once completed, the project is expected to provide the much-needed human resource to help community health centers in and around the country. This project shall indirectly contribute to the reduction of infant maternal mortality as well as maternal mortality by graduating well trained nurses who shall fill the gap that currently exist in other parts of the country. The Institute has a MoU's with Itojjo Hospital, Kambuga Hospital, Kitagata Hospital, Rushere Community Hospital and other Health Centre IVs for training attachment of the nurses and midwives.

Tourism Sector

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

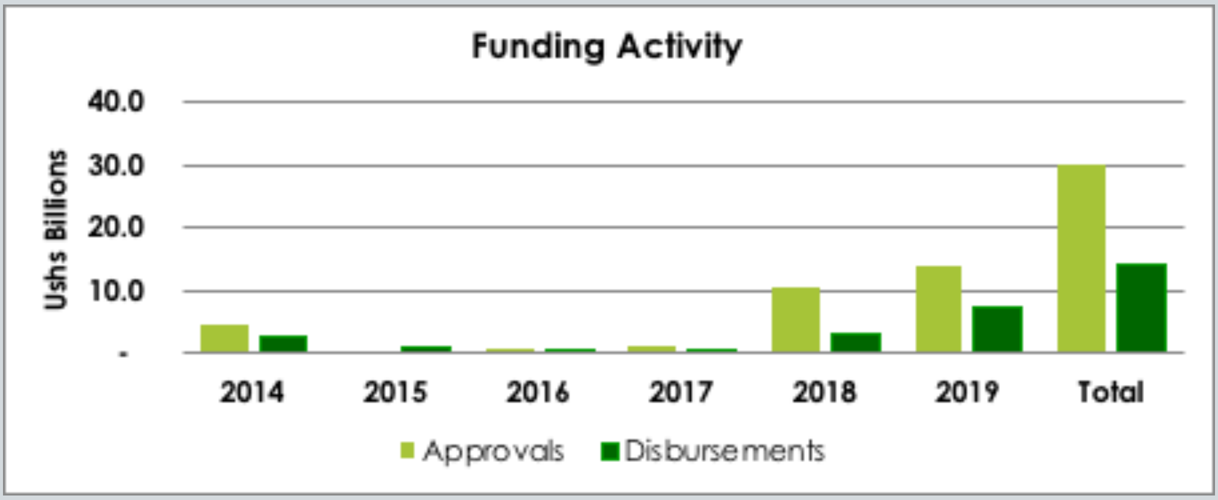
In this regard UDB has sought to support development of infrastructure especially in the main tourist belts of the country, namely regions bordering national parks or thoroughfares to main tourist attractions. The sector is a growing one and the Bank's intervention has been relatively modest in the last 3 years. However, efforts are being made to reverse the trend with more approvals and disbursements being made in the coming years.

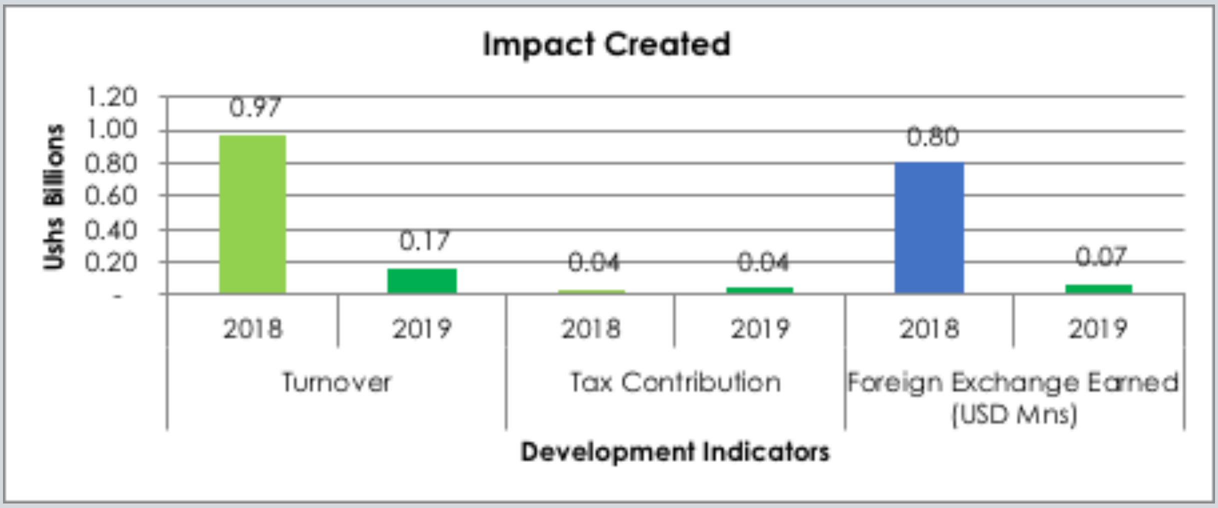
Funding activity

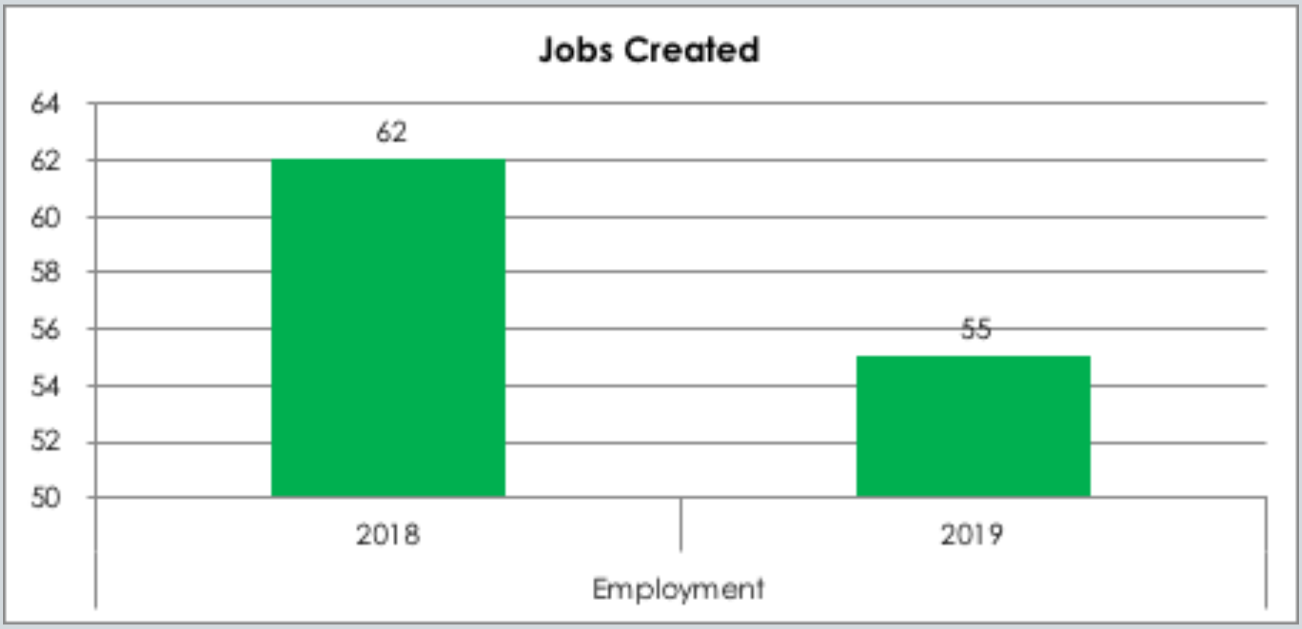
In 2019, an additional Ushs 14 billion was approved for funding towards the sector compared to Ushs 10.43 billion in 2018, an increase of 34.3%. Ushs 7.1 billion was disbursed during the year compared to Ushs 3.09 billion disbursed in 2018 representing an increase of 130% in funds disbursed. Total funding approved from 2014 to 2019 totaled Ushs 30.2 billion out of which Ushs 14.2 billion had been disbursed as at 31 December 2019.

Outlook

In 2020, the Bank intends to develop a tourism sector strategy to drive impactful investment in the sector. The Bank's interventions will include financing the increase of tourism infrastructure at affordable/ favorable terms in line with the business dynamics of the tourism sector; finance the development of new and upgrade/maintain the existing tourist attraction sites profiled by region; enhance the pool of skilled personnel along the tourism value chain by financing establishment of tourism /vocational training institutes that can nurture local hospitality sector enterprises for participation in local, regional and global tourism value chains; establish a tourism investment fund to enable private investors to get access to affordable credit.







Financial Outcomes

Size of portfolio Ushs 12.29 billion (2019), Ushs 7.99 billion (2018)

Case Studies

The Alpha Leisure Center Ltd-Kitgum

The Alpha Leisure Center Ltd (ALC) was granted a facility to construct a tourist leisure centre/ stopover in Kitgum Municipality on the highway to Apoka-Kidepo National Park and near St. Janan Luwum Shrine at Mucwini. ALC has since setup Acaki Lodge with UDBL financing. Acaki Lodge is a mid range lodge with 10 chalets built of local materials and thatching, 2 tents, a conference facility and gardens(for weddings and functions). With luxurious rooms opening onto the garden, this is a great option for guests looking for an intimate stay in a tranquil setting. It is a cool resting point strategically located between Kidepo and Murchison Falls National Parks and is near St. Janan Luwum's Shrine Mucwini.

The project will contribute to the country's foreign exchange earnings and tax revenue; 22 jobs openings have been created permanently upon project commissioning and many others mainly service providers/ suppliers to the hotel; and the project will create market for food crops around the neighbouring community and create a multiplier effect for business in the district.

Hotel Africana (Moroto) Ltd-Moroto

Hotel Africana (Moroto) Ltd (HAML) was incorporated on 08th April 2015 as a separate legal entity but with affiliation to Hotel Africana Kampala. HAML project is located 4 Km from Moroto central business district of the Karamoja region along Pader-Moroto road. Through financing from the Bank, the company has set up an ultra modern hotel with 46 deluxe guest apartments, 22 cottages, 3 conference halls, restaurant & dinning, business centre and other amenities. The social economic impact to be created by the project will include:

- **Foreign exchange earnings**: HAML projects a 30% of total revenue collection in USD which overall will contribute to the USD currency pool within the country.
- **Employment:** On completion of the project, 40 staff personnel are expected to be employed on a permanent basis. This doesn't put into consideration the external employment opportunities created by the project.
- **Tax contribution**: The hotel will contribute towards the tax revenue collections over the tenor of the loan.
- **Contribution to the development of the area**: The hotel project will be one of its kind in the Karamoja area at a 4-star level. Accommodating space for banks and office space. This will attract organizations and investors as they are assured of good office space with financial services nearby.
- **Marketing the culture of locals**: The facility will be built with provisions for entertaining the tourists and other people on leisure; this will help to market the local cultures enabling the local performers to earn an extra income.
- **Increase in the number of tourists** – with quality accommodation and related services coming with the hotel project high end tourists visiting karamoja region will increase as they will be assured of a comfortable accommodation and resting/recreation place.

Infrastructure Sector

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

UDB's focus in this sector will mostly be through providing financial solutions to local content to enable them favorably compete for contracts in major infrastructure projects.

Funding activity

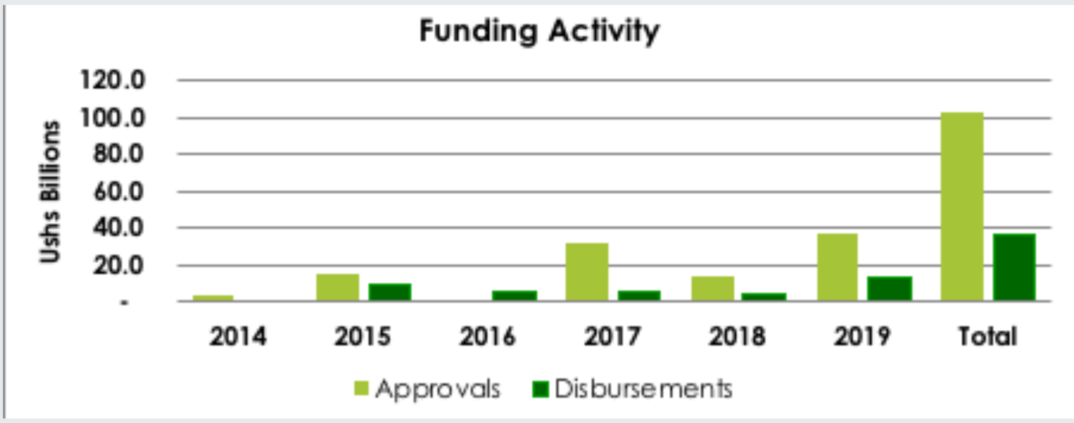
The Bank approved funding of Ushs 37.1 billion in 2019 compared to Ushs 14.03 billion in 2018. An additional Ushs 13.4 billion was disbursed in 2019 compared to Ushs 3.8 billion in 2018. The total funding approved from 2014 to 2019 totaled Ushs 102.8 billion out of which Ushs 36.94 billion had been disbursed as at 31 December 2019.

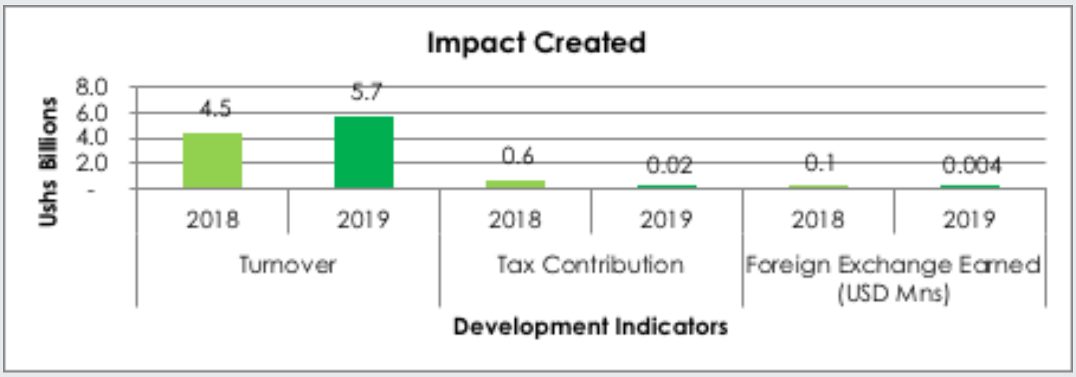
Development outcomes

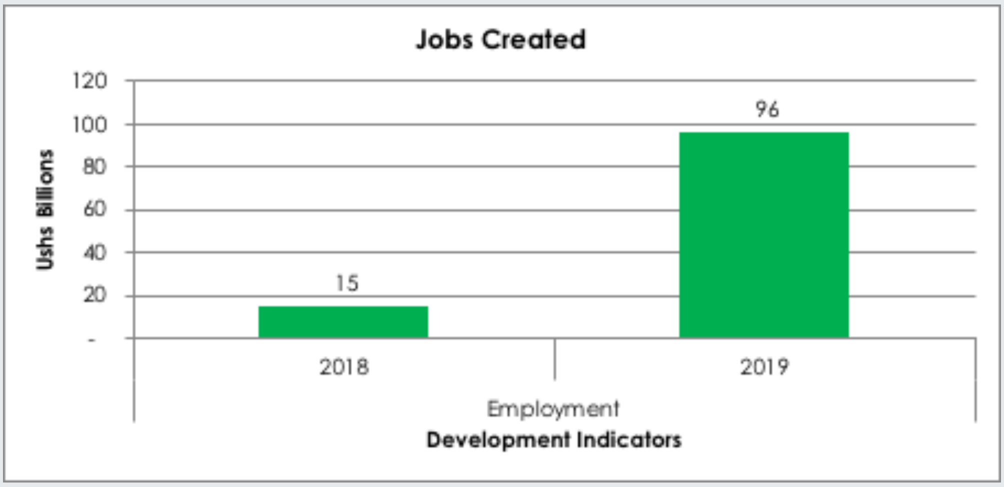
Through the Bank's interventions in supporting local content, the investments in this sector have generated employment with 96 new jobs being created in 2019 and overall contributed towards creating a conducive environment for doing business.

