2021 ANNUAL REPORT

FACILITATING RECOVERY POST COVID-19

UDB
Inspiring Development

WHATS

INSIDE

UDB
Inspiring Development

DEFINITIONS

VALUE OF OUTPUT:

This is the market value of all goods and services produced by the UDB funded projects during an accounting period..

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 Africa
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


COMPANY
OVERVIEW

WHO WE ARE

UDB IS A KEY PLAYER IN PROMOTING PRIVATE SECTOR DEVELOPMENT

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 MANDATE

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

PURPOSE STATEMENT

"To improve the Quality of Life of Ugandans"

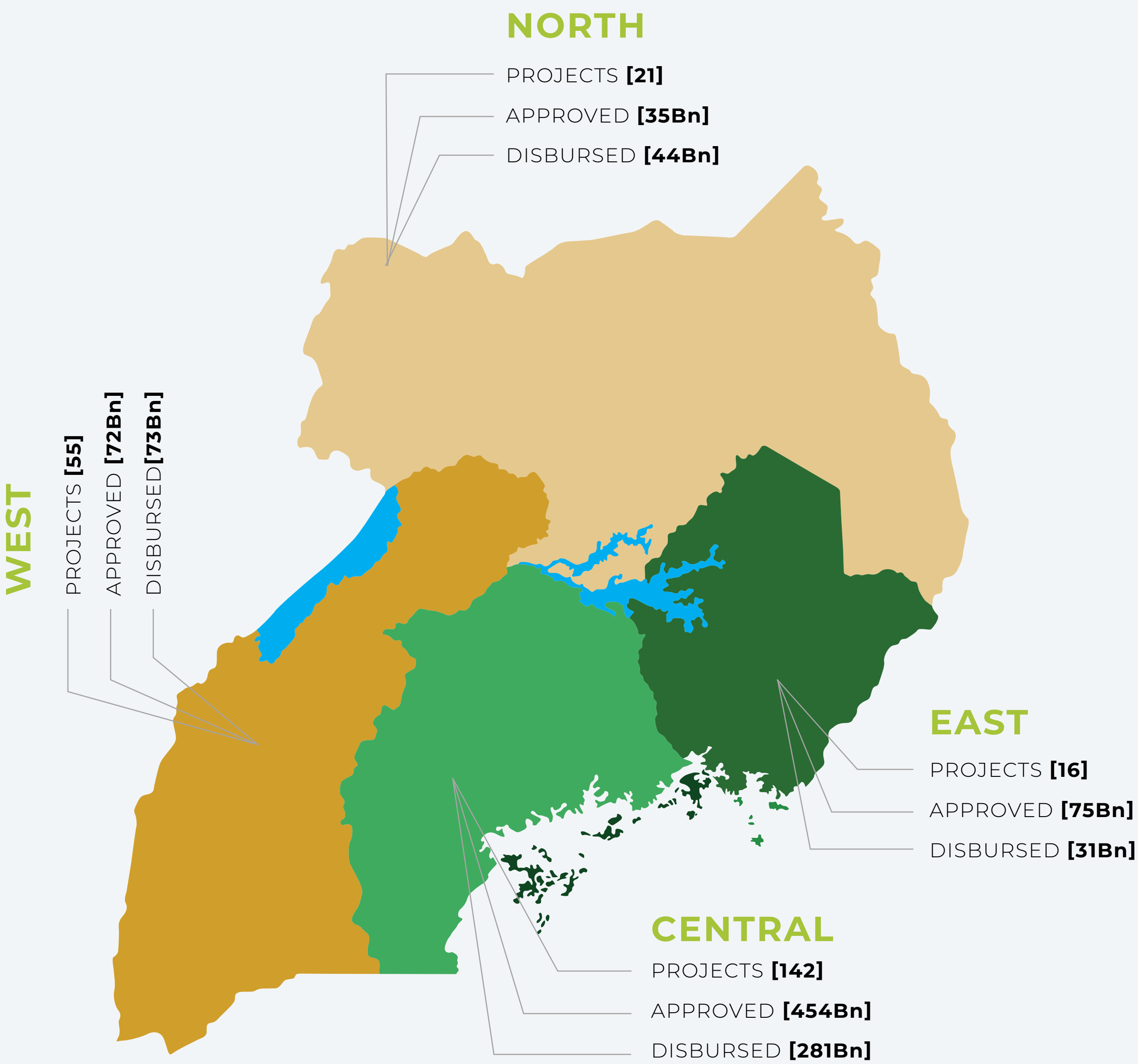
HIGH IMPACT GOALS

Reduce Poverty in Uganda while protecting the natural environment

Build a Sustainable Food System for Uganda

To promote sustainable Industrialization in Uganda

OUR FOOTPRINT



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

PRIORITY SECTORS



AGRICULTURE

The Bank plays a pivotal role in financing the agriculture value chain from Primary Agriculture through to Agro-processing. The Bank finances; acquisition of inputs, improved breeds & crop varieties, improved farm methods e.g. mechanization, irrigation technology and post-harvest handling facilities.

HUMAN CAPITAL DEVELOPMENT

The Bank supports the private sector players engage in health and vocational education services. Interventions include;

Health: Hospital and Health facility construction and expansion, acquisition of specialized medical equipment, waste management and construction of medical training institutions.

Education: vocational school construction and expansion, acquisition of scholastic, laboratory, or other necessary vocational educational equipment.

INDUSTRY

The Bank's aspiration for industrialization is anchored on inspiring structural transformation from subsistence to a commercially oriented economy and from over-reliance on primary agriculture to manufactured finished products.

To achieve the desired key result areas, the Bank invests in priority industries with the highest social-economic impact. These industries are, Agro-based industries, extractive industries such as iron ore & steel, knowledge-intensive industries such as pharmaceuticals and automobiles as well as key enablers including Science, Technology, Innovation, and Industry 4.0.

Interventions for this sector include; Support towards acquisition of equipment, plant and machinery, construction of warehousing & factory premises, working capital facilities among others.

TOURISM AND HOSPITALITY

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

INFRASTRUCTURE

The Bank is developing the capacity to support local or private entities resident in Uganda that are involved in the development of infrastructure projects through project financing, to enable social-economic transformation. Currently, the Bank is supporting local contractors in need of equipment and working capital, local or private entities resident in Uganda that are engaged in increasing power supply or extending electricity access to the local Ugandans through renewable energies such as solar mini-grids and hydro-power. Also, local, or private entities resident in Uganda that is engaged in water for production activities to supply water to farmers or those engaged in livestock activities..

CROSS-CUTTING PRIORITIES

ENVIRONMENTAL AND SOCIAL GOVERNANCE

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

CLIMATE CHANGE

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

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

GENDER (WOMEN AND YOUTH)

The Bank is undertaking a greater contribution to gender opportunity and equity as a basic guiding principle at project acceptance (gender and development) and implementation (gender in development) by evaluating the proportion of women and youth participation for all its development initiatives. Gender issues are fully embedded across the Bank through the adoption of global best practices, improved incentives and recognition. The Bank is implementing a specialized product proposition that aims to increase the participation of women and youth in the development agenda of Uganda.

STAKEHOLDER ENGAGEMENT

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

SMALL & MEDIUM ENTERPRISES (SMEs)

SMEs are a major lever in the economic development of Uganda as they account for morethan 85% of the private sector. Many however, remain informal, have limited opportunities to access to affordable credit and are characterized by a horst of operational constraints and high failure rates. To address these issues, the Bank undertakes interventions, financial and non-financial, to promote the resilience, vibrance and sustainability of SMEs.

MONITORING AND EVALUATION OF OUTCOMES

The Bank has institutionalized Monitoring, Evaluation and Learning (MEL) in its operations. Our MEL approach incorporates the regular collection of data about project activities, and analyzing, measuring and reporting development impact from the inception phase of every project and throughout the project cycle. This framework provides for what, how, when it will be measured and the reporting guidelines. Central to the framework are environmental, social and governance (ESG) criteria, which help in measuring the sustainability and ethical impact of the projects we invest in. The Bank places emphasis on harnessing organizational memory and creating knowledge resources for future use.

INTERVENTIONS

UDB INTERVENTIONS & PRODUCTS

FINANCIAL INTERVENTIONS

Term Loans

These are short, medium to long term facilities. The short term with a tenure of 1 to 3 years is aimed at bridging temporary cashflow deficit. Medium to long term facilities from 4 to 15 years inclusive of 3 years of grace period, used to finance the construction (civil works) and the purchase and installation of plant and machinery. Examples include purchase of plant and equipment for processing, agricultural mechanization, irrigation systems, construction of warehouses and purchase of trucks, among other purposes of a long-term nature.

Equity Investment

This product is specifically designed for promising and innovative entities that require patient capital to scale up, and for which debt finance is either unattainable or not suitable. The Bank invests by taking up shareholding, for a maximum of 10 years, in qualifying entities and divesting after a given time. The entity is allowed to involve other private capital providers where feasible.

NON-FINANCIAL INTERVENTIONS

Business Accelerator for Successful Entrepreneurship

The Bank provides advisory services to clients pertaining to management best practices, good governance, record keeping, financial management etc. based on the Bank's wider knowledge of the business, operating environment, and experience gained from funding, implementing, and monitoring such projects.

Project Preparation

Through this service, the Bank aims to support potentially viable projects and project ideas through the project development cycle from identification, conceptualization, feasibility studies, financial and legal structuring in order to enable projects achieve financial close.

PRODUCTS AND SERVICES

UDB SPECIAL PROGRAMS

Farmer Groups, Cooperative & Associations

The Bank finances small holder farmers organised in groups, cooperatives and associations and usually comprised of more than 20 members involved in production and or agricultural processing. The funds availed may be utilized for all production and agro-processing activities including, purchase of inputs, purchase of improved breeds, purchase of tractors and other machinery, among others.

SME Kazi Loans

This is an intervention to enable access to affordable financing and Business support with the aim of promoting sustainable growth of SMEs and build their resilience against business shocks.

Entity must be a Small or Medium Enterprise 2. Annual Turnover of up to UGX 100M for small enterprises and Medium up to UGX 360M.

Women Prosper Loans

The aim is to increase access to affordable and appropriate financial services for women-owned and women-led businesses as an enabler to increased participation of women in the development agenda of Uganda.

Youth Step-Up Loans

The Bank provides appropriate financing options and business development services as an enabler for the youth to develop social, economic and entrepreneurial skills to enhance their participation in the overall development process for an improved quality of life

Project Finance

The Bank finances infrastructure projects by structuring the financing against the security of the cash flow arising from the creation of the project's assets, plus the realizable value of the asset themselves.

Projects where this kind of financing can be applied includes energy projects, transportation projects, ICT projects, oil and gas projects and other infrastructure projects.

Trade Finance

This product may be used to finance bulk purchase of produce during peak periods as well as other structured commodity trade finance products / collateral management solutions

It is also used to support manufacturers to acquire critical raw materials that are available locally or may not be available in the country and support the importation of fast-moving items needed to facilitate local contracts.

Letters of credit/ Bill of collection

Safeguard risk of payment for goods & Facilitate the importation or exportation of goods, equipment, and services.

Paid on maturity, secured by cash, landed property, commodities, fixed deposits, first class bank guarantees, GOU bonds or corporate guarantees for 12 months maximum.

Structured Trade & Commodity Finance

Designed to meet the client's specific business needs for pre and post-shipment financing as well as the local purchase of bulk goods.

Asset Finance

This product finances the acquisition of assets such as equipment & machinery for production e.g., industrial equipment, agricultural assets, specialized medical equipment, or process plant & machinery.

Tenure ranges from 4 to 10 years, inclusive of grace period that ranges from 3 months to 3 years.

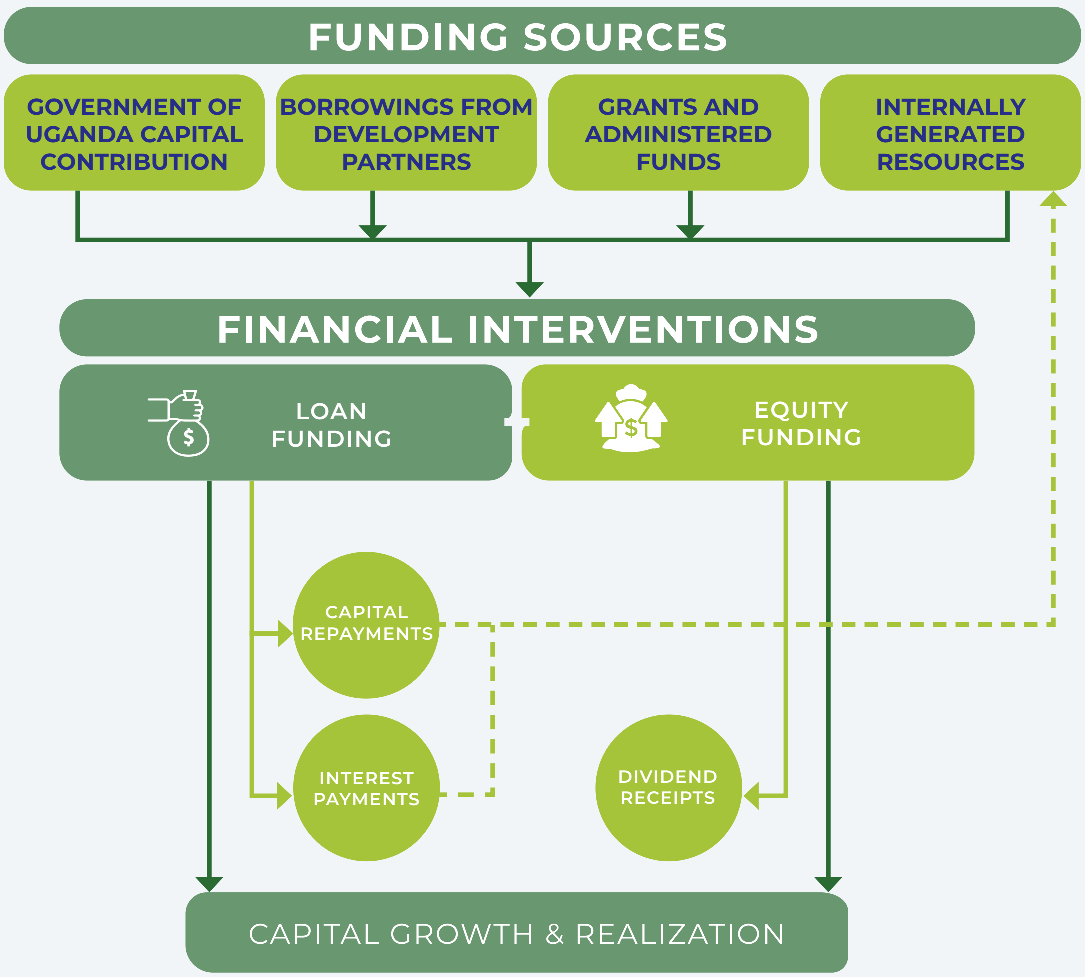
Water for Production Programme

The UDBL Water for Production Programme aims at increasing sustainable agricultural production so as to improve the quality of lives of Ugandans and enable the growth and development of a vibrant agro-industrialization sector in Uganda. Under the Programme, the Bank finances private sector players and communities to develop small, medium and largescale irrigation facilities.

Local Contractors Programme

Infrastructure plays an indispensable role as a contributor to the growth of the Ugandan economy. The infrastructure sector is a significant employer and creates numerous economic opportunities for small and medium enterprises. Further, through the life span of infrastructure projects, abundant economic opportunities are unleashed for their users, thus directly contributing to improving the quality of life of Ugandans.

OUR FUNDING MODEL



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

OUR STRATEGY

OUR STRATEGY

In 2020, Uganda Development Bank Limited (UDBL) commenced the implementation of its 5-year strategic plan for the period 2020-2024. This strategic plan is aligned with the 3rd National Development Plan in terms of focus as well as execution period. Over the strategy period and as part of its sustainability strategy, UDBL's interventions are guided by three High Impact Goals, which are further underpinned by the Bank's Purpose Statement: "**Improving the quality of life of Ugandans**''. These three High Impact Goals are;

Goal 1:

Reducing Poverty in Uganda while protecting the natural environment

Goal 2:

Building a Sustainable Food System for Uganda

Goal 3:

Promoting Sustainable Industrialization in Uganda

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

Even with the outbreak of the COVID-19 pandemic and its accompanying disruptions to lives and the Ugandan economy, the strategy remained relevant and the Bank continues to undertake a number of feasible supportive interventions that aim to keep the country on its path to socio-economic transformation.

OUR OPERATING 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		DEVELOPMENT OUTCOMES	
LOAN APPROVALS CUMULATIVE VALUE APPROVED FROM 2016 TO 2021	Ushs **1,879.5** Bn	**TURNOVER AND PROFITABILITY OF PROJECTS FINANCED IN 2021**	TURN OVER Ushs **2,445** Bn PROFITABILITY Ushs **314** Bn
LOANS DISBURSED DISBURSEMENTS FROM 2016 TO 2021	Ushs **1,160.9** Bn	**JOBS CREATED/ MAINTAINED IN 2021**	DIRECT AND INDIRECT JOBS IMPACT **41,338**
FUNDING RAISED VALUE OF FUNDING RAISED FROM 2016 TO 2021	Ushs **1,197** Bn	**PRIORITY SECTORS SUPPORTED**	CUMULATIVE SECTORAL DISTRIBUTION OF FUNDING APPROVALS **34%** Primary Agriculture; **30%** Agro-processing; **23%** Manufacturing; **5%** Tourism & Hospitality **3%** Infrastructure; **2%** Human Capital; **3%** Others
SUSTAINABILITY INITIATIVES THE BANK REVISED ITS STRATEGY TO INCLUDE ITS SUSTAINABILITY AGENDA OVER THE NEXT FIVE YEARS.			
		FINANCIAL OUTCOMES	TOTAL ASSETS 2021 Ushs **1,222.1** Bn CUMULATIVE NET PROFIT AFTER TAX FROM 2016 TO 2021 Ushs **95.13** bn

STRATEGIC PERFORMANCE 2021

The year 2021 was the second in the implementation of the Bank's 5-year Strategic plan and this was achieved through its 2021 Business Plan that broadly focused on the following strategic objectives:

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

The Bank's overall performance was impacted by a slow down in economic activity occassioned by, among others;

1 **The 2021 national election season in quarter 1** which presented a slow economic start of the year as traders and investors alike were reluctant to borrow and/or invest in the face of uncertainties.

2 **The onset of the second wave of the COVID-19 pandemic (Delta variant)** which significantly impacted human lives and threatened the country's health system causing the Government of Uganda to implement strict containment measures charactersized by a prolonged country-wide lockdown with limited inter-district travel. Besides the pandemic's impact on the Bank's human resources, the travel restrictions constrained the Bank's operations especially around project appraisals and monitoring activites.

Nonetheless, the Bank registered some significant achievements during the year as follows;

1. **Implementation of the sustainability strategy** through;

- **Disbursements worth UGX 428.1 bn,** representing the largest investment in the post-COVID recovery effort in the country where government through UDB is prioritizing growth through local value addition and production;
- **Project approvals worth UGX 635.3 bn** to 192 projects across the country. These are expected to generate varied development outcomes including;

  i) creation of 45,048 jobs, ii) output value of over UGX 7,048.4 Bn, iii) tax incomes worth UGX 569.6 Bn, and iv) forex exchange worth UGX 1,479,6 Bn.

45,048 jobs Created

7,048Bn Output value

570Bn Tax income

1,480Bn Forex

2. **Improved organisational efficiency**

- **Rolling out of a number of digital solutions** including: i) a Loans Origination System – a Credit automated system to enhance efficiency, accountability, and productivity, ii) an Enterprise Service Desk system that enhances customer experience by improving response time, and iii) a Digital Integration Hub that aids timely account reconciliation and accurate financial reporting;

3. **Brand Appeal**

- **Sustainability Leader of the Year 2021**
The International Council of Sustainability Standards awarded UDBL and it's leadership this award in affirmation of the Bank's role in creating economic, social and environmental value for all our stakeholders;

- **World Development Finance Forum**
UDBL was nominated to host this global gathering of finance institutions to explore new strategies to stabilize financing for development following the Covid-19 pandemic disruption. This was the second year UDB was nominated to co-host this conference, recognising the Bank's contribution to reshaping development finance, not only in Uganda and Africa, but worldwide.

4. **Expanding access to finance**

The Bank launched specialized financing initiatives specifically targeting the under-served segments in the country including SMEs, Youth and Women. The financing solutions are complemented by the Business Accelerator for Successful Entrepreneurship program that aims to assist enterprises to formalize as well as professionalize their operations to ensure business sustainability.

UGANDA DEVELOPMENT BANK (UDB) REMAINS A SUSTAINABILITY-CERTIFIED FINANCIAL INSTITUTION

IMPLEMENTATION OF THE BANK'S SUSTAINABILITY STRATEGY

In 2021, the Bank set out to invest **UGX 502 bn (in debt) and UGX 10 bn (in private equity)** in line with the High Impact Goals (HIGs). These investments were to be channelled through the Bank's priority sectors using financial and non-financial interventions.

Some of the key achievements registered during the year include;

Result Area	Key Achievements
HIG 1: Reducing Poverty in Uganda while protecting the natural environment	
Sustainable Water for production for crop & livestock husbandry	Construction of thirty-six (36) valley dams under the farmer group model
	Construction of four (4) private irrigation systems
Increased access to medical services	Support to 4 (four) health facilities to extend medical outreach
Reduction in post-harvest losses	Establishment of four (4) post-harvest handling facilities
Increased financial inclusion of small holder farmers	One (1) fintech partnership established to provide lending to small holder farmers
	20 farmer groups and 33 Agri-SMEs supported under the farmer group financing model
Creation of dignified & gainful employment in the key priority sectors	Creation of 45,048 jobs
Development and conservation of cultural heritage sites	Three (3) hotels and one (1) cultural centre supported
HIG 2: Build a Sustainable Food System for Uganda	
Increased food production and yields in select value chains	Support extended to six (6) out-grower schemes with anchor off-takers in the selected food value chains
	Four (4) medium-to-large farms supported in food production
Increased support for organic farming and adoption of climate smart farming techniques	Twelve (12) farms supported to adopt climate smart farming techniques
HIG 3: To promote sustainable Industrialization in Uganda	
Increased share of output value in industries	Output value worth UGX 5,091Bn
SME industrial skill development	Ten (10) SMEs supported in industrial development
Adoption of cleaner production technologies/Climate Smart Industry	Five (5) SMEs supported to adopt cleaner production technologies
Import Substitution & Export Advancement resulting into increased foreign exchange earnings	Support to twelve (12) enterprises under the Import substitution and export promotion strategy including three (3) medical manufacturing enterprises
	UGX 887Bn worth of forex earnings to be realized
Increased participation of women in industrial development	Support to six (6) women-owned or led enterprises

STRATEGIC OUTLOOK FOR 2022

As the Government's primary development financier, UDBL aligned its Strategic Plan 2020-2024 to the country's Vision 2040, now under implementation through the National Development Plan III (NDP III). Therefore, the 2022 Business Plan is aligned with the NDP III.

The 2022 business plan is anchored on the implementation of the approved strategic plan, taking into account the execution challenges encountered, and lessons learnt from previous planning and implementation of 2020 and 2021 Business Plans. The Bank is committed to optimal execution of its strategy in 2022 by progressing the implementation of the Bank's sustainability strategy coupled with optimizing operational efficiency to achieve its high impact goals. Specifically, the Bank has set out to achieve the following key objectives in 2022:

a. Advancing focused sustainable industrialization for inclusive growth, gainful employment and wealth creation;

b. Optimizing the **value-chain** for strategic crops as a means of alleviating hunger and poverty;

c. Accelerating **access to finances** for SMEs, women and youth through the Bank's special programs strategy;

d. Leveraging **strategic partnerships** and deploying a **program-based approach** to achieving development impact;

e. Growing and maintaining proactive **stakeholder engagement** to enhance the visibility and reputation of the Bank;

f. Achieving **service excellence** through a holistic customer-centric and relationship model approach;

g. Optimizing **organizational efficiency** through adoption of innovative digital solutions and lean processes;

h. Reengineering the Bank's **lending processes** thereby enhancing response and turnaround time to customer applications;

i. Improving tracing, reporting and **communication** of Development Impact; and

j. Positioning itself as a **policy bank** to influence and support the implementation of government policy.

Following is a summarized tabular representation of the Bank's 2022 Sustainability strategy.