Outlook

In 2019, the Bank recruited a dedicated resource to oversee its investment in this Sector. In 2020, the Bank will develop and implement a financing strategy to ensure that its resources are channelled to the right investments within the sector. The Bank in 2020 anticipates generating new funding approvals of Ushs 31.8 billion towards addressing the lack of capacity in local companies, to support local content in the Infrastructure development projects in the country; and limited power generation capacity in the country leading to high energy cost.







Financial Outcomes

Size of portfolio | **Ushs 23.8 billion (2019)** | **Ushs 21.45 billion (2018)**

Financial Sustainability

For a detailed discussion on the Bank's financial performance, please refer to the financial review on page 108 of this annual report.

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

Below is the Bank's value-added statement which indicates the wealth that UDB creates through its activities for our key stakeholders, being the shareholder, employees, development partners and suppliers. It also illustrates how much we re-invest for future growth. The value-added is calculated as the Bank's revenue performance minus payments such as cost of services, depreciation and amortization. The resulting amount is distributed to the stakeholders who include employees, shareholders, community investments and government.

The total wealth created by the bank in 2019 was Ushs 37.49 billion as shown in the value-added statement below.

	2019		2018	%
			Ushs '000	
Interest income	42,021,779		35,463,324	
Interest expense	(3,104,553)		(2,217,024)	
Wealth created from operations	38,917,226		33,246,300	
Foreign exchange gains	(73,394)		43,070	
Other income	(1,358,722)		5,587,550	
Total wealth created	37,485,111	100	38,876,920	100
Distribution of wealth				
Retained for growth	10,140,260		9,486,394	24
Employees	11,375,982		9,172,169	24
Government	5,244,994		4,107,403	11
Suppliers	8,711,422		7,516,011	19
Impairment loss on financial assets	1,403,807		7,910,558	20
Depreciation and amortisation	608,646		684,385	2
Total wealth distributed	**37,485,111**	**100**	**38,876,920**	**100**

UDB’s Role in Supporting the Sustainable Development Goals

At the core of UDB’s strategy is its desire to make a substantial contribution towards the achievement of the Sustainable Development Goals (SDGs). UDB is fully committed to engendering the sustainability agenda in Uganda by not only ensuring that it champions various efforts geared towards fostering sustainability but also by ensuring that all our interventions are sustainability-conscious.

To this end, we ensure that the projects we support implement appropriate mitigation to curb any adverse effects on the environment, climate and weather, among others. At UDB, we believe we have critical role to play in enabling the transition to a modern economy - an economy that is greener, more digital and more inclusive.

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

The table illustrates UDB’s sector focus relative to the SDG outcomes

	SDG outcome	UDB Sector Focus
2 ZERO HUNGER	End hunger, archieve food security and improved nutrition and promote sustainable agriculture	Agriculture and Agro-industrialization
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages	Human Capital Developmemt
4 QUALITY EDUCATION	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Human Capital Developmemt
5 GENDER EQUALITY	Achieve gender equality and empower all women and girls	Human Capital Developmemt
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.	Manufacturing, Agriculture and Agro-industrialization
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Build resilient infrastructure, promote inclusive and sustainable industrialization and fosterinnovation	Manufacturing
15 LIFE ON LAND	Protect, restore and promote sustainable use of terrestrial ecosystem, sustainably manage forests, combat desertification, and halt and reverse land degradation as well as biodiversity loss.	Agriculture-(Forestry)

Financial Sustainability

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

Financial Sustainability

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

FINANCIAL PERFORMANCE OVERVIEW

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

Financial Statistics	2019	2018	2017	2016	2015
Statement of Comprehensive Income					
Gross Interest on loans	42,022	35,463	22,919	17,759	16,339
Net Interest and fee Income	38,917	33,246	21,874	18,406	16,966
Net impairment loss on financial assets	(1,404)	(7,910)	(3,865)	(4,116)	(11,443)
Non-Interest Income (net)	(1,432)	5,630	8,440	6,693	9,005
Operating expenses	(20,696)	(17,373)	(14,573)	(11,890)	(11,750)
Profit before income tax	15,385	13,594	11,876	9,093	2,778
Profit for the year	10,140	9,486	8,306	6,449	1,911
Statement of Financial Position					
Loans and advances (Net)	334,415	276,694	224,286	168,798	141,547
Balances with other banks	103,147	44,383	29,797	11,904	12,132
Investment properties	31,473	34,796	32,800	30,200	29,100
Total assets	486,365	370,118	297,471	226,427	205,557
Capital and reserves	347,483	253,612	204,448	156,541	141,548
Total liabilities	138,882	116,506	93,023	69,886	64,009
Statement of cash flow					
Cash flow used in operating activities	(43,970)	(49,846)	(39,900)	(8,289)	(41,735)
Net cash (used in)/generated from investing activities	(68,803)	7,527	(16,112)	3,079	6,716
Net cash generated from financing activities	103,841	65,737	58,234	7,095	17,293
Key financial ratios					
Yield on interest bearing instruments	11.6%	12.3%	10.3%	10.7%	11.6%
Net interest income margin	92.6%	94%	95%	98%	99%
Cost income ratio (without impairment)	55.2%	45%	48%	47%	45%
Cost income ratio (with impairment)	58.8%	65%	61%	64%	89%
Return on assets	2.6%	2.8%	3%	3%	1%
Return on equity	3.7%	4%	5%	4%	1%
Loan impairment ratio	10.6%	10.6%	7.6%	8.0%	7.9%
Debt equity ratio	33.8%	38%	38%	36%	38%

The Bank realised a profit for the year of Ushs 10.14 billion, registering a 7 % growth from the Ushs 9.4 billion realized in 2018 as a result of continued growth in funding and capitalisation of the Bank coupled with increase in loan disbursements to development projects.

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

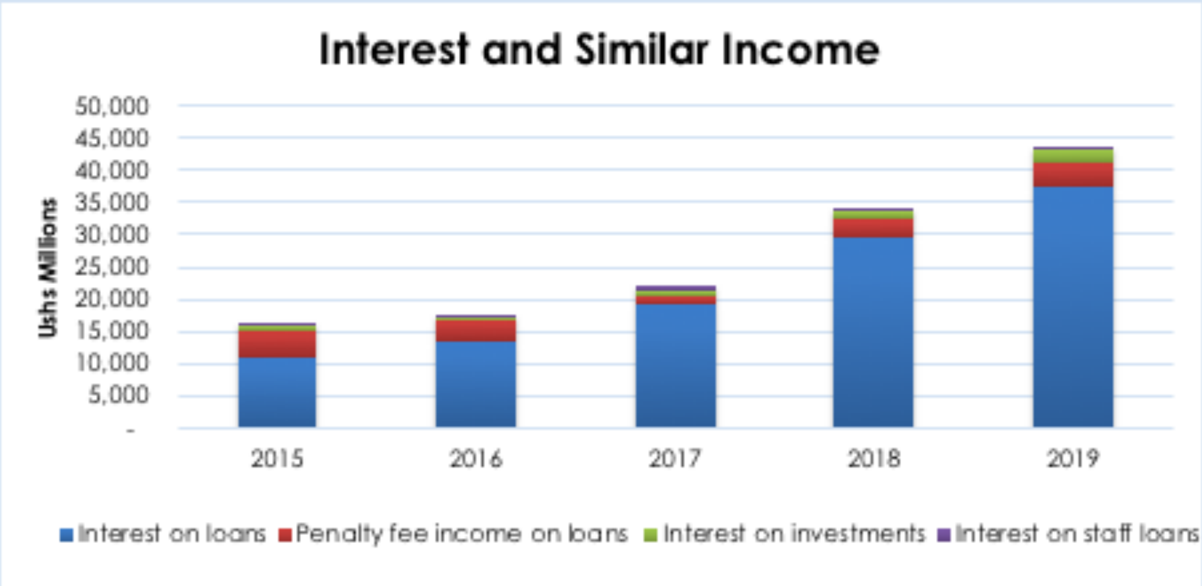
Ensuring Financial Sustainability

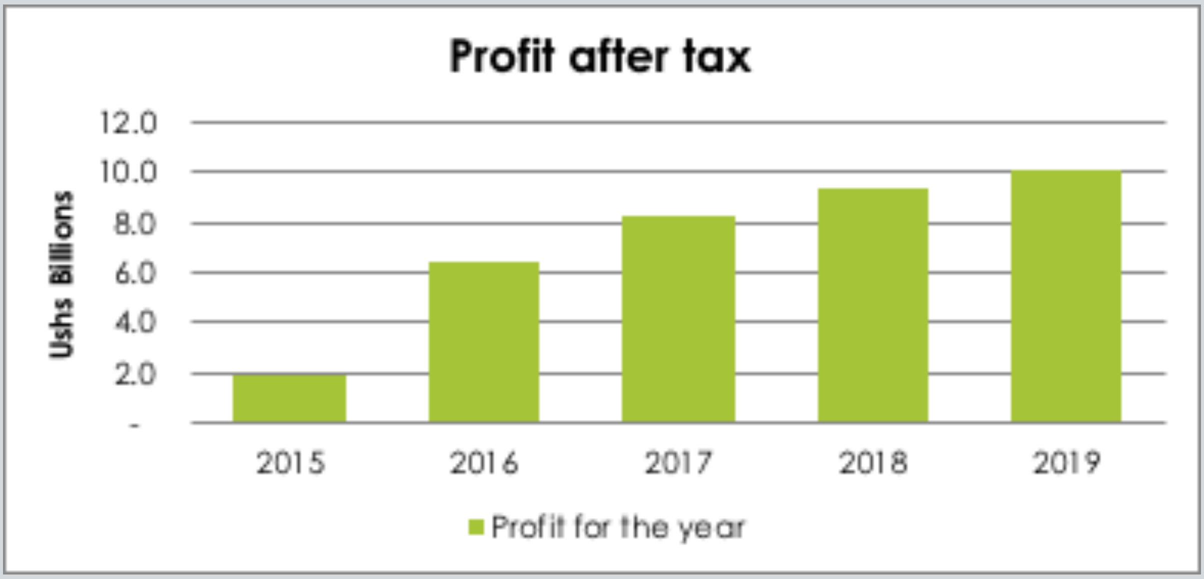
A review of the Bank's financial performance for the financial year 2019 compared to 2018 is as follows:

Interest Income

Net interest increased by 18% to Ushs 38.9 billion from Ushs 33.2 billion in 2018. Interest and similar income grew by Ushs 6.5 billion (18%) in 2019 as a result of a 15% growth in the gross loans and advances.

Interest expense and similar charges also increased by 40% to Ushs 3.1 billion from Ushs 2.2 billion in 2018 as a result of 22% increase in borrowings arising from new lines of credit of Ushs 49.1 billion secured by the bank in 2019 compared to Ushs 42.8bn drawn down in 2018.





Other Income

Other income reduced by 44% to Ushs 2.0 billion from Ushs 3.7 billion in 2018. Other income includes Ushs 3.3 billion loss on investment property realized as a result of the void period following the exit of the anchor tenant from the bank's investment property during the year.

Net Impairment Loss and write off of loans and advances

The impairment charge on the loan portfolio reduced by 82% in 2019, equivalent to Ushs 6.5bn, mostly due to a step up in the collection efforts by management for non-performing facilities coupled with refinement in the inputs for the IFRS 9 impairment model, 2019 being the second year of implementation of the IFRS 9 requirements.

Operating expenses

Operating expenses increased by 19.1% to Ushs 20.7 billion in 2019 from Ushs 17.4 billion in 2018 majorly due to increased staff costs and staff development activities. There was an increase in staff headcount from xx in 2018 to xx in 2019 following the adoption of a new organizational structure. The cost-to-income ratio with impairment decreased to 59% from 65% in 2018 while that without impairment increased to 55% from 45% in 2018.

Strengthening The Financial Position Of The Bank

The bank's total assets increased by 31% to Ushs 486 billion as a result of an increase in the Government of Uganda capital contribution and a drawdown of approved lines of credit. Below is a brief review of the Bank's major assets and liabilities and how they impacted the performance above:-

Borrowings from development partners

Borrowings comprise lines of credit sourced from other Development Financial Institutions (DFI's) for the sole purpose of supporting the development mandate of the Bank. During the year, the Bank drew down Ushs 49.1 billion which was used in supplementing existing funding to grow the loan book. The drawdowns gave rise to growth in borrowings by 23% to Ushs 70.5 billion from Ushs 57.5 billion in 2018.

Government of Uganda capital contribution

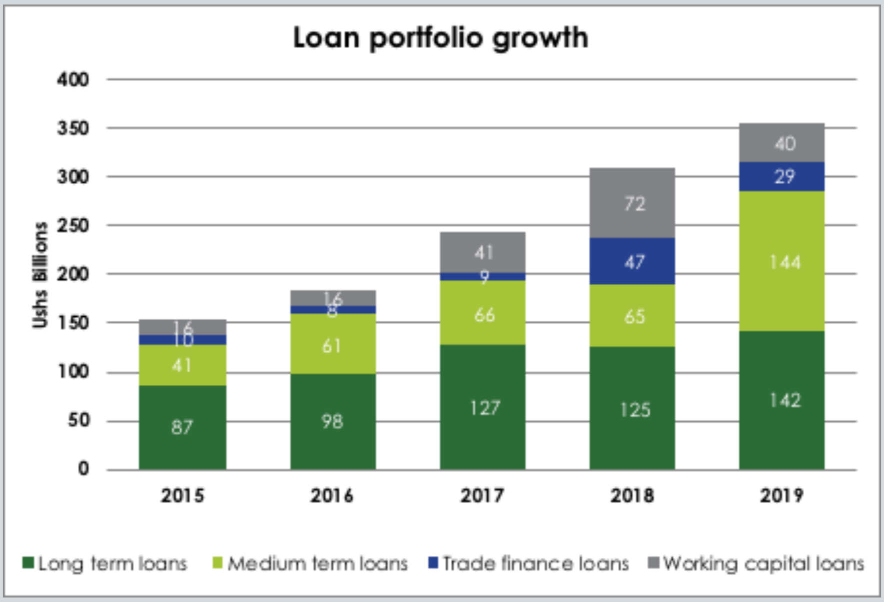
The Government of Uganda continued to capitalise the Bank throughout 2019 with additional capital of Ushs 87.7 billion injected into the Bank in 2019 compared to Ushs 49.1 billion in 2018. This gave rise to an 84% increase in total capital contribution in 2019 to Ushs 183.9 billion from Ushs 100 billion in 2017. The capital contributions remain key in facilitating the growth in the Bank's loan portfolio.

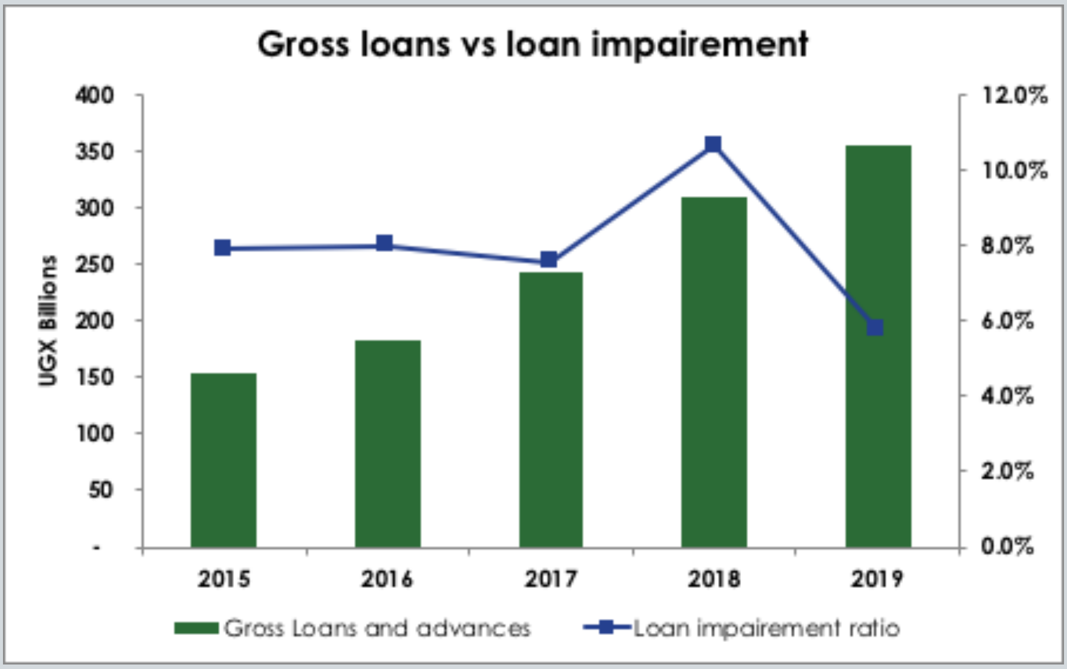
Retained earnings

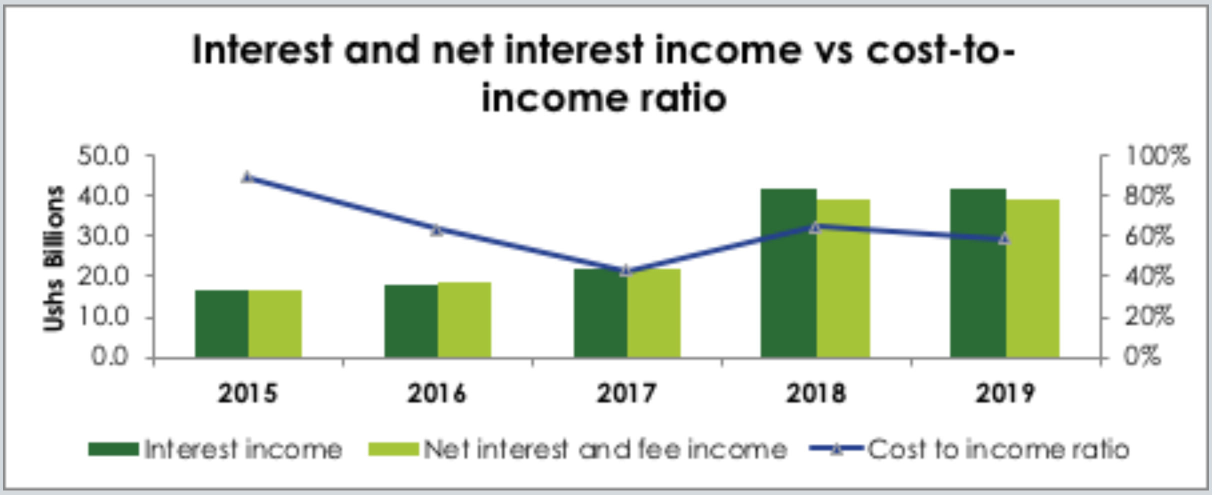
The bank's retained earnings increased by 19% due to profits of Ushs 10.14 billion registered during the year.

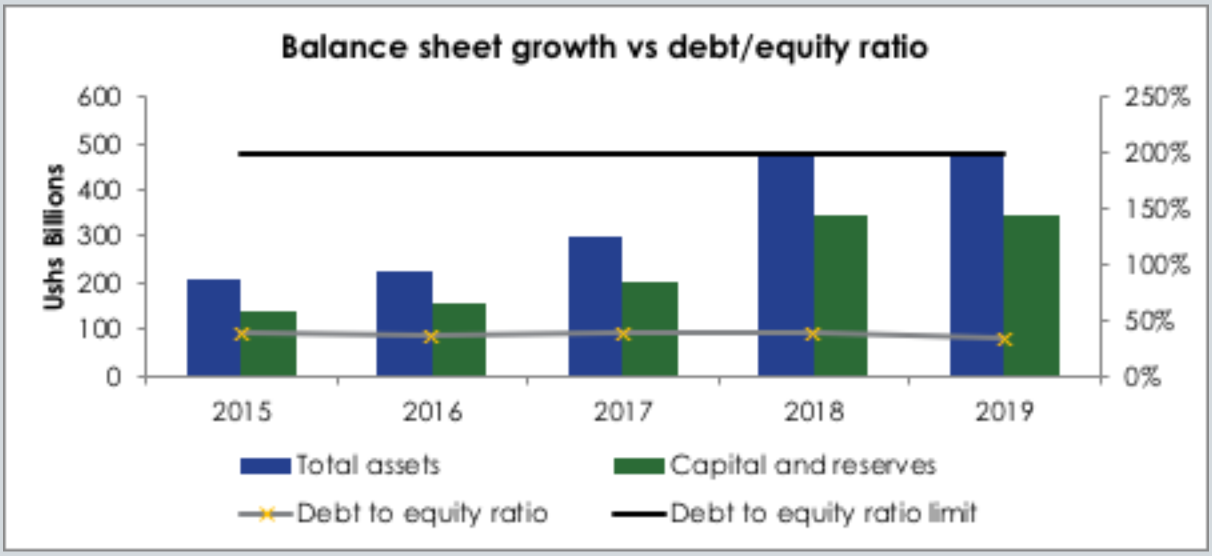
Gross Loans and Advances

Gross loan and advances increased by Ushs 45 billion (15%) during the year compared to a growth of Ushs 67 billion (28%) in 2018. Ushs 183.9 billion was disbursed to projects in 2019 compared to Ushs 154.5 billion in 2018 representing a 79% growth in disbursements. The growth in the funding base of the Bank, the capital and interest repayments and the internal profits continued to support the growth in the loans and advances.




Gross loans vs loan impairement
UGX Billions
400
350
300
250
200
150
100
50
-
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
2015
2016
2017
2018
2019
Gross Loans and advances
Loan impairement ratio

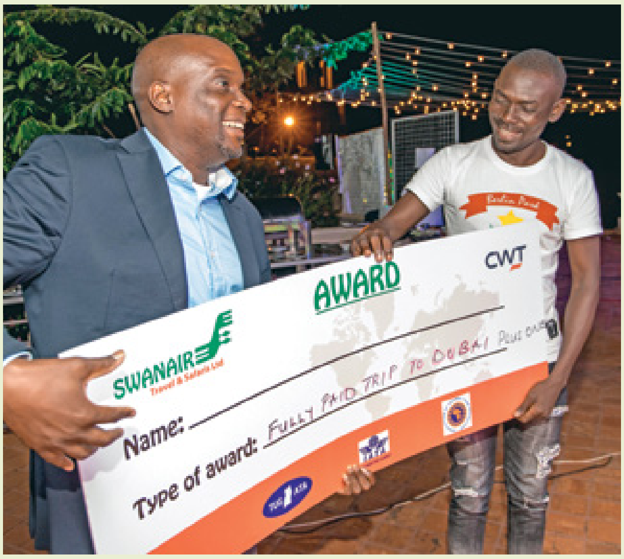

Interest and net interest income vs cost-to-income ratio
Ushs Billions
50.0
40.0
30.0
20.0
10.0
0.0
100%
80%
60%
40%
20%
0%
2015
2016
2017
2018
2019
Interest income
Net interest and fee income
Cost to income ratio


Balance sheet growth vs debt/equity ratio
Ushs Billions
600
500
400
300
200
100
0
250%
200%
150%
100%
50%
0%
2015
2016
2017
2018
2019
Total assets
Capital and reserves
Debt to equity ratio
Debt to equity ratio limit

Human Capital

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

Human Capital



Felix Okoboi, Board Chairman UDB awards Peter Emoi, one of the winners of the UDB Ideas Innovation challenge with a fully paid trip for two to Dubai.

UDB Staff cut a cake at the launch of the UDB Ideas Innovation Program.

For any organisation to effectively achieve its strategic aspirations, its' people (i.e. its' human capital) must be well attuned, with appropriate skills, behaviours and motivation. Against this backdrop, UDB implements varied approaches towards identifying, nurturing and retaining its human capital. Through a diverse value proposition, the Bank seeks out, recruits, develops and retains talented individuals that are passionate about making a contribution towards the socio-economic transformation of Ugandans.

Our value proposition is grounded on the following key aspects:

- **Compelling Organisational Philosophy and Mandate**: UDB occupies a unique position as the country's national development financial institution. We aspire to improve the quality of life of Ugandans, and to be the model development finance services provider.
- **Appropriate Total Rewards & compensation**: The Bank implements a compensation structure that is competitive relative to the market, and that rewards individuals for their relative contribution and skills. The bank also offers her staff a variety of attractive perquisites and welfare benefits.
- **A Congenial culture:** We facilitate a work environment of mutual respect and excellence, where staff are empowered and where every individual member's ideas count; our environment is designed to facilitate continuous engagement and interactions amongst our staff.
- **Facilitating learning:** Being a DFI that provides unique interventions, we strive to develop and grow our staff into specialists at their identified areas of expertise. To this end, employees are given challenging tasks that compel them to ideate and innovate new solutions whilst the organisation provides the requisite learning opportunities to build their skillset.
- **Supporting career growth:** The bank's talent management approach favours internal career ascent. In this respect, the bank sponsors various initiatives that aim to build both technical and behavioural competencies of the staff whilst also providing opportunities for promotion and growth within the bank. Whenever there is an opening within the leadership

Through 2019, the bank's staff complement improved by 14%. As at 31st December 2019, UDB had 67 members of staff – 46% of whom were female. The headcount is expected to continue growing as the bank grows in scale and scope.

Our Employee Value Proposition

space, priority is given to the internal staff first before the opportunity is opened for external sourcing.

Staff Training, Learning & Development

UDB Staff at a team building retreat at Serena Hotel, Kigo.

Promised on our believe that staff can only be most productive in their roles if they are adequately skilled, empowered and supported to do their jobs, the Bank devotes substantial resources towards developing in-house mission-critical skills and competencies. To this end, UDB continues to provide staff with various learning and development opportunities, ranging from on-the-job learning and work-group projects, structured facilitator-led programs, online learning, benchmarking and exposure opportunities, professional certification programs, among other approaches.

During 2019, staff participated in various programs facilitated by the Frankfurt School of Finance & Management under a technical assistance scheme sponsored by the African Development Bank. Similarly, the Bank sponsored a cross-section of staff to attend various including the leadership development programs – notably the CEO Apprenticeship Program and Senior Managers' Leadership Development Program at Strathmore Business School.

During the course of 2019, the bank achieved an average of 8-leaner days per staff, sponsored staff to attend over 30 training programs, 5 professional certifications among other interventions.

Developing a sustainable talent feeder

The Bank has undertaken a proactive approach to building talent for the future. In this respect, the facilitates structured student internship programs – from which 5 individuals participated during the year 2019. Relatedly, the bank has over the years been able to hire 3 staff from ex-interns upon the successful completion of their courses and upon satisfying related recruitment requirements.

During 2019, the Bank rolled out its inaugural Graduate Apprenticeship Program, recruiting 5 talented individuals with varied academic specialty in business management, engineering, environmental and agricultural science. The program takes a longer-term view of addressing the inherent human capital risks that face our business and those associated with the sector within which we operate. As part of their 12-month learning journey, the apprentices will undertake mentor-led learning in various technical fields of the business to which they are attached, complimented by various on-the-job and behavioural learning interventions.

Employee Engagement

The Bank proactively endeavours to build and maintain a unified and mission-focussed team, where staff willingly give their very best effort. To this end, the bank undertakes various initiatives to facilitate the engagement of staff – including team-building events, celebration of individual milestones, employee wellness programs, among others.

UDB Staff share a selfie moment during the end of year staff party.

Patricia Ojangole, Managing Director UDB awarding the overall winner of the UDB Ideas Innovation contest, Susan Kiwanuka with a fully paid trip for two to Dubai.

Financial Statements

Financial Statements

Registered Office and Principal Place of Business

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

Directors

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

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

Secretary

Ms Sophie Nakandi

Uganda Development Bank Limited

Rwenzori Towers

Plot No. 6 Nakasero Road

1st Floor, Wing B3

P. O. Box 7210

Kampala, Uganda

Bankers

dfcu Bank Limited Plot 2, Jinja Road P. O. Box 70 Kampala, Uganda	**Citibank Uganda Limited** Plot 4, Ternan Avenue, Nakasero P. O. Box 7505 Kampala, Uganda	**Standard Chartered Bank Uganda Limited** 5 Speke Road P. O. Box 7111 Kampala, Uganda
NC Bank Uganda Limited 1st Floor, Rwenzori Towers, Nakasero P. O. Box 28707 Kampala, Uganda	**AUDITORS** Auditor General Government of Uganda P. O. Box 7083 Kampala, Uganda	**DELEGATED AUDITOR** KPMG 3rd Floor Rwenzori Courts Plot 2 &4A Nakasero Road P. O. Box 3509, Kampala, Ugand

Legal Advisors

J.B. Byamugisha Advocates 4 Nile Avenue P. O. Box 9400 Kampala, Uganda	**Kateera and Kagumire** 10th Floor, Tall Tower, Crested Towers P. O. Box 7026 Kampala, Uganda	**Nangwala, Rezida and Co. Advocates** Office Park Suite B5, 2nd Floor Plot 7-9 Buganda Road P. O. Box 10304 Kampala, Uganda
Ligomarc Advocates 5th Floor,Western Wing, Social Security House 4 Jinja Road P. O. Box 8230 Kampala, Uganda	**Kalenge, Bwanika, Ssawa & Co. Advocates** Plot 15A Clement Hill Road P. O. Box 8352 Kampala, Uganda	**BNB Advocates** Plot 6/8 Nakasero Lane, off Kyagwe Road P. O. Box 12386 Kampala, Uganda
Tibeingana & Co. Advocates 1st Floor, Eco Bank Plaza Plot 4, Parliament Avenue, P. O. Box 72646,Kampala-Uganda	**Oundo and Co Advocates** Plot 1, Pilkington Road, Workers House, 7th Floor Southern Wing Suite 700 P. O. Box 11070 Kampala-Uganda	

Report of the Directors

The directors submit their report together with the audited financial statements of Uganda Development Bank Limited ("the Bank") for the year ended 31 December 2019, which disclose the state of affairs of the Bank.