SUSTAINABILITY STRATEGY

HIGH IMPACT GOALS		
HIG 1: Reducing Poverty in Uganda while protecting the natural environment	**HIG 2: Build a Sustainable Food System for Uganda**	**HIG 3: To promote sustainable Industrialization in Uganda**
DEVELOPMENT IMPACT		
Lift at least 125,000 people above USD $1.25 a day	Lift 200,000 people out of hunger	Increase the value of Industrial output by UGX 1 Tn
KEY RESULT AREAS		
– Financial inclusion for 10,000 beneficiaries – Sustainable Water for production for crop & livestock husbandry – Improvement in post-harvest handling	– Increase production and productivity in selected value chains including: Cereals (rice, maize, millet & sorghum), Pulses (beans & peas) and Beef/Dairy – Increase adoption of organic farming techniques and climate smart farming in 15 projects – Increase use of smart technologies in food production	– Sustainable Industrialization for 33 industries
SELECT INITIATIVES		
– Fintech partnership with Ensibuuko – FAO-YIYA initiative to support access to finance by youth – Roll-out water for production program – Develop a financing program for post-harvest management through deliberate stakeholder engagements with TGCU & UWRSA	– Support the development of medium and large scale farms in select value chains – Develop Block farming program – Collaboration with agri-tech firms to enhance food production at farm level	– Pursue heavy industrialization within the sectors defined in the industrialization strategy (sectors; textiles, steel, pathogens, fabrication) – Support the scale up of Bankable science and technology innovation projects that drive industrialization – Lead the national industrialization agenda by positioning the Bank as the focal driver – Support projects involved in value addition, import substitution and export promotion in agricultural zones – Support/setup enterprises/factories to increase the supply of essential goods & services such as production of medical drugs and supplies

ENABLERS*	CROSS CUTTING PRIORITIES**
KEY RESULT AREAS	
– Increase stock (local contractors) and quality of infrastructure – Increase student enrolment into BTVETs	– 300 women, youth and SMEs projects approved – Increase number of people accessing health services
SELECT INITIATIVES	
– Develop and implement local contractor support programme – Develop core infrastructure to lower production costs, enhance international competitiveness and facilitate the sustainable exploitation of development opportunities – Collaborate with UGAPRIVI so as to revitalise Education sector and identify key/strategic vocational institutions that address the sector skills gap of the various district/regions in the country	– Implement SME, Women & Youth inclusion programme – Identify and finance key/strategic health service providers that address the district/regional health challenges in the country in collaboration with Uganda Medical Association

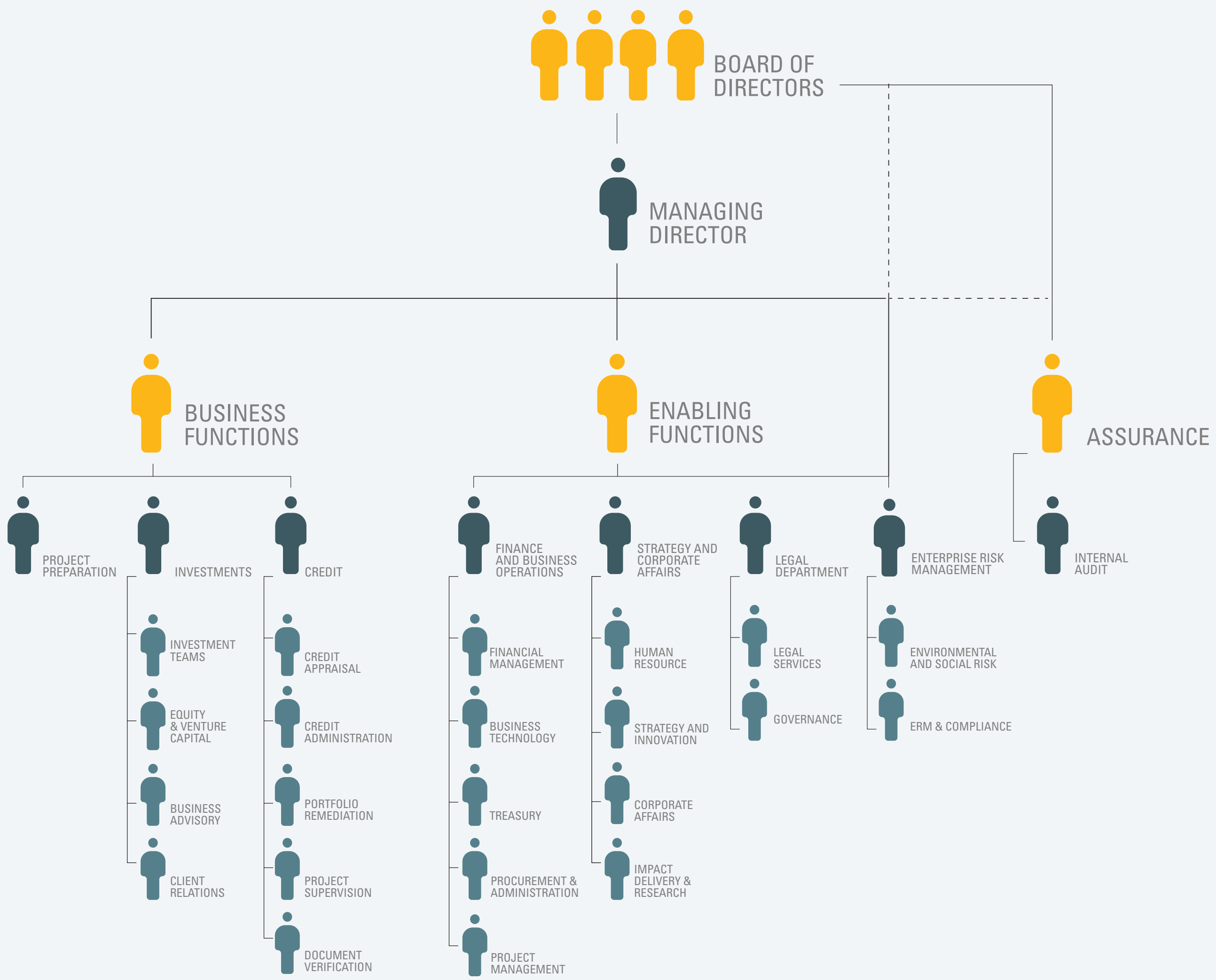
** Enablers accelerate growth in other sectors like Agriculture and Industry, and these include Infrastructure, tourism and hospitality, human capital development and digitization.*
*** Cross-cutting priorities include SMEs, gender & youth, environmental sustainability, and climate change.*

KEY RISKS AND OPPORTUNITIES

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

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

ORGANIZATIONAL STRUCTURE



The Bank continued to implement the Board approved structure comprised of 7 directorates.

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

- The Investments Directorate comprises of professionals that prospect for business and manage client relationships and the Bank's investments.
- The Credit Directorate manages the credit risk of the Bank's investment portfolio.
- The Project Preparation Unit is responsible for the identification of promising bankable ideas and taking these through the respective preparation cycle, including concept design and commercialization.

The business functions are supported by 5 directorates that facilitate:

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

To mainstream its carbon neutral investment aspiration, the Bank established the Green Finance Unit reporting directly to the Managing Director.

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

STAKEHOLDER ENGAGEMENT

The Bank has in place a robust Stakeholder Engagement Strategy whose underlying intent is to support the attainment of the bank's strategic objectives, and stipulates the framework through which UDB maps and engages its stakeholders.

In line with this strategy, the bank undertakes engagement interventions specific to our audiences, and with the view to create awareness of the UDB mandate, strategy and business. Through these engagements, the bank solicits feedback in real-time and utilizes the same to improve its operations and to build strong positive perceptions about UDB.

The engagements held in 2021 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 is our Stakeholder Map and a pictorial highlighting the key Stakeholder Interventions held in the year 2021.

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 ACTIVITIES 2021

Stakeholder engagement is an integral part of UDB's success story as it helps in shaping the Bank's narrative, enhancing stakeholder value and knowledge acquisition.

UDB engages with internal and external stakeholders across the Company to address key areas of our corporate strategy and operations and to build our relational capital. We ensure that our stakeholder engagement practices actively support the Company's strategy and business operations, improve risk management, enhance reputation, and build sustained business value.

UDB engages with several stakeholders continually to ensure that the Bank reflects stakeholder priorities and incorporates a wide range of knowledge and perspectives. In the past year, we have used a variety of approaches to work with stakeholders including:

1. **Briefings and Meetings:** From the Cabinet, Ministries, Departments, and Authorities, Parliament to farmer associations, customers, and the community. We have presented the Bank's mandate and gathered feedback, which we believe will in future form the Bank's story of change.
2. **Research and Data Collection:** The Monitoring and Evaluation function worked with the relevant domains to develop research and collect relevant data that informed the Bank's direct impact numbers.
3. **Media;** Through traditional and digital media, the Bank engaged various stakeholders to keep them aware of the Bank's developments.
4. **Stakeholder Workshops;** Uganda Development Bank organized workshops and symposiums designed to bring stakeholders up to date on the Bank's mandate, products, and services.

Increased awareness in respect of stakeholder engagement was noted in 2021 as the management and Board of UDB purposed to improve brand equity and awareness.

UDB HOSTS THE 2021 WORLD DEVELOPMENT FINANCE FORUM

Minister of Finance, Planning and Economic Development, Hon. Matia Kasaija poses for a photo with various officials at the openning of the 2021 World Development Finance Forum in Kampala.

Second time running, UDB co-hosted the World Development Finance Forum. This global gathering of stakeholders drawn from **policy makers, regulators, and leaders from the financial sector the world over** deliberated cutting-edge solutions for mobilizing and financing the post-pandemic economy. The forum explored opportunities to harness financing for a sustainable, green and inclusive future, and witnessed the official unveiling of the Financing 4.0 program that aims to pool resources for sustainability-conscious investments. The WDFF 2021 attracted the attendance of over 400 delegates drawn from 45 countries.

UDB WINS SUSTAINABILITY AWARD

Ambassador of Uganda to Germany, Amb. E. Marcel Robert Tibaleka (centre) receives the award on behalf of UDB. The award was presented by Mr. Arshad Rab, Chairman of the International Council of Sustainability Standards & CEO European Organisation for Sustainable Development -EOSD (left) and witnessed by Mr. Tom Hoyem, Board Member, International Council of Sustainability Standards

Uganda Development Bank and its Managing Director Ms Patricia Ojangole, were named Sustainability Leader of the Year 2021 during the Karlsruhe Sustainable Awards ceremony held annually in Germany. Awarded by the International Council of Sustainability Standards for Value Driven Financial Institutions during the 2nd World Development Finance Forum (WDFF) held in December 2021, the accolade is given to individuals and/or institutions that demonstrate commitment to creating value for all their stakeholders and the environment.

The Award is in recognition of UDB's continued exceptional leadership in creating social, economic and environmental values and globally advancing sustainable finance.

STRATEGIC PARTNERSHIPS

PARTNERSHIP WITH EUROPEAN UNION

The Tourism Facility

In 2020, Uganda Development Bank (UDB) in partnership with European Union (EU) allocated funds in form of a grant attached to a loan (also known as 'facility') to enable the sector to revive through the hardship of COVID19. The facility seeks to stimulate businesses operating in the tourism sector, which has been heavily impacted by COVID-19 by providing a grant and soft loan with flexible terms aligned to the current needs of the sector. The first call was successfully completed at a total of 44 hotels and tour operators benefited from the facility. This second call intends to pick on the successes of the first call to further revive the sector. A total approximate pool of UGX 62 Billion (UGX 40 Billion UDB loan plus UGX 22 Billion EU Grant) was set aside for this facility.

START

The Support to Agricultural Revitalization & Transformation (START) is a blended finance facility providing a customized mix of business development services, project development and finance structuring services, and financial products in the form of concessional and zero-interest loans, technical assistance grants and partial credit guarantees.

START is implemented by the United Nations Capital Development Fund (UNCDF) in partnership with Private Sector Foundation Uganda (PSFU) and Uganda Development Bank Ltd (UDB) under the Development Initiative for Northern Uganda (DINU), a Government of Uganda programme supported by the European Union and coordinated by Office of the Prime Minister.

START is designed to support the implementation of the food security and nutrition component of the DINU programme by improving access to finance for small and medium enterprises engaged in agricultural value addition in Northern Uganda. The overall goal of DINU is to consolidate stability in Northern Uganda, eradicate poverty and undernutrition, and strengthen the foundations for sustainable and inclusive socio-economic development.

EU IS A FUNDING PARTNER OF FAO AGRI-INVEST

What is AgrInvest?

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

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

AgrInvest leverages on FAO's technical and investment expertise and existing partnerships, global networks and South-South partnerships, including with national finance institutions.

Partnering with Uganda Development Bank

AgrInvest's main public sector investment partner is the UDB. The Bank is financed by the Government of Uganda and other development partners. The UDB supports projects that are expected to have significant socio-economic benefits for Uganda. The UDB seeks to become a leading business partner for agriculture and food-related businesses, helping borrowers grow their businesses and take advantage of low-cost digital technologies.

Key elements of AgrInvest to Uganda Development Bank for Uganda:

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

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

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

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

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

Ensibuko

The Bank has partnered with fintech company Ensibuko to offer digital solutions to farmers, farmer cooperatives and village and savings loan associations. UDB together with the fintech has been able to develop a lending matrix where farmers have been pre-scored to access loans for productions seasonally. The farmer/ farmer cooperative is able to apply for these loans digitally and disbursements made directly to the farmer/ farmer cooperative e-wallets. The business model illustration with one of the fintechs, Ensibuuko, is as illustrated below:

Partnership with European Organisation for Sustainable Development

European Organization for Sustainable Development (EOSD) is global partner that is dedicated towards developing and executing innovative programs that are contributing towards sustainable development of the economies of partner governments and institutions especially financial institutions. The work of EOSD is focused on supporting the transition to a new economy – an economy which is powered by technology, driven by innovation and is green, inclusive and sustainable.

The bank has partnered with EOSD in developing and executing the Sustainability Standards and Certification Initiatives (SSCI) and Financing 4.0.

To this end, the Bank has participated in the SSCI program and has revolutionized the way it is implementing the country's national development priorities. Through SSCI, the Bank developed its purpose statement and high impact goals that have renewed its focus in delivering its mandate for socio-economic development of Uganda. The Bank achieved the highest level of certification, Level 5, under the SSCI program and was one of the first development financial institutions (DFI's) in Africa to get certified.

Following certification, the Bank is on track to be one of the very first DFI's to implement the Financing 4.0 program.

UWEAL

The Uganda Development Bank (UDB) signed a Memorandum of Understanding with the Uganda Women Entrepreneurs Association Limited (UWEAL) to support 2 million women entrepreneurs with access to finance. The initiative will provide funding to women entrepreneurs through UWEAL. Beneficiaries will access this funding at a concessional interest rate. The initiative aims to address concerns by women entrepreneurs excluded from previous government business support interventions that were not sufficiently tailored to their needs.

KEY STAKEHOLDER PICTORIAL

UDB Management delivers a presentation at one of the various interactions with committees of Parliament.

UDB's Investment Manager Agriculture, Mr. John Peter Emoi addresses leaders of cooperatives and SACCOS on the sideline of UDB Business Clinic in Gulu

UDB Shareholders and the Board at the 2021 Annual General Meeting held in Kampala.

The Minister of State for Finance (Planning), Hon. Amos Lugolobi and the Minister of State for Finance (General duties), Hon. Henry Musasizi pose for photo with the Chairman and the MD during a working visit to the Bank.

Officials from AfDB led by Mr. Amos Cheptoo (3rd Right), the AfDB Executive Director, during a visit to the Afroplast Enterprises Ltd in Luzira, Kampala. Also in the picture are officials from UDB and Afroplast.

The Minister of Finance, Planning & Economic Development, Hon. Matia Kasaija flanked by UDB Officials and heads of partner institutions, presides over the launch of the UDB Special Programs – a specialized proposition that aims to improve access to credit for SMEs, Women and Youth enterprises.

ENHANCING CUSTOMER EXPERIENCE

The Bank recognizes the central role of the customers in facilitating UDB to deliver her mandate!

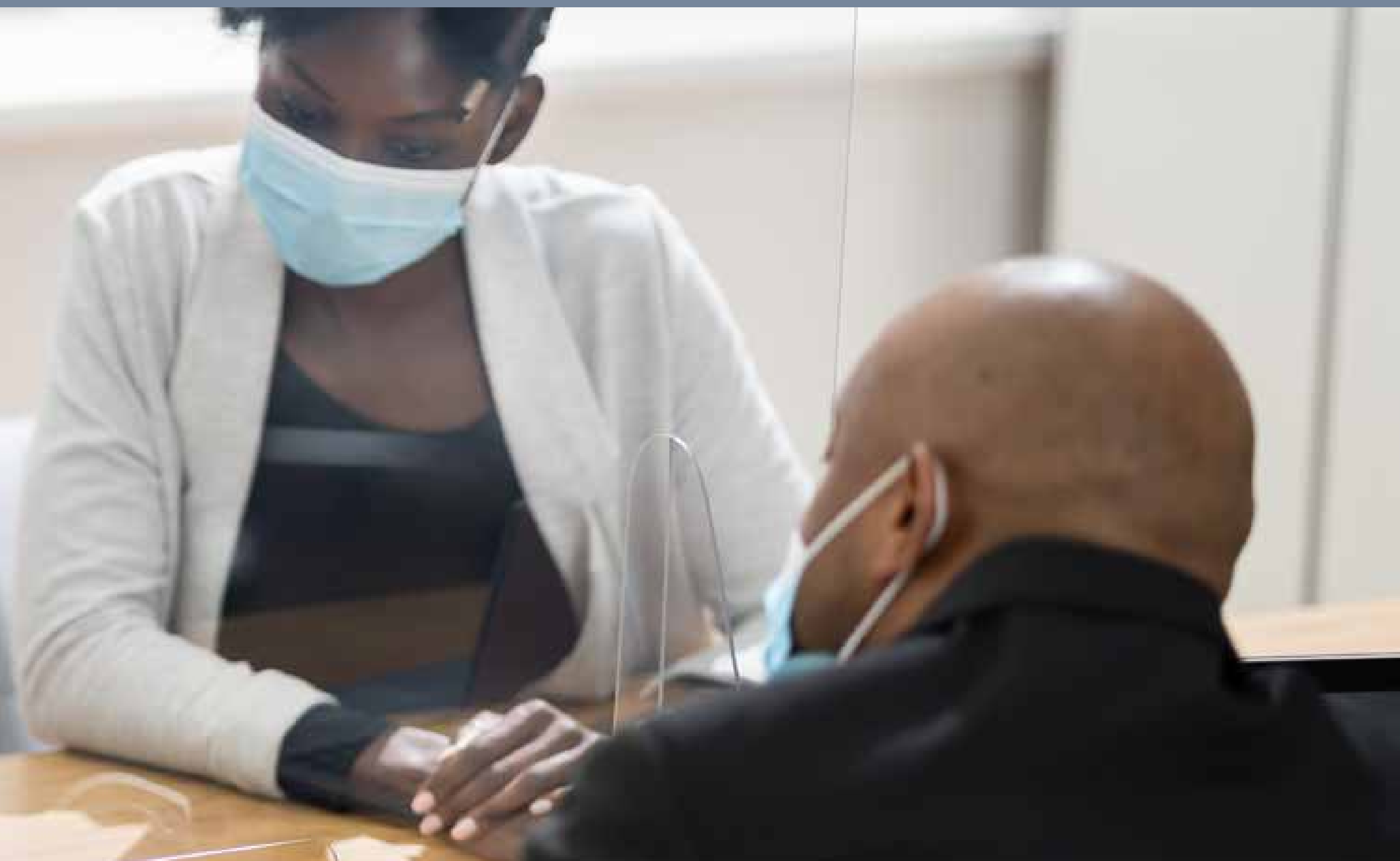
The Bank appreciates that understanding the financial needs, business challenges, and aspirations of our customers is the key to serving them efficiently and effectively. Harnessing that understanding to create and deliver services and products that most effectively serve them is the essence of customer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

Our Customer Service and Experience Management objective is to achieve excellence in a progressive manner that balances customer needs with the ability to develop and implement appropriate tools, products, services, processes, and innovations that fulfill customer requirements.

Our service ethos: In a fully customer centric UDB, we believe that:

- Knowledge of clients' needs, expectations, and behaviors drives decision-making.
- Empowering and engaging our clients for continuous service feedback and improvements is central to our success.
- Service excellence and overall positive customer experience begins with me!
- The leadership, organizational structures and processes integrate and reflect a deep desire to meet customer needs and expectations.
- There is a constant drive to innovate, build partnerships, and develop capacity to meet customer needs better and continuously.

To achieve this strategic aspiration, the Bank is



continually transforming its organizational behaviors and business processes and automating key workflows to improve our service response, reduce process turn-around time, while ensuring that resources are directed to achieving a more positive customer experience.

For all your enquiries and feedback, please reach out to us on our dedicated customer contacts: Email: **clientrelations@udbl.co.ug** and Telephone **+256 414 355 509.**


GOVERNANCE

CHAIRMAN'S STATEMENT

53%

growth in gross loans

We mark yet another year in which the Bank made a remarkable contribution towards improving the quality of life of Ugandans. During 2021, the economic environment world over improved, with global growth rates at 6.1%, up from -3.1% the previous year. Similarly in Uganda, GDP growth improved to 5.1% in 2021, up from -1.4% in 2020. This positive operating environment, the adverse effects of COVID-19 notwithstanding, was in part a result of the efforts made by the Government and its agencies like UDB to kick-start economic recovery, as well as the benefits realized from interventions earlier taken to support the resilience of private enterprise.

> THE BANK'S STRATEGY REMAINS FOCUSED ON **SUPPORTING THOSE PRIORITY DEVELOPMENT AREAS THAT WILL TRANSFORM THE COUNTRY** FROM PREDOMINANTLY PEASANT AND LOW-INCOME TO A THRIVING MIDDLE-INCOME COUNTRY.

I am pleased to report that Uganda Development Bank Limited, despite the challenges brought on by the resurgence of COVID-19 in 2021, stayed true to its purpose and mandate. The Bank achieved various planned milestones in line with its 2021 Annual Business Plan and its 2020-2024 Strategic Plan.

In 2021, the Bank registered a 53% growth in its gross loan book from UGX557 billion closing at UGX851 billion, on the back of UGX428 billion disbursed in loans to the private sector. These investments in turn contributed to the bank's strong financial performance, improving UDB's profitability by 76% between 2020 and 2021. These milestones are testament to UDB's commitment to supporting businesses engaged in key priority sectors, and to protecting shareholder value by ensuring the bank is governed in an efficient manner.

Similarly, the growth trend of the bank's asset base continued through 2021, witnessing a 12% uplift, this supported by a related 16% uptick in shareholder equity, from UGX911 billion in 2020 to UGX1,055 billion in 2021, owing to the solid resolve of the bank's shareholders, of the Government of Uganda, and of our funding partners towards strengthening the bank and making an impactful contribution to the economy and to the lives of Ugandans.

> ...THE GROWTH TREND OF THE BANK'S ASSET BASE CONTINUED THROUGH 2021, **WITNESSING A 12% UPLIFT,** THIS SUPPORTED BY A RELATED 16% UPTICK IN SHAREHOLDER EQUITY...

The Board remains committed to its mandate, providing the requisite oversight that assures sustainability of the bank. The Board will continue to focus UDB on the path to attainment of the Bank's mission of accelerating socio-economic development through sustainable financial interventions, thus ensuring that the Bank's interventions amongst other socio-economic outcomes, create sustainable jobs, boost inclusive growth and are consistent with the country's development priorities.

In the year 2021, the Bank launched the UDB Special Programs, a vehicle to bridge the funding gaps under three unique segments - Youth, Women and Small and Medium Enterprises (SMEs). The Board also approved various policies with the view to ensure adequate mitigation of the risks that the bank faces and to ensure the Bank's business remained alive and responsive to its operating environment.

In 2022 and beyond, the Bank will continue to play its central role in catalyzing socio-economic development within the country. The Bank's strategy remains focused on supporting those priority development areas that will transform the country. The bank will continue to refine its strategy and interventions to address any emerging gaps, risks and constraints to the country's development, keeping in mind its overarching mandate.

On behalf of the Board of Directors, I wish to extend our sincere appreciation to all the stakeholders for supporting the Bank, but most especially to the President of the Republic of Uganda, H.E. Gen. Yoweri Museveni, to our shareholders, the Minister of Finance Planning and Economic Development, Hon. Matia Kasaija, and the Minister of State for Privatization and Investment, Hon. Evelyn Anite, and to the Top Management Team of the Ministry of Finance for their relentless and steadfast support to the Bank.

I express my gratitude to the Management team and the entire staff of UDB for their hard work, commitment and dedication to the Bank's cause to address the development needs of our country.

Finally, I extend my appreciation to my fellow directors for their diligence and stewardship, and whose oversight of UDB affairs has significantly contributed to the transformation of the bank, to one that is truly focused on its role in improving the quality of lives of Ugandans. To the retiring directors, Ms Silvia Angey Ufoyuru, Mr. Nimrod Waniala and Mr. Henry Balwanyi Magino, we thank you for your dedicated service to the Bank over the years, and wish you the very best for the future.

Felix Okoboi (Mr.)
Board Chairman

BOARD OF DIRECTORS

Mr. Felix Okoboi
Board Chairperson

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

Age: 51 Appointed: 2018

Directorship in other institutions: Chairman, Investment Committee of Yield Uganda Private Equity Fund; Chairman Britam Insurance.

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: 44 Appointed: 2018

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

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

Mr. Henry Balwanyi Magino
Independent Non-Executive Director

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

Age: 58 Appointed: 2015

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

Committees: Chairperson, Board Audit and Risk Committee.

Ms. Silvia Angey Ufoyuru -
Independent Non-Executive Director

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

Age: 52 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: 70 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: 67 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: 49 Appointed: 2017

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

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

MANAGING DIRECTOR'S STATEMENT

SUPPORTING ECONOMIC RECOVERY

The year 2021 opened with renewed hope for an improved economic environment as a result of an initial slowdown of the COVID-19 pandemic. Nonetheless, this trend and the related optimism were later reversed as a new wave of the pandemic ravaged the country, bringing with it record high numbers of infections and deaths. Like other countries, Uganda continued to experience varied social and economic effects from this pandemic during the year 2021, with several economic activities and enterprises, particularly those in the tourism and education sectors bearing the brunt of these effects.

Throughout this period, the Bank continued to play its pivotal role in facilitating economic recovery. UDB continued to implement credit accommodations to its customers especially those directly distressed by the COVID-19 pandemic, to guarantee the survival of these enterprises beyond the pandemic. To this end, the Bank deferred repayments on UGX172.5 Billion on its portfolio. The Bank also disbursed UGX428 Billion in new funding to various enterprises, thereby availing liquidity within the economy to facilitate varied economic activities.

Additionally, under its interventions dubbed the "Special Programs", the Bank launched specialized lending products specifically aimed at addressing constraints to credit access by the underserved segments including the youth, women and SMEs. These products are complemented by the UDB Business Accelerator for Successful Entrepreneurship (BASE) Program through which the Bank provides business development and advisory services, whose purpose is to support informal enterprises to formalize, support credit-readiness as well as improved business operations for the enterprises

"THE **BANK ALSO DISBURSED UGX428 BILLION** IN NEW FUNDING TO VARIOUS ENTERPRISES, THEREBY AVAILING LIQUIDITY WITHIN THE ECONOMY TO FACILITATE VARIED ECONOMIC ACTIVITIES.

enrolled onto the program - through capacity building interventions including training in financial management, book keeping, regulatory compliance, governance, among others.

The Bank remains committed to providing relevant financial and non-financial interventions that support the private sector to be vibrant and sustainable, and to continue making its mark on building a sustainable economy.

Delivering our mandate and strategy

Through 2021, the Bank continued the pursuit of its High Impact Goals, namely: To reduce poverty in Uganda while protecting the natural environment; build a sustainable food system for Uganda; and promote sustainable industrialization in Uganda. Anchored against these goals, UDB implemented a function of initiatives, with the year 2021 marking year two (02) of implementation of the UDB 2020-2024 Strategic Plan. Amongst the key milestones registered included the following:

CREATING SUSTAINABLE SOCIO-ECONOMIC IMPACT

The Bank continues to invest its resources in projects that demonstrate not only financial viability but also the propensity to deliver tangible socio-economic outcomes. To this end, the following development outcomes were realized in 2021, as a result of the Bank's funding activities:

Job Creation

A total of **41,338 jobs** were created/maintained amongst the enterprises that the Bank financed, a 72% uplift from 24,013 jobs created in 2020. This improvement is attributed to the growing number of enterprises funded and the resumption of business activity during the latter part of the year. Of these jobs, 62% were occupied by the youth.

Supporting Private Sector competitiveness and performance

The annual output value for companies financed by the Bank was **UGX2.45 Trillion** representing a marginal 1% drop from UGX2.48 Trillion the previous year.

Similarly, profitability amongst these enterprises fell 23% year on year, to UGX314 Billion, accounting for a related decline in tax contributions (corporation tax) to government, from UGX160 Billion to UGX84 Billion in 2021. These declines are testament to the adverse effects of the COVID-19 pandemic on businesses in Uganda and the economy in general.

Notably, the industrial output value, mainly comprised of enterprises engaged in agro-processing and manufacturing, and accounting for 75% of the total output, grew 20% from UGX1.52 Trillion in 2020 to UGX1.83 Trillion in 2021 – reflective of increased effort to undertake value-addition and manufacturing processes, and a scale back of non-essential production on account of suppressed demand.

Gender and other considerations

Of the 41,338 jobs that were created/maintained, 23% were held by females, growing from 7,859 jobs in 2020 to 9,467 jobs in 2021. Additionally:

- Women held 34% representation in the shareholding, board and senior management structures of the companies funded;
- 288 jobs were occupied by persons living with disability, improving from 23 positions in 2020.

The Bank will continue to implement deliberate interventions to finance projects that create opportunities for underserved sections of the society.

Other Impact indicators

It is noteworthy that during the year, and from the Bank's interventions;

- Up to 9,149 individuals were lifted out of poverty i.e. they started to earn incomes above the poverty line (US$1.90 per day);
- Post-harvest losses amongst firms supported by the Bank reduced from 15% to a maximum of 11%; and
- The beneficiaries of UDB funding under the health sector improved their bed capacity from 140 to 197 hospital beds, and thus handled the 36% uplift in patient traffic equivalent to 36,982 additional patients in 2021.

Projected impact (ex-ante) from 2021 Approvals

During the year under review, the Bank approved UGX635.5 Billion in new funding to 192 projects spread across the country, representing a 43% uplift from the UGX443.7 Billion approved to 75 projects the previous year.