1. Incorporation

The Bank was incorporated under the Companies Act of Uganda, 2012 on 31 March 2000.

2. Principal Activities

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

3. Results

The results for the year are summarized below:

	2019	2018
	Ushs '000	Ushs '000
Profit before tax	15,385,253	13,593,797
Income tax expense	(5,244,994)	(4,107,403)
Profit for the year	**10,140,259**	**9,486,394**

4. Reserves

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

5. Dividends

The directors do not recommend the payment of a dividend in respect for the year ended 31 December 2019 (2018: Nil).

6. Directors

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

7. Risk

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

i. Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparts fail to discharge their contractual obligations. Uganda Development Bank Limited measures, monitors and manages credit risk for each borrower and also at the portfolio level.

The Bank has a standardized credit approval process, which includes a well-established procedure of comprehensive credit appraisal and rating.

ii. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and other prices, such as equity prices. The Bank's exposure to market risk is a function of its asset and liability management activities. The objective of market risk management is to minimize the impact of losses due to market risks on earnings and equity capital. Market risk policies include Asset-Liability Management (ALM) policies.

iii. Operational Risk

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

Detailed risk management disclosures are presented in note 5 to the financial statements.

8. The Aadfi Prudential Standards, Guidelines and Ratings System

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

In 2019, the Bank participated in a peer review of African Development Finance Institutions based on wide ranging criteria including governance standards, financial prudential standards and operational standards. The Bank obtained a score of 90% (2018: 87.91%) representing a "High" performance level (a score of 60% is deemed to be average). The directors are committed to continuous improvement in the Bank's rating.

9. Auditor

In accordance with Article 163 of the Constitution of the Republic of Uganda, Section 17 of the Public Enterprises Reform and Divestiture Act, Cap.98 and Sections 13 (1) (a), 17 and 23 of the National Audit Act, 2008, the financial statements of the Bank are required to be audited once every year by the Auditor General. Section 23 of National Audit Act, 2008 permits the Auditor General to appoint private auditors to carry out such audit on his/her behalf.

Accordingly, M/S KPMG Certified Public Accountants were appointed to carry out the audit on behalf of the Auditor General for the year ended 31 December 2019.

10. Approval Of The Financial Statements

The financial statements were approved and authorized for issue at the meeting of the Board of Directors held on **11th March 2020.**

....

Company Secretary

By order of the Board

The Bank's directors are responsible for the preparation and fair presentation of the financial statements of Uganda Development Bank Limited set out on pages 12 to 82, comprising the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Companies Act of Uganda, 2012.

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

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

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

Approval of the Financial Statements

The financial statements, as indicated above, were approved and authorized for issue by the Board of Directors on **11th March 2020.**

....

Chairperson

....

Director

Date: 30th March 2020

The Bank's directors are responsible for the preparation and fair presentation of the financial statements of Uganda Development Bank Limited set out on pages 12 to 82, comprising the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Companies Act of Uganda, 2012.

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

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

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

Approval of the Financial Statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 11th March 2020.

....
Chairperson

....
Director

Date 30 March **2020**

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF UGANDA DEVELOPMENT BANK LIMITED FOR THE YEAR ENDED 31ST DECEMBER, 2019

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Uganda Development Bank Limited which comprise the statement of Financial Position as at 31st December 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows together with other accompanying statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements of Uganda Development Bank Limited give a true and fair view, of the financial position of the Bank as at 31st December 2019, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of Uganda, 2012.

Basis for Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Uganda Development Bank Limited in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (Parts A and B), and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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

Key Audit Matter	How the matter was addressed in the audit
Impairment of Loans and Advances (Refer to notes 4 d (xi), 5(a) and 20 to the financial statements)	
Impairment of loans and advances to customers is based on the Expected Credit Loss (ECL) and is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. During the year ended 31st December 2019, impairment provision on loan and advances to customers was Ushs.20.4 Billion. The key areas where I identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's implementation of IFRS 9 are; **Model estimations** Inherently, judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL). The PD and EAD models used in the Stage 1 and Stage 2 loans are key drivers of the Bank's ECL results and are therefore the most significant judgmental aspect of the Bank's ECL modelling approach. **Economic scenarios** IFRS 9 requires the Bank to measure Expected Credit Loss (ECL) on a forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them and the associated impact on ECL. **Significant Increase in Credit Risk ('SICR')** For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgment within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.	Based on my risk assessment and industry knowledge, I have examined the impairment charges for loans and advances to customers and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter. **My audit procedures in this area included, among others;** — Assessing the modelling techniques and methodology against the requirements of IFRS 9. — Assessing the design and testing the operating effectiveness of relevant controls over the; • Data used to determine the ECL parameters, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model; and • Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. — Assessing and testing the material modelling assumptions as well as overlays with a focus on the; • Key PD, LGD, and EAD modelling assumptions adopted by the Bank; • Basis for and data used to determine overlays; and • Sensitivity of the provisions to changes in modelling assumptions. — Assessing management's basis of determining SICR, whether the SICR criteria is aligned to management's credit risk processes, and how management establishes credit risk at origination.

	— I further assessed whether management had considered all relevant, reasonable and supportable information when setting its SICR criteria. — Examining a sample of exposures and performing procedures to evaluate the; • Timely identification of exposures with a significant deterioration in credit quality; and • Expected loss calculation for exposures assessed on an individual basis. — I evaluated management's documentation of the reasonableness and impact of the macro economic scenarios on the ECL including a review of the appropriateness of the macro economic scenarios selected. — Challenging management's assumptions on projected cash flows when assessing stage 3 impairment by evaluating the assumptions against current economic performance, assumptions most commonly used in the Banking industry, and also comparison with external evidence. — Involving my internal IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model). The IT specialists tested the integrity of the data used to develop the ECL model. — Assessing whether the disclosures are adequate and appropriately disclose the key judgements and assumptions used in determining the expected credit losses.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, and other supplementary information. The other information does not include the financial statements and my auditors' report thereon. My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

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

Management Responsibilities for the Financial Statements

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

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Local Governments Financial and Accounting Manual, 2007 and the Public Finance Management Act 2015 and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Uganda Development Bank Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Accounting Officer has a realistic alternative to the contrary.

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

Auditor General's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also;

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Uganda Development Bank Limited's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Uganda Development Bank Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Uganda Development Bank Limited to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

I also provide the Accounting Officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

Report on Other Legal Requirements

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

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

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

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

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA

31st March, 2020

	Note	2019 Ushs '000	2018 Ushs '000
Interest and similar income	8	42,021,779	35,463,324
Interest expense and similar charges	9	(3,104,553)	(2,217,024)
Net interest income		**38,917,226**	**33,246,300**
Net foreign exchange (loss)/gains	10	(73,394)	43,070
Fair value (loss)/gains on investment property	22	(3,323,000)	1,996,000
Net loss on financial assets recorded at fair value through profit or loss	19	(98,416)	(118,173)
Other income	11	2,062,694	3,709,724
Net impairment loss on financial instruments	20(e)	(1,403,807)	(7,910,558)
Operating income after impairment losses		**36,081,303**	**30,966,363**
Personnel expenses	12	(11,375,982)	(9,172,171)
Depreciation and amortization	23, 24	(608,646)	(684,385)
Other operating expenses	13	(8,711,422)	(7,516,010)
Profit before tax	14	**15,385,253**	**13,593,797**
Income tax expense	16(a)	(5,244,994)	(4,107,403)
Profit for the year		**10,140,259**	**9,486,394**
Other comprehensive income			
Revaluation of property and equipment	23	-	1,298,234
Related tax	30	-	(389,470)
Total comprehensive income net of tax		**10,140,259**	**10,395,158**
Basic/diluted earnings per share	15	**101.40**	**94.86**

The notes set out on pages 16 to 81 form an integral part of these financial statements.

	Note	2019 Ushs '000	2018 Ushs '000
ASSETS			
Cash and cash equivalents	17	21,689,075	30,694,491
Deposits held in banks	18	81,458,271	13,688,375
Equity investments at fair value	19	127,336	225,752
Loans and advances	20	334,414,806	276,693,583
Staff loans and advances	21	3,891,810	2,392,468
Current income tax recoverable	16(b)	2,181,171	1,243,751
Investment property	22	31,473,000	34,796,000
Property and equipment	23	5,089,650	5,218,471
Intangible assets	24	823,629	273,803
Other assets	25	5,216,463	4,890,831
Total assets		**486,365,211**	**370,117,525**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	32	100,000,000	100,000,000
GOU capital contributions	33	183,902,306	100,171,606
Asset revaluation reserve	34	1,203,464	1,203,464
Retained earnings	42	62,376,979	52,236,720
Total equity		**347,482,749**	**253,611,790**
Liabilities			
Amounts due to Bank of Uganda	26	16,017,692	9,290,181
Borrowings	27	70,541,546	57,478,060
Kuwait Special Fund	28	30,777,916	30,261,377
UNCDF Fund	29	664,670	-
Deferred income tax liability	30	5,776,986	3,612,149
Other liabilities	31	15,103,652	15,863,968
		138,882,462	**116,505,735**
Total equity and liabilities		**486,365,211**	**370,117,525**

The financial statements on pages 12 to 81 were approved and authorised for issue by the Board of Directors on 11th March 2020 and signed on its behalf by:

....

Chairperson **Director**

The notes set out on pages 16 to 81 form an integral part of these financial statements.

	Share capital	GOU capital Contributions	Asset revaluation Reserve*	Retained earnings	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 1 January 2018	100,000,000	52,017,077	294,700	42,750,326	195,062,103
Revaluation of property and equipment	-	-	1,298,234	-	1,298,234
Related tax on revaluation	-	-	(389,470)	-	(389,470)
Total comprehensive income for the year	-	-	-	9,486,394	9,486,394
Contributions by equity holders					
GoU capital contributions	-	48,154,529	-	-	48,154,529
Balance at 31 December 2018	**100,000,000**	**100,171,606**	**1,203,464**	**52,236,720**	**253,611,790**
Total comprehensive income for the year	-	-	-	10,140,259	10,140,259
Contributions by equity holders					
GoU capital contributions	-	83,730,700	-	-	83,730,700
Balance at 31 December 2019	**100,000,000**	**183,902,306**	**1,203,464**	**62,376,979**	**347,482,749**

The notes set out on pages 16 to 81 form an integral part of these financial statements.

Operating profit before changes in operating assets and liabilities	**40**	**20,474,296**	**20,124,390**
Changes in operating assets and liabilities			
Increase in loans and advances		(59,022,702)	(73,641,669)
Increase in other assets		(325,632)	(1,351,202)
(Decrease)/Increase in other liabilities		(760,316)	7,396,659
(Increase)/Decrease in staff loans and advances		(1,499,342)	675,822
Increase in amounts due to the Kuwait Fund		516,539	921,858
Increase in amounts due to UNCDF		664,670	-
Cash used in operations		**(39,952,487)**	**(45,874,142)**
Income tax paid		(4,017,577)	(3,972,234)
Net cash flows used in operating activities		**(43,970,064)**	**(49,846,376)**
INVESTING ACTIVITIES			
Acquisition of property and equipment		(287,702)	(1,412,330)
Acquisition of intangible assets		(744,981)	(26,721)
Proceeds from sale of property and equipment		-	130,084
Movement in deposits held in Banks		(67,769,896)	8,835,550
Net cash flows generated from investing activities		**(68,802,579)**	**7,526,583**
FINANCING ACTIVITIES			
Proceeds of amounts due to Bank of Uganda		9,791,072	1,961,605
Repayments of amounts due to Bank of Uganda		(3,063,561)	(5,726,842)
Proceeds from borrowings		38,807,670	35,970,862
Repayment of borrowings		(25,425,260)	(14,622,944)
Contributions from the Government of Uganda		83,730,700	48,154,529
Net cash flows generated from financing activities		**103,840,621**	**65,737,210**
(Decrease)/Increase in cash and cash equivalents		**(8,932,022)**	**23,417,417**
Net foreign exchange difference		(73,394)	43,070
Cash and cash equivalents at 1 January		30,694,491	7,234,004
Cash and cash equivalents at 31 December	**17**	**21,689,075**	**30,694,491**

The notes set out pages 16 to 81 form an integral part of these financial statements.

1. Reporting Entity

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

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

The Bank is primarily involved in development financing.

2. Basis Of Preparation

a. Basis of accounting and statement of compliance

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

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

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

b. Basis of preparation

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

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

c. Functional and presentation currency

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

3. Changes In Significant Accounting Policies And Disclosure

New standards, amendments and interpretations effective and adopted during the year ended 31 December 2019

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2019. The adoption of these new and revised standards and interpretations had no significant material impact on the financial statements.

IFRS 16: Leases

This standard replaces IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier). The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on the balance sheet. The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective.

The Bank initially applied IFRS 16 Leases from 1 January 2019. The Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

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

This policy is applied to contracts entered into, on or after 1 January 2019.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Bank leases property. The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Bank classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at either:

— their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Bank's incremental borrowing rate at the date of initial application: the Bank applied this approach to its leases; or

— an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Bank applied this approach to all other leases.

The Bank has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

— did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;

— did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);

— excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

— used hindsight when determining the lease term.

On transition to IFRS 16, the Bank has not recognised right-of-use assets, and additional lease liabilities as at 1 January 2019 due to the above practical expedients.

*For the impact of IFRS 16 on profit or loss for the period, see note q. For the details of accounting policies under IFRS 16 and IAS 17, see note q.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 0%.

	1 January 2019
	Ushs '000'
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Bank's financial statements	876,195
Discounted using the incremental borrowing rate at 1 January 2019	-
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease term at transition	(876,195)
Lease liabilities recognised at 1 January 2019	**-**

IFRIC 23 Uncertainty over Income Tax Treatments (Effective for annual periods beginning on 1 January 2019 with earlier application permitted)

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 1 2 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively.

The amendment has not had an impact on the Bank's financial statements.

IFRS 9 Financial Instruments (amendment) (Effective for periods beginning 1 January 2019 with earlier application permitted)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively.

The amendment has not had an impact on the Bank's financial statements.

Annual improvements to IFRS standards 2015-2017 cycle – various standards

The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the Bank's annual financial statements.

4. Significant Accounting Policies

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

a. Foreign currency translation

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

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

All translation gains and losses arising on non-trading activities are recognised in profit or loss.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

b. Revenue recognition

i. Interest income and expense

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

Interest income and expense presented in profit or loss include:

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

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

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

ii. Fees and commission income

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

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

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry.

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

iii. Other income

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

iv. Dividend income

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

v. Rental income

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

c. Income tax expense

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

i. Current income tax

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

ii. Deferred income tax

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

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

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

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

c. Income tax expense (Continued)

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

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

Current tax and deferred tax relating to items recognised directly in other comprehensive income or equity are also recognised in other comprehensive income or equity and not in profit or loss.

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

d. Financial assets and financial liabilities

i. Recognition and initial measurement

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

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

ii. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— the asset is held within a business model whose objective is to hold assets to collect Contractual cash flows; and

— The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest **(SPPI).**

— A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

— the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

— the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

iii. Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

— The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

— how the performance of the portfolio is evaluated and reported to the Bank's management;

— the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

— how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

— the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

4. Significant Accounting Policies (continued)

d. Financial assets and financial liabilities

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

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

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers;

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

v. Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Company's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- The Bank's risk of loss on the asset relative to a full-recourse loan; the extent to which the collateral represents all or a substantial portion of the borrower's assets; and whether the Bank will benefit from any upside from the underlying assets.

vi. Reclassifications

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

vii. Derecognition

Policy on derecognition

a. Financial assets

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

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

i. the consideration received (including any new asset obtained less any new liability assumed) and;

ii. any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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

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

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

b. Financial liabilities

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

Viii. Modifications of financial assets and financial liabilities.

a. Financial assets

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

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

b. Financial liabilities

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

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

iX. Offsetting

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

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

X. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

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

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

Xi. Impairment

a. Policy applicable

The Bank recognises loss allowances for ECL on the following financial instruments:

- financial assets that are debt instruments;
- loan commitments issued; and

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

b. Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual
- cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

c. Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

d. Credit-impaired financial assets

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

Evidence that a financial asset

is credit-impaired includes the following observable data:

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

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

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

Loss allowances for ECL are presented in the statement of financial position as follows:

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

f. Write-off

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

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

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

g. Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's Company.

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

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses.

A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired.

Designation at fair value through profit or loss

Financial assets

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

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

h. Cash and cash equivalents

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

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

i. Loans and advances

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

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

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

j. Investment securities

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

k. Property and equipment

i. Recognition and measurement

Property and equipment are stated at cost or revalued amount, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

After recognition as an asset, land and buildings are carried at their revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made after every 3 years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

ii. Subsequent costs

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

iii. Depreciation

Items of property and equipment

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

Buildings
50 years

Motor vehicles
5 years

Fixtures, fittings and equipment
8 years

Computers
4 years

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

iv. Impairment

The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant asset. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

v. Derecognition

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

L. Investment property

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

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

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

M. Intangible assets

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

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

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

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

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

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

N. Share capital

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

O. Employee benefits

i. Defined contribution plans

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

ii. Short-term benefits

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

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

iii. Termination benefits

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

Other Long term Employee benefits

iv. Service gratuity

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

P. Contingent liabilities and commitments

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

Q. Earnings per share

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

R. Impairment of non-financial assets

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

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

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

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

S. Accounting for leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease.

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

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in separately and lease liabilities separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank applies the de-recognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Bank recognises lease payments received under operating leases as income on a straight- line basis over the lease term as part of 'other income'.

Generally, the accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

As a lessee

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

— fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

— the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

— the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

— the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

In the comparative period, as a lessee the Bank classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Bank acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Bank made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment the Bank considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Amounts recognised in profit or loss

	Ushs'000
2019-Leases under IFRS 16	
Interest on lease liabilities	-
Depreciation relating to right of use assets	-
2018-Operating leases under IAS 17	
Lease rental payment	876,195

T. Kuwait Special Fund

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

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

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

U. Standards issued but not yet effective

At the date of authorisation of the financial statements of Uganda Development Bank Limited for the year ended 31 December 2019, the following Standards and Interpretations were in issue but not yet effective:

Standard		Annual periods beginning on or after
IAS 1	Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Amendment (Effective for periods beginning 1 January 2020 with earlier application permitted).	1 January 2020
IFRS 3	Business Combinations - amendment (1 January 2020 with earlier application permitted)	1 January 2020
Conceptual Framework amendments	Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
IFRS 10 and IAS 28	Sale or Contribution of Assets between an investor and its associate or joint venture (The effective date is yet to be confirmed)	To be determined

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Amendment (Effective for periods beginning 1 January 2020 with earlier application permitted)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements. The amendments will be applied prospectively.

The impact on the annual financial statements has not yet been fully determined.

IFRS 3 Business Combinations - amendment (1 January 2020 with earlier application permitted)

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

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

Amendments to References to Conceptual Framework in IFRS Standards

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

— a new chapter on measurement;

— guidance on reporting financial performance;

— improved definitions of an asset and a liability, and guidance supporting these definitions; and

— Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

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

Management's assessment indicates that the application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Bank's financial statements.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an investor and its associate or joint venture (The effective date is yet to be confirmed)

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and have no impact on the Bank's financial statements.

5. Financial Risk Management

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

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

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

The Bank's Audit and Risk Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Committee is assisted in these functions by internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Bank's policy is that risk management processes are audited by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of its assessment with management and reports its findings and recommendations to the Audit and Risk committee.

The Board Strategic Planning Committee is responsible for managing its assets and liabilities and the overall financial structure. It is also responsible for the funding and liquidity risks of the Bank.

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

a. Credit risk

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

In the normal course of its business, the Bank incurs credit risk from deposits with banks, loans and advances to customers, staff loans and other assets.

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

Credit-related commitments risks

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

Impaired loans and advances

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

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

The detailed disclosures relating to credit risk have been included in note 20 (loans and advances).

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

	2019	2018
	Ushs '000	**Ushs '000**
Bank balances	21,689,075	30,694,491
Deposits held in other banks	81,458,271	13,688,375
Loans and advances to customers	334,414,806	276,693,583
Staff loans and advances	3,891,810	2,392,468
Other assets	5,216,463	4,890,831
	446,670,425	**328,359,748**

The above table represents the worst case scenario of credit risk exposure to the Bank as at 31 December 2019 and 31 December 2018 without taking into account any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

Credit quality analysis

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

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

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

	Stage 1 Ushs'000	Stage 2 Ushs'000	Stage 3 Ushs'000	2018 Total Ushs'000
Loans and advances at amortised cost	146,602,217	97,072,244	65,950,168	309,624,629
Loss allowance	(4,454,792)	(13,742,191)	(14,734,063)	(32,931,046)
Carrying amount	**142,147,425**	**83,330,053**	**51,216,105**	**276,693,583**
Staff loans and advances	4,328,610	227,315	851,394	5,407,319
Loss allowance	(246,966)	(111,166)	(449,947)	(808,079)
Carrying amount	**4,081,644**	**116,149**	**401,447**	**4,599,240**

Collateral security held and other enhancements

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

74% (2018: 83%) of the total maximum exposure is derived from loans and advances to customers. Investment in fixed deposits represents 18% (2018: 4%) of the maximum exposure.

Loans and advances are secured by collateral mainly in the form of charges over land and buildings or personal/other guarantees. The market sale value of the collateral held as at 31 December 2019 is Ushs 1.15 trillion (2018: Ushs 976 billion).

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment.

See accounting policy note 4 (d).

Significant increase in credit risk

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

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

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time

of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

— quantitative test based on the days past due; and

— qualitative indicators;

Generating the term structure of PD

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

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

Determining whether credit risk has increased significantly

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

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

— the criteria are capable of identifying significant increases in credit risk before an exposure is in default;

— the criteria do not align with the point in time when an asset becomes 30 days past due;

— the average time between the identification of a significant increase in credit risk and default appears reasonable;

— exposures are not generally transferred directly from -12month ECL measurement to credit impaired; and

— there is no unwarranted volatility in loss allowance from transfers between -12month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

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

— The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);

— the borrower is more than 90 days past due on any material credit obligation to the Bank.; or

— it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Incorporating forward looking information

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

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one best case scenario assigned a 20% probability of occurring and a worst case scenario assigned a 30% probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental organisations.

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

The key drivers for credit risk are: GDP growth, inflation, foreign exchange and CBR.

The economic scenarios used as at 31 December 2019 included the following key indicators for Uganda for four years up to 31 December 2023.

Base Case	2020	2021	2022	2023
GDP growth	5.7%	5.7%	5.9%	5.9%
Inflation	3.5%	4.9%	5.2%	5.3%
CBR	10.0%	12.0%	12.0%	12.0%
Exchange rates	3,724	3,855	3,930	3,989
Worst Case	**2020**	**2021**	**2022**	**2023**
GDP growth	3.19%	3.19%	3.31%	3.31%
Inflation	3.93%	5.51%	5.84%	5.95%
CBR	10.18%	12.22%	12.22%	12.22%
Exchange rates	3,806	3,940	4,017	4,077
Best Case	**2020**	**2021**	**2022**	**2023**
GDP growth	7.6%	7.6%	7.8%	7.8%
Inflation	3.1%	4.3%	4.6%	4.7%
CBR	9.8%	11.8%	11.8%	11.8%
Exchange rates	3,654	3,782	3,856	3,914

b. Market risks

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

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

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

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

i. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

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

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

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

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2019. Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below:

	10% fall in interest rates		10% rise in interest rates	
	Effect of profit before tax	Effect on equity	Effect of profit before tax	Effect on equity
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 31 December 2019				
Profit before income tax	310,455	310,455	(310,455)	(310,455)
At 31 December 2018				
Profit before income tax	221,702	221,702	(221,702)	(221,702)

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

	Up to 1yr Ushs'000	1 to 3yrs Ushs'000	3 to 5yrs Ushs'000	Over 5yrs Ushs'000	Total Ushs'000
31 December 2019					
Financial assets					
Deposits held with banks	81,458,271	-	-	-	81,458,271
Loans and advances	32,807,365	11,427,670	56,230,369	233,949,402	334,414,806
Staff loans and advances	656,688	52,305	393,407	5,631,135	6,733,535
Total financial assets	**114,922,324**	**11,479,975**	**56,623,776**	**239,580,537**	**422,606,612**
Financial liabilities					
Borrowings	6,730,817	8,725,966	38,824,128	16,260,635	70,541,546
Total financial liabilities	**6,730,817**	**8,725,966**	**38,824,128**	**16,260,635**	**70,541,546**
Interest sensitivity gap	**108,191,507**	**2,754,009**	**17,799,648**	**223,319,902**	**352,065,066**
31 December 2018					
Total financial assets	44,360,606	67,321,366	59,986,312	121,106,143	292,774,426
Total financial liabilities	15,287,072	4,587,843	6,039,473	31,563,672	57,478,060
Interest sensitivity gap	**29,073,534**	**62,733,523**	**53,946,839**	**89,542,471**	**235,296,366**

b Market risks (Continued)

ii. Currency risk

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

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign denominated balances as at 31 December 2019.

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

31 December 2019

	10% Depreciation		10% Appreciation	
	Effect on profit before tax Ushs'000	Effect on equity Ushs'000	Effect on profit before tax Ushs'000	Effect on equity Ushs'000
GBP	(9,723)	(9,723)	9,723	9,723
USD	(2,303,402)	(2,303,402)	2,303,402	2,303,402
Total	**(2,313,125)**	**(2,313,125)**	**2,313,125**	**2,313,125**

31 December 2018

	10% Depreciation		10% Appreciation	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
GBP	(4,821)	(4,821)	4,821	4,821
USD	(1,238,679)	(1,238,679)	1,238,679	1,238,679
Total	**(1,243,500)**	**(1,243,500)**	**1,243,500**	**1,243,500**

ii. Currency risk (Continued)

The Bank's currency position is as follows:

	Uganda shillings	US Dollars	Euro	GBP	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
31 December 2019					
Financial assets					
Cash and cash equivalents	15,971,321	5,715,310		2,444	21,689,075
Deposits held in banks	61,373,040	20,085,231	-	-	81,458,271
Staff loans and advances	3,891,810	-	-	-	3,891,810
Other assets (excluding non- financial assets)	5,169,148	47,315	-	-	5,216,463
Loans and advances	251,584,508	82,830,298	-	-	334,414,806
Total financial assets	**337,989,827**	**108,678,154**	**-**	**2,444**	**446,670,425**
Financial liabilities					
Amounts due to Bank of Uganda	16,017,692	-	-	-	16,017,692
Other liabilities	11,793,509	3,269,088	18,513	22,542	15,103,652
Borrowings	-	70,541,546	-	-	70,541,546
UNCDF Fund	664,670	-	-	-	664,670
Kuwait special fund	2,195,258	28,582,658	-	-	30,777,916
Total financial liabilities	**30,671,129**	**102,393,292**	**18,513**	**22,542**	**133,105,476**
Net currency position	**307,318,698**	**6,284,862**	**(18,513)**	**(20,098)**	**313,564,949**
31 December 2018					
Total financial assets	223,884,467	102,261,830	48,211	-	326,194,508
Total financial liabilities	23,884,895	89,008,692	-	-	112,893,587
Net currency position	**199,999,572**	**13,253,138**	**48,211**	**-**	**213,300,921**

ii. Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks.

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

At the reporting date, the exposure to equity securities at fair value was Ushs 127 million. An increase and a decrease of 10% in the share prices could have the following impact on the statement of comprehensive income:

	Change	Effect on profit before tax	
	Year-end share price	2019	2018
		Ushs'000	Ushs'000
KENGEN	+10%	132	163
Uganda Clays Ltd	+10%	9,640	19,280
The New Vision Ltd	+10%	2,962	3,318
KENGEN	-10%	(132)	(163)
Uganda Clays Ltd	-10%	(9,640)	(19,280)
The New Vision Ltd	-10%	(2,962)	(3,318)

iii. Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counter-parties repay or request repayment earlier or later than expected.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms.

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

The Bank maintains adequate resources to meet its obligations.

Source of funding

The Bank maintains a diversified and stable funding base comprising from Development partners. The Bank also obtains periodic funding from the Government of Uganda.

Management of the liquidity risk

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

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

(c) Liquidity risk (Continued)

	Up to 1 month Ushs '000	1-3months Ushs '000	3-6months Ushs '000	6- 12months Ushs '000	1-3yrs Ushs '000	3-5yrs Ushs '000	Over 5yrs Ushs '000	Contractual cashflows Ushs '000	Carrying Amount Ushs'000
31 December 2019									
Financial assets									
Cash and cash equivalents	21,689,075	-	-	-	-	-	-	21,689,075	21,689,075
Deposits held in banks	81,458,271	-	-	-	-	-	-	81,458,271	81,458,271
Loans and advances	-	2,560,844	22,032,902	10,303,350	12,155,579	59,812,076	247,906,143	354,770,894	334,414,806
Staff loans and advances	-	4,664	4,800	668,254	53,980	406,006	5,811,463	6,949,167	6,733,535
Total financial assets	**103,147,346**	**2,565,508**	**22,037,702**	**10,971,604**	**12,209,559**	**60,218,082**	**253,717,606**	**464,867,407**	**444,295,687**
Financial liabilities									
Amounts due to Bank of Uganda	1,414,938	-	2,092,017	2,986,888	2,092,017	4,184,035	3,247,797	16,017,692	16,017,692
Other liabilities	821,107	322,966	2,219,941	3,196,404	6,783,794	135,174	761,055	14,240,441	15,103,652
Borrowings	335,962	3,197,428	-	3,197,428	8,725,966	38,824,128	16,260,634	70,541,546	70,541,546
UNCDF Fund	-	-	-	-	-	-	664,670	664,670	664,670
Kuwait special fund	-	-	-	-	-	-	30,777,916	30,777,916	30,777,916
Total financial liabilities	**2,572,007**	**3,520,394**	**4,311,958**	**9,380,720**	**17,601,777**	**43,143,337**	**51,712,072**	**132,242,265**	**133,105,476**
Net liquidity gap	**100,575,339**	**(954,886)**	**17,725,744**	**1,590,884**	**(5,392,218)**	**17,074,745**	**202,005,534**	**332,625,142**	**311,190,211**
31 December 2018									
Total financial assets	50,748,555	9,075,552	15,669,341	14,637,673	95,503,474	90,513,021	187,197,299	463,344,915	323,468,917
Total financial liabilities	11,696,872	156,339	266,949	16,713,437	7,855,619	8,032,108	73,459,670	118,180,994	112,893,586
Net liquidity gap	**39,051,683**	**8,919,213**	**15,402,392**	**(2,075,764)**	**87,647,855**	**82,480,913**	**113,737,629**	**345,163,921**	**210,575,331**

6. Use of Estimates and Judgements

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2019 is set out below:

Recognition and measurement of provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of an amount can be made. The Bank's contingent liabilities have been disclosed in Note 36 of the financial statements.