These projects, upon full implementation, are expected to create 45,048 jobs, generate output value of UGX7.05 Trillion, contribute taxes amounting to UGX570 Billion and generate foreign exchange earnings in excess of UGX1.5 Trillion.

2. FINANCIAL SUSTAINABILITY

UDB continues to exercise financial prudence in managing the resources it has been entrusted with, thereby sustaining the financial soundness of the institution.

During 2021, the Bank realized a post-tax profit of UGX38.8 Billion, growing by 76% from UGX22.1 Billion in 2020, underpinned by a 55% growth in total income. This performance resulted mainly from the continued growth in the Bank's capitalization, coupled with increased investment in interest bearing assets, notably loan disbursements to qualifying development projects. In this light, the Bank's net loans grew by 53% during the year to close at UGX 781.7 Billion, from UGX511.9 Billion in 2020. Similarly, the Bank's interest and fee income improved to UGX112.9 Billion, up by 57% from UGX72.1 Billion the previous year, on the back of 53% uptick in the portfolio size.

The Bank's size and scale continues to grow. At the turn of the year 2021, UDB's balance sheet amounted to UGX1.222 Trillion, growing by 12% from UGX1,089 Trillion registered in 2020. The Government of Uganda capitalized the Bank with an additional UGX104 Billion allocation during the year, increasing the cumulative capital contributions to UGX1,014.9 Billion.

The Bank's efficiency ratios remained healthy – with cost to income ratio improving from 33% to 25%; return on assets improving from 2.8% to 3.44%; and return on equity improving from 3.51% to 4.93%.

The Bank will continue to leverage these successes to create a firm foundation for sustained financial performance and operational efficiency. UDB remains committed to undertaking deliberate efforts to support feasible development interventions whilst balancing risk, and especially, the potential risk of default by customers.

3. THOUGHT LEADERSHIP

Entrenching Sustainability

The Bank continued with its aspiration engender sustainability in its business and operations, through among other avenues, implementing, impact-based planning and execution, business-sourcing and investment, and reporting.

The Bank was recognized globally for the achievements and leadership in advancing sustainable finance – emerging ***Sustainability Leader of the Year***, at the 2021 Global Sustainable Finance Awards held during the World Development Finance Conference. This follows earlier accolades and a Level 5 Certification under the Sustainability Standards Certification Initiative (SSCI) - the highest award in the certification process, in addition to UDB being the first DFI in Africa to attain this status.

THE BANK WAS RECOGNIZED GLOBALLY FOR THE ACHIEVEMENTS AND LEADERSHIP IN ADVANCING SUSTAINABLE FINANCE – EMERGING **SUSTAINABILITY LEADER OF THE YEAR, AT THE 2021 GLOBAL SUSTAINABLE FINANCE AWARDS** HELD DURING THE WORLD DEVELOPMENT FINANCE CONFERENCE.

Leveraging Institutional talent and technology

The Bank's people structure, processes, systems and technology continued to evolve in line with its mandate and ever-changing operating environment. To this end, UDB revisited various institutional arrangements with the aim of supporting the realization of the Bank's strategy and High Impact Goals. This adaptive approach enabled the institution to continue serving the customer throughout the year whilst guaranteeing the health and safety of our staff.

Innovation to support financial inclusion

The Bank rolled out specialized products and services to address a vast array of financing needs in the country. Amongst these included the Special Programs and BASE – targeting Youths, Women and SMEs; and the Water for Production Program that aims to create water resources to facilitate year-round production particularly in agriculture and small scale industry. Other interventions included a Local Contractors' Program that seeks to support local content in the infrastructure sector and leveraging partnerships with the FinTechs to improve access to credit by the last mile borrower.

Looking ahead

In furtherance of its strategic plan, the Bank has set itself to achieve varied milestones in 2022 and beyond, and these include:

i. Championing the implementation of an industrialisation strategy for capital intensive and knowledge based industries

ii. Optimizing the value-chain for strategic crops as a means of alleviating hunger and poverty;

iii. Accelerating access to finances for SMEs, women and youth through the Bank's special programs strategy;

iv. Leveraging strategic partnerships, and growing/maintaining proactive stakeholder engagement to enhance the Bank's visibility and reputation

v. Optimizing organizational efficiency and service excellence through among others the adoption of a holistic customer-centric and relationship management model, an enhanced service response, innovative digital solutions and through leaner processes;

vi. Improving the tracing, reporting and communication of Development Impact; and

vii. Championing institutional frameworks to further inculcate sustainability within the Bank's core.

The Bank will in 2022 undertake a mid-term review of its strategic plan with the view to validate its achievements and review the relevance of the strategy in delivering the Bank's overarching mandate and institutional purpose. Relatedly, the Bank will also undertake the re-certification process under the Sustainability Standards Certification Initiative (SSCI) to further re-align the Bank's strategy, policies and processes with its organization-wide sustainability aspirations.

UDB will also commence the implementation of varied forward-looking interventions including the Finance 4.0, an initiative that seeks to transform the mobilization and deployment of capital amongst sustainability-conscious organizations, and the 'Reshaping Industries for a Sustainable Economy' (RISE) Program which focuses on enabling countries to benefit from the unfolding 4^{th} industrial revolution through adoption of appropriate technology to advance national development, protect the environment and combat climate change.

APPRECIATION

On behalf of Management and staff, I convey our commendation to all our stakeholders who continued to support the Bank and its business through the challenging year. Your continued support fuels our resolve to do even more to improve the quality of lives of Ugandans.

I convey our sincere gratitude to the Bank's shareholders, the Ministry of Finance, Planning and Economic Development, for their endearing and unwavering support and guidance, for ensuring the Bank has an appropriate governance structure to superintend its strategy and operations, and for ensuring that the Bank secures the requisite funding to deliver its mandate.

We extend our appreciation to the Chairman and Board of Directors, for their oversight through the years, and for their continued unparalleled counsel that strengthens and promotes the Bank, and under whose leadership UDB continues to grow from good to great.

To all my colleagues, the Management team and entire staff at the Bank, I thank you all for the passion and commitment that you bring to work every day; its because of you that Bank lives on and continues to soar.

To our valued clients, we thank you for the opportunity you have given us to serve you; we appreciate you and will continue to deepen our partnership with you, as we continue to create improved lives in Uganda.

As we look forward to an impactful and fruitful 2022, I wish us all good tidings and Godspeed.

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); 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; Member of the Chattered Governance Institute (ICSA)

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.

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. 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.

Mr. Sylver Kyeyune
Director Risk

MBA (Finance) and BCOM (MUK) - Accounting. Alumnus of Strathmore Business School, Galilee International Management Institute, a member of the Uganda Institute of Banking and the American Management Association.

Dr. Francis Mwesigye
Director Economic Research and Knowledge Management/ Chief Economist

PHD and a Masters in Development Economics (Policy Analysis Program), National Graduate Institute of Policy Studies (GRIPS), Tokyo Japan, BA. Econ, Makerere University, Member African Growth and Development Policy Modelling Consortium (AGRODEP) and African Economic Research Consortium (AERC).

GOVERNANCE STATEMENT

OVERVIEW

The Corporate Governance Statement forms part of our corporate reporting for the 2021 financial year.

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

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

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

THE BANK'S CORPORATE GOVERNANCE STRUCTURE

> THE BOARD IS RESPONSIBLE FOR SETTING THE APPROPRIATE STRATEGIC DIRECTION OF THE BANK, IN A WAY THAT MAXIMIZES SHAREHOLDER VALUE AND DELIVERS THE BANK'S MANDATE OF ENHANCING SOCIO-ECONOMIC DEVELOPMENT IN THE COUNTRY.

> THE BOARD IS MANDATED WITH THE APPROVAL OF THE BANK'S STRATEGIC OBJECTIVES

BOARD OF DIRECTORS

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

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

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

ROLE OF THE BOARD

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

DELEGATED AUTHORITY TO THE MANAGING DIRECTOR

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

BOARD STRUCTURE AND COMPOSITION

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

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

BOARD SKILLS AND EXPERIENCE

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

"THE BOARD RECOGNISES THE CONTRIBUTION PLAYED BY NON-EXECUTIVE DIRECTORS WHO CONSTRUCTIVELY CHALLENGE MANAGEMENT'S IDEAS AND PROPOSALS, MONITOR THE PERFORMANCE OF EXECUTIVE MANAGEMENT, BRING INDEPENDENT THOUGHT AND JUDGMENT TO DISCUSSIONS AND ACT IN THE BEST INTEREST OF THE COMPANY.

SKILLS MATRIX

The current composition ensured the Board effectively carried out its mandate. In accordance with the Memorandum and Articles of Association, the shareholder recruits directors with the following skills to effectively execute the Bank strategy and deliver an enhanced shareholder value:

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

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

DIRECTOR APPOINTMENTS AND SUCCESSION PLANNING

The Board Chairperson has the responsibility for ensuring that the Board composition is appropriate, of sufficient size, balanced in terms of skills, experience, independence and knowledge. He is also responsible for ensuring that plans are in place for an orderly and seamless succession for board positions to maintain an appropriate balance of skills and experience.

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

The appointing authority identifies individuals who are of high integrity, with relevant knowledge, experience, and skills necessary to deliver the Bank's mandate and objectives.

A director appointed receives a letter of appointment setting out the key terms of engagement which must be accepted before being on-boarded.

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

As reported in the year 2020, the six-year tenures of three of the Bank's Non-executive directors Mrs. Silvia Angey Ufoyuru, Mr. Nimrod Waniala and Mr. Henry Balwanyi Magino formally expired on 16th May 2021 but the Shareholders at the 8th Annual General Meeting held on 7th May 2021 resolved to extend their tenure until new director appointments were effected.

The Board reviewed the existing skills and diversity sets and observed that skills including Information Technology and Innovations, Audit and Accounting, Credit and Project appraisal, and Economic, Social and Environmental skills would be required to facilitate the implementation of the Bank's strategy and accordingly informed the shareholders of the need to appoint three (3) independent non-executive directors with possession of the required skills and diversity sets. During the period, the shareholders identified three potential candidates and requested the Bank of Uganda to conduct a probity assessment with respect to their appointment and following a no objection, a formal appointment would be effected by the Shareholders. The vetting process is nearly complete, and the Bank is expected to onboard new directors in 2022.

The Bank continues to appreciate the retiring directors for their distinguished service to the Board.

As at 31st December 2021, no director on the Board was eligible for re-election at the 9th Annual General Meeting of the company.

INDUCTION AND PROFESSIONAL DEVELOPMENT

All newly onboarded directors participate in a formal induction process which could be internally or externally facilitated and coordinated by the Company Secretary. The induction process enables the director's appreciation of 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 meet the Bank's Senior Management team. The induction program is regularly reviewed to ensure it considers the relevant developments. The newly appointed directors will undertake a tailored induction program in 2022.

Periodically, the Chairman and Company Secretary review Directors' training needs, in conjunction with individual Directors and match those needs with appropriate external seminars and courses/ development programs.

Annually, the Directors approve a Director Development Matrix which entails the various training programs that they are scheduled to undertake to augment their oversight role.

BOARD EVALUATION

Each year, the Bank undertakes a rigorous review of the effectiveness of the Board, its committees, and its individual directors. Board evaluation facilitates determination as to whether the Board remains effective in carrying out its mandate, whether individual directors continue to make quality contributions to the discussions at meetings and continue to demonstrate a commitment to their director role and whether there is presence of sufficient teamwork at the Board. The Board evaluation exercise for the year ended 31st December 2021 was internally facilitated by the Company Secretary and the recommended areas for improvement noted.

EACH YEAR, THE BANK UNDERTAKES A RIGOROUS REVIEW OF THE EFFECTIVENESS OF THE BOARD, ITS COMMITTEES, AND ITS INDIVIDUAL DIRECTORS.

An action plan was also generated to facilitate implementation in the year 2022.

BOARD MEETINGS

The Board meets at least 4 times in a year and holds a strategy session annually including any Special Board meetings required to attend to urgent business. During the period ended 31 December 2021, the Board of Directors convened 9 times and additionally, a Board strategy session was held over 2 days during the year. Refer to details on page 66 for Board attendance during the period. To enable the Board to effectively discharge its responsibilities, the Board approves an annual calendar so that directors can sufficiently prepare for meetings. Papers are circulated at least 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 meetings.

During the year 2021, the attendance of the meetings by directors was generally good save for times when they were excused due to conflicting priorities.

> “
> **THE BOARD MEETS AT LEAST 4 TIMES IN A YEAR AND HOLDS A STRATEGY SESSION ANNUALLY**

DECISION MAKING DURING THE COVID-19 PANDEMIC

The Corona Virus Disease (COVID-19) continued to adversely affect the world with Uganda experiencing three waves. Most of the Government restrictive measures put in place in 2020 to curb the further spread of the virus continued to be implemented. The Board continued to heavily rely on its digital platform to conduct business in a seamless and efficient manner. The Board reviewed its Digital strategy and confirms that the company continued to operate efficiently to deliver on stakeholder needs.

The frequency of its meetings continued to increase as the Board needed to consider unique impacts of the pandemic on the Bank strategy, business and customers who were adversely affected. There was also need to dispense with urgent business. The Board received regular updates on the liquidity position and financial performance of the Bank, management’s proposed actions to support the welfare of the workforce and establish appropriate health and safety measures, restructures of existing facilities that had been greatly affected by the pandemic.

The Bank’s Business Continuity plans were tested and found resilient. The Bank continued to serve its customers and key stakeholders throughout the second year of the pandemic, and this was possible following the roll out and implementation of continuity strategies during the period, enforcement of Standard Operating Procedures and the implementation of the Telecommuting policy while ensuring critical staff continued to operate at the office premises when necessary. Additionally, in line with the Corporate Business Continuity Plan, the Bank tested its technical Disaster Recovery (DR) Site to determine the level of recovery in the event of an IT incident and successfully operated business activities on the DR servers for a week.

DIGITAL TECHNOLOGY

The Bank continues to accelerate its digital transformation to ensure improved efficiency in work processes. The risk of cybersecurity remained a key agenda focus area for the Board during the reporting period and effective internal controls to protect the Bank’s data and interests.

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

BOARD COMMITTEES

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

The Board made tremendous strides towards the operationalisation of the Board Equity Investment Committee during the year 2021. Terms of reference were approved, and the Bank is currently awaiting clearance from key stakeholders before the Equity product is rolled out.

> **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 DIRECTOR EXPERTISE TO SPECIFIC AREAS.**

The Committee shall provide strategic direction and oversight over the Bank's investment asset portfolio and all the investment activities, assess the Bank's equity investment portfolio and take approval decisions on behalf of the Board of Directors. Equity investments will only be pursued if the financing intervention aims to improve the capital structure of a potentially viable project with significant social development impact as well as increased financial returns to the Bank.

BOARD REMUNERATION

The Board Strategic Planning Committee plays an advisory role in the remuneration of staff and non-executive directors. The Board ensures that Executive Directors are remunerated appropriately to attract and retain talent. Non-Executive Directors are paid a monthly retainer and sitting allowance for the meetings attended. No performance-based remuneration is paid to Non - Executive directors. During the period ended 31 December 2021, the Directors were remunerated as follows:

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

CONFLICT OF INTEREST

The Board confirms that its members observed their fiduciary obligation under Section 198 (c) of the Companies Act, 2012 in the period under review. Directors are required to act in good faith and in the interests of the company by treating shareholders equally, avoiding conflicts of interest, declaring any conflicts of interests, not making personal profits at the company's expense, nor accepting benefits that compromise them.

The Board has established procedures for managing conflict of interest. Directors are required to provide advance notice of any actual or potential conflict to the Chairperson and Company Secretary for consideration at the next meeting date.

Declaration of conflict of interest is a standard agenda item at all meetings before business is considered. Any member conflicted is excluded from the decision making process. The Company Secretary maintains a Register of Interests and no material conflicts were reported during the period.

Additionally, following appointment, Directors are required to disclose any circumstance capable of giving an actual or potential conflict of interest and thereafter annually.

COMPLIANCE WITH THE GOVERNANCE FRAMEWORK, CODES AND REGULATIONS

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

The Board is charged with ensuring appropriate systems and controls are in place to monitor compliance with the established legal and regulatory framework. Every quarter, the Audit and Risk Committee receives reports on 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.

At UDB, corporate governance is not a box ticking exercise, it is engrained in the Bank's culture, business, and operations. The Company applies the core principles of good corporate governance (fairness, accountability, responsibility, and transparency) in all its dealings. The Company Secretary monitors the international and local governance trends and developments to ensure the existing culture within the Bank is aligned.

The Company has established policies to guide the operations of the business and the conduct by employees and these policies are periodically reviewed to ensure relevance and alignment. Key policies reviewed during the period have been highlighted within the report. The Board also reviewed its Charter to consider changing circumstances and alignment to best practice.

In the year under review, the Bank complied with the legal, regulatory, compliance and governance framework.

ACTING ETHICALLY AND RESPONSIBLY

The Bank has an established Code of Conduct which requires all employees to do the right thing and continually strive to do business in a sound manner. This behaviour helps shape our culture and is a necessity for successful delivery of the Bank's purpose, mandate, and strategy. The Code of conduct underpins everything we do as an institution and governs our relationship with key stakeholders.

ENGAGEMENT WITH SHAREHOLDERS

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

Shareholders are encouraged to attend the Annual General Meeting to exercise their rights including approving new director appointments, re-appointment of directors, endorsement of the audited accounts, appointment of external auditors for the period 2022, approval of director fees and approval of dividends or in the alternative, a re-investment of the net profits.

BOARD COMMITTEE REPORTS

A. Board Credit Committee Report

The Board Credit Committee (BCC) is comprised of two (2) Independent Non-Executive Directors including Mr. Nimrod Waniala, the chairperson and Mr. John Byaruhanga and one (1) Executive Director, Mrs. Patricia Ojangole. The Director Investments, Director Credit and Director Risk are permanent invitees to all BCC meetings held. The Committee was also supported by a Board Advisor, Mr. Christopher Kigenyi who continued to bring a wealth of technical experience at the meetings. The Board is satisfied that the collective skills of the members of the BCC were appropriate, relative to the size and circumstances of the Bank.

During the period under review, the Committee ensured that frameworks for credit risk governance were in place to effectively manage credit risk which is inherent given the nature of the business. The committee monitored the overall and product specific concentration limits, monitored ongoing lending policies and the implementation of lending policies commensurate with specified risk appetite, including loan approval authorities, the delinquency trends as well as collection strategies and recommended write-off of specific accounts for Board approval.

The Committee's reports to the Board contain the following information: credit portfolio performance, adequacy of provisions and the status of non-performing loans. The BCC approves credit applications in the excess of Ushs 1.5 billion only and convenes as and when required to consider credit applications falling within its ambit.

As at 31st December 2021, the BCC approved funding of Ushs 635 billion to various projects. Details of these and other transactions are provided in the sustainability section of the Annual Report.

The Committee held a total of 14 meetings during the year and details of the attendance are indicated on v.

UGX 1.5 BILLION — **VALUE OF CREDIT APPLICATIONS APPROVED BY BCC**

B. Board Strategic Planning Committee Report

The Board Strategic Planning Committee (BSPC) comprised of three (3) independent Non-Executive Directors including Mrs. Silvia Angey Ufoyuru, the Chairperson, Mr. Nimrod Waniala, Mr. John Byaruhanga, and one (1) Executive Director, Mrs. Patricia Ojangole. The Director Strategy and Corporate Affairs and Director Finance and Business Operations are permanent attendees at all meetings. The Board confirms BSPC membership consisted of appropriate skills, knowledge, experience and was of sufficient size relevant to the Bank needs.

The Committee's specific responsibilities as per the Charter include the following:

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

ii. Provision of oversight on matters affecting the Bank's human resource policies.

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

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

v. Setting performance-related incentive schemes, performance criteria, and measurements.

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

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

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

ii. The Organisational structure and Employee Value Proposition.

iii. Research strategy

iv. Strategic Planning Policy

v. Procurement of a Core banking system and an ERP Revamp system

The Committee held 4 meetings during the year and details of the attendance are indicated on page 64.

C. Board Audit and Risk Committee Report

The Board Audit and Risk Committee (BARC) constituted three (3) Independent Non-Executive Directors namely, Mr. Henry Magino Balwanyi, the Chairperson, Mr. Francis Tumuheirwe and Mrs. Silvia Angey Ufoyuru. The Committee was supported by the Board Advisor, Mr. Albert Richards Otete who continued to provide technical guidance to the Committee. The Chief Internal Auditor, Director Finance and Business Operations, Head Legal and Director Risk are permanent attendees at the meetings.

During the year, the Committee exercised its mandate by assisting the Board fulfil its oversight responsibilities on the evaluation of the adequacy and efficiency of accounting policies, challenging the integrity of financial reporting, internal controls, and risk management, including

the determination of how well the principles on corporate governance were implemented.

During the period under review, the Committee considered the following and recommended the same to the Board for approval:

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

ii. Expected Credit Loss

iii. Management and Audited accounts

iv. Policies: Legal, Treasury, SME, Youth, Women, Credit, Asset Finance, Conflict of Interest and Whistleblowing policies

The Committee held eight (8) meetings during the period as indicated on page 64.

INTERNAL CONTROL

The BARC monitored the effectiveness of the Bank's internal controls and compliance with the Enterprise-wide Risk Management Framework (ERMF). The emphasis on risk governance is based on three lines of defense and the BARC relies on the regular reports from departmental heads, Risk and Compliance and the Internal Audit function to evaluate the effectiveness of the internal controls. No significant findings came to the attention of the Committee of any material breakdown in the internal controls during the period under review.

The Committee opines that the internal accounting controls were adequate to ensure that the financial records are reliable in preparation of the Annual Financial Statements, that accountability for assets and liabilities was maintained due to sound accounting policies supported by reasonable and prudent judgments and estimates. The BARC obtained assurance that the internal controls of the Bank were effective in all material aspects throughout the year under review.

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

INTERNAL AUDIT

The Internal Audit Function reports directly to the Committee and has an administrative reporting line to the Managing Director. The BARC is responsible for ensuring that the Internal Audit Function is independent and has the necessary resources and authority to effectively discharge its duties.

The BARC monitors the adequacy and effectiveness of internal controls every quarter and assesses the effectiveness of the Internal Audit Function. The BARC reviewed and approved the Internal Annual Audit Plan which was fully implemented during the period.

The Committee monitored and challenged, where appropriate, the action taken by Management concerning adverse Internal Audit findings.

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

EXTERNAL AUDITORS

In accordance with the Law, the Bank's external auditor is the Auditor General. The Auditor General delegated the 2021 external audit exercise to M/s. Deloitte and Touche at the 8th Annual General Meeting of the company held on 7th May 2021. Audit services will be provided for three (3) years.

The committee has satisfied itself that the external auditors, were independent of the Bank and conducted the audit in accordance with International Standards on Auditing.

THE BARC IS RESPONSIBLE FOR ENSURING THAT THE INTERNAL AUDIT FUNCTION IS INDEPENDENT AND HAS THE NECESSARY RESOURCES AND AUTHORITY TO EFFECTIVELY DISCHARGE ITS DUTIES.

The Committee, in consultation with the Executive Management, agreed to the engagement letter, audit plan and audit fees for the financial year ended 31 December 2021.

The Committee approved the external auditors' annual plan and related scope of work and monitored the effectiveness of the external auditors in terms of their skills, independence, execution of the audit plan, reporting and overall performance.

The External Auditor's report was presented to the Committee for review and endorsement of Management action plans. Senior Management is required to regularly provide an account of actions being taken to address the issues raised in the Management letter. The BARC meets the External Auditors to discuss any matters that the Committee or the External Auditors believe should be discussed privately and confirms that no such matters arose during the year..

FINANCIAL STATEMENTS

The Committee reviewed the financial statements of the Bank and confirms that the statements were prepared in accordance with the Companies Act, 2012 and the International Financial Reporting Standards. During the period, the Committee;

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

ii. Reviewed the Management Letter and Management's responses.

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

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

v. Received and considered reports from the Internal Auditor Function.

EXPERTISE AND EXPERIENCE OF THE FINANCE FUNCTION

The Committee considered and satisfied itself with the overall appropriateness of the expertise, experience and adequacy of the resources within the Bank's Finance function.

GOING CONCERN

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

RISK MANAGEMENT

The Board has assigned oversight of the Bank's risk management function to the Audit and Risk Committee (BARC). The Committee provides oversight on financial reporting risks, internal financial controls, fraud risk, and information technology risks. The BARC is satisfied that appropriate and effective risk management controls were in place during the period under review.

> **THE COMMITTEE PROVIDES OVERSIGHT ON FINANCIAL REPORTING RISKS, INTERNAL FINANCIAL CONTROLS, FRAUD RISK, AND INFORMATION TECHNOLOGY RISKS.**

BOARD STRUCTURE AND COMPOSITION			
Board of Directors	**Board Credit Committee**	**Board Strategic Planning Committee**	**Board Audit and Risk Committee**
Responsible for the performance of the Bank while retaining full and effective control	Considers and approves Credit transactions and oversees Credit Risk	Responsible for the strategic direction of the Bank, compensation policies, resourcing plans and performance goals	Monitors the adequacy of financial controls and reporting, internal control environment and Risk Management

Committee membership and attendance of meetings

	Full Board Meeting	Board Credit Committee	Board Strategic Planning Committee	Board Audit and Risk Committee
Number of meetings	**9**	**14**	**4**	**8**
Felix Okoboi	8*	N/A	N/A	N/A
Nimrod Waniala	8	14*	4	N/A
Henry Magino	9	N/A	N/A	6*
Silvia Angey Ufoyuru	5	N/A	4*	8
John Byaruhanga	7	12	4	N/A
Francis Tumuheirwe	9	N/A	N/A	8
Patricia Ojangole	8	12	4	N/A

*** Chairperson of the respective committee**

COMPANY SECRETARY

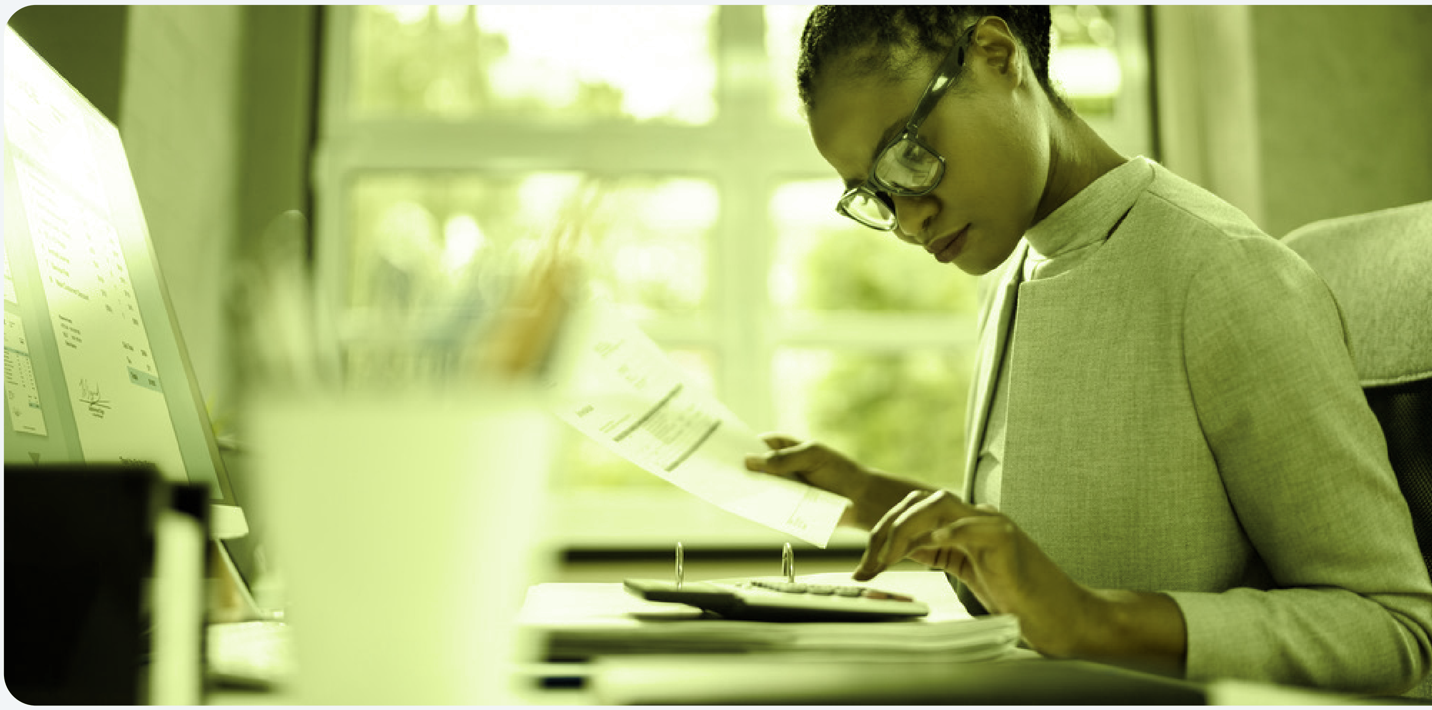
The Company Secretary is accountable to the Board and plays a pivotal role in the corporate governance of the Bank. The Company Secretary ensures information is made available to Board members in a timely manner, supports all Board and Committee meetings, designs tailored Board induction programs and evaluation tools including co-ordinating any post-evaluation action implementation plans, director training and development as well as provision of advisory services to the Board on corporate governance, legal, regulatory and compliance matters.