Impairment of loans and advances

Assets accounted for at amortised cost are evaluated for impairment on the basis described in note 4 (d).

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

— financial assets that are debt instruments and;

— Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

— debt investment securities that are determined to have low credit risk at the reporting date; and

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

Useful life of property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors.

Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Revaluation of buildings

The freehold land and buildings categories of property and equipment are measured at revalued amounts. The fair value is determined based on the cost of equivalent properties obtained by summing up all the components of the building structure and other improvements.

Going concern

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

Valuation of the investment property and property and equipment

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

During the year ended 31 December 2019, the Bank engaged an independent valuation specialist to determine the fair value of its investment property. Land and Buildings have not been revalued during the year. The carrying amounts of investment property and plant, property and equipment are disclosed in notes 22 and 23 to the financial statements.

7. Fair Value Measurement

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

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

Valuation models

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

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

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

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

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

Fair value hierarchy

31 December 2019	Date of valuation	Quoted prices in active markets (Level 1) Ushs '000	Significant observable inputs (Level 2) Ushs '000	Significant unobservable inputs (Level 3) Ushs '000
Assets measured at fair value				
Equity investments	31 Dec 2019	127,336	-	-
Investment property	31 Dec 2019	-	31,473,000	-
Leasehold land	31 Dec 2018	-		2,155,000
Buildings	31 Dec 2018	-		1,703,234
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	334,414,806	-
Staff loans and advances		-	3,891,810	-
Amounts due to Bank of Uganda		-	16,017,692	-
Kuwait Special Fund		-	30,777,916	-
UNCDF Fund			664,670	
Borrowings		-	70,541,546	-

Fair value hierarchy

31 December 2018	Date of valuation	Quoted prices in active markets (Level 1) Ushs '000	Significant observable inputs (Level 2) Ushs '000	Significant unobservable inputs (Level 3) Ushs '000
Assets measured at fair value				
Equity investments	31 Dec 2018	225,752	-	-
Investment property	31 Dec 2018	-	34,796,000	-
Leasehold land	31 Dec 2018	-		2,155,000
Buildings	31 Dec 2018	-		1,703,234
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	296,457,410	-
Staff loans and advances		-	4,599,240	-
Amounts due to Bank of Uganda		-	9,953,765	-
Kuwait Special Fund		-	32,422,904	-
Borrowings		-	61,583,636	-

There were no transfers between level 1 and level 2 during 2019 or 2018.

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

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

Other fair value related disclosures for assets that are measured at fair value are in Notes 19, 22 and 23.

The following methods and assumptions were used to estimate the fair values:

- The fair values of the quoted equity investments are based on price quotations at the reporting date.
- The fair value of the investment property has been estimated using the depreciated replacement value of a similar storied building. The valuation requires management to make certain assumptions such as building costs in the country, the high values of prime land around the Central Business area in the city and the subsequent high rentals in the locality.
- The fair value of the Bank's leasehold land and buildings was estimated based on the replacement and depreciated replacement values of similar assets within the same locality.

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

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

	31 December 2019		31 December 2018	
	Carrying amount Ushs '000	Fair value Ushs '000	Carrying amount Ushs '000	Fair value Ushs '000
Assets				
Financial assets				
Cash and cash equivalents	21,689,075	21,689,075	30,694,491	30,694,491
Deposits held in banks	81,458,271	81,458,271	13,688,375	13,688,375
Equity investments at fair value	127,336	127,336	225,752	225,752
Loans and advances	334,414,806	334,414,806	276,693,583	296,457,410
Staff loans and advances	3,891,810	3,891,810	2,392,468	4,599,240
Other assets	5,216,463	5,216,463	-	-
Total financial assets	**446,797,761**	**446,797,761**	**323,694,669**	**345,665,268**
Financial liabilities				
Amounts due to Bank of Uganda	16,017,692	16,017,692	9,290,181	9,953,765
Borrowings	70,541,546	70,541,546	57,478,060	61,583,636
Kuwait Special Fund	30,777,916	30,777,916	30,261,377	32,422,904
UNCDF Fund	664,670	664,670		
Other liabilities	15,103,652	15,103,652	15,863,968	15,863,968
Total financial liabilities	**133,105,476**	**133,105,476**	**112,893,586**	**119,824,273**

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

i. Loans and advances to customers and staff loans: The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

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

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

	Valuation technique	Significant unobservable inputs	Range (weighted average)	
			2019	2018
Loans and advances	DCF method	WACC	13%	13%
Borrowings and KSF	DCF method	WACC	13%	13%

7(B). Maturity Analysis of Assets and Liabilities

31 December 2019

	Statement of financial position amount	(Current) No more than 12 months after the reporting period	(Non-Current) More than 12 months after the reporting period	(Current + Non-Current) Total
Assets				
Cash and bank balances	21,689,075	21,689,075	-	21,689,075
Deposits held in banks	81,458,271	81,458,271	-	81,458,271
Equity investments at fair value	127,336	127,336	-	127,336
Loans and advances to customers	334,414,806	32,807,365	301,607,441	334,414,806
Staff loans and advances	3,891,810	656,688	3,235,122	3,891,810
Property and equipment	5,089,650	-	5,089,650	5,089,650
Investment Property	31,473,000	-	31,473,000	31,473,000
Current income tax assets	2,181,171	2,181,171	-	2,181,171
Other assets	5,216,463	1,008,600	4,207,863	5,216,463
Intangible assets	823,629	-	823,629	823,629
Total assets	**486,365,211**	**139,928,506**	**346,436,705**	**486,365,211**

	Statement of financial position amount	(Current) No more than 12 months after the reporting period	(Non-Current) More than 12 months after the reporting period	(Current + Non-Current) Total
Liabilities				
Amounts due to Bank of Uganda	16,017,692	6,493,843	9,523,849	16,017,692
Borrowings	70,541,546	6,799,811	63,741,735	70,541,546
Kuwait Special Fund	30,777,916	-	30,777,916	30,777,916
UNCDF Fund	664,670	-	664,670	664,670
Deferred income tax liability	5,776,986	-	5,776,986	5,776,986
Other liabilities	15,103,652	6,560,418	8,543,234	15,103,652
Total liabilities	**138,882,462**	**19,854,072**	**119,028,390**	**138,882,462**

31 December 2018

	Statement of financial position amount	(Current) No more than 12 months after the reporting period	(Non-Current) More than 12 months after the reporting period	(Current + Non-Current) Total
Assets				
Cash and bank balances	30,694,491	30,694,491	-	30,694,491
Deposits held in banks	13,688,375	13,688,375	-	13,688,375
Equity investments at fair value	225,752	225,752	-	225,752
Loans and advances to customers	276,693,583	30,521,111	246,172,472	276,693,583
Staff loans and advances	2,392,468	151,120	2,241,348	2,392,468
Property and equipment	5,218,471	-	5,218,471	5,218,471
Investment Property	34,796,000	-	34,796,000	34,796,000
Current income tax assets	1,243,751	1,243,751		1,243,751
Other assets	4,890,831	2,684,059	2,206,772	4,890,831
Intangible assets	273,803	-	273,803	273,803
Total assets	**370,117,525**	**79,208,659**	**290,908,866**	**370,117,525**

Liabilities				
Amounts due to Bank of Uganda	9,290,164	3,308,182	5,981,999	9,290,181
Borrowings	57,478,060	15,287,072	42,190,988	57,478,060
Kuwait Special Fund	30,261,377	-	30,261,377	30,261,377
Deferred income tax liability	3,612,149	-	3,612,149	3,612,149
Other liabilities	15,863,968	12,412,388	3,451,580	15,863,968
Total liabilities	**116,505,718**	**31,007,642**	**85,498,093**	**116,505,735**

8. Interest And Similar Income

	2019 Ushs'000	2018 Ushs'000
Interest on loans	35,723,443	30,232,426
Loan appraisal fees	1,622,086	1,595,894
Penalty fee income on loans	3,662,085	2,908,902
Interest on deposits held in banks	2,307,562	963,354
Interest on staff loans	505,034	498,243
Gross interest	**43,820,210**	**36,198,819**
Less: Transfers to Kuwait fund (Note 28)		
Interest earned on loans disbursed out of the fund.	(1,798,431)	(735,495)
Interest income	**42,021,779**	**35,463,324**

The transfers to Kuwait fund represent interest income earned from loan facilities disbursed under the Kuwait Special fund and is credited to the Kuwait special fund in accordance with the Grant Agreement.

Included within the various line items under interest income for the year ended 31 December 2019 is a total of Ushs 6.4 billion relating to impaired financial assets.

The interest income reported above relates to financial instruments held at amortised cost only.

9. Interest Expense and Similar Charges

	2019 Ushs'000	2018 Ushs'000
Interest expense	3,104,553	2,217,024

Included within the various line items under interest expense for the year ended 31 December 2019 is interest and amortised commitment fees charged on Badea Original, Badea Trade, Badea Private, IDB and AfDB lines of credit.

10. Net Foreign Exchange (Loss)/Gains

	2019 Ushs'000	2018 Ushs'000
Net realised foreign exchange gains	(1,423,898)	(108,484)
Net unrealised foreign exchange losses	1,497,292	65,414
	73,394	**(43,070)**

The unrealised component of exchange gains arises from translation of foreign denominated transactions and revaluation of US Dollar denominated assets and liabilities to Uganda Shillings as at year end. Financial assets and liabilities denominated in foreign currencies are translated into Uganda Shillings using the rate ruling at the reporting date. The exchange rate for US Dollars to Uganda Shillings as at 31 December 2019 was 1 USD/ Ushs 3,665 (2018: 1 USD/ Ushs 3,710).

11. Other Income

	2019 Ushs'000	2018 Ushs'000
Dividend income	10,595	1,969
Rental income	611,832	2,420,627
Agency fees	931,484	359,553
Other income*	508,783	927,575
	2,062,694	**3,709,724**

*Other income above include loan recoveries and gains on disposal of assets out of property and equipment

.

12. Personnel Expenses

	2019 Ushs'000	2018 Ushs'000
Salaries	8,858,476	7,101,530
Service gratuity	482,800	364,913
NSSF contributions	794,556	659,848
Staff provident fund contributions	540,540	414,801
Staff welfare	699,610	631,079
	11,375,982	**9,172,171**

13. Other Operating Expenses

	2019 Ushs'000	2018 Ushs'000
Administration expenses	2,361,681	3,187,461
Rent, utilities and maintenance costs	853,850	1,551,716
Expense relating to short term leases*	905,212	-
Directors' emoluments	424,747	307,727
Other professional fees	2,800,127	815,146
Business promotions and publicity	533,120	711,576
Travel and subsistence	706,449	806,608
Auditors' remuneration	126,236	135,776
	8,711,422	**7,516,010**

*Expense relating to short term leases comprises the annual rental charge for premises with Pine Investments Limited.

14. Profit Before Tax

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

	2019 Ushs'000	2018 Ushs'000
Depreciation	413,492	292,545
Amortisation of intangible assets	195,154	391,841
Directors' emoluments	424,747	307,727
Auditors' remuneration	126,236	135,776
Net foreign exchange gains	(73,394)	(43,070)
Fair value loss/(gain) on investment property	3,323,000	(1,996,000)

15. Earnings Per Share

	2019	2018
Net profit attributable to ordinary equity holders of the Bank (Ushs)	10,140,259,000	9,486,394,000
Weighted average number of ordinary shares in issue during the year	100,000,000	100,000,000
Basic and diluted earnings per share (Ushs)	**101.40**	**94.86**

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

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

16. Taxation

a. Income tax expense

	2019 Ushs'000	2018 Ushs'000
Current income tax:		
Corporation tax	2,301,307	2,270,434
Rental tax	188,456	693,605
Prior year under/(over) provision corporation tax	590,394	(38,834)
Prior year over provision deferred tax	(7,767)	-
Deferred income tax charge	2,172,604	1,182,198
	5,244,994	**4,107,403**

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

	Rate	2019 Ushs'000	2018 Ushs'000
Profit before income tax		15,385,253	13,593,797
Tax calculated at the statutory rate	30%	4,615,576	4,078,139
Tax effect of:			
Expenses not deductible for tax purposes	0.25%	39,024	68,098
Under/(over) provision in prior year current tax	3.84%	590,394	(38,834)
	34.09%	**5,244,994**	**4,107,403**

b. Income tax recoverable

The movement in income tax recoverable is shown below:

	2019 Ushs'000	2018 Ushs'000
At 1 January	(1,243,751)	(196,722)
Charge for the year	2,489,763	2,964,039
Prior year under/(over) provision	590,394	(38,834)
Tax paid	(4,017,577)	(3,972,234)
At 31 December	**(2,181,171)**	**(1,243,751)**

17. Cash and Cash Equivalents

	2019 Ushs'000	2018 Ushs'000
Short term deposits with financial institutions	21,792,506	30,797,922
ECL allowance	(103,431)	(103,431)
	21,689,075	**30,694,491**

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

18. Deposits held in Banks

	2019 Ushs'000	2018 Ushs'000
Time deposits	81,502,464	13,732,568
ECL allowance	(44,193)	(44,193)
	81,458,271	**13,688,375**

The average effective interest rate was 10.5% for Uganda Shillings denominated investments (2018: 10%) and 1.33% for USD denominated investments (2018: 2.5%).

The maturity analysis of the deposits held in banks is analysed as follows;

	2019 Ushs'000	2018 Ushs'000
Amounts due before three months	28,325,000	3,824,980
Amounts due after three months	53,133,271	9,863,395
	81,458,271	**13,688,375**

19. Equity Investments at Fair Value

	Ordinary Shares	Original Cost Ushs'000	Fair value 2019 Ushs'000	Fair value 2018 Ushs'000
KENGEN	6,431	1,948	1,322	1,625
Uganda Clays Limited	10,147,335	538,036	96,400	192,799
The New Vision Limited	92,674	18,535	29,614	31,328
	10,246,440	**558,519**	**127,336**	**225,752**

Movement in number of shares

	Sector/Industry	At 1 January 2019		At 31 December 2019
		Opening Balance	Purchases /(Sales)	Closing Balance
KENGEN	Electric power	6,431	-	6,431
Uganda Clays Limited	Construction	10,147,335	-	10,147,335
The New Vision Limited	Publishing, Printing, Broadcasting	92,674	-	92,674
		10,246,440	**-**	**10,246,440**

		At 1 January 2018		At 31 December 2018
		Opening Balance	Purchases /(Sales)	Closing Balance
KENGEN	Electric power	6,431	-	6,431
Uganda Clays Limited	Construction	10,147,335	-	10,147,335
The New Vision Limited	Publishing, Printing, Broadcasting	92,674	-	92,674
		10,246,440	**-**	**10,246,440**

Movement in fair value during the year ended 31 December 2019

	2019% in class	2018 % in class	2019% held	2018 % held	Opening Balance Ushs'000	Fair value gain/ (loss) Ushs'000	Closing Balance Ushs'000
KENGEN	1%	1%	0.1%	0.1%	1,625	(303)	1,322
Uganda Clays Limited	85%	85%	1.1%	1.1%	192,799	(96,399)	96,400
The New Vision Limited	14%	14%	0.1%	0.1%	31,328	(1,714)	29,614
					225,752	**(98,416)**	**127,336**

Movement in fair value during the year ended 31 December 2018

	2018 % in class	2017 % in class	2018 % held	2017 % held	Opening Balance Ushs'000	Fair value Loss Ushs'000	Closing Balance Ushs'000
KENGEN	1%	1%	0.1%	0.1%	1,926	(301)	1,625
Uganda Clays Limited	85%	85%	1.1%	1.1%	294,273	(101,474)	192,799
The New Vision Limited	14%	14%	0.1%	0.1%	47,726	(16,398)	31,328
					343,925	**(118,173)**	**225,752**

Price per share

Movement in price per share	2019 Ushs Closing	2018 Ushs Closing
KENGEN	205.52	252.40
Uganda Clays Limited	9.5	19
The New Vision Limited	319.56	338

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

20. Loans and Advances

(a) Products

	2019 Ushs'000	2018 Ushs'000
Long term loans	142,325,396	124,961,789
Medium term loans	143,680,471	64,830,125
Trade finance loans	29,248,635	47,297,271
Working capital loans	39,541,736	72,535,444
Gross advances	**354,796,238**	**309,624,629**
Less:		
Expected credit loss allowance 20(d)	(20,381,432)	(32,931,046)
	334,414,806	**276,693,583**

All loans and advances above are held at amortised cost;

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

	2019 Ushs'000	2018 Ushs'000
Less than one year	27,613,510	28,313,019
1- 5 years	72,851,895	134,511,497
Over 5 years	233,949,401	113,869,067
	334,414,806	**276,693,583**

(c) Gross loans to customers by sector composition:

SECTOR	EXPOSURE			
	2019		2018	
	Ushs'000	%age	Ushs'000	%age
Agro-Processing	104,997,304	30%	98,356,212	32%
Education Services	11,678,916	3%	10,767,535	3%
Health Care Services	6,997,871	2%	7,659,447	2%
Infrastructure	23,800,957	7%	25,223,353	8%
Manufacturing	109,443,515	31%	93,944,936	30%
Minerals, Oil & Gas	6,419,776	2%	5,506,375	2%
Primary Agriculture	46,795,925	13%	33,748,083	11%
Tourism & Hospitality	10,743,711	3%	7,986,169	3%
Others - Building, Construction and Real Estate	33,918,263	10%	26,432,519	9%
Grand total	**354,796,238**	**100%**	**309,624,629**	**100%**

The weighted effective interest rate on loans at 31 December 2019 was 7.88% (2018: 8.47%) for USD and 12.20% (2018: 12.26%) for Ushs.

(d) Movement in provision for impaired loans and advances

	2019	2018
	Ushs'000	Ushs'000
At 01 January	32,931,046	18,370,605
Adjustment on initial application of IFRS 9, inclusive of taxes	-	12,791,496
Restated opening provision	**32,931,046**	**31,162,101**
Additional provisions raised during the year	1,339,977	6,481,402
Recoveries and provisions no longer required	-	-
Written off during the year	(13,889,591)	(4,712,457)
	20,381,432	**32,931,046**

(e) Net impairment loss on financial instruments

	2019	2018
	Ushs'000	Ushs'000
Additional provisions during the year	1,339,977	6,481,402
Provisions on off balance sheet items (Note 30)	(106,972)	970,169
Provisions for low credit risk financial assets	-	39,153
Recoveries and provisions no longer required	-	-
Provision/(Recoveries) for staff loans (Note 21(c))	75,354	(550,526)
Direct write offs	95,448	970,360
Profit and loss effect	**1,403,807**	**7,910,558**

(f) Impairment and provisioning policies

The Bank recognizes the allowance for expected credit losses on all loans and advances.

The Bank at each reporting date, measures the loss allowance for all loans and advances at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

Measurement of Expected Credit Losses

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

(g) Impairment and provisioning policies

The expected credit losses shall be determined as follows:

ECL = PD x LGD x EAD x df.

Expected Credit Losses (ECL; The weighted average of credit losses with the respective risks of a default occurring as the weights.

Probability of Default (PD); This relates an estimate of the likelihood of default over a given time horizon.

Loss Given Default (LGD); This relates to an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

Exposure at Default (EAD); This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Discount Rate (df); This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition.

Further details on how the above parameters are determined are well stipulated in the Bank's loss provisioning process.

Loans and advances are categorized into the following grades:

Status	Days in arrears	Loan category
Stage 1	0-29	Performing
Stage 2	30- 89	Performing with significant increase in credit risk
Stage 3:	Over 90	Non-performing

Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. As an internal requirement, the forced sale value of the collateral security is over and above the amounts of loans and advances disbursed. The forced sale value of the collateral held by the Bank for stage 3 facilities was Ushs 743 billion as at 31 December 2019 (2018: Ushs 754 billion).

21. Staff Loans and Advances

(a) Staff loans and advances

	2019 Ushs'000	2018 Ushs'000
Staff loans	6,949,167	5,407,319
Provision for impairment	(215,632)	(808,079)
Discount on staff loans marked to market	(2,841,725)	(2,206,772)
	3,891,810	**2,392,468**

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

	2019 Ushs'000	2018 Ushs'000
Within three months	-	-
Between three and six months	-	-
Over six months	3,891,810	2,392,468
	3,891,810	**2,392,468**

Staff loans and advances are categorised as staff advances, staff personal loans and staff housing loans. Staff advances and staff personal loans are unsecured and guaranteed by future staff salaries from the Bank. The weighted effective interest rate on loans at 31 December 2019 was 8% (2018: 8%).

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

	2019 Ushs'000	2018 Ushs'000
At 1 January	808,079	1,293,673
Adjustment on initial application of IFRS9	-	463,145
Restated balance as at 1 January	**808,079**	**1,756,818**
Additional provisions raised during the year	75,354	-
Recoveries and provisions no longer required	-	(550,526)
Loan write- offs	(667,801)	(398,213)
As at 31 December	**215,632**	**808,079**

22. Investment Property

	2019 Ushs'000	2018 Ushs'000
At 1 January	34,796,000	32,800,000
Fair value (loss)/ gain on investment property	(3,323,000)	1,996,000
At 31 December	**31,473,000**	**34,796,000**

The value of the Bank's investment property, commercial towers, on Plot 22 Hannington Road, Kampala at 31 December 2019 has been arrived at on the basis of a valuation carried out as at 31 December 2019 by Reitis Limited (Chartered Surveyors), independent professional valuers that are not related to the Bank. Reitis Limited are members of the Uganda Institute of Professional Engineers, Land/Quantity Surveyors.

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

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

During the year ended 31 December 2019, the following amounts were recognised in the Bank's profit or loss:

Other income	**2019** **Ushs'000**	**2018** **Ushs'000**
Rental Income	611,832	2,420,627
Fair value (loss)/ gain on investment property	(3,323,000)	1,996,000
	(2,711,168)	**4,416,627**

Other operating costs	**2019** **Ushs'000**	**2018** **Ushs'000**
Property rates	62,589	54,258
Maintenance costs	81,185	54,357
	143,774	**108,615**

23. Property and Equipment

	Freehold Land Ushs'000	Buildings Ushs'000	Furniture and fittings Ushs'000	Motor Vehicles Ushs'000	Computers Ushs'000	Total Ushs'000
COST/VALUATION						
At 1 January 2018	1,208,000	1,352,000	418,086	440,207	525,636	3,943,929
Additions	-	-	311,049	950,530	150,751	1,412,330
Revaluation gains	947,000	351,234	-	-	-	1,298,234
Disposals	-	-	(49,965)	(344,412)	-	(394,377)
At 31 December 2018	**2,155,000**	**1,703,234**	**679,170**	**1,046,325**	**676,387**	**6,260,116**
Additions	-	-	32,906	-	254,796	287,702
Disposals	-	-	(27,716)	-	(23,925)	(51,641)
Reclassifications	-	-	(8,600)	-	8,600	-
At 31 December 2019	**2,155,000**	**1,703,234**	**675,760**	**1,046,325**	**915,858**	**6,496,177**
DEPRECIATION						
At 1 January 2018	**-**	**81,120**	**289,046**	**440,207**	**333,104**	**1,143,477**
Charge for the year	-	27,040	56,998	89,874	118,633	292,545
Write off	-	-	(49,965)	(344,412)	-	(394,377)
At 31 December 2018	**-**	**108,160**	**296,079**	**185,669**	**451,737**	**1,041,645**
Charge for the year	-	27,040	68,137	190,106	128,009	413,292
Reclassifications			(206)		406	200
Disposals	-	-	(24,685)	-	(23,925)	(48,610)
At 31 December 2019	**-**	**135,200**	**339,325**	**375,775**	**556,227**	**1,406,527**
NET CARRYING AMOUNT						
At 31 December 2019	**2,155,000**	**1,568,034**	**336,435**	**670,550**	**359,631**	**5,089,650**
At 31 December 2018	**2,155,000**	**1,595,074**	**383,091**	**860,656**	**224,650**	**5,218,471**

23. Property and Equipment (Continued)

The valuation of the Bank's Land and Buildings was based on the open market value of the assets as at 31 December 2019. The revaluation is carried out every after 3 years and was last done for the year ended 31 December 2018 by East African Consulting Surveyors and Valuers- EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank. The revaluation surplus on land and buildings was recognised in other comprehensive income and credited to asset revaluation reserve in equity and is not available for distribution to the shareholders. The portion of the revaluation loss on freehold land which did not relate to a previously recognised revaluation gain, was debited to profit or loss in the year it was realised.

Had the assets been carried under the cost model, the carrying amount of the freehold land would be Ushs 1,270 million and that of the buildings, Ushs 867 million. This is disclosed below;

	Freehold Land Shs'000	Buildings Shs'000
Cost	1,270,000	950,000
Accumulated depreciation	-	(82,400)
Net book amount	**1,270,000**	**867,600**

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

Range of estimated value of buildings	Ushs 23 billion to Ushs 34.3 billion
Estimated value of bare land (1.272 acres)	Ushs 2.15 billion

24. Intangible Assets

Cost	2019 Ushs'000	2018 Ushs'000
At 1 January	1,950,843	1,924,122
Additions	744,981	26,721
At 31 December	**2,695,824**	**1,950,843**
Amortisation		
At 1 January	1,677,040	1,285,200
Charge for the year	195,155	391,840
At 31 December	**1,872,195**	**1,677,040**
Net carrying amount		
At 31 December	**823,629**	**273,803**

Intangible assets comprise the initial cost of the core banking system Rubikon and other software.

25. Other Assets

	2019 Ushs'000	2018 Ushs'000
Prepayments	809,861	467,644
Security deposits**	198,739	198,739
Other debtors*	1,366,138	2,017,677
Prepayment on staff loans marked to market	2,841,725	2,206,771
	5,216,463	**4,890,831**

*The other debtors balance included deposits for un matured letters of credit amounting to Ushs 1.92 billion issued by the Bank on behalf of their customers as at 31 December 2018. There were no such deposits as at 31 December 2019.

**Security deposits include a deposit to registrar of the high court in respect to UDBL vs KAI Limited case amounting to Ushs 164 million.

The fair value of other assets approximates the carrying amount.

26. Amounts due to Bank of Uganda

	2019 Ushs'000	2018 Ushs'000
At 1 January	9,290,181	13,055,418
Drawn down during the year	9,791,072	1,961,605
Repayments during the year	(3,063,561)	(5,726,842)
	6,727,511	(3,765,237)
At 31 December	**16,017,692**	**9,290,181**

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

27. Borrowings

	2019 Ushs'000	2018 Ushs'000
Arab Bank for Economic Development in Africa (BADEA Loan 0632)	14,265,005	15,619,780
Arab Bank for Economic Development in Africa (BADEA Trade Finance)	406,725	12,962,628
Arab Bank for Economic Development in Africa (BADEA Private sector)	21,019,081	21,945,133
Islamic Development Bank (IDB)	7,465,463	6,950,519
African Development Bank (AfDB)	27,385,272	-
	70,541,546	**57,478,060**

The movements in borrowings were as follows:

	2019 Ushs'000	2018 Ushs'000
Balance as at 1 January	57,478,060	36,143,511
Drawdowns during the year	38,807,670	35,970,862
Interest charge	3,104,553	2,217,024
Repayments during the year	(25,425,260)	(14,622,944)
Foreign exchange gains	(3,423,477)	(2,230,393)
	70,541,546	**57,478,060**

i. BADEA Loan

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

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

As at 31 December 2019, USD 4,336,535 had been disbursed from the loan account.

ii. BADEA Loan Trade Finance

This represents a US Dollars 10,000,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to Uganda Development Bank with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between Badea and Republic of Uganda dated 13th February 2018. The loan is to be used exclusively to finance import transactions from Arab Countries to UDBL's eligible clients in the Republic of Uganda.

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

As at 31 December 2019, the entire loan amount had been disbursed from the loan account (2018; USD 8,316,534).

iii. BADEA Loan Private sector

This represents a US Dollars 6,000,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to Uganda

Development Bank with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between Badea and Republic of Uganda dated 13th February 2018. The loan is to be used solely for financing expenditures and permanent working capital of UDBL's eligible clients in the Republic of Uganda. The loan is repayable in 16 semi-annual instalments after a 2 year grace period.

Interest is payable on the interest payment date, to BADEA on the amount disbursed and outstanding from time to time during each interest period, at a rate of 6 months USD LIBOR or its successor rate, plus 425 basis points.

As at 31 December 2019, USD 5,999,900 had been disbursed from the loan account (2018; USD 5,781,814).

iv. Islamic Development Bank (IDB)

This represents an asset line of financing equivalent US Dollars 10,000,000 loan from the Islamic Development Bank to Uganda Development Bank Limited on with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between Islamic Development Bank and Republic of Uganda dated 18th May 2018.

For each transaction, the sale price shall be determined on the basis of the capital cost plus a mark-up of the US dollar swap rate prevailing at the time corresponding to the capital amortization period plus 135 basis points (One Hundred Thirty Five basis points) per annum. The sale price shall be paid to the Bank within a period of up to 8 (Eight) years including a gestation period not exceeding 2 (Two) years calculated from the date of first disbursement for that transaction.

The Bank had utilized USD 2,450,000 by 31st December 2019.

v. African Development Bank (AfDB) USD 15M LINE OF CREDIT

This represents a US dollar 15,000,000 line of Credit from African Development Bank extended to Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the Ministry of Finance. The agreement for the line of Credit was signed on 22nd May 2019.

Interest is payable on the amount disbursed and outstanding from time to time during each interest period, at the LIBOR rate two (2) business days prior to the commencement of the relevant Interest Period plus a rate of eighty (80) basis points per annum.

UDBL is required to repay the Line of Credit in full over a period of eight (8) years after the expiration of the two-year Grace Period by means of sixteen (16) equal and consecutive semi-annual instalments payable on each Payment Date. The first of such instalments are payable on the first Payment Date which immediately follows the expiration of the Grace Period. It should be noted that UDBL cannot re-borrow from AfDB amounts repaid under the loan agreement.