The Company Secretary fulfils a dual role as Secretary and General Counsel of the Bank.

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

The Company Secretary acts independently from the Board, her appointment and removal is a matter for the entire Board.

ENTERPRISE RISK MANAGEMENT



The year 2021 featured extended effects of the COVID-19 pandemic with a mix of the new variants, the global pandemic, economic recovery constraints, and the continued effects of climate change which complimented the conventional risk profiles the bank is inherently exposed to, which availed a mix of risks an opportunity for the Bank to optimize in fulfillment of its mandate.

The Bank counteracted the disruption caused by COVID-19 through its continued endeavor to provide relief to the economic sectors that had relative more devastating stress due to the pandemic effects particularly in the tourism and education sectors. Furthermore, the Credit department made significant efforts in ensuring that the Bank's asset quality remained sound through recovery and extending remediation efforts to struggling clients in other sectors.

The risk management activities focused on strengthening the Bank's Enterprise Risk Management Framework, with a focus on managing the adverse impact of the COVID-19 pandemic on the Bank's operations and operations. Key initiatives in this regard included the emphasis on resilient business continuity through strengthening the Bank's disaster recovery site in the event of a technical disruption and the implementation of the operational response plans such as the "work-from-home" policy for seamless operations while maintaining the highest level of risk governance and oversight at all levels of the Bank.

Amidst the Covid 19 disruptions, the Bank's Risk Management practices were highly responsive with several milestones realized including the following;

1. During the first quarter of 2021, the Board of Directors revised the governance structure around Enterprise Risk Management (ERM) by elevating the Unit to a Directorate level. The department, under the leadership of the Director Risk, comprises the Enterprise risk Management and the Environmental & Social (E&S) sections. During the year, the Bank continued its roll out of the Climate Finance Strategy with the aim to finance climate smart businesses.

2. In view of the changing operating environment, a number of policies and procedures were reviewed and activated including the telecommuting policy to ensure Bank operations continuity amidst the extended Covid-19 realties, among other policy reviews.

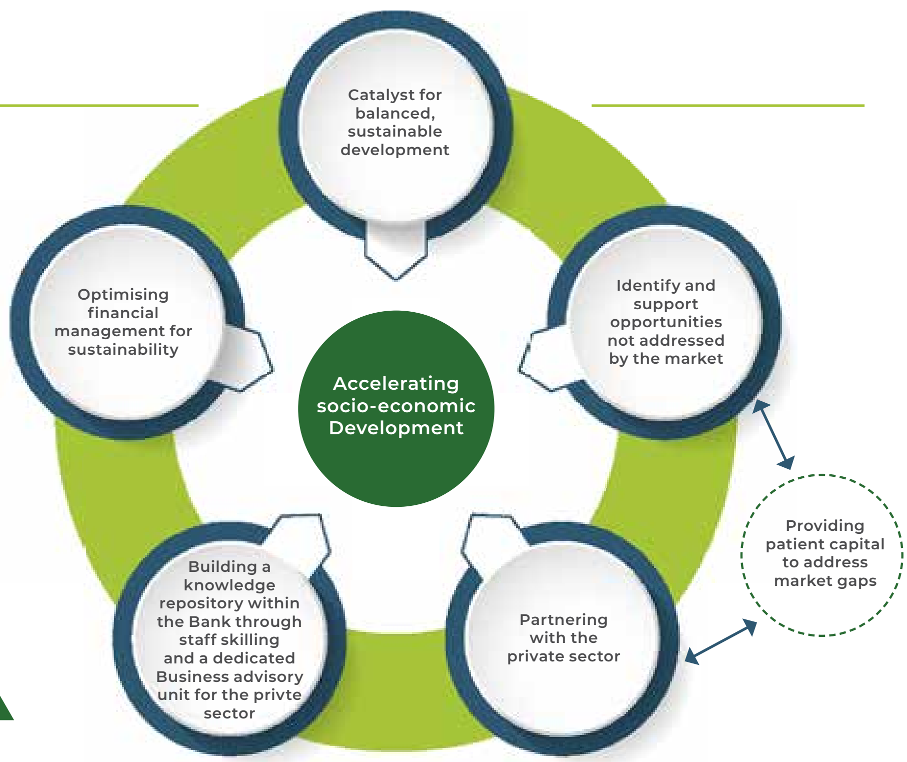
3. In a bid to strengthen its green financing initiative towards achieving a low carbon resilient pathway, the Bank applied to the Green Climate Fund for accreditation. This is intended to attract climate finance and increase financial flows towards green investments as a contribution to meeting the national target of reducing emissions to 22% by 2030. The Green Climate Fund is a fund established within the framet work of the United Nations Framework Convention on Climate Change (UNFCCC) as an operating entity of the financial mechanism to assist developing countries in adaptation and mitigation practices to counter climate change.

4. To accelerate the post Covid-19 recovery, the Bank realigned its strategic risk appetite by introducing the special programmes focusing on youth, women, and SMEs.

THE BANK'S RISK - REWARD MANAGEMENT APPROACH

Identifying and managing risk lies at the center of the Bank's business planning and strategy execution with guidance provided by the Enterprise Risk Management framework.

UDB`s RISK-REWARD MANAGEMENT APPROACH



In order to accelerate socio-economic development, three key enablers, i.e., building a knowledge repository within the Bank to cater for both institutional and the communities served, optimization of financial management for sustainability and focus on catalytic, balanced sustainable development, by partnering with the private sector, the Bank purposes to identify and support opportunities not addressed by the commercial banks and these are optimized through providing patient capital. These resultantly form the risk – reward view of the Bank in form of risks, sustainable finance for both the Bank and the private sector with a notable development impact to the country. The Bank's enterprise risk management framework is premised on a clearly established context and covers; the risk governance structure, the risk management process, and the bank's risk universe with guidance on efficient and effective risk treatment plans.

RISK GOVERNANCE AT UDB

Risk governance at the Bank is an integral aspect of corporate governance championed by the Board with a clear focus on the Bank's Mandate, Vision and Mission.

Fig 1: UBD`s Risk Management Model

The Board of Directors bears the ultimate responsibility for the risks taken on by the Bank through approving the Bank's strategic plan, risk appetite and providing oversight over the executive committee. For enhanced risk oversight, Board delegates the Board Audit and Risk Committee to oversee the development, implementation and maintenance of risk management strategies across the Bank.

The Executive Committee (EXCO), chaired by the Managing Director and constitutes of Directors at management level is responsible for executing the approved strategy while giving due attention to managing inherent and residual risks.

The Management Risk Committee is a delegated committee to provide a more granular oversight of the Enterprise Risk Management practices, processes and risk reports.

RISK MANAGEMENT IMPLEMENTATION APPROACH

UDB's risk management and general control systems are consistent with the three lines of defense model.

1st Line of Defense: Management is ultimately responsible and accountable for establishing, maintaining and ensuring proper control, risk management, and governance processes. Management identifies and manages risks, in line with the approved business strategy and risk appetite limits.

2nd Line of Defense: Constituting of the Risk and Compliance functions of the Bank, the second line of defense undertakes risk assessment at aggregate level in complement to the 1st line of defense.

3rd Line of Defense: The Internal Audit Directorate constitutes the third line of defense to provide reasonable assurance to Board on adequacy of the Bank's risk management framework. The statutory external audit complements this independent assurance.

THE BANK'S RISK MANAGEMENT PROCESS; RISK ASSESSMENT, CONTROL, MONITORING AND COMMUNICATION

a. Overview of the Bank's Risk Profile

UDBL is exposed to a mix of conventional banking risks and emerging risks driven by the business model in delivering on the Bank's mandate, operating environment (internal and external), the target markets among others. Table 1 below highlights the various risk categories the Bank was exposed to in 2021.

Table 1: Main UDB risk categories as at 2021

Main Risk Category	Risk Sub-Category	Business Activities	UDB – Responsible department or function
Credit risk	Credit risk in lending	Lending	Credit Department
	Credit concentration risk	Lending	Credit Department
	Equity risk	Equity Investment	Investments
	Credit risk in treasury	Treasury	Treasury function
Market risk	Interest rate risk in the banking book	All activities	Treasury function
	Currency risk	Treasury	Treasury function
Development Impact risk		Lending	Monitoring & Evaluation
Liquidity risk		All activities	Treasury function
Operational risk	Business Technology & Security risk	All activities	Business Technology
	Business Model risk	All activities	Risk & Compliance
	Compliance risk	All activities	Compliance function
	Process risk	All activities	Risk & Compliance
	Business Continuity risk	All activities	Risk & Business Technology
	Legal risk	Lending	Legal
	Conduct risk	All activities	Compliance function
	Human Capital risk	All activities	Human Resource Function
Strategic risk		All activities	Strategy
Reputational risk		All activities	Corporate Affairs
Climate change & Environmental risks		Lending operations	Risk & Compliance

b. Risk Assessment approach

Following Board's approval of the Business strategy, the Bank undertakes a bank wide risk assessment exercise in view of the approved strategic initiatives aimed at identifying risks associated with the opportunities to be pursued in the following year, proactively considering risk treatment plans as well as generating a list of early warning signals / key risk indicators. The outcome of this exercise is the Bank's risk register aligned to both the Financial and sustainability strategies to be pursued. By aligning strategy to risk management, the Bank is able to review and realign the Enterprise Risk Management framework on annual basis. Complement to this is a mix of the risk & control self-assessment and independent risk reviews by the 2nd and 3rd lines of defense which provide an opportunity to update the bank wide risk register on a monthly basis.

c. Risk Control

The Enterprise Risk Management framework provides detailed guidelines on Risk control approaches to be pursued by the Bank leveraging on the conventional risk control strategies of acceptance, avoidance, transfer, and control. Each risk is assigned a risk owner who is responsible for ensuring that risk control actions are undertaken in a timely manner. To complement risk control are a set of contingent measures approved to minimize impact in times when risks materialize into events. These are in form of business continuity measures that are reviewed and tested from time to time.

d. Risk Monitoring

Given the dynamic nature of the risk profile, the Board and Management keeps track of risk through a mix risk monitoring tools and reports. The Management Credit and Risk committees undertake monthly reviews of the risk profiles with direct oversight of the Executive committee while the Board Risk and Audit committee undertakes quarterly reviews, also under the full Board's oversight.

Further the Internal Audit supports in assessing adequacy of the risk management processes with independent reports to the Board.

OUTLOOK FOR 2022

Cognizant of the evolving / dynamic nature of risks and the environment in which the Bank operates, the plan is to enhance risk oversight aligned to the volatile, uncertain, complex and ambiguous pandemic environment guided by a scalable enterprise risk management framework that is reviewed on an annual basis. The risk management focus for 2022 shall entail the following aspects among others:

1. Review and implement a Scale Risk Opportunities Management framework to balance both the Bank's Risk-Reward initiatives. This shall be achieved through designing risk management tools for ease of capturing, assessing and reporting on risks and solutions to senior management for decision making.

2. Leverage on big data and data analytics as critical enablers towards optimization of risk at the Bank. In 2022, the Bank plans to have a big data strategy to help oversee and improve the way to acquire, store, manage, share and use data internally and externally. The strategy shall set the stage for business success amid an abundance of data following the anticipated growth trajectory of business but also technology goals and initiatives. This calls for treating big data like any other valuable business asset rather than just a by-product of applications.

3. Harness business process re-engineering for efficiency and effective processes towards stakeholder value creation and sustainability. The focus shall be to automate the processes that are essential to the Bank's long-term goals, improving efficiency and for better reporting. The Bank shall begin with a rapid diagnostic study to assess the full value at stake, define organizational aspirations, and develop a high-level implementation sequencing, or roadmap, to achieving those aspirations.

4. The Bank plans to automate its critical processes to better empower staff to focus on high-value decision making efficiently. Automation shall improve efficiency and reduce the time taken by staff gather information needed to do their work. When making decisions, focus is to be made on any processes that rely on a person to run queries or move information from one place to another, as these are clear opportunities for automation. The more time that saved, the better in being able to stay on top of risks.

"

RISK MANAGEMENT IS THE FOUNDATION OF THE COMBINED ASSURANCE PROCESS AND A RISK-BASED CRITERIA FOR DEALING WITH CONTROL FAILURES

Technology is rapidly maturing in the financial sector and many banks are moving away from the one-solution-fits-all approach toward more specialized solutions. The evolving world presents critical lessons about workflow in this new world and how typical process redesign/re-engineering can be put off or even skipped in favour of automation particularly where systems are likely to be replaced.

5. As a recommended governance practise, plans are underway to improve assurance coverage and quality through better coordination of combined assurance providers. The 'right amount of assurance' depends on the risk appetite of the organisation. The Bank, therefore, shall align its control validation approach and efforts across the Bank to drive efficiency and the right levels of comfort. Risk management is the foundation of the combined assurance process and a risk-based criteria for dealing with control failures on a consistent and strategically aligned basis shall ensure that organisational objectives and goals are achieved.

The Bank, therefore, intends to adopt a 3-lines of defence assurance model that incorporates and optimizes all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, committees, and staff. The approach shall include:

a. The 1st line of defence with the primary responsibility for establishing effective governance and risk and control environment;

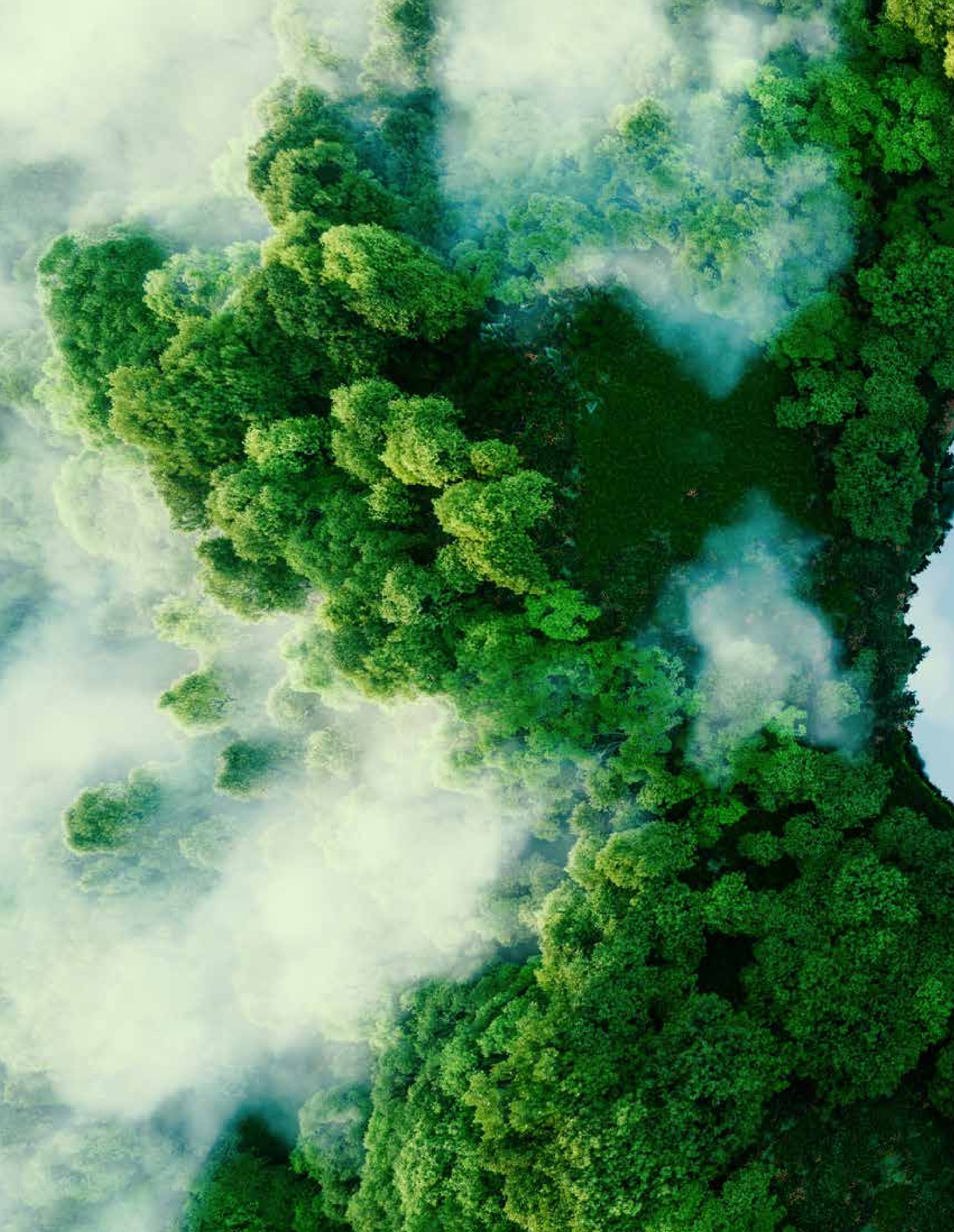
b. The 2nd line of defence to provide confidence that risk control environment is in place, fit for purpose and working as intended; and

c. The 3rd line of defence to provide independent confirmation on the entire process.

6. Compliance is defined as acting according to certain accepted standards. The Bank's compliance obligations include external, such as laws and statutory obligations that bind the Bank and internal standards such as policies, controls and procedures that staff must comply with. Compliance risk can result in failure to conform with laws. The Bank shall take appropriate steps to protect its business, operations and staff by adhering to applicable laws.

Further, the Bank shall set-up key performance indicators (KPIs) to help develop effective compliance programs supported by intelligent risk assessment. By carefully monitoring these KPIs, the Bank can avoid the costly fines and penalties that come with non-compliance, identify the root causes of compliance issues, and better cushion against potential risks.

7. With the Bank's business growth and outsourcing services to external parties, the Bank faces potential risks such as reputational, financial and compliance emanating from third parties. This means reviewing vendor risk profiles more frequently to understand how changes might impact the Bank is paramount. Just as the Bank continues to assess its own resiliency, consideration shall be made to test third-party partners' ability to be resilient, too. This, among others, shall include checking the parties' business response capabilities, their incident response, their cybersecurity and how well they can respond. An elevated third-party risk management strategy shall help to ensure the Bank's maximum agility. The need for robust vendor resilience is brought into sharp relief when talking about cybersecurity and the risks of ransomware. Protecting the Bank's networks from intrusion shall form part of the key risk areas assessed in 2022.



ENVIRONMENTAL & SOCIAL RISK MANAGEMENT

ENVIRONMENTAL & SOCIAL RISK

The Bank is cognizant of potential environmental and social risks/impacts associated with its day-to-day business decisions and those of its clients (borrowers).

The Bank believes that for certain financed sectors and/or activities, environmental and social risks/implications of the lending and investments must be factored in the credit due diligence processes along with the conventional financial risk. UDB's commitment to strong environmental and social risk management supports the bank's mandate to be a leader in corporate citizenship and to continue building trust with all its stakeholders.

The Bank's Environmental and Social Risks Management (ESRM) Framework and policies build on the set due diligence requirements to enable UDB identify, evaluate, and manage the environmental and social risks associated with the bank's lending and operational activities.

As indicated by IFC, 2007, management of E&S risks of a Bank's investment portfolio can best be undertaken through proactive due diligence approaches such as screening and full appraisal of such projects and associated prior to financing the project, a practice, that UDBL has embraced.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT IN UDB'S CONTEXT

Environmental and Social Risk Management denotes the risk management policy framework and procedures designed to identify, assess, mitigate, and monitor environmental, social risks and climate change risks associated with current and future financing/investments and the operations of a business. These procedures enable the institution to minimize their exposures of foreseeable environmental and social risks and, at the same time, provide adequate protection against unforeseeable risks – including include environmental degradations and pollution, hazards to human health, safety and security, impacts on communities and threats to a region's biodiversity and cultural heritage, among others.

The Bank recognizes that its business decisions and those of its clients have the potential to impact communities (social wellbeing) and the natural environment. UDB therefore, takes deliberate steps to proactively prevent, avoid, or mitigate any adverse impacts and risks to the community and environment emanating from implementation of its financing activities and operations.

ADDRESSING ENVIRONMENTAL & SOCIAL RISKS

UDB developed and implements an environmental and social management system, to systematically assess the environmental and social risks and opportunities arising from its borrowers' operations and manage its exposure to risk. The Bank has a clear understanding of the potential environmental and/or social risks and implications for a borrower's operations prior to being linked to the borrower in the context of a transaction. This is undertaken systematically through proactive identification, assessment, and management of environmental and social risks before they materialize, become significant or result in an adverse outcome.

TYPES OF E&S RISKS IN UDBL'S CONTEXT:

Liability Risk:

By virtue of taking possession of collateral assets, UDB is exposed to liability risk stemming from its borrowers' legal obligations. This includes fines, penalties, and costs for addressing third-party claims for damages due to negligence in managing environmental and social risks in borrower's operations and clean-up of contamination. If the bank is a principal shareholder of borrower's operations, it may also be directly liable for all environmental and social risks associated with borrowers' operations.

Financial Risk:

UDB is exposed to financial risk stemming from potential disruption of borrower's operations as a result of environmental and social problems. If not managed properly, these problems can affect borrowers' ability to meet their financial obligations to the bank and/or can drive down the value of a borrower's collateral in the context of a transaction. A borrower's failure to effectively address environmental and social considerations can jeopardize its business operations as well as the financial institution that is supporting the transaction. UDBL will also face liquidity risks from environmental and social problems associated with collateral. For example, the bank may sometimes require incurring additional costs to undertake cleaning if borrower's activities have led to pollute the environment of any particular land or similar assets which the bank has obtained as collateral to a loan before such an asset is required to be liquidated.

Reputational Risk:

UDB is exposed to reputational risk due to potentially negative publicity associated with the different borrowers' poor environmental and social practices. This harms the bank's brand value and image in the media, with the public, the business, and the financial community, and even with its own staff. For example, if a borrower faces strong public opposition against its operations, the financial bank's reputation may be tarnished through its association with this particular borrower.

Credit Risk:

UDB is exposed to credit risk when a borrower is unwilling and/or unable to fulfill the contractual obligations associated with a transaction as a result of environmental and social issues. For example, if a borrower faces increased capital or operating costs of complying with environmental and social standards or if operating and emission/discharge permits are absent or expired resulting in regulatory fines or penalties, there is a risk that the borrower cannot meet its financial obligations to the bank.

Market Risk:

UDBL is exposed to market risk stemming from a reduction in the value of collateral associated with a transaction due to environmental and social problems. For example, if a production site becomes contaminated, the market value of the underlying collateral will fall.

ENGENDERING SUSTAINABILITY

Like other Development Finance Institutions (DFIs), UDB undertakes numerous interventions to spur socio-economic growth, including the provision of long-term financing and technical assistance to strategic sectors critical for the country's sustainable development and growth. There is growing evidence of DFIs' contributions towards the Sustainable Developments Goals (SDGs), in particular SDG 7 (ensuring access to affordable, reliable, sustainable and modern energy for all), SDG 8 (promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all) and SDG 13 (taking urgent action to combat climate change and its impacts).

Having been the first institution in Uganda and among the first five globally, to achieve certification under the Sustainability Standards Certification Initiative (SSCI) in 2020, UDB subscribes and is leading the charge to mainstream the principles of sustainable development i.e. environmental protection, People (Social inclusion) and Profits (economic viability) as illustrated in the figure below.

At UDB, we believe that the institution's activities and success should neither compromise ability of future generations to achieve their needs nor have an adverse effect on the environment or communities that we serve.

ENVIRONMENTAL AND SOCIAL GOVERNANCE ASSURANCE

ENVIRONMENT AND SOCIAL RISK MANAGEMENT IN LENDING

Our lending activities account for a significant portion of our indirect impact on the environment and communities. In line with the UDB Environmental and Social Risk Management Framework, the Bank has embedded environmental and social risk management into our lending processes through a coherent E&S Management System (ESMS). This system comprises the environmental and social risk governance standard, the environmental and social risk policy, other supporting statements (such as the exclusion list), environmental and social risk screening and monitoring tools and staff training.

The Bank established a dedicated Environmental and Social Risk Management Unit that is responsible for ensuring that all environmental, social, and related risks are identified, evaluated, and managed. The Bank's ESRMS is based on international best practice (IFC Performance Standards and Equator Principles) and aligned with the Uganda's National Environmental and Social Requirements such as National Environment Act, 2019.

The Bank undertakes E&S risk management throughout the transaction process, from the pre-credit stage to post-financial closure. Additionally, the Bank encourages and trains its clients to meet internationally accepted environmental and social risk standards where applicable and to develop action plans to close any gaps between these standards and their current performance. Complimentary to this, the Bank's exclusion list defines several exclusions for which UDB will not provide financing.

INTERNAL E&S RISKS TRAINING AND AWARENESS

Internal E&S training is regularly conducted amongst members of staff, focusing on general E&S risk awareness, UDBL E&S risks management process, and relevant environmental guidelines, standards, and requirements. Training includes physical and online training, using the bank in-house training platforms and resources.

Additionally, the Bank is continuing to strengthen its capacity to undertake GHG emission calculation for some of its key investments. In 2021, in collaboration with FAO, selected staff undertook training on the application of the Gleam-i tool that will enable the bank to benchmark, calculate and manage its carbon footprint relating to its financing for livestock farming projects.

INCIDENT TRACKING AND MANAGEMENT

For this period of this reporting (FY 2021), the bank through the routine E&S monitoring activities registered one major incident relating occupational health and safety as indicated below. Other recording incidents were minor and occupational health and safety in nature such as slips and falls, minor cuts among others.

Client	Incident Category	Mitigation Measures
Client 1	Sustained leg injuries and loss of finger	The victim was given first aid from at the factory facility and later referred to the Health facility with which the Company has a Memorandum of Understanding to handle all the emergency/referral cases that emerge at the factory facility.

E&S COMPLIANCE MONITORING

As part of follow-up to ensure compliance with E&S covenant conditions, the bank undertakes routine monitoring (onsite) of the projects it finances. The monitoring objective is to assess the clients' degree of implementation of the E&S recommendations, conditions, and compliance with the national/international E&S requirements and standards. Additionally, monitoring activities enable the bank to identify any risks that may have been unforeseen during the appraisal stage.

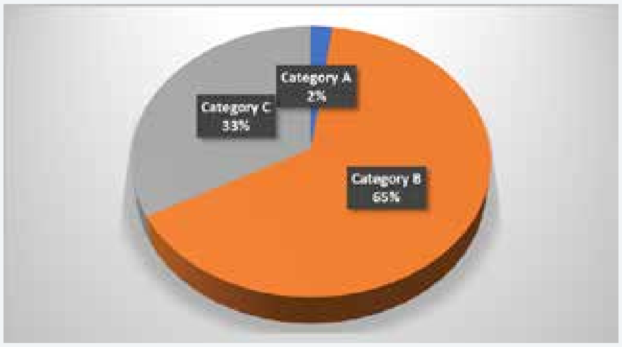
E&S PROJECT RISKS APPRAISAL BY CATEGORY

According to the Bank's E&S Policy, all appraised projects must be screened against the four environmental and social risk categories i.e., A[1],B[2], C[3] or FI[4] (Financial Intermediaries). These categories denote the magnitude (sensitivity, nature and extent) of potential E&S risks/ impacts associated with implementation of financed projects and determines the level of the environmental and social risks and impacts assessment/appraisal, information and disclosure and stakeholder engagement required.

Of the projects appraised for E&S compliance, majority (84.5%) were brown field projects and just 15.5% were start-ups (greenfield projects). 65% of the appraised projects fell under category B, 33% under category C and just 2% under Category A (high risk projects). All projects under category A&B were subjected to a rigorous and comprehensive E&S risks evaluation, potential risks and impacts analysed, and appropriate mitigation measures recommended and/or implemented.

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.



Categorization of projects appraised in 2021

ENVIRONMENTALLY ORIENTATED AND GREEN FINANCE INITIATIVES

As a DFI, UDB recognizes that the biggest influence we could have on our collective natural capital is to fund programmes and initiatives to respond to the most pressing environmental issues of our time. It is therefore imperative that we act by supporting and investing in initiatives aimed at climate change mitigation and adaptation. UDBL's climate finance initiatives involve managing facilities, funds and programmes that promote a greener economy, drive sustainability and development impact, and support a Just Transition to a low carbon – carbon neutral economy, and adaptation to climate change.

1.1. GREEN CLIMATE FUND

The Green Climate Fund (GCF) is a global funding mechanism set up by the United Nations Framework Convention on Climate Change (UNFCC) to support developing countries in responding to climate change. UDB commenced the process of accreditation with the GCF, has submitted an application and the same is for review. Upon being accredited to the GCF, the Bank will be eligible to access funds to finance low-carbon and climate resilient development projects thereby enhancing UDB's ability to implement such projects across the country.

1.2. REDUCING OUR IMPACT ON THE ENVIROMENT

UDB endeavours to continuously improve its energy and water usage, and waste management, through a host of measures including, wherever possible, reducing the amount of electricity we consume, the water we use and the waste we generate.

1.2.1. Waste management

Proper collection of various types of waste forms an important part of the Bank's waste management strategy. The Bank focuses on recycling paper for reuse and collection of the other waste streams for proper disposal. As such, workstations for each of the Bank's employees has a litter bin. Collected wastes in each bin gathered in the central waste collection area of the Bank Office building from where they are disposed of through legitimate contractors at certified waste disposal facilities. Although the UDB does not generate significant volumes of waste, it recycles as much as possible.

1.2.2. Water usage

As a Bank, we actively measure and monitor our water usage throughout our operations. Where possible, we develop proactive strategies to manage our water usage as we are committed to being a responsible custodian of water. Water is an increasingly scarce resource, and as a Bank, we ensure that we use it efficiently. Although our operations are not particularly water-intensive, we are committed to more efficient water consumption through reduced consumption on our precincts.

1.2.3. Energy and emissions

UDB is focused on reducing its consumption of non-renewable energy especially from fossil fuels-ran generator. We mainly consume renewable energy through National Grid electricity at our offices. The Bank has also implemented a car-pooling approach while undertaking its activities including project appraisal and monitoring visits; this reduces total gas emissions per activity by through minimizing the number of vehicles per activity undertaken.

1.3. BANK'S 2021 INTERNAL CARBON FOOTPRINT ESTIMATES

Climate change is the most important challenge facing our generation and the scale of the challenge is vast especially in the 21st century. Greenhouse gases emissions from anthropogenic activities (agriculture, industrialization, energy generation, transportation (fossil fuels usage) etc.) remains the primarily responsible for the current climate change impacts both globally and locally.

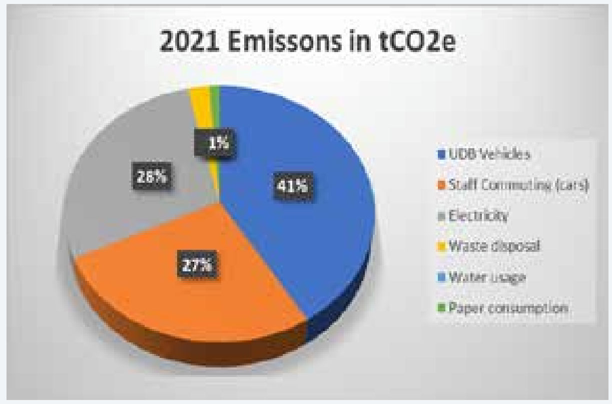
UDB is cognizant of its contribution to GHG emissions through its operations and those of its borrowers. And through a number of initiatives such as onboarding green (carbon-neutral) projects, supporting climate adaptation projects especially under agriculture as a priority sector among others, the Bank is committed towards reducing its carbon footprint especially from its internal processes. UDB's headcount continued to grow through the year, rising to 85 employees from 69 in 2019, increasing the potential for emissions generated by the bank.

To account for the bank's Greenhouse Gas Emissions Inventory/carbon footprint, from its operations for the year 2021, the Greenhouse Gas Emission Assessment was undertaken using the UNFCCC GHG calculator (Version 02.1), covering direct and indirect emissions from the bank's direct control operations. The estimation was conducted using emission factors obtained from the Intergovernmental Panel on Climate change (IPCC).

UDB Carbon Footprint

Category		Emission source category	t CO2e 2020	t CO2e 2021
Scope 1	Direct emissions from owned or controlled mobile sources	UDB Fleet	39.68	66.80
		Staff Commute	20.78	43.22
Scope 2	Location-based emissions (Electricity purchased, generator, and mowing machine)	Electricity	24.04	46.14
Scope 3	Waste generated in operations	Waste disposal	1.06	4.09
	Purchased goods	Water usage	0.03	0.05
		Paper consumption	0.90	1.84
Total Emissions			86.49	161.73

The 8.6% increase in the bank's head count and resumption of Bank operations following the easing of Covid-19-induced travel restrictions account for the increase in total GHG emissions in 2021, the biggest contributors being direct emissions from transport (Bank fleet and staff commute) and electricity usage.



Breakdown of emission generation

The Bank continues to undertake deliberate efforts to contain the emissions generated from its operations.

CONCLUSION

The Bank is on track of ensuring compliance of all its investment portfolio with national and international E&S requirements, standards, and policy regime aimed at minimising the inherent E&S risks that accrue from the bank's investments and operations. The positive compliance trend is attributed to rigorous implementation of a robust E&S Policy framework, executed through credit due diligence processes such as initial E&S risks examination (project screening), compliance monitoring with covenant conditions and other E&S regulatory requirements as well as fostering wholistic sustainability in the Bank.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OPERATING ENVIRONMENT

ECONOMIC PERFORMANCE FOR 2021 AND OUTLOOK FOR 2022

1.0 EXTERNAL ECONOMIC ENVIRONMENT

1.1 GLOBAL ECONOMIC ACTIVITY AND OUTLOOK

Global growth is projected to slow to 3.6% in 2022 from 6.1% in 2021 (IMF, 2022). The outlook has deteriorated, largely because of geopolitical tension (Russia-Ukraine war)—causing a tragic humanitarian crisis in Eastern Europe—and the sanctions meted out to Russia. This crisis unfolds while the global economy was on a mending path but had not yet fully recovered from the COVID-19 pandemic, with a significant divergence between the economic recoveries of advanced economies and emerging market and developing ones (Tableb1).

In addition to the war, frequent and wider-ranging lockdowns in China—including in key manufacturing hubs—have also slowed activity there and could cause new bottlenecks in global supply chains. Higher, broader, and more persistent price pressures also led to a tightening of monetary policy in many countries. Overall risks to economic prospects have risen sharply and policy trade-offs have become ever more challenging. Beyond the immediate humanitarian impacts, the war will severely set back the global recovery, slowing growth and increasing inflation even further.

Table 1: Global Real GDP Growth Rate and Outlook (%), 2019-2023

Region	Actuals			Projections	
	2019	**2020**	**2021**	**2022**	**2023**
World	2.9	-3.1	6.1	3.6	3.6
Advanced Economies	1.7	-4.5	5.2	3.3	2.4
Emerging Market and Developing Economies (EMDEs)	3.7	-2.0	6.8	3.8	4.4
Sub-Saharan Africa	3.1	-1.7	4.5	3.8	4.0
East African Community (EAC)	5.2	-0.7	5.8	5.5	5.9

Source: International Monetary Fund (2022)

1.2 SUB-SAHARAN AFRICA ECONOMIC ACTIVITY AND OUTLOOK

Growth in Sub-Saharan Africa (SSA) reached an estimated 4.5% in 2021, supported by a rebound in commodity prices and a gradual easing of social restrictions. Nevertheless, the spike in global geo-political tensions (Russia-Ukraine conflict) and supply chain disruptions are expected to slow the recovery pace. Growth in Sab-Saharan Africa is projected to slow to 3.8% in 2022 from 4.5% in 2021 (IMF, 2022).

Growth in 2021 in the two largest SSA economies—Nigeria, and South Africa—is estimated at 4.3% from a contraction of 4.1% in 2020. In 2022, these two economies are forecast to grow by 2.7% (IMF, 2022). Specifically, growth in Nigeria, the region's largest economy, was estimated at 3.6% last year, primarily driven by the recovery in non-oil sectors. Oil production remained below pre-pandemic levels, held back by disruptions to maintenance work and declining extractive investments. Social unrest and violence continued to weigh on consumer and business confidence. Growth in South Africa is estimated at 4.6% in 2021, reflecting a strong rebound in mining, manufacturing, and services sectors. The recovery slowed in the second half of 2021 owing to severe COVID-19 outbreaks, power outages, and a rise in social unrest (IMF and World Bank, 2022).

Elsewhere in the region, tourism-reliant economies (Madagascar, Mauritius, Namibia, Seychelles) saw some improvement in international arrivals thanks to the rapid progress with vaccinations and a partial reopening of international borders. For example, tourism is recovering rapidly in Mauritius following a full reopening in October 2021. In some countries, resurgences of social unrest, insecurity, violence, and conflict (Eswatini, Ethiopia, Mali, Mozambique, Sudan), continue to hamper the pace of recoveries.

Policy space has narrowed further owing to increasing public debt levels, lost fiscal revenue, and rising inflation in some countries. Several large SSA economies tightened policy in 2021 over concerns about rising energy and food prices (Angola, Mozambique, Ethiopia, South Africa, Zambia, Zimbabwe). In some countries, inflation has remained in double digits (Nigeria, Ethiopia, Angola), partly because of large currency depreciations (IMF, 2022).

Constraints on financing, particularly in low-income countries, has also limited fiscal support. In some countries, expenditure on pandemic-relief programs crowded out spending on infrastructure and development projects. Average general government fiscal deficits improved only marginally in 2021 to 4.6% of GDP from 5.2% of GDP in 2020, with government debt rising in nearly 60% of all countries in Sub-Sharan Africa last year (World Bank, 2022).

1.3 EAST AFRICAN COMMUNITY (EAC) ECONOMIC ACTIVITY AND OUTLOOK

Economic growth in East Africa Community (EAC) is projected to slow from 5.8% in 2021 to 5.5% in 2022, according to IMF latest World Economic Outlook report (2022), as the global growth slows down due to geo-political tensions and supply chain disruptions (Table 1).

In 2022, the economic growth will decline in the EAC countries save for Burundi, South Sudan, and DR. Congo. According to IMF World Economic Outlook report (2022), the Uganda's real GDP growth rate will decline from 5.1% in 2021to 4.9% in 2022, Rwanda's growth rate will decline from 10.2% to 6.4%, Tanzania's from 4.9% to 4.8%, and Kenya's from 7.2% to 5.7% during the same period. On the other hand, the economic growth in Burundi will rise from 2.4% in 2021 to 3.6% in 2022, South Sudan from 5.3% to 6.5% and DR Congo from 5.7% to 6.4% during the same period (Table 2). Specifically, the rise in economic growth rate in South Sudan is mainly driven by improving macroeconomic conditions and relative peace that have supported a rebound of growth in services and trade (IMF, 2022).

Table 2: East African Community Real GDP Growth Rate and Outlook (%), 2019-2023

Region/ Country	Actuals			Projections	
	2019	2020	2021	2022	2023
East Africa Community (EAC)	5.2	-0.7	5.8	5.5	5.9
Uganda	7.7	-1.4	5.1	4.9	6.5
Kenya	5	-0.3	7.2	5.7	5.3
Tanzania	7	4.8	4.9	4.8	5.2
Rwanda	9.5	-3.4	10.2	6.4	7.4
Burundi	1.8	0.3	2.4	3.6	4.6
South Sudan	0.9	-6.6	5.3	6.5	5.6
DR Congo	4.4	1.7	5.7	6.4	6.9

Source: International Monetary Fund (2022)

1.4 GLOBAL INFLATION AND OUTLOOK

Inflation is expected to remain elevated driven by war-induced commodity price increases and broadening price pressures. For 2022, inflation is projected at 5.7% in advanced economies and 8.7% in emerging market and 12.2% in Sub-Saharan Africa (Table 3).

Table 3: Global Inflation and Outlook (%), 2019-2023

Region	Actuals			Projections	
	2019	2020	2021	2022	2023
Advanced economies	1.5	0.7	3.1	5.7	2.5
Emerging Market and Developing Economies (EMDEs)	5.1	5.2	5.9	8.7	6.5
Sub-Saharan Africa	8.1	10.2	11	12.2	9.6
East Africa Community (EAC)	9.8	8.8	5.1	8.2	7.3

Source: International Monetary Fund (2022)

The economic effects of the Russia-Ukraine war are spreading far and wide—mainly through commodity markets, trade, and financial linkages. This is because Russia is a major supplier of oil, gas, and metals, and, together with Ukraine, of wheat and corn, the current and anticipated decline in the supply of these commodities has already driven their prices up sharply. Europe, Caucasus and Central Asia, Middle East and North Africa, and sub-Saharan Africa are most affected. The food and fuel price increases will hurt lower-income households globally including in the Americas and Asia.

The war adds to the series of supply shocks that have struck the global economy over the course of the pandemic, contributing to more shortages beyond the energy and agricultural sectors. Through closely integrated global supply chains, production disruptions in one country can very

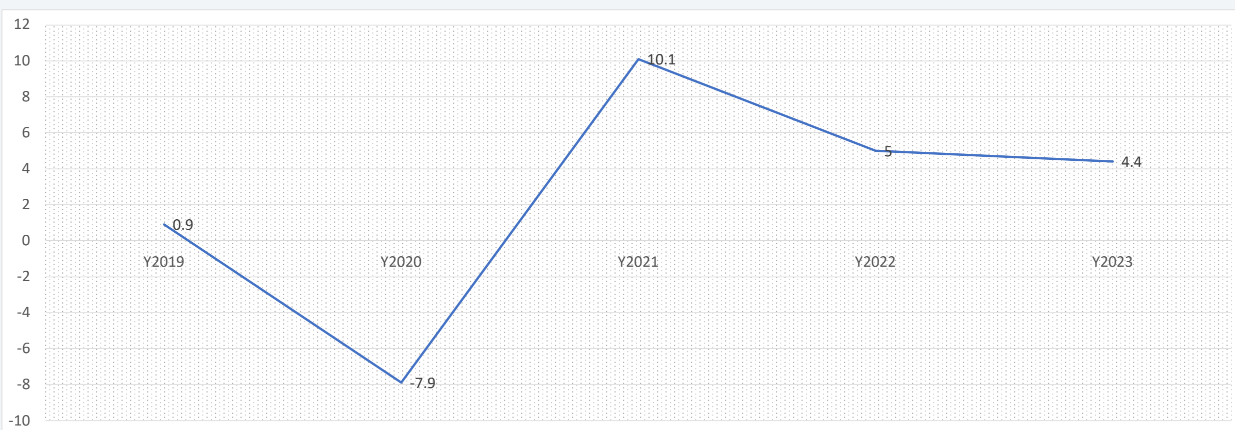
quickly cascade globally. Firms in Russia and Ukraine supply specialized inputs, and shortfalls in some of those inputs are already having impacts on European car manufacturers. Some countries in eastern Europe and central Asia have large direct trade and remittance links with Russia. Activity in those economies is expected to suffer. The displacement of more than 4 million Ukrainian people to neighbouring countries, especially Poland but also Romania, Moldova, and Hungary, will also add to economic pressures in the region.

Even prior to the war, inflation had surged in many economies because of soaring commodity prices and pandemic-induced supply-demand imbalances. Some emerging markets and developed economies' central banks, such as the US Federal Reserve and those in Latin America, had already come under pressure before the war, bringing forward the timing of their monetary policy tightening. War-related supply shortages will greatly amplify those pressures, notably through increases in the price of energy, metals, and food.

1.5 GLOBAL TRADE

Reflecting the significant slowdown in overall activity, global trade growth is expected to decline notably in 2022. Global goods demand is expected to moderate because of the war as extraordinary policy support is withdrawn and as demand rebalances back toward services. Cross-border services trade—especially tourism—is however expected to remain subdued because of the war and lingering effects of the pandemic. Overall, global trade growth is projected to slow from an estimated 10.1% in 2021 to 5.0% in 2022 and further to 4.4% in 2023 (Figure 1). Over the medium term, global trade growth is expected to decline to about 3.5% (IMF, 2022).

Figure 1: Global Trade Growth Rate and Outlook (%), 2019-2023



Source: Computation based on IMF Statistics (2022)

1.5 GLOBAL COMMODITY MARKET SITUATION

Energy prices surged in the second half of 2021 and are currently projected to be much higher in 2022 than previously expected, according to World Bank latest commodity market outlook report (2022). Non-energy commodity prices generally stabilized in 2021, with many at or close to all-time high; however, soaring energy costs have negatively affected the production of non-energy commodities including metals and fertilizers. Demand has been lifted by firming global activity as well as adverse weather, which, in some countries, increased energy use for heating and cooling, disrupted coal production, and reduced hydroelectric power. Reflecting these developments, the cost of electricity in many countries has also risen sharply, especially in Europe.

In 2022, the War-related interruptions to production, sanctions, and strongly impaired access to cross-border payment systems will disrupt trade flows, notably for energy and food. The magnitude of these changes depends not only on the decline in exports because of the conflict and sanctions, but also on the elasticity of global supply and demand.

Prices of agricultural commodities are likely to rise further— particularly wheat (together, Russia and Ukraine account for close to 30% of global wheat exports) and, to a lesser extent, corn (IMF, 2022). These changes will add to already soaring prices of staple foods and mean that disruptions to Russian exports may be windfalls for other commodity exporters.

Notably, Oil prices rose to an average of $69/bbl in 2021— an increase of 67% over 2020 and $7/bbl higher than previously expected as oil demand recovered, boosted by higher natural gas prices which encouraged the use of oil as a substitute (World Bank, 2022). Despite a planned increase in production by the member countries of OPEC+, global oil output rebounded more slowly than expected owing to supply outages and production constraints, in addition to a muted response to higher prices by U.S. shale oil production. Oil prices are expected to average $74/bbl in 2022 before declining to $65/bbl in 2023 as global production recovers (World Bank, 2022).

1.7 GLOBAL FINANCIAL MARKET

Given high and rising global debt, financial markets and institutions have become increasingly vulnerable to financial stress. The pandemic exacerbated unprecedented debt booms in most Emerging Market and Developing Economies (EMDEs), which have lasted longer and featured greater fiscal deteriorations than previous episodes. From the onset of the pandemic to mid-2021, EMDE governments, households, and corporations

cumulatively increased their borrowing by 45% of pre-pandemic GDP (World Bank, 2021).

Many unanticipated developments could precipitate financial stress. For instance, an inadequately forewarned acceleration in the tapering of long-term asset purchases by major central banks could unsettle financial markets and abruptly raise longer-term interest rates. This tightening of financial conditions could make debt financing more difficult for many borrowers, including EMDE governments facing reduced fiscal space. Also, the sanctions have induced direct financial stress on firms with outstanding payments for recent shipments or financial assets abroad. Beyond this, sanctions have also added operational challenges to market functioning and increased volatility (IMF, 2022).

2.0 DOMESTIC DEVELOPMENTS

2.1 REAL SECTOR DEVELOPMENTS

Inflation and Outlook

In 2021, the headline inflation was controlled within the 1.9% and 3.7% range; with core inflation varying from 2.1% to 3.6% (BOU, 2021). The low annual inflation rate is partly attributed to food crops and related items inflation because of the favorable weather conditions experienced in the country. However, the inflation is forecast to average 5.2% in 2022. In the medium term, inflation is projected slightingly above the target of 5% (BOU, 2022). This is mainly attributed to supply chain disruptions that have led to a spike in commodity and energy prices.

There are considerable risks surrounding the outlook for inflation with the balance of risk tilted upwards. The main upward risks include higher global commodity and energy prices due to worsening of the Russia-Ukraine war, heightened uncertainty in the financial markets due to the sanctions on Russia and anticipated tightening of monetary conditions by the Central Banks in advanced economies to contain escalating inflation, potential worsening of disruptions to global supply chains due to stringent controls of new strains of the COVID-19 virus e.g., Chain's zero covid policy. The main downside factors include diminishing domestic demand due to higher energy and commodity prices beyond general affordability and bumper food crop harvests.

Implication: Rising global inflation could prompt a faster than anticipated monetary normalisation in advanced economies, which would cause the shilling to sharply weaken, further fueling domestic inflation. The projected rise in inflation, may increase the costs of production in key growth sectors, mainly manufacturing sector, as cost of raw materials rise.

Economic Activity

In 2021, economic Activity improved following the gradual easing of the pandemic related restrictions since July 2021. This was reflected by an annual increase of 6.6% in the Composite Index of Economic Activity (CIEA) from 134.4 in 2020 to 143.3 in 2021 (BOU, 2021).

Business Perceptions

The Business Tendency Indicator (BTI) was at 51.1 in 2021, above the threshold of 50, up from 48.1 in 2020, implying the improvement in sentiments about doing business, as the economy recovers from the impact of Covid 19 pandemic (BOU, 2021). According to Trading Economics, the BTI is forecast to rise further from 51.1 in 2021 to 54.29 in 2022. The full re-opening of the economy and the diminished impact of the pandemic will unlock the factors that had held back economic activity.

According to Bank of Uganda's latest forecasts, Uganda's economic growth is projected in the range of 5.5%-6.0% in 2022. However, the spike in global geo-political tensions and supply chain disruptions are likely to hinder the stability and growth of the economy. In fact, the latest IMF World Economic outlook report (2022), puts Uganda's real GDP growth rate forecasts at 4.9% in 2022, slightly lower than 5.1% growth rate for 2021, as the Russia-Ukraine war sets back the global recovery.

The risk to Uganda's economic growth outlook remains titled to the downside. On the domestic front, uncertainty about the evolution of the pandemic continues to cast a shadow on the economic recovery. The risks remain from the global economic slowdown, the prolonged supply chain bottlenecks, and geo-political tensions. Also, the global inflationary pressures, which calls for the faster withdraw of monetary accommodation, could result in change in investor risk sentiments and the associated tighter domestic financial conditions and this could stall the domestic economic recovery.

Implication: If Business Confidence continues to rise, it may increase the level of investment to stimulate economic growth. However, the economic outlook remains gloomy due to supply chain bottlenecks, and geo-political tensions (Russia-Ukraine conflict).

2.2 FINANCIAL SECTOR DEVELOPMENTS

As of June 2020, the total assets of the Banking industry were UShs. 35.8 trillion, a rise from UShs. 30.3 trillion in 2019(18.2% rise) with profitability rising to UShs. 862.2 billion in 2020 from UShs.

775.1 billion in 2019 (Bank of Uganda (BOU) Financial Stability Report 2020). Notably, the Non-Performing Loans (NPLs) to total gross loans ratio declined slightly from 5.27% in 2020 to 5.26% in 2021, as economic activity picks up ahead of the full re-opening of the economy (BOU, 2021).

Outstanding Private Sector Credit

The stock of outstanding private sector credit in 2021 amounted to UShs. 19.8 trillion, representing an increase of 8% from the UShs. 18.2 trillion recorded in 2021 while Net credit to Government rose by 10% from UShs. 7.8 trillion to UShs. 8.6 trillion in 2021 (Figure 2). As a result, domestic credit increased by 9% from UShs. 26.1 trillion to UShs. 28.5 trillion during the same period.

Figure 2: Private Sector Credit and Net Credit to Government (UShs in trillions), 2017-2021

Source: Computation based on Bank of Uganda statistics (2021)

Implication: If private sector credit continues to rise, it will stimulate economic growth as the level of investment increases in the country. The private sector credit will be supported by the declining lending interest rates due to accommodative monetary policy by the Central Bank. However, the rise in government domestic borrowing continue to threaten the private sector credit growth in the country.

Interest Rate Movements

Bank of Uganda maintained the Central Bank Rate (CBR) at 6.5% down from the 7.0% in May 2021 where it had been maintained for 12 months (BOU, 2021). This CBR is consistent with meeting the inflation objective while supporting economic growth recovery. According to Trading Economics, CBR is projected to rise from 6.5% in 2021 to 7% in 2022 due to full re-opening of the economy.

In 2021, the Shilling denominated lending rates reduced to a weighted average of 18.5% from 19.1% recorded in 2020 (BOU, 2022). This was partly due to reduced risk aversiveness by lending institutions on account of anticipated pick-up in economic activity ahead of the full re-opening of the economy.

Exchange Rate Movements

In 2021, the Ugandan Shilling appreciated by 4% against the US dollar, recording a monthly average of UShs 3,584.69/US$ from UShs 3,717.54/US$ registered in 2020 (BOU, 2021). This appreciation was on account of subdued dollar demand from the manufacturing, trade, telecom, and energy sectors amidst stronger inflows mainly from offshore players and NGOs.

Implication: If Uganda shilling continues to strengthen, as the dollar weakens, the price for imports may decline, mainly raw materials for manufacturing and inputs for the agriculture sector. However, the rise in trade balance deficit continues to increase the exchange rate risks.

2.3 EXTERNAL SECTOR DEVELOPMENTS

Merchandise Trade Balance

In 2021, Uganda's merchandise trade deficit rose by 13% to USD 2.988 billion from USD 2.642 billion in 2020. This was on account of an increase in import receipts by 6% from UShs. 7.1 billion in 2020 to UShs. 7.5 billion in 2021 higher than 1% rise in export revenues from UShs. 4.45 billion to UShs. 4.5 billion during the same period (BOU, 2021). The increase in private sector imports was majorly driven by Base Metals & their Products, and Petroleum Products among others. According to Bank of Uganda State of the economy report for December 2021, Uganda's import growth is expected to outpace export growth due to recovery in import-intensive household consumption and private investment.

Implication: The projected decline in global economic activity due to geo-political tensions may affect demand for Uganda's exports. This is likely to increase Uganda's trade balance deficit with its associated inflationary and exchange rate risks if import receipts remain higher than export revenues.


229.56
555.74
651.32
462.93
238.38


SUSTAINABILITY
REPORT
753.95
561.84
451.91

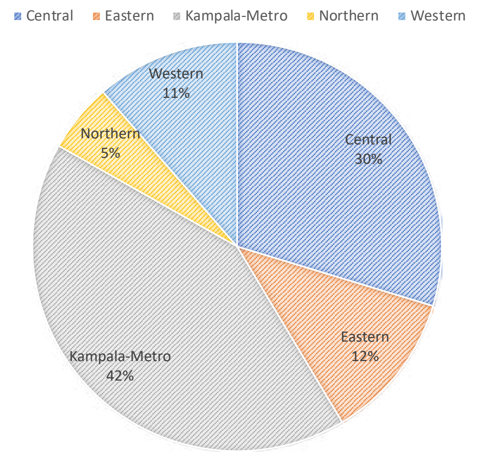
2021 HIGHLIGHTS

Despite uncertainty regarding the continued impact of COVID-19 on the economy, the Bank continued to achieve solid growth across various activities and business segments, with the Bank's gross loan book growing by **53%** year-on-year to close at UGX851Bn.

YOY Growth (2020 vs 2021)

Key KPI	2020	2021	YOY % Growth
Approval	UGX 443Bn	UGX 635Bn	43%
Disburse-ment	UGX 242Bn	UGX 428Bn	77%
Gross Port-folio	UGX 557Bn	UGX 851Bn	53%

Regional distribution 2021 Approvals



Ex-ante Development Impact 2021

From the invesment activities conducted in 2021, a total of over 180,100 individuals are projected to be lifted out of poverty. Other development outcomes from these activities include the following;

Root core indicator	Jobs	Output value (UGX Bn)	Tax (UGX Bn)	Forex (UGX Bn)
Total	45,048	7,048.36	569.59	1,479.63

No of enterprises approved in 2021	**192**
No of new to Bank enterprises approved 2021	**115**
No of districts reached in 2021	**47**

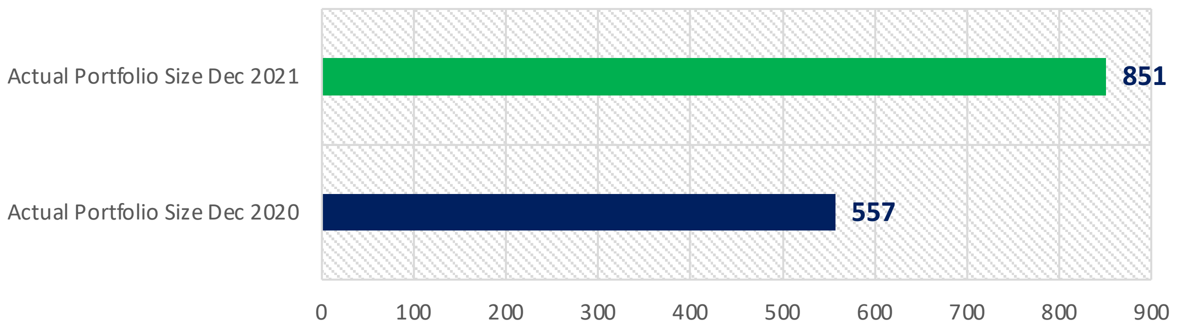
2021 Strategic Initiatives highlights

1. Constructed over 36 valley dams
2. Developed 4 private irrigation schemes
3. Enabled Financial inclusion for over 1000 smallholder farmers through Fintech
4. Supported 20 new farmer cooperatives
5. Supported 33 new Agri-SMEs
6. Increased food production and yields in selected value chains by supporting at least 6 out grower schemes and 4 medium size farms
7. Increased support for organic farming and adoption of climate smart farming techniques by supporting 12 organic farming projects
8. Improved post-harvest handling by supporting 4 post-harvest handling facilities

> THE BANK CONTINUED TO ACHIEVE SOLID GROWTH ACROSS VARIOUS ACTIVITIES AND BUSINESS SEGMENTS, WITH THE BANK'S GROSS LOAN BOOK GROWING BY 53% YEAR-ON-YEAR.

GROSS LOAN PORTFOLIO

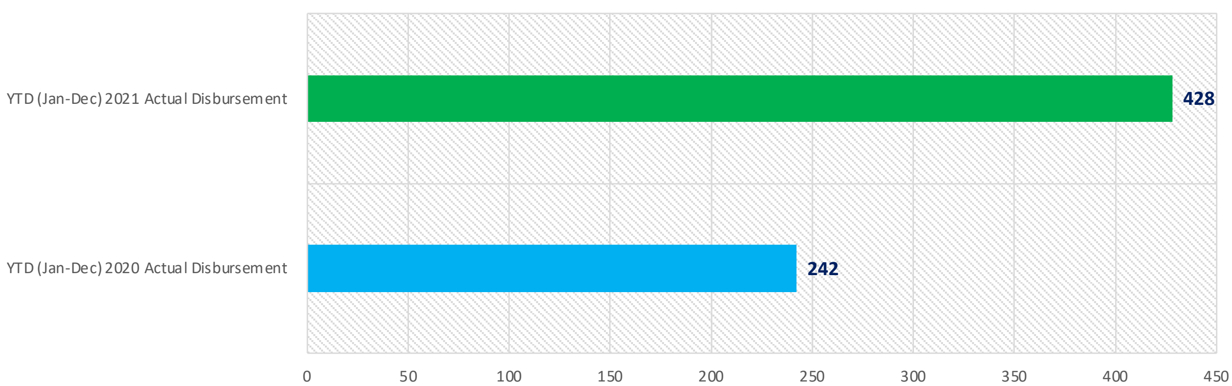
In 2021, the Bank grew the Bank's gross loan portfolio by 53% from UGX 557 Bn in December 2020 to UGX 851 Bn in December 2021.



	Actual Portfolio Size Dec 2020	Actual Portfolio Size Dec 2021
UGX Bn	557	851

DISBURSEMENTS

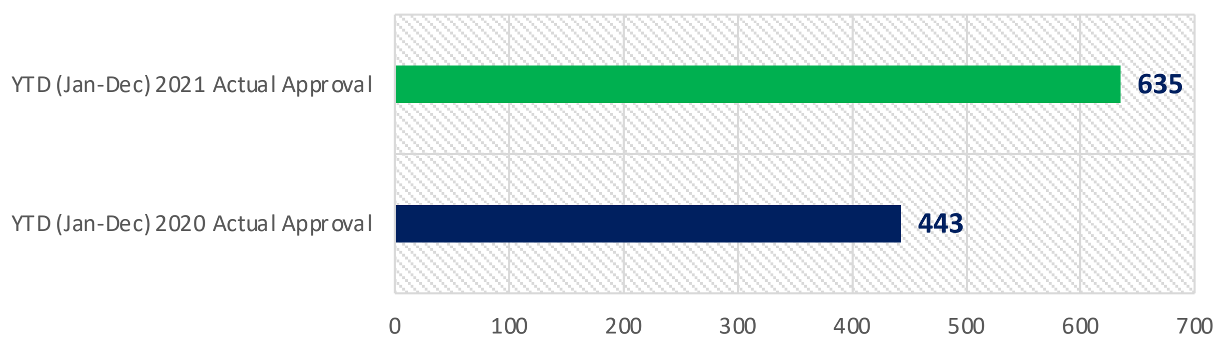
The Bank delivered a strong performance in 2021 disbursing UGX 428Bn, a 77% improvement from UGX 242Bn in 2020.



	YTD (Jan-Dec) 2020 Actual Disbursement	YTD (Jan-Dec) 2021 Actual Disbursement
Amount UGX Bns	242	428

APPROVALS

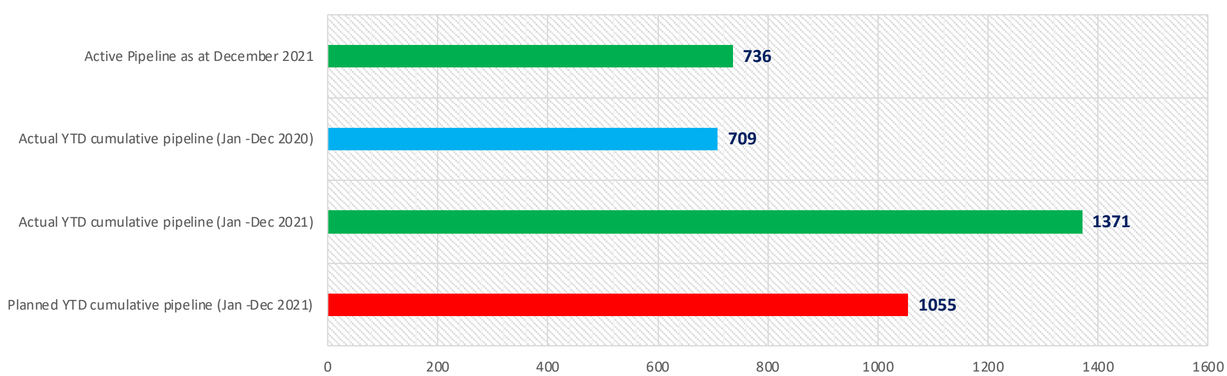
The Bank closed the year on a strong note obtaining approvals of UGX 635Bn, representing a growth of 43% from UGX 443Bn in 2020.



	YTD (Jan-Dec) 2020 Actual Approval	YTD (Jan-Dec) 2021 Actual Approval
Amount UGX Bns	443	635

PIPELINE

The Bank maintained an active pipeline of UGX 736Bn and a cumulative pipeline (Jan-Dec2021) of UGX 1,371Bn at end of the year.



	Planned YTD cumulative pipeline (Jan -Dec 2021)	Actual YTD cumulative pipeline (Jan -Dec 2021)	Actual YTD cumulative pipeline (Jan -Dec 2020)	Active Pipeline as at December 2021
Amount UGX Bns	1055	1371	709	736

DEVELOPMENT OUTCOMES

During 2021, the Bank approved 192 projects within the various sectors supported. The ex-ante impact of the approved projects shows the projects will significantly contribute to the social economic agenda. The breakdown of the root core indicators is summarized below.

Sector	Jobs	Output value (UGX Bn)	Tax (UGX Bn)	Forex (UGX Bn)
Tourism and Hospitality	3,464	128	14	56
Infrastructure	2,080	165	19	1
Industry	14,533	5,091	439	887
Agriculture	24,612	1,606	77	535
Health	159	53	20	0
Education	200	6	0	-
Total	**45,048**	**7,048.36**	**569.59**	**1,479.63**

Table 1: 2021 Root Core Indicators

UGX5,091 BN

VALUE OF INDUSTRIAL OUTPUT TO BE REALIZED FROM PROJECTS APPROVED IN 2021

Progress on High Impact Goals.

The contribution of the approved projects to the three HIGs are summarized below.

a. Reduced Poverty.

The projects approved during 2021 are expected to contribute to poverty reduction for 180,100 people.

b. Build Sustainable Food system

The approved projects will contribute to build sustainable food systems as follows.

1. Reduced Post harvest losses. The Agricultural projects are expected to support farmers in reducing Post harvest losses especially with Storage and drying facilities.
2. Increased supply of food into the population. Under Agriculture, the Agro processing projects are expected to increase the food supply into the population hence contributing to Building sustainable food system. The additional contributions through this project of providing Storage facilities and Supporting Post harvest handlings.

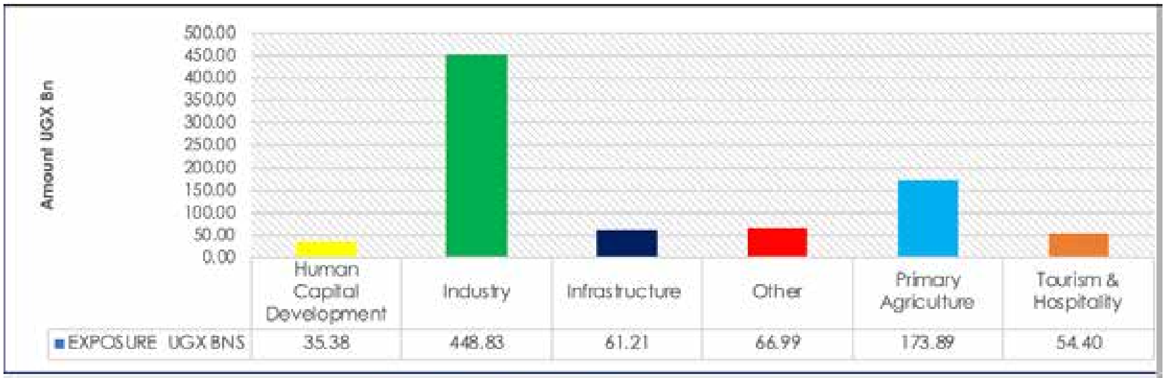
c. Industralize Uganda

The approved projects will contribute to industralizing uganda as follows.

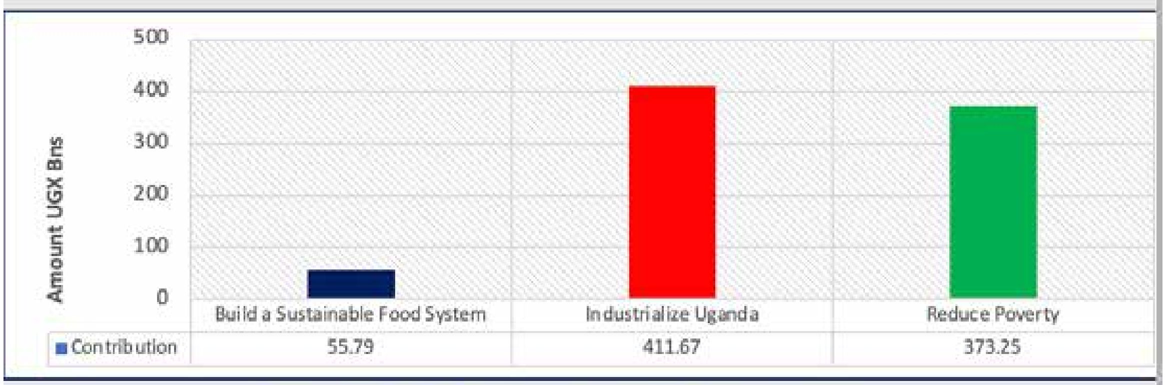
1. **Growth of Industrial Output** The projects approved under Industry sector are projecting an output growth of UGX5,091 Bn by end of the respective loan periods.
2. **Technological Transfer**
Out of the 14,533 people employed under Industry sector 533 people are to benefit from Technological Transfers.

SUMMARY OF 2021 PERFORMANCE

PORTFOLIO DISTRIBUTION



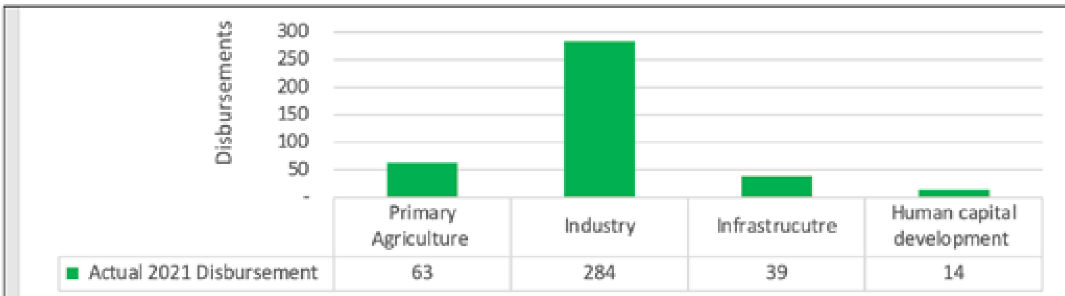
Portfolio distribution by sector



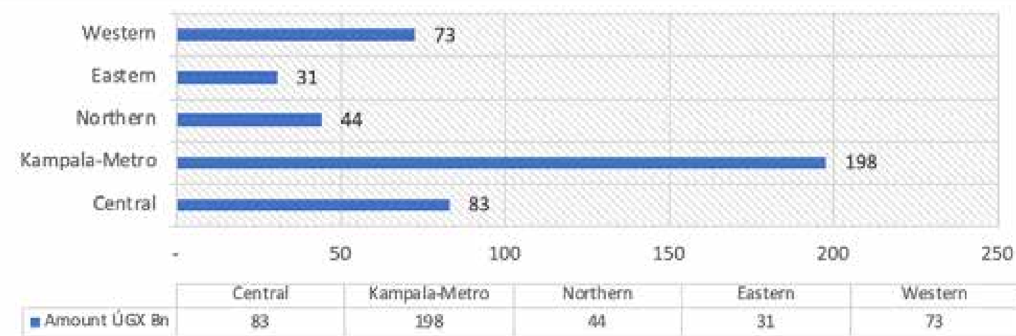
Portfolio distribution by High Impact Goals

Portfolio distribution by Product

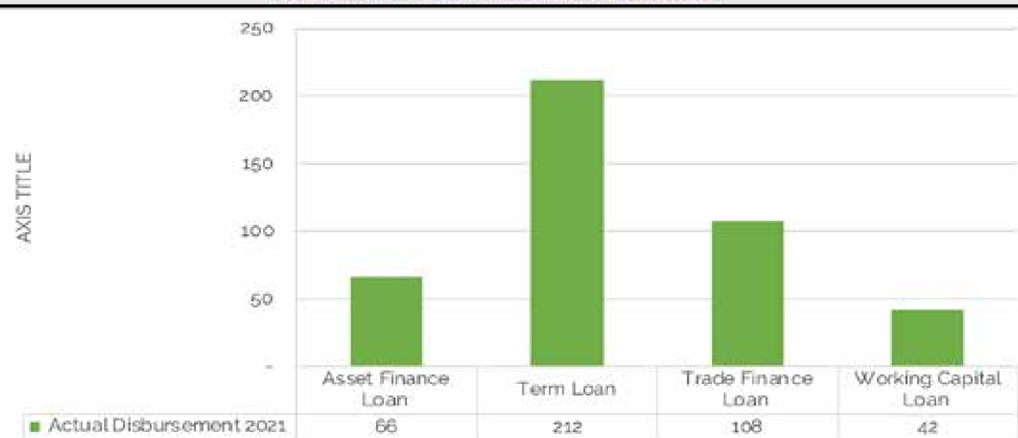
: **ANALYSIS OF 2021 DISBURSEMENTS**



Disbursement by sector

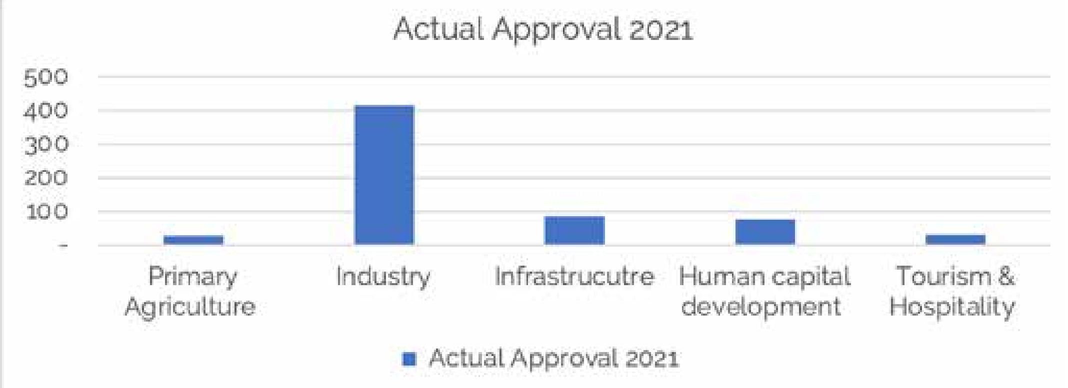


Disbursement by region



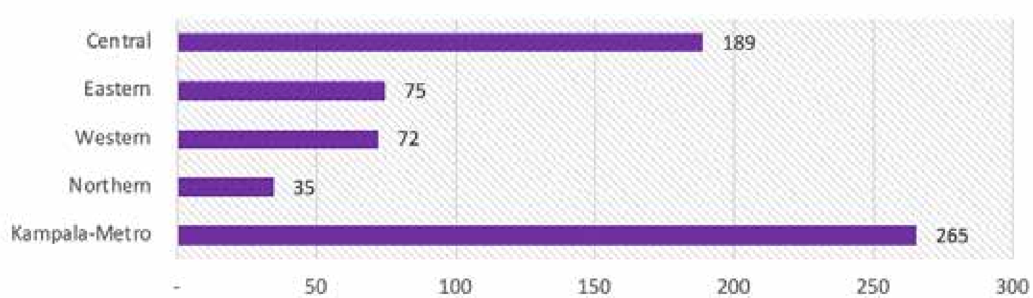
Disbursement by product

ANALYSIS OF 2021 APPROVALS



Approval by sector

Approvals by product



	Kampala-Metro	Northern	Western	Eastern	Central
Amount 'UGX Bn'	265	35	72	75	189

Approvals by Region

PROJECTS FINANCED BY UDB

AGRICULTURE

TOTCO (U) LIMITED

TOTCO (U) Limited is a Ugandan agribusiness entity involved in agriculture producing majorly cereals and pulses like maize, sorghum, barley, sunflower, and soybean among others. The company whose products are sold in Uganda and East African markets of Kenya, Burundi, and Rwanda, is involved in all activities along the value chain including production through the out-grower schemes, aggregation, and processing of grain, warehousing, and marketing.

The story of TOTCO (U) Limited started 8 years ago when a small company domiciled in Lira District started working with farming communities as contract out-growers in Lira and Oyam Districts producing sorghum (Epuripur) which was supplied to Nile Breweries Ltd.

The proprietors had a dream to expand their business. But they did not have sufficient capital to fulfill their dream. This led them to Uganda Development Bank where they acquired funding to enable their expansion.

With UDB support, TOTCO has acquired a modern plant with state-of-the-art grain handling and processing equipment which includes storage facilities (Silo), grain processing equipment, a laboratory, and a weighbridge. This modern equipment has almost doubled the company's grain holding capacity to 7,500 Mt from 4,000 Mt.

The number of contract out-grower farmers has also increased to about 20,000 smallholder farmers expanding reach to Lango and Acholi sub-regions. The company employs over 200 people handling different activities in the facility and another 200 along the value chain.

BWENDERO DAIRY FARM LTD.

Birthed in the 1960s, Bwendero Dairy Farm (BDF) Limited is an agro-industrial firm that began on a 160-acre piece of land in Kitoba village Hoima District.

Launched as a crop farm, the company later ventured into milling and trade until 2010 when the directors diversified into a distillery to produce Extra Neutral Alcohol (ENA) for medical use using molasses, cassava, and maize as well as blending and manufacturing of carbon dioxide for beverage companies. Bwendero Dairy Farm has further diversified to sugar production.

With support from UDB, BDF has installed a 750TCD sugar mill complete with a 2MW co-generation plant in Kitoba Village Hoima District, creating 2,000 jobs including 420 direct jobs, supporting 1,340 maize out-growers and 152 sugar cane out-growers.

The project is fed by 60 percent of input from sugarcane grown from its estates supplemented by 40 percent input from its out-grower sugarcane. Bwendero Dairy Farm has a total number of over 1,000 registered out-grower farmers. This project is expected to positively impact 35,000 people along the value chain creating jobs and generating income.

ZIGOTI COFFEE WORKS LTD

From the farm to your cup

Established in 1984 as Zigoti Cooperative Society a company supplying FAQ Robusta coffee to Coffee Marketing Board (CMB), Zigoti has carved out as one of the biggest coffee exporters and private-owned supplier of coffee in Uganda today, a business model it adopted in 1992.

The company is among the pioneer local coffee processors to build its own primary and secondary processing plant and is involved in growing, purchasing, processing, exporting, and roasting green coffee beans grown in Uganda. With a factory located in Mityana, the company trades in both Robusta and Arabica, which varieties contribute 70 percent and 30 percent of its export revenue respectively.

Following the Uganda Development Bank intervention, the factory was upgraded with two gravity tables (5T per hour capacity), a colour sorter, 14 elevators, automated pre-cleaner, de-stoner, and other ancillary machinery. This increased production capacity from 18MT per day to a current 40MT per day and increased the coffee exported from 2,070 Mt to 4,369.2 Mt.

The company now employs 65 people with prospects to hire an additional 10 workers specifically for wet processing.

Zigoti, winner of the Robusta Coffee Competition 2021, has trained farmers on best practices in coffee agronomy including pre & post-harvest handling, enabling farmers to increase quality of their coffee and productivity of the farms .

LUKONGE COTTON COMPANY LIMITED

From cotton ginning to cassava processing

Registered in May 2009, Lukonge Cotton Company Limited (LCCL) is a private limited liability company that carries out cotton ginning business for export. The directors have more than 25 years' experience in successfully establishing businesses in Uganda and other countries. The company boasts of three operational cotton ginneries in Mbale, Pallisa, and in Busembatya each with an installed capacity of 150 bales per day.

In line with its long-term strategic plan, the company has diversified its business interests to other value chains. Lukonge has thus established a cassava processing facility in Pallisa, aimed at adding value to locally produced cassava within Teso and surrounding areas.

HEALTH

St. Joseph's Hospital Wakiso Ltd

Taking health services closer

St. Joseph's Hospital Wakiso Ltd is a private health services provider registered under the Uganda Medical and dental practitioners' council. Located in Wakiso town council, the hospital is the leading private health care provider in the area. It has attracted corporate and non-corporate stakeholders with current partnerships including 11 medical insurance providers.

The project has created gainful and dignified employment for 41 Ugandans on a permanent basis, 80% of which are women with a projected increment of 58 jobs after its completion.

With the UDB funding, the facility will increase its bed capacity from 25 admission beds to 65 beds and 32 new private rooms for admission.

Through their collaboration with Buganda Kingdom, St Joseph's hoispital boasts of fully stocked medical supplies and also extends these to community health centres at free cost.

TOURISM SECTOR

AB Gardens and Cottages Ltd: A marvel in Mbarara

AB Gardens and Cottages is a new entrant in the business of hospitality, entertainment, and hotel business. Located in Mbarara City, the hotel will upon completion, comprise 60 hotel rooms and cottages, conference and recreational facilities, employ 56 staff and will provide market for foodstuffs from local farmers.

MANUFACTURING

GALAXY KENA UNIVERSAL LIMITED

Located within the Namanve Industrial Park, Galaxy Kena Universal Limited is a start-up factory set up to manufacture steel and aluminium utensils/ kitchenwarefor the local market as well as export within the E.A region.

The Company acquired funding from the Bank to support the procurement of machinery required to kickstart production, as well as completion of construction of its factory premises.

Upon completion, the project will employ 70 staff in their first year of operation, with the number expected to increase in the subsequent years.

SOCIO-ECONOMIC DEVELOPMENT IMPACT 2021

> THIS EVALUATION HELPS TO DETERMINE THE PERFORMANCE OF ENTERPRISES FINANCED BY THE BANK AND ASSESSES PROGRESS OF IMPLEMENTATION AND ACHIEVEMENT OF SOCIO-ECONOMIC IMPACT ANTICIPATED.

1.0 BACKGROUND

In Year 2020, UDB commenced the implementation of its 5-year strategic plan for the period 2020-2024 which is aligned to the 3rd National Development Plan. This plan aims to strengthen accountability for development outcomes and to engender sustainability in the bank's investments and operations, among others.

The Ex-post socio-economic development Impact assessment is an annual evaluation, with specific objectives to: track and report on progress towards achievement of socio-economic development outcomes/impact indicators; determine the sectoral performance based on specific socio-economic development outcome/impact, and further examine the linkage of the outcome to the high impact goals. This evaluation helps to determine the performance of enterprises financed by the bank and assesses progress of implementation and achievement of socio-economic impact anticipated. However, the years 2020-2021 were unique in that the world was hit by the COVID-19 pandemic that drastically disrupted the economic activities causing a tragic reversal in development hence pushing up poverty levels in many countries including Uganda.

2.0 PROGRESS ON DEVELOPMENT OUTCOMES/IMPACT

There are basically five key indicators which are often referred to as the root core or cross cutting indicators. These include Jobs created and maintained, Output value, Tax (corporation tax), Profits (profitability of firms), and Forex exchange earnings. The evaluation exercise also tracks other indicators of impact related to the three high impact goals: poverty reduction, sustainable food system and industrialisation.

2.1 PERFORMANCE OF CORE INDICATORS 2021

During 2021, the development outcomes from the Bank's investments included the following; 41,338 Jobs were created and maintained, and a total output value of UGX 2.445 trillion was realized during the year 2021. The companies financed earned a total profit of UGX 314Bn, and in return the profits generated the tax revenue to government of UGX 84Bn. The amount of forex earnings of UGX 405Bn was also realized during the period under review. The low tax contributions were partly due to tax deferrals granted to many companies (especially from the manufacturing sectors) in support of the post COVID-19 recovery efforts. This is further illustrated in the table below.

Tab 1: Sectoral Performance of Core Indicators 2021

Sectors	% Share	Jobs Created & maintained	% Share	Output Value (UGX Bn)	% Share	Tax (UGX Bn)	% Share	Profitability (UGX Bn)	% Share	Forex (ugx Bn)	% Share
Agro-Processing	21%	16,872	41%	1,021	42%	21	25%	99	32%	202	50%
Primary Agric	20%	12,507	30%	425	17%	19	23%	67	21%	7	2%
Education	6%	102	0%	-	0%	-	0%	-	0%	-	0%
Health	3%	641	2%	67	3%	1	1%	5	2%	56	14%
Tourism and Hospitality	18%	1,274	3%	37	2%	2	3%	8	2%	7	2%
Manufacturing	22%	7,189	17%	810	33%	38	45%	122	39%	133	33%
Infrastructure	8%	2,301	6%	80	3%	2	3%	13	4%	-	0%
Others	2%	452	1%	3	0%	0.12	0%	0.4	0%	-	0%
Total	**100%**	**41,338**	**100%**	**2,445**	**100%**	**84**	**100%**	**314**	**100%**	**405**	**100%**

Source: Field data

a) Jobs created and maintained

The share of Jobs created and maintained per sector was highest in Agro processing at 41%, followed by Primary Agriculture at 30%, Manufacturing sector (17%), Infrastructure (6%), and Tourism and Hospitality at 3%. Others were 2% for Health, 0.3% for Education and 1% Others.

b) Output value

Regarding total output value in 2021, Agro processing sector contributed the highest value (42%), followed by the Manufacturing sector at 33%, and Primary Agriculture at 17%, infrastructure (3%), health (3%), and tourism sectors (2%).

c) Profitability

The highest profits posted by enterprises financed were in the manufacturing sector which took the highest share (39%), followed by Agro processing (32%), and Primary Agriculture (21%) in that order. The infrastructure, tourism and health sectors registered profitability level of 4%, and 2% for both tourism and health sectors respectively.

d) Tax contributions

Of the tax revenue reported, manufacturing sector contributed the highest share of 45%. This was followed by Agro- processing at 25%, Primary agriculture at 23% and 3% each for infrastructure and Tourism respectively. The health sector contributed 1% of the total share of tax revenue reported whereas Education sector had no contribution because of the prolonged effect of the pandemic lockdown measures.

e) Foreign Exchange Earnings

The share of foreign exchange earnings among the different enterprises interviewed was highest in Agro-processing sector at 50%, followed by manufacturing sector at 33%. The health sector showed improvement this year with 14% forex earnings contributions. The forex earnings from the health sector were those arising from health tourism as some of the services offered at the medical facilities financed are from foreign tourist. Tourism which has for long been the traditional forex earner for the country performed dismay at 2%; and primary agriculture also at 2%.

2.2 JOBS CREATED AND MAINTAINED DURING THE YEAR 2021

The number of Jobs created and maintained during the year 2021 was 41,338. Of these, 32% were staff employed on full time permanent basis. In total, males dominated the share of jobs created and maintained at 77%, compared to female at 23%. The Youth (18-35 years) employed comprised 62% of the total jobs reported. Persons with disability employed comprised 1% of the total jobs created and maintained. The table below shows a gender disaggregation of jobs created and maintained per sector in 2021.

Tab 2: Sector Distributions of Jobs created and maintained

Sectors	Total Employed	Full Time	% Full Time	Temporary	% Temporary	Male	% Male	Female	% Female	Youth	% Youth	Pwds	% Pwds
Mineral and Gas	452	278	62%	-	0%	290	64%	162	36%	21	5%	0	0%
Agro-Processing	16,872	5,642	33%	11,286	67%	13,562	80%	3,310	20%	9974	59%	31	0%
Primary Production (Agric)	12,507	1,855	15%	10,721	86%	11,235	90%	1,272	10%	8414	68%	197	2%
Education	102	75	74%	27	26%	50	49%	52	51%	0	0%	0	0%
Health	641	480	75%	161	25%	344	54%	297	46%	495	77%	2	0%
Tourism and Hospitality	1,274	1,134	89%	159	12%	702	55%	572	45%	786	62%	3	0%
Manufacturing	7,189	3,135	44%	4,045	56%	3,873	54%	3,316	46%	3744	55%	35	1%
Enabling Sectors (Infrastructure)	2,301	701	30%	1,600	70%	1,815	79%	486	21%	1731	75%	20	1%
Total	**41,338**	**13,300**	**32%**	**27,999**	**68%**	**31,871**	**77%**	**9,467**	**23%**	**25165**	**62%**	**288**	**1%**

Source: Field data

2.3 COMPARISON OF CORE INDICATORS FOR 2020 AND 2021

The economic activities remained greatly restricted for both years and this resulted from the disruptions in the value chains of production world over. A comparison of some key indicators for the two years is shown in the table below.

Tab 3: Comparison of Core Indicators for 2020 and 2021

Year	Jobs created & maintained	Output value (UGX Bn)	Tax (UGX Bn)	Profits (UGX Bn)	Forex (UGX Bn)
2020	24,013	2,480	160	409	175
2021	41,338	2,445	84	314	405
Change	72%	-1%	-48%	-23%	131%

Source: Field data

- Jobs created and maintained grew by 72% between 2020 and 2021,
- Foreign exchange earnings grew by 131% in 2021 compared to 2020.
- Tax contribution to government registered a decline of 48% in 2021 compared to 2020.
- There was also 23% decline in profits in 2021 compared to 2020
- Output value also registered a slight decline of 1% in 2021 compared to 2020.

2.4 GENDER AND SOCIAL INCLUSION

This table shows progress towards some gender indicators as revealed by the 2021 evaluation.

Tab 4: Share of Gender Indicators

	% Share
Shareholding by women (formal ownership)	33%
Women's Representation on the Board	35%
Women's Representation on Senior Management Team	36%
Women's Share of Jobs Reported	23%
Youth employed	67%
Persons with Disability	1%

Source: Field data

2.5 LINKAGE TO HIGH IMPACT GOALS (HIGS)

Some key indicators are tracked and reported to determine the level of achievement of the three high impact goals.

REDUCE POVERTY WHILE PROTECTING THE NATURAL ENVIRONMENT

2.5.1 Persons lifted out of poverty

Table 5 below shows the number of people earning above UGX 210,000 per month which is a proxy for a movement above the poverty line.

Tab 5: Persons lifted out of poverty

Year	Jobs created & maintained	No. of Employees earning <210,000 per month	No.of employees earning above Ugx 210,000 per month
2020	24,013	10,752	13,261
2021	41,338	9,149	32,189

Source: Field data

BUILD A SUSTAINABLE FOOD SYSTEM

2.5.2 Productivity

Table 6 below, shows average productivity in the dairy value chain.

Tab 6: Productivity

Productivity	2018	2019	2020	2021
Dairy livestock (average yield per cow)	6	8	8	12.6

Source: Field data

- There was 110% increase in yield per dairy livestock between 2018 and 2021

Other outcomes in 2021 were:

- Average productivity per livestock (beef) was 233Kg

2.5.3 Post-Harvest Loss

UDBL has stepped up efforts to help farmers reduce on the post-harvest losses. There was a significant reduction in average post-harvest loss of 4% experienced by farmers in 2021. The table below illustrates the reduction in the average post-harvest-loss experienced by enterprises financed by the Bank.

Tab 7: Average Post-Harvest Loss

	Average % Loss
2020	15%
2021	11%

Source: Field data

2.5.4 Reasons for post-harvest losses

	% Contributions
Damaged by insect & pests	33%
Inadequate and inappropriate storage facilities	81%
Limited value addition	33%
Lack of marketing	14%
Poor drying	86%

Source: Field data

The following were some of the most common causes of post harvest losses of projects funded by the bank. Poor drying 86%, this remains the top reason for post-harvest losses among coffee farmers. This was followed by inadequate and inappropriate storage facilities at 81%, and damages caused by pest & insects and limited value addition each at 33% each respectively. Lack of market at 14%, also affected some farmers leading to post harvest losses.

INDUSTRIALIZE UGANDA

In 2021, the industrial sector performance was as below:

- Industrial output value realized was UGX1,831Bn, accounting for 75% share of the total reported output value
- Forex exchange earnings was UGX335Bn, representing 83% share of the total forex for the period
- Jobs created and maintained 24,061 (58%) of the total jobs reported

Raw Material Sourcing

The Bank strategy is to encourage enterprises to reduce reliance on imported raw materials and opt for local alternatives. The table below shows the trend in share of raw material sourcing.

Tab 8: Share of Raw Material sourcing

Year	Locally Sourced	Imported
2018	64%	36%
2019	62%	38%
2020	68%	32%
2021	69%	31%

BUSINESS ACCELERATOR FOR SUCCESSFUL ENTREPRENEURSHIP (BASE)

1. Background

To increase access to finance and to spur production, employment creation and private sector growth, UDB designed the special programs products. However, the Bank further noted that even though these programs could address the supply side challenges of access to finance, the key challenges remained on the demand side. Specific challenges are prevalent in the form of lack of readiness of SMEs to access credit as well as poor business practices that curtail business success and sustainability. In this regard, the Bank established a robust, end to end Business Advisory / Incubation program for businesses.

Under the programme, the Bank works with key stakeholders on the demand side value chain to make access to credit easy and affordable. Business Advisory is done through provision of training and technical support to develop and implement the required processes in the businesses.

2. Support provided under Business Advisory

Business advisory is provided to enable business formalization, streamlining of internal business processes, improvement of management practises among others. Some of the key areas supported under Business Advisory include the following:

a. Enabling business formalization: supporting Business and Tax registration in collaboration with the Uganda Registration Services Bureau and the Uganda Revenue Authority

b. Preparation of project Business and strategic plans.

c. Advice on establishment of clear succession planning structures or mitigations to key-man risks and setting up of corporate governance structures.

d. Preparation of Bookkeeping (record keeping and reporting) as well as audited financial statements.

e. Supporting businesses to obtain statutory clearances such as Tax Registration / Tax clearances, registration for NSSF compliance, obtaining Quality marks from UNBS among others.

f. Preparing project briefs to NEMA and obtaining NEMA clearance.

g. Structuring and formalizing off-taker agreements / purchase agreements if businesses operate informally without adequate documentation.

h. Preparation of required legal documentation.

i. Establishment of clear internal financial procedures.

j. Valuation of property proposed as collateral.

k. Identification of issues within enterprises and building recovery roadmaps: This shall involve assessment of the root cause of issues within an enterprise with the aim of building a roadmap with clear and prioritized recovery initiatives and targets.

l. Business - Tailored growth advice: Through this, an assessment of growth readiness shall be done, potential growth avenues shall be explored, and a multi-year growth outlook plan be developed. Opportunities shall be prioritized, financial requirements aligned, and a management blueprint prepared.

m. Improve business capabilities: Under this, guidance shall be provided to deploy the developed business growth roadmap and adopt effective performance management practices.

n. Strengthening Management capabilities: This shall involve enhancement of leadership skills and abilities, in addition to putting in place mechanisms to improve cohesion of the company's leadership team to achieve the company's strategic vision. This facet shall focus on establishing accountability, focus and discipline to drive strategic execution.

o. CEO / Leadership development: This shall focus on improving the skills of the top management team. Guidance shall be provided to enable effective decision-making and prioritization.

p. Building a management framework: Under this, companies shall be supported to implement a structured system of communication, management tools, accountability and collaboration that fosters alignment and engagement.

q. Measurement of progress: This facet shall support companies to implement effective tools, dashboards and KPIs to track performance and react quickly according to the situation.

3. Target Beneficiaries, Sourcing and Selection of Beneficiaries

3.1. Target Beneficiaries

a. Businesses within the Bank's priority sectors in need of expert advice.

b. Businesses that express intent to apply for credit facilities from UDB.

c. Businesses already existing within the Bank's portfolio that may not be performing optimally, or those with demonstrated growth potential.

d. Business Advisory may be provided to Businesses outside the Bank's priority sectors through Generic trainings / Training for a.

> **FOR BUSINESS CLINICS OR TRAINING PROGRAMS ORGANIZED BY THE BANK OR ITS PARTNERS; A SERVICE DESK IS PROVIDED, FROM WHICH POTENTIAL BENEFICIARIES ARE IDENTIFIED AND RECORDED.**

3.2. Sourcing of Beneficiaries

Business Advisory Support beneficiaries are sourced through the following channels. among others:

a. Calls for applications / expression of interest from interested Businesses / SMEs.

b. Business trainings arranged for both UDB and non-UDB customers.

c. Business clinics and engagements with the Bank's partners.

d. Businesses with demonstrated potential for growth and expansion within the Bank's portfolio.

e. Walk-in clients.

f. Referrals.

For Business clinics or training programs organized by the Bank or its partners; a service desk is provided, from which potential beneficiaries are identified and recorded.

3.3. Selection of Beneficiaries

The considerations below are made when selecting beneficiaries for the extensive Business Advisory support. The same do not apply when Business Advisory is provided through generic / open trainings

a. Potential beneficiary enterprises / SMEs are expected to fit within the Bank's priority sectors.

b. Selected enterprises / SMEs may be both existing businesses or start-ups with demonstrated potential.

c. Potential beneficiaries are required to fill an application form in which key gaps in their businesses shall be highlighted.

d. Officers from the Bank's Business Advisory / Investment units may guide potential beneficiaries in diagnosing the key gaps in their businesses - in line with the activities that can be supported under Business Advisory.

e. Upon identification of gaps, Businesses / SMEs are clustered according to identified gaps.

f. The clusters include all businesses sourced from the various methods outlined above. The aim of this is to ensure benefit from economies of scale, thus minimizing cost of undertaking Business Advisory activities for an individual business.

g. For the Businesses / SMEs already within the Bank's portfolio, the Bank's Investment team identifies and recommends such clients to the Business Advisory unit. The businesses/ SMEs are also placed in the different clusters as per their unique and identified gaps.

h. Start -ups whose products demonstrate market potential and are ready for commercialization are also supported and prepared to obtain credit as well as ensure their growth and business continuity. These are set in a cluster of their own, given that they require trainings in all business aspects.

4. Flow Process for the provision of Business Advisory Support

The Business Advisory flow process is as follows:

a. Sourced enterprises that may not be formally registered with the Uganda Registration Services Bureau (URSB) are supported to formally register through UDB's collaboration with URSB. The same support is provided to enable tax registration with the Uganda Revenue Authority.

4.1 For Existing Businesses.

a. As highlighted above, Businesses are placed in clusters. The clusters constitute enterprises with similar Business Advisory requirements e.g establishment of financial / bookkeeping systems, putting in place proper marketing systems e.t.c

b. Pre-approved partners are allocated to the different clusters of on-going businesses / SMEs to address the specific identified cluster challenges.

c. Training of the clusters is done under the supervision of the Business Advisory unit. Training takes the form of workshops, physical training at the entity's business premises among others.

d. The training aims at enabling participants submit qualifying applications in line with credit requirements as well as ensuring proper and sustainable business processes.

4.2 For Start-ups

a. Screening of business concepts / ideas is done by UDB's Business Advisory and investment teams.

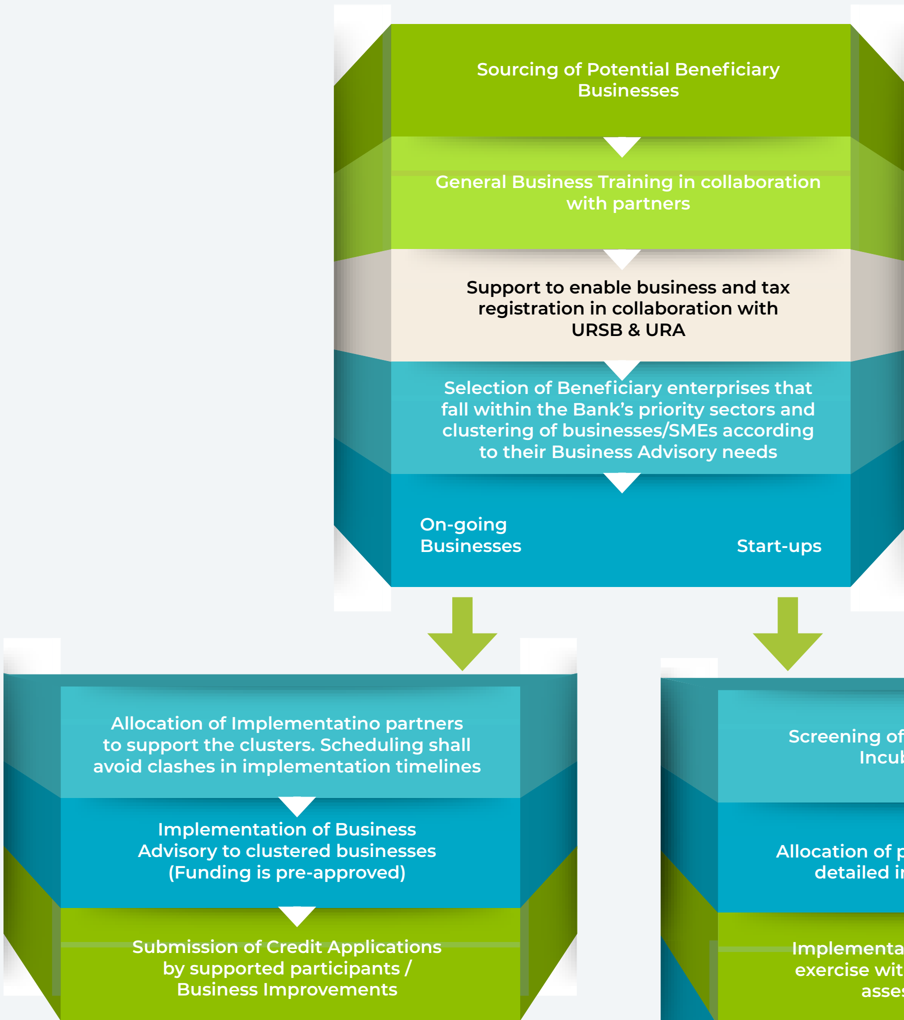
b. A detailed design of Business incubation activities covering all aspects relevant for the successful establishment and operation of an enterprise is prepared by the selected providers in collaboration with the UDB Business Advisory and Investment teams.

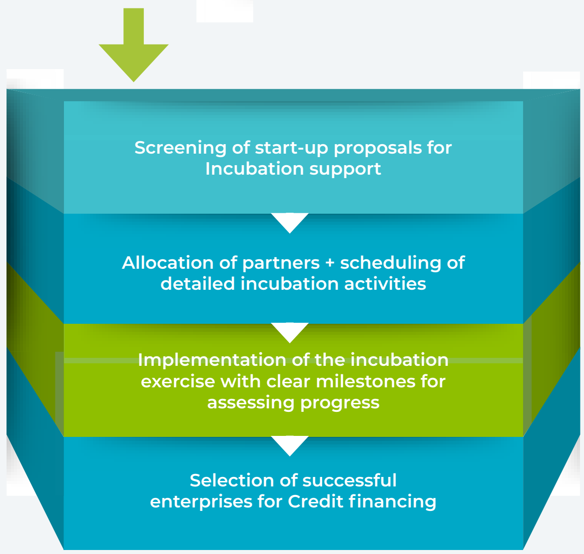
c. Business Incubation of the start-ups is implemented through the most appropriate modes of delivery – such as workshops, mentorships, exposure visits among others.

d. Clear milestones and methods of assessment are agreed upon together with the trainees prior to the commencement of the incubation activities.

e. Start-ups that meet the minimum progress criteria are selected for consideration for credit financing.

The above process flow is elaborated in the process-flow diagram below;





5. Implementation Providers / Partners for the Business Advisory Services

The following are the key implementation partners for the Business Advisory services:

i. Government Agencies / Compliance / Regulatory Bodies: Key among these include; the Uganda Revenue Authority (URA), Uganda Registration Services Bureau (URSB), Uganda National Bureau of Standards (UNBS), National Environment Management Authority (NEMA), Uganda Investment Authority, Institute of Certified Public Accountants among others.

ii. Associations / Groups: Examples of these include the Uganda Small Scale Industries Association, Uganda Women Entrepreneurs Association Limited, Federation of Small and Medium Enterprises among others. The organized groups / association assist with the mobilization process and in instances where there exists a training function within the association – the Bank works with such a training function to provide Business Advisory Services.

iii. Selected Mentors / Model Business owners: Selected business owners pass on much needed skills to targeted audiences in order to improve business skills.

iv. Education / Vocational Training Institutions: These include universities and other vocational training institutions such as Makerere University Business School, National Colleges of Commerce (to ensure country-wide reach), among others.

v. Consulting Firms / Individual Consultants: These carry out the set assignments under a framework contract and are paid by UDB. During the pre-qualification process, regional spread / presence of firms is emphasized so as to ease the logistics for provision of the advisory services.


FINANCIAL
SUSTAINABILITY

FINANCIAL SUSTAINABILITY

For a detailed discussion on the Bank's financial performance, please refer to the financial review on page 108-110 of this annual report.

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

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

UGX **107**Bn
TOTAL WEALTH CREATED BY THE BANK IN 2021

The total wealth created by the bank in 2021 was Ushs 107.89 billion as shown in the value-added statement below.

	2021	%	2020	%
Interest income	112,914,906		72,062,342	
Interest expense	-3,658,440		-4,162,653	
Wealth created from operations	**109,256,466**		**67,899,689**	
Foreign exchange gains	-564,144		499,719	
Other income	-802,752		1,082,937	
Total wealth created	**107,889,570**	**100%**	**69,482,345**	**100%**
Distribution of wealth				
Retained for growth	38,820,380	36%	22,108,778	
Employees	17,230,537	16%	13,473,317	
Government	18,732,974	17%	9,555,278	
Suppliers	8,531,347	8%	8,882,641	
Impairment loss on financial assets	23,606,128	22%	14,687,571	
Depreciation and amortisation	968,205	1%	774,760	
Total wealth distributed	**107,889,570**	**100%**	**69,482,345**	**100%**

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

FINANCIAL PERFORMANCE OVERVIEW

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

Financial Statistics	2021	2020	2019	2018	2017
Statement of Comprehensive Income					
Gross Interest on loans	112,915	72,062	42,022	35,463	22,919
Net Interest and fee Income	109,256	67,900	38,917	33,246	21,874
Net impairment loss on financial assets	-23,606	-14,688	-1,404	-7,910	-3,865
Non-Interest Income (net)	-1,367	1,583	-1,432	5,630	8,440
Operating expenses	-26,730	-23,131	-20,696	-17,373	-14,573
Profit before income tax	57,553	31,664	15,385	13,594	11,876
Profit for the year	39,772	22,109	10,140	9,486	8,306
Statement of Financial Position					
Loans and advances (Net)	781,658	511,882	334,415	276,694	224,286
Balances with other banks	375,375	518,736	103,147	44,383	29,797
Investment properties	32,089	34,151	31,473	34,796	32,800
Total assets	1,222,101	1,089,804	486,365	370,118	297,471
Capital and reserves	1,055,075	910,785	347,483	253,612	204,448
Total liabilities	167,026	179,019	138,882	116,506	93,023
Statement of cash flow					
Cash flow used in operating activities	-230,308	-120,641	-43,970	-49,846	-39,900
Net cash (used in)/generated from investing activities	54,333	-372,620	-68,803	7,527	-16,112
Net cash generated from financing activities	88,129	539,695	103,841	65,737	58,234
Key financial ratios					
Yield on interest bearing instruments	11.23%	12.94%	11.60%	12.30%	10.30%
Net interest income margin	96.76%	94.22%	92.61%	94%	95%
Cost income ratio (without impairment)	25%	33%	55.20%	45%	48%
Cost income ratio (with impairment)	47%	54%	58.80%	65%	61%
Return on assets	3.44%	2.81%	2.60%	2.80%	3%
Return on equity	4.93%	3.51%	3.70%	4%	5%
Loan impairment ratio	6.60%	6.23%	10.60%	10.60%	7.60%
Debt equity ratio	12%	16%	33.80%	38%	38%

The Bank realised a profit for the year of Ushs 38.83 billion, representing growth of 76% from the Ushs 22.1 billion realized in 2020 driven by continued growth in capitalisation of the Bank coupled with increase in investment in interest earning assets, notably, loan disbursements to development projects..

In its efforts to remain financially sustainable in the foreseeable future, the Bank has ramped up digitilisation of its operations to increase efficiency and enhance operational excellence, fast track the implementation of the capitalisation strategy, and seek innovative ways of raising financing to invest in SMEs, youth and women programs and large scale projects with high potential for development impact on the economy.

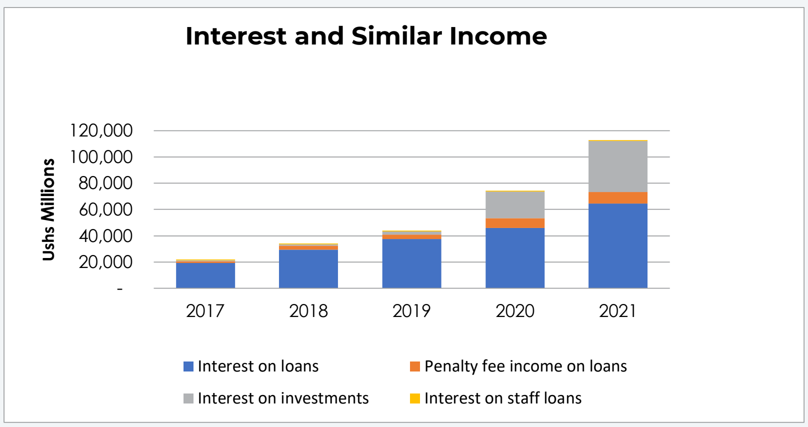
ENSURING FINANCIAL SUSTAINABILITY

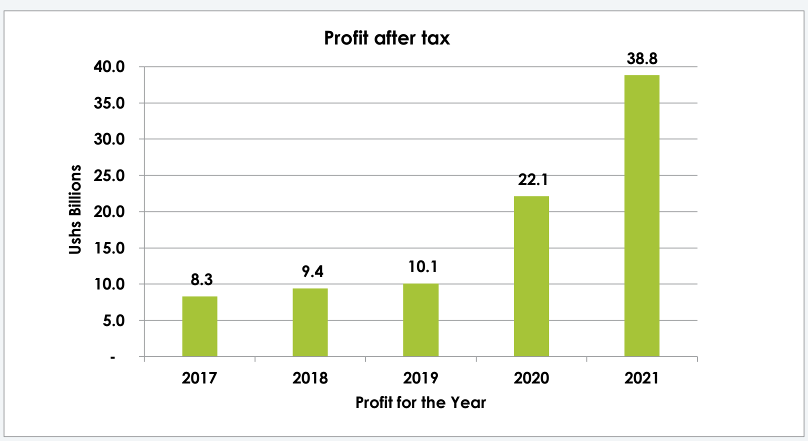
A review of the Bank's financial performance for the financial year 2021 compared to 2020 is as follows:

Interest and fee Income

Interest and fee income grew by Ushs 40.8 billion (57%) to Ushs 112.9 billion from Ushs 72.1 billion in 2021 as a result of a 53% growth in the gross loans and advances.

Interest expense and similar charges decreased by 12% to Ushs 3.66 billion from Ushs 4.2 billion in 2020 arising from reduction in outstanding principal loan balances from various funders and significant drop in 6 month LIBOR (London Inter Bank Offered Rate).





Other Income

Other income reduced by 26% to Ushs 802 million from Ushs 1.08 billion in 2020. Other income includes Ushs 2.06 billion loss on investment property realized as a result of the void period from the bank's investment property during the year.

Net Impairment Loss and write off of loans and advances

The expected credit losses (ECL) on the loan portfolio increased mainly because of the growth of the loans and advances and management overlays arising from a wholistic assessment of NPL accounts for impairment This largely arises from the challenges attributed to the prolonged lockdown of the economy and lower-than-expected cashflows from realization of collateral.

Operating expenses

Operating expenses increased by 16% to Ushs 26.7 billion in 2021 from Ushs 23.1 billion in 2020 majorly due to increased staff costs arising from increase in headcount necessary for the bank to cope with the growing business expecations, the banks'digitization,communication and brand awareness campaigns. The cost-to-income ratio with and without impairment decreased to 47% from 54% and to 25% from 33% in 2020 respectively.

STRENGTHENING THE FINANCIAL POSITION OF THE BANK

The Bank's total assets increased by 12% to Ushs 1.22 trillion as a result of an increase in the Government of Uganda capital contribution and a drawdown of approved lines of credit. Below is a brief review of the Bank's major assets and liabilities and how they impacted the performance above:-

Borrowings from development partners

Borrowings comprise lines of credit sourced from other Development Financial Institutions (DFIs) for the sole purpose of supporting the development mandate of the Bank. During the year, the Bank received an intervention fund worth EUR 6 million from the European Union for the tourism industry which was worst hit by the covid pandermic. The Bank also secured approvals of line of credit worth US$ 86 million to finance various sectors in 2022 in line with the Bank's mandate.

Government of Uganda capital contribution

The Government of Uganda continued to capitalise the Bank throughout 2021 with additional capital of Ushs 104 billion compared to Ushs 509 billion in 2020. This gave rise to an 15% increase in total capital contribution in 2021 to Ushs 797.9 billion from Ushs 693.8 billion in 2020. The capital contributions remain key in facilitating the growth in the Bank's loan portfolio. The bulk of the capital contribution was utilised to finance projects that produce essential goods and services that mitigate the effects of Covid-19 on the economy.

Retained earnings

The bank's retained earnings increased by 46% due to profits of Ugx 38.8 billion registered during the year.

Gross Loans and Advances

Gross loan and advances increased by Ushs 269.8 billion (53%) during the year compared to a growth of Ushs 177 billion (53%) in 2020. Ushs 428.2 billion was disbursed to projects in 2021 compared to Ushs 242.3 billion in 2020 representing a 76.7% growth in disbursements. The growth in the funding base of the Bank, the capital and interest repayments and the internal profits continued to support the growth in the loans and advances.

76%
PROFIT
GROWTH
IN 2020

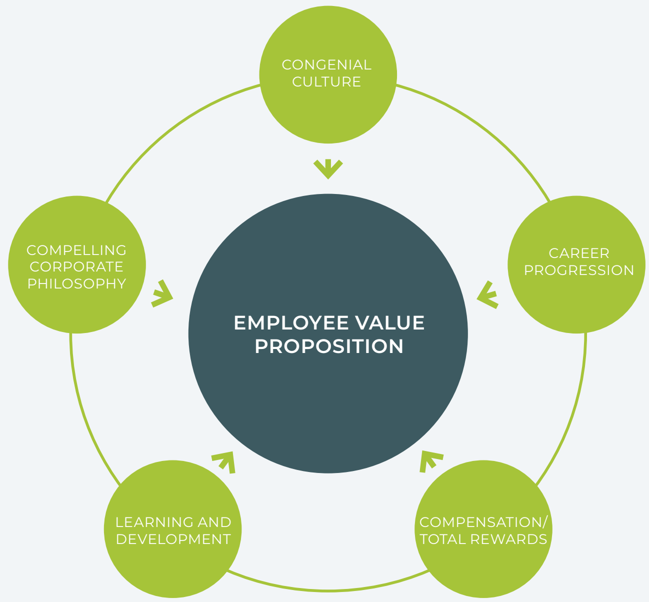
HUMAN CAPITAL

OPTIMIZING OUR HUMAN RESOURCES

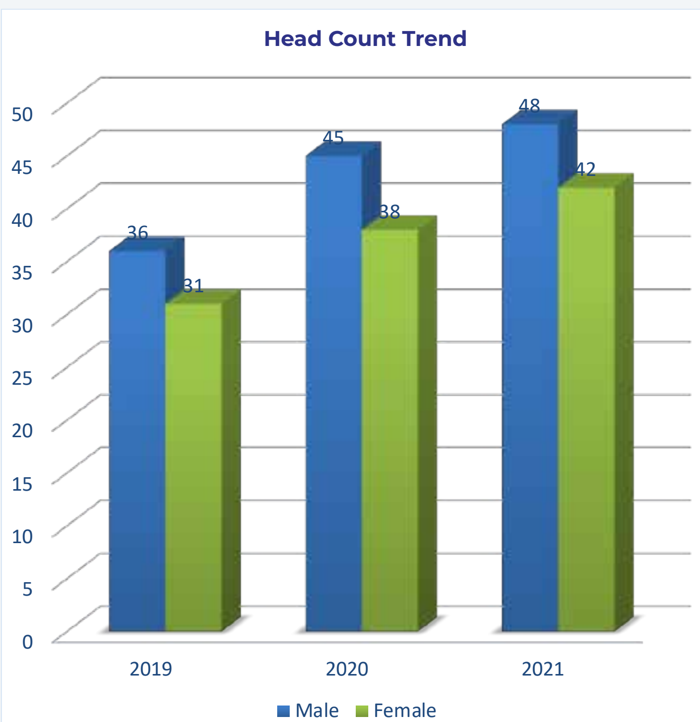
KEEPING OUR PEOPLE ENGAGED

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

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



EMPLOYEE DEMOGRAPHICS



During the year, the bank experienced a total staff growth of 8.3% YoY. Total Full-time head count as of 31st December 2021 was 90 and the gender composition was a ratio of 48:42, male to female. This is a demonstration of the bank's deliberate effort to embrace and support gender equality in employment and the government's agenda to empower women for economic development. At UDB we offer equal opportunities to all irrespective of gender, religious, cultural, and political affiliations. The diagrams on the left reflect the bank's inclusive approach to human capital management

EMPLOYEE ENGAGEMENT

At UDB, we value staff and care for their total well-being. We believe that when employees are engaged they strongly connect with the Bank and its business and are genuinely concerned about the success and sustainability of the Bank. We firmly believe that the level of engagement is reflected in our approach to serving the customer.

To this end the Bank implements a holistic framework to employee engagement anchored in continually improving the working environment, chamaraderie, relations between individuals and teams and fostering employee wellness - including physical, financial, mental and psychosocial well-being.

A cross section of staff attending various engagement and wellness activities

FINANCIAL STATEMENTS

UGANDA DEVELOPMENT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CORPORATE INFORMATION

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 (resigned on 16 February 2022)
Mrs.Silvia Angey Ufoyuru	Director (resigned on 16 February 2022)
Mr. Henry Balwanyi Magino	Director
Mr. John Byaruhanga	Director
Mrs. Rita Akot Apell	Director (joined on 16 February 2022
Mr. Busuulwa Joseph Kayongo	Director (joined on 16 February 2022
Mrs. Patricia Ojangole	Managing Director

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

SECRETARY

Mrs. Sophie K. Nakandi
Uganda Development Bank Limited
Rwenzori Towers
Plot No. 6 Nakasero Road
1st Floor, Wing B3
P. O. Box 7210
Kampala, Uganda

BANKERS

DFCU Bank Limited
Plot 26, Kyadondo Road, Nakasero
P. O. Box 70
Kampala, Uganda

Standard Chartered Bank Uganda Limited
5 Speke Road
P. O. Box 7111
Kampala, Uganda

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

Citibank Uganda Limited
Plot 4, Ternan Avenue, Nakasero
P. O. Box 7505
Kampala, Uganda

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

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

UGANDA DEVELOPMENT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CORPORATE INFORMATION (CONTINUED)

BANKERS (CONTINUED)

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

Post Bank Uganda Limited
Plot 4/6 Nkurumah Road
P.O BOX 7189
Kampala, Uganda

AUDITOR

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

DELEGATED AUDITOR

Deloitte & Touche
Certified Public Accountant of Uganda
3rd Floor, Rwenzori House
1 Lumumba Avenue
P. O. Box 10314
Kampala, Uganda

LEGAL ADVISORS

J.B. Byamugisha Advocates
4 Nile Avenue
P. O. Box 9400
Kampala, Uganda

Kateera and Kagumire
10th Floor, Tall Tower, Crested Towers
P. O. Box 7026
Kampala, Uganda

Nangwala, Rezida and Co. Advocates
Office Park Suite B5, 2nd Floor
Plot 7-9 Buganda Road
P. O. Box 10304
Kampala, Uganda

Ligomarc Advocates
5th Floor, Western Wing, Social Security House
4 Jinja Road
P. O. Box 8230
Kampala, Uganda

Kalenge, Bwanika, Ssawa & Co. Advocates
Plot 15A Clement Hill Road
P. O. Box 8352
Kampala, Uganda

BNB Advocates
Plot 6/8 Nakasero Lane, off Kyagwe Road
P. O. Box 12386
Kampala, Uganda

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

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

OSH Advocates
2nd Floor, West wing, Commercial Plaza
P.O Box 36109
Kampala- Uganda

BNB Advocates
Plot 6/8, Nakasero lane, off Kyaggwe Road,
P.O, Box 12386
Kampala-Uganda

Newmark Advocates
Plot 90, Ben Kiwanuka Street
P.O Box 35480
Kampala- Uganda

UGANDA DEVELOPMENT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021, which disclose the state of affairs of the Bank.

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

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

3. RESULTS
The results for the year which are set out on page 11 are summarised below:

	2021 Ushs '000	2020 Ushs '000
Profit before tax	57,553,354	31,664,056
Income tax expense	(18,732,974)	(9,555,278)
Profit for the year	**38,820,380**	**22,108,778**

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 2021 (2020: Nil).

6. DIRECTORS
The directors who held office during the year and to the date of this report are shown on page 2.

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

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

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

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

UGANDA DEVELOPMENT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

REPORT OF THE DIRECTORS (CONTINUED)

7. RISK (CONTINUED)

iii) Operational Risk

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

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

8. THE AADFI PRUDENTIAL STANDARDS, GUIDELINES AND RATINGS SYSTEM

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

In 2021, 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 92.35% (2020: 91.76%) representing a "High" performance level. 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 Deloitte & Touche, Certified Public Accountant of Uganda, were appointed to carry out the audit on behalf of the Auditor General for the year ended 31 December 2021.

10. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue at the meeting of the Board of Directors held on 30th March 2022.

By order of the Board

....

Mrs. Sophie K. Nakandi
Company Secretary

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UGANDA DEVELOPMENT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 87, comprising the statement of financial position as at 31 December 2021, 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, 2012 Laws of Uganda.

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 (IFRSs) and Companies Act, 2012 Laws of Uganda.

Approval of the Financial Statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 30th March 2022.

FELIX OKOBOI
Chairperson

30 March 2022

HENRY BALWANYI MAGINO
Director

30 March 2022

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF THE FINANCIAL STATEMENTS OF UGANDA DEVELOPMENT BANK LIMITED FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER, 2021

THE RT. HON. SPEAKER OF PARLIAMENT

Introduction

In accordance with Section 23 of the National Audit Act (NAA) 2008, I appointed M/S Deloitte & Touche, Certified Public Accountants of Uganda to audit the financial statements of Uganda Development Bank (UDB) on my behalf to enable me to report to parliament in accordance with Article 163 (4) of the Constitution of the Republic of Uganda, 1995 (as amended).

Opinion

I have audited the accompanying financial statements of Uganda Development Bank Limited for the financial year ended 31st December 2021, which comprise the statement of Financial Position as at 31st December 2021, and the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows together with other accompanying statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of Uganda Development Bank Limited for the year ended 31st December 2021 present fairly, in all material respects, the financial position of Uganda Development Bank Limited as at 31st December 2021, and its financial performance and cash flows for the year then ended and are prepared in accordance with International Financial Reporting Standards (IFRSs) and requirements of the Companies Act of Uganda, 2012.

Basis for Opinion

I conducted my audit in accordance with International Standards of Audit (ISAs). 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 (IESBA Code), and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.I have determined the matter described below as the key audit matter to be communicated in my report.

Key Audit Matter	*How the matter was addressed in the audit*
<u>Allowance for impairment of loans and advances to customers (Individual and Portfolio Impairment)</u> The allowance for impairment of loans to customers is considered to be a matter of most significance as it requires the application of significant judgment and use of subjective assumptions by the Directors when determining both when and how much to record as loan impairment. Furthermore, the evolving economic impact of the COVID-19 pandemic has increased the overall risk of credit default and the possibility of significant increases in credit risk, hence raising the uncertainty surrounding management judgments and estimating processes. As at 31st December 2021, the gross loans to customers amounted to UGX.840 billion (2020: UGX.547 billion) contributing 64% of the bank's total assets (2020: 50%) and expected credit losses amounted to UGX.55.5 billion (FY20: UGX.34.1 billion) Refer to Note 20 to the financial statements 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 include; • The judgments made to determine the categorization (staging) of individual loans and advances accounts in line with IFRS 9. In particular, the identification of a Significant Increase in Credit Risk ("SICR") and Default require consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime Probabilities of Default (PD) is used • Where there is uncertainty in respect of the respective models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates, and macroeconomic events, additional provisions are made via management overlays. Significant judgement was made in determining the management overlays • Modelling for estimation of ECL parameters;	My procedures included the following; • Obtained an understanding of the Bank's methodology for determining expected credit losses, including enhancements in the year, and evaluated this against the requirements of IFRS 9, Financial Instruments; • Testing the design and implementation of critical controls across all ECL-related processes, particularly the allocation of assets into stages and management overlays; • On a sample of contracts, I assessed the identification of loans and advances that had experienced a significant increase in credit risk or met the Bank's default definition criteria for classification purposes. This was completed by reviewing documentation and credit performance to determine whether the staging of such facilities was in accordance with Bank's policy and IFRS 9 standards; • Testing the data used in the ECL calculation by reconciling to source systems; - Assessing the adequacy and appropriateness of disclosures for compliance with the accounting standards - I involved my internal modelling specialists to; a) Review the methodology and assumptions underlying the IFRS 9 impairment model b) Perform a quantitative reassessment of the IFRS 9 impairment model. I challenged the expected period to realize collateral that was used to discount the expected future cash flows, collateral values, collateral growth rates, costs of recovery and haircuts while determining loss given default by performing a retrospective review. Overall, the results of my evaluation of the Bank's allowance for impairment of loans are consistent with the Directors' assessment and I found that adequate disclosures had been made by the Directors pertaining to the allowance for impairment of loans and advances and the related credit risk as per Note 20 to the financial statements.

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Key Audit Matter	How the matter was addressed in the audit
- Probabilities of Default (PDs) - Loss Given Default (LGD); and - Exposure at Default (EAD). • Inputs and assumptions used to estimate the impact of multiple macro-economic scenarios. Because of the significance of these estimates, judgments and the size of loans and advances portfolio, the audit of loan impairment provisions was considered a key audit matter	

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the 'Corporate Information' and 'Report of Directors'. 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

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Uganda, 2012 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the bank'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 ISAs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

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

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

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

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

- Conclude on the appropriateness of the Director'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 Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 Bank to cease to continue as a going concern.

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

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

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

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

Other Reporting Responsibilities

In accordance with Section 19 (1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements, that, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

Report on Other Legal Requirements

As required by the Companies Act of Uganda, 2012, we report to you based on our 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 (balance sheet) and statement of profit or loss and other comprehensive income (profit or loss account) are in agreement with the books of account.

John F.S. Muwanga
AUDITOR GENERAL

6th April, 2022.

UGANDA DEVELOPMENT BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 Ushs '000	2020 Ushs '000
Interest income	8	112,914,907	72,062,343
Interest expense	9	(3,658,440)	(4,162,653)
Net interest income		**109,256,467**	**67,899,690**
Net foreign exchange (loss)/gain	10	(564,144)	499,719
Fair value loss on investment property	22	(2,062,000)	(789,532)
Net gain/(loss) on financial assets recorded at FVTPL	19	32,013	(16,051)
Other income	11	1,227,236	1,888,522
Net impairment loss on financial instruments	20(e)	(23,606,128)	(14,687,571)
Operating income after impairment losses		**84,283,444**	**54,794,777**
Personnel expenses	12	(17,230,537)	(13,473,317)
Depreciation and amortization	23, 24	(968,206)	(774,761)
Other operating expenses	13	(8,531,347)	(8,882,643)
Profit before tax	14	**57,553,354**	**31,664,056**
Income tax expense	16(a)	(18,732,974)	(9,555,278)
Profit for the year		**38,820,380**	**22,108,778**
Other comprehensive income			
Items that will not be classified to profit or loss			
Gain on revaluation of property and equipment	23	1,359,778	-
Deferred tax on revaluation gain	31	(407,933)	-
		951,845	-
Total comprehensive income net of tax		**39,772,225**	**22,108,778**
Basic and diluted earnings per share	15	**388.20**	**221.09**

The notes set out on pages 16 to 87 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	2021 Ushs '000	2020 Ushs '000
ASSETS			
Cash and cash equivalents	17	50,279,296	138,125,272
Deposits held in banks	18	325,095,998	380,610,389
Equity investments at fair value	19	143,297	111,285
Loans and advances	20	781,658,380	511,881,678
Staff loans and advances	21	5,823,741	6,207,271
Current income tax recoverable	16(b)	1,299,589	-
Other assets	25	18,507,409	13,080,854
Investment property	22	32,089,000	34,151,000
Property and equipment	23	6,774,147	5,152,592
Intangible assets	24	429,903	483,723
Total assets		1,222,100,760	1,089,804,064
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	33	100,000,000	100,000,000
GOU capital contributions	34	797,983,313	693,873,246
Kuwait Special Fund	28	31,222,552	31,222,552
Asset revaluation reserve	35	2,563,242	1,203,464
Retained earnings	43	123,306,137	84,485,757
Total equity		1,055,075,244	910,785,019
Liabilities			
Amounts due to Bank of Uganda	26	10,352,531	16,321,890
Borrowings	27	114,826,602	124,682,155
European Union grant	30	5,645,511	7,125,873
UNCDF Fund	29	2,562,003	2,490,371
Current income tax payable	16(b)	-	724,052
Other liabilities	32	32,577,275	24,927,576
Deferred income tax liability	31	1,061,594	2,747,128
		167,025,516	179,019,045
Total equity and liabilities		1,222,100,760	1,089,804,064

The financial statements on pages 12 to 87 were approved and authorised for issue by the Board of Directors on 30th March 2022 and signed on its behalf by:

FELIX OKOBOI
Chairperson

HENRY BALWANYI MAGINO
Director

The notes set out on pages 16 to 87 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	GOU capital Contributions	Kuwait Special Fund	Asset revaluation Reserve*	Retained earnings	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 1 January 2020	**100,000,000**	**183,902,306**	**-**	**1,203,464**	**62,376,979**	**347,482,749**
Total comprehensive income for the year	-	-	-	-	22,108,778	22,108,778
Transactions with owners recorded directly in equity						
GoU capital contributions	-	509,970,940	-	-	-	509,970,940
Transfer of Kuwait Special Fund to equity	-	-	31,222,552	-	-	31,222,552
Balance at 31 December 2020	**100,000,000**	**693,873,246**	**31,222,552**	**1,203,464**	**84,485,757**	**910,785,019**
At 1 January 2021	**100,000,000**	**693,873,246**	**31,222,552**	**1,203,464**	**84,485,757**	**910,785,019**
Total comprehensive income for the year	-	-	-	-	38,820,380	38,820,380
Gain on revaluation of property and equipment	-	-	-	1,359,778	-	1,359,778
Transactions with owners recorded directly in equity						
GoU capital contributions	-	104,110,067	-	-	-	104,110,067
Balance at 31 December 2021	**100,000,000**	**797,983,313**	**31,222,552**	**2,563,242**	**123,306,137**	**1,055,075,244**

The notes set out on pages 16 to 87 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 Ushs '000	2020 Ushs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit before changes in operating assets and liabilities	41	**84,318,578**	**51,271,014**
Changes in operating assets and liabilities			
Loans and advances		(293,382,830)	(192,154,443)
Other assets		(5,426,555)	(7,864,391)
Other liabilities		7,649,699	9,823,924
Staff loans and advances		383,530	(2,315,461)
Movement in amounts due to UNCDF		71,632	1,825,701
Movement in European Union Grant		(1,480,362)	-
Cash used in operations		**(207,866,308)**	**(139,413,656)**
Income tax paid	16b	(22,442,148)	(9,679,913)
Net cash used in operating activities		**(230,308,456)**	**(149,093,569)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	23	(931,915)	(497,797)
Acquisition of intangible assets	24	(249,358)	-
Acquisition of land on investment property	22	-	(3,467,532)
Movement in deposits held in Banks		55,514,391	(299,152,118)
Net cash generated from /(used in) investing activities		**54,333,118**	**(303,117,447)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of amounts due to Bank of Uganda		942,803	6,872,857
Repayments of amounts due to Bank of Uganda		(6,912,162)	(6,568,659)
Proceeds from borrowings		5,686,546	59,854,520
Repayment of borrowings		(15,697,892)	(8,608,318)
Proceeds from European Union		-	7,125,873
Contributions from the Government of Uganda		104,110,067	509,970,940
Net cash generated from financing activities		**88,129,362**	**568,647,213**
(Decrease)/Increase in cash and cash equivalents		**(87,845,976)**	**116,436,197**
Cash and cash equivalents at 1 January		138,125,272	21,689,075
Cash and cash equivalents at 31 December	17	**50,279,296**	**138,125,272**

The notes set out pages 16 to 87 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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 (IFRSs), as issued by the International Accounting Standards Board (IASB), and the requirements of the Companies Act, 2012 Laws of Uganda.

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

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE

New standards, amendments and interpretations effective and adopted during the year ended 31 December 2021

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 2021. The adoption of these new and revised standards and interpretations had no significant material impact on the financial statements.

Definition of a business (Amendments to IFRS 3)

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.
In October 2018, the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

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

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

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2021 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The amendment is not expected to have a material impact on the Bank.

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

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

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

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”
The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2021 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

Amendments to References to Conceptual Framework in IFRS Standards

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2021, unless the new guidance contains specific scope outs.

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

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

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

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

The amendments were effective from 1 January 2021.
The amendment is not expected to have a material impact on the financial statements of the Bank.

4. SIGNIFICANT ACCOUNTING POLICIES

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

a) Foreign currency translation

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

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Foreign currency translation (continued)

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.

For financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Revenue recognition

(ii) Fees and commission income and expense

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

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

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

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

(iii) Other income

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

(iv) Dividend income

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Revenue recognition (continued)

(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.

Performance Obligations

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Trade finance revenues	This is revenue earned from clients who take Letters of Credit (LCs). Establishment fee, quarterly commission fees and confirmation fees are 0.5% each of the LC amount. 0.25% fee is also charged for documentary collections on behalf of the client and 70 dollars for swift charges.	— Enforceable arrangement with customer exists. — Performance obligation (PO) – the Bank provides LCs and documentary collections — Transaction price – fees charged as a percentage of the LC. — Allocation of price to PO – Each service is a single performance obligation, no allocation necessary. PO satisfied — Establishment fees and commission fees-Revenue currently recognized upfront — Commission fees - The performance obligation is satisfied at the date of maturity of the LC.

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Income tax expense (continued)

(ii) Deferred income tax

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

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

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

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

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

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

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

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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;

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

- 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.

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

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

1) 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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

2) 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.

1) Financial assets

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

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

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see xi (6) 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.

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

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

1) 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'.

2) 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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

3) 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.

4) 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.

5) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

6) 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.

7) 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)**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Cash and cash equivalents

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

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

f) Loans and advances

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

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

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

g) Investment securities

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

h) 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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Property and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

(iv) Impairment

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

(v) Derecognition

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

i) Investment property

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

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Investment property (continued)

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

j) Intangible assets

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

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

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

The intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category that is consistent with the function of the intangible assets.

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

k) Share capital

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

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

(iii) Termination benefits

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

Other Long term Employee benefits

(iv) Service gratuity

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

m) Contingent liabilities and commitments

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

n) Earnings per share

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Impairment of non-financial assets

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

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

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

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

p) Accounting for leases

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

Definition of a lease

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

As a lessee

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

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Accounting for leases (continued)

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

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

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.
All right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liabilities. Depreciation is calculated using the straight-line method to write-down the cost of each asset to its residual value over its estimated useful life. If the ownership of the underlying asset is expected to pass to the Bank at the end of the lease term, the estimated useful life would not exceed the lease term.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset if of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

As lessor

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

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

The Bank used a number of practical expedients when applying IFRS 16. In particular, the Bank:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Accounting for leases (continued)

The Bank has not recognised a right-of-use asset and lease liabilities as at 31 December 2021 due to the above practical expedient that the lease term ends within 12 months.

Amounts recognised in profit or loss

Details	2021 Ushs'000	2020 Ushs'000
Expenses relating to short-term leases	1,625,846	898,816

r) Kuwait Special Fund

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

s) Grants

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

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

t) 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 2021, the following Standards and Interpretations were in issue but not yet effective:

Standard		Annual periods beginning on or after
Amendments to IAS 1	Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to IAS 37	Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	1 January 2022
Amendment to IFRS 3, 'Business combinations'	Insurance Contracts	1 January 2022

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Standards issued but not yet effective

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

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

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract

The amendment becomes effective for annual periods beginning on or after 1 January 2022. The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract. The change is not expected to have any material impact to the accounts.

Amendment to IFRS 3, 'Business combinations'

The amendment becomes effective for annual periods beginning on or after 1 January 2022.

The Board has updated IFRS 3, 'Business combinations', to