As at 31 December 2019, USD 7,430,095 had been disbursed from the loan account.

The fair values of the borrowings above approximate the carrying amounts.

28. Kuwait Special Fund

	2019 Ushs'000	2018 Ushs'000
Balance as at 1 January	30,261,377	29,339,519
Agency costs	(931,484)	(359,553)
Interest on loans disbursed out of the fund	1,798,431	735,495
Effect of foreign exchange movements	(350,408)	545,916
	516,539	921,858
Balance as at 31 December	**30,777,916**	**30,261,377**

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

The purpose of the fund is to finance farming and lending to small and micro business activities for the production of food and provision of related support services, including, without being limited to, food processing, storage and marketing. The Bank has treated the grant as a liability as it represents funds managed in trust on behalf of the Government of Uganda. The weighted effective interest rate on loans disbursed as at 31 December 2019 was 10% (2018: 8.47%).

The fair value of the Kuwait special fund approximates the carrying amount.

29. UNCDF Fund (UN Capital Development Fund)

	2019 Ushs'000	2018 Ushs'000
Balance as at 1 January	-	-
Drawn down during the year	664,057	-
Agency costs	(537)	-
Interest on loans disbursed out of the fund	1,150	-
Balance as at 31 December 2019	**664,670**	**-**

UDBL signed a memorandum of Understanding with UNCDF which defines the conditions for the establishment, financing and management of disbursements to UDBL for the Support to Agricultural Revitalization and Transformation (START) facility through concessional loans, including, inter alia, conditions pertaining to financial control, reporting and auditing arrangements. The maximum contribution of UNCDF to START concessional loan is up to EUR 2,000,000 (Two million Euros) for a period of four years. The annual instalments are EUR 500,000 (Five hundred thousand Euros) per year based on the successful projects financed.

The beneficiaries of loans from the line of credit should be small and medium enterprises (SMEs) i.e. enterprises that employ between 5 to 100 employees with total assets between Ush 10 million but not exceeding 360 million. Loans from the line of credit to beneficiaries must not exceed EUR 100,000.

As per MOU, UDBL may charge 1 % p.a. as Agency Fees on the outstanding loan book in addition to 3.8% p.a. as Administrative Fees on the outstanding loan book. The fees are computed and charged on a monthly basis. The facilities from the line of credit are charged interest at a minimum rate of 10% p.a. and a maximum of 12% p.a.

UDBL is then required to capitalise amounts of interest over and above the agency and administrative fees.

As at 31 December 2019, Ush 664,057,420 had been disbursed from the fund.

The fair value of the UNCDF fund approximates the carrying amount.

30. Deferred Income Tax Liability

Deferred income tax is calculated in full, on all temporary differences under the liability method using a principal tax rate of 30% (2018: 30%). The movement in the deferred income tax liability is detailed below:

	2019 Ushs'000	2018 Ushs'000
At the start of the year	3,612,149	6,016,873
Tax impact on IFRS 9 transition adjustment	-	(3,976,392)
Restated balance as at 1 January 2019	3,612,149	2,040,481
Deferred tax charge to profit or loss	2,164,837	1,182,198
Deferred tax to other comprehensive income	-	389,470
At the end of the year	**5,776,986**	**3,612,149**

Year ended 31 December 2019

	*At 1 January 2019 Ushs'000	Charge/ (credit) to profit or loss Ushs'000	Charge/ (credit) to OCI Ushs'000	At 31 December 2019 Ushs'000
Deferred income tax liabilities/ (assets)				
Accelerated depreciation	173,909	68,516	-	242,425
Provisions and unrealised losses	(4,956,291)	3,093,221	-	(1,863,070)
Revaluation of property and equipment	389,470	-	-	389,470
Fair value gain on investment property	8,005,061	(996,900)	-	7,008,161
Net deferred income tax liability	**3,612,149**	**2,164,837**	**-**	**5,776,986**

*The balance at 1 January 2019 included the effect of initially applying IFRS 9.

Year ended 31 December 2018

	*At 1 January 2018 Ushs'000	Charge/ (credit) to profit or loss Ushs'000	Charge/ (credit) to OCI Ushs'000	At 31 December 2018 Ushs'000
Deferred income tax liabilities/ (assets)				
Accelerated depreciation	143,276	30,633	-	173,909
Provisions and unrealised losses	(5,509,056)	552,765	-	(4,956,291)
Revaluation of property and equipment	-	-	389,470	389,470
Fair value gain on investment property	7,406,261	598,800	-	8,005,061
Net deferred income tax liability	**2,040,481**	**1,182,198**	**389,470**	**3,612,149**

31. Other Liabilities

	2019 Ushs'000	2018 Ushs'000
Accrual and other liabilities	4,601,944	8,703,837
Deferred arrangement fees	3,464,534	3,451,580
Expected credit loss provision on off balance sheet items	863,197	970,169
Staff gratuity	140,381	130,358
Other creditors*	6,033,596	2,608,024
	15,103,652	**15,863,968**

*The other creditors balance includes suspense account, trade creditors, advance rental income and accrual of India exim commitment fees payable for the quarter ended 31 December 2019.

Staff gratuity

This represents outstanding/unpaid gratuity for employees on contract. The year-end accrual represents gratuity due to employees on contract at a rate of 25% (2018: 25%) of their annual gross salary.

Movement in Provisions during the year;

Description	I January 2019 Ushs'000	Movement Ushs'000	31 December 2019 Ushs'000
Staff gratuity	130,358	10,023	140,381
Leave provision	69,200	32,802	102,002
Total	**199,558**	**42,825**	**242,383**

32. Share Capital

	2019 Ushs'000	2018 Ushs'000
Authorised:		
At 1 January	100,000,000	100,000,000
400 million Ordinary Shares of Ushs 1,000 each	400,000,000	-
At 31 December	**500,000,000**	**100,000,000**
Issued and fully paid up:		
At 1 January	100,000,000	100,000,000
Issue of shares	-	-
At 31 December	**100,000,000**	**100,000,000**

The Bank's authorised share capital is Ushs 500 billion (2018: Ushs 100 billion) divided into 500 million shares of Ushs 1,000 each. As at 31 December 2019, the Bank had issued 100 million shares (2018: 100 million). All issued shares are fully paid up.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and other general meetings of the company.

33. Government of Uganda Capital Contributions

	2019 Ushs'000	2018 Ushs'000
At 1 January	100,171,606	52,017,077
Contributions during the year	87,730,700	48,154,529
Registration fees for 400m additional shares	(4,000,000)	-
At 31 December	**183,902,306**	**100,171,606**

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

34. Asset Revaluation Reserve

	2019 UShs '000	2018 UShs '000
At 1 January	1,203,464	294,700
Revaluation surplus arising during the year	-	1,298,234
Deferred tax arising on revaluation	-	(389,470)
As at 31 December	**1,203,464**	**1,203,464**

A revaluation of the freehold land and Buildings asset categories is performed every after 3 years.The last revaluation was done for the year ended 31 December 2018. The revaluation was carried out by a professional valuer by the names of East African Consulting Surveyors and Valuers- EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank.

The freehold land and buildings were revalued on the basis of depreciated replacement cost reflecting prevailing market conditions at the time of valuation.

35. Commitments

Loan Commitments

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

	2019 Ushs'000	2018 Ushs'000
Loans approved but not disbursed at year end	191,474,787	170,273,109

36. Contingent Liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, the Bank is involved in various litigation, arbitration and regulatory proceedings in Uganda in the ordinary course of its business. The Bank has formal controls and policies for managing legal claims. Based on professional legal advice, the Bank provides and/or discloses amounts in accordance with its accounting policies described in Note n. At year end, the Bank had several unresolved legal claims. The Bank's legal advisors' opinion is that it is possible, but not probable, that the court ruling may be in favour of Plaintiff. Accordingly, no provision for any claims has been made in these financial statements. The possible outflow which could result from such litigation, based on the current status of the legal proceedings, is estimated to be no more than 6 billion (2018: Ushs 3,956 million), while the timing of the outflow is uncertain.

37. Assets Pledged As Security

As at 31 December 2019, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

38. Related Party Transactions

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

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

	2019 Ushs'000	2018 Ushs'000
GoU capital contributions (note 33)	83,730,700	48,154,529
Staff loans: interest earned	505,034	498,056
Staff loans: repayments	889,807	2,497,624
Staff loans: disbursements	3,099,143	2,094,518
Outstanding balances		
Staff loans (note 21)	3,891,810	2,392,468
Key management compensation		
Salaries	1,809,735	1,215,274
NSSF Company contributions	226,217	135,193
Service gratuity	579,115	388,888
	2,615,067	1,739,355
Directors' remuneration	**424,747**	**307,727**

39. Capital Management

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

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

	2019 Ushs '000	2018 Ushs '000
Issued capital	100,000,000	100,000,000
Asset revaluation reserve	1,203,464	1,203,464
GOU capital contribution	183,902,306	100,171,606
Retained earnings	62,376,979	52,236,720
	347,482,749	**253,611,790**

During the year, the Bank got additional capital contributions from Government of Uganda of Ushs 83,730,700 (2018: Ushs 48,154,529).

40. Net Cashflows from Operating Activities

OPERATING ACTIVITIES	2019 Ushs '000	2018 Ushs '000
Profit before taxation	15,385,253	13,593,797
Adjustments for:		
Unrealised foreign exchange gain on borrowings	(3,423,477)	(2,230,393)
Depreciation	413,492	292,545
Amortisation of intangible assets	195,155	391,840
Gain on disposal of fixed assets	3,032	(130,084)
Impairment loss on financial assets	1,301,478	7,910,558
Net unrealised exchange losses/(gains)	73,394	(43,070)
Fair value loss/(gain) on Investment properties	3,323,000	(1,996,000)
Fair value loss on equity investments	98,416	118,173
Interest expense on borrowings	3,104,553	2,217,024
Operating profit before changes in operating assets and liabilities	**20,474,296**	**20,124,390**

41. Analysis of Changes in Financing during the Year

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Borrowings	Amounts due to Bank of Uganda	Contribution from Government of Uganda	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
31 December 2019				
Balance as at I January 2019	57,478,060	9,290,181	100,171,606	166,939,847
Changes in financing cash flows				
Proceeds from Debt	38,807,670	9,791,072	83,730,700	132,329,442
Repayments of Debt	(25,425,260)	(3,063,561)	-	(28,488,821)
Total changes from financing cash flows	**13,382,410**	**6,727,511**	**83,730,700**	**103,840,621**
Other changes				
Interest expense	3,104,553	-	-	3,104,553
Foreign exchange losses	(3,423,477)	-	-	(3,423,477)
Total liability related other changes	**(318,924)**	**-**	**-**	**(318,924)**
Balance as at 31 December 2019	**70,541,546**	**16,017,692**	**183,902,306**	**270,461,544**
31 December 2018				
Balance as at I January 2018	36,143,511	13,055,418	52,017,077	101,216,006
Changes in financing cash flows				
Proceeds from Debt	35,970,862	1,961,605	48,154,529	86,086,996
Repayments of Debt	(14,622,944)	(5,726,842)	-	(20,349,786)
Total changes from financing cash flows	**21,347,918**	**(3,765,237)**	**48,154,529**	**65,737,210**
Other changes				
Interest expense	2,217,024	-	-	2,217,024
Foreign exchange losses	(2,230,393)	-	-	(2,230,393)
Total liability related other changes	**(13,369)**	**-**	**-**	**(13,369)**
Balance as at 31 December 2018	**57,478,060**	**9,290,181**	**100,171,606**	**166,939,846**

42. Retained Earnings

	2019 Ushs '000	2018 Ushs '000
At 1 January	52,236,720	52,137,057
Adjustment on initial application of IFRS 9	-	(9,386,731)
Restated balance at 1 January 2018	52,236,720	42,750,326
Total comprehensive income for the year	10,140,259	9,486,394
At 31 December	**62,376,979**	**52,236,720**

43. Leases

The Bank entered into a commercial lease for premises with Pine Investments Limited which expired on 31 January 2018. The contract was renewed for a further 5 years and will expire on 1 February 2023 with a renewable option. There are no restrictions placed upon the lessee by entering into this lease.

The Bank intends to exit these premises by 31 December 2020 to occupy its own premises at UDB-MTN towers.

The lease payments associated with the short-term lease are as follows:

	2019 Ushs '000	2018 Ushs '000
Within one year	905,212	876,195
	905,212	876,195

44. Events after the Reporting Period

In March 2020, the novel Coronavirus (COVID-19) outbreak was declared by the World Health Organisation to be a pandemic in recognition of its rapid spread across the globe, Uganda inclusive.

The pandemic is having negative economic impact through disruption of business operations, significant increase in economic uncertainty evidenced by more volatile asset prices and currency exchange rates among others. The credit risk is also expected to increase.

In the midst of this great challenge, the Bank made an assessment to provide facts and insights on the current COVID-19 situation to help decision-making. In addition, the assessment set out some of those challenges and how UDBL could respond in order to navigate through an uncertain situation in respect to the investment portfolio.

The bank has analysed its current loan portfolio for the key impacted sectors and notes the following;

— Tourism and hospitality

The Tourism and Hospitality sector would suffer the biggest hit given that the entire portfolio is based on travel especially visiting tourists from Europe, Asia and the United States. The total value of potential impact is Ushs 9.3 Bn for 7 projects in the portfolio with a 2.48% impact on NPL and additional 1.71% on the facilities that are already in NPL in this sector.

— Manufacturing

The logistics industry faces a relative greater impact since unutilized capacity is lost and more acutely affects logistics companies' bottom line. Many container shipping lines have cancelled services and are running fewer ships

Given spread of COVID-19 to new transmissions areas East Asia and the Middle East Asia, the logistics impact on global scale will likely persist for months longer even as the sector recovers in China.

Companies in this sector have been affected from both production and demand side, most factory operations which depend on supply of parts / components from China will face production halts if they have no inventory of parts and components.

The most impact on these facilities in the Bank relate to the nature of the product (Trade finance) and most use raw materials from the middle East resin which are transported by shipping lines from jurisdictions some of which are affected areas.

These projects under manufacturing account for an impact of at least 12.7% of the total portfolio. Currently standing at 2.97% NPL on the loan Book, a potential increase of 9.73%.

— Infrastructure

This sector under the Bank's portfolio will be impacted given the logistical challenges of accessing raw materials.

This sector is potential bound to suffer an impact of Ushs 14.6Bn with a total NPL ratio of 3.84% of the portfolio, should circumstance persist for the next 3 months.

The Bank is seeking to find contingency measures with the clients in respect of access to inputs and related production tools that are sourced through alternative suppliers and that require logistics from non-affected jurisdictions.

The assessment of individual loans will also enable the Bank establish whether or not to stop interest accrual, extend grace period and or have loan schedules stopped from running for those directly affected and that can show proof that the effect is as a direct hit arising from consequences of Coronavirus.

Overall the COVID 19 outbreak subsequent to 31 December 2019 yearend creates uncertainties and an indirect impact on the key inputs used in the ECL calculations especially around macro-economic variables such as GDP, CBR, inflation and foreign exchange. The potential impact of this cannot be reliably estimated and as such financial statements are not adjusted to reflect this impact.

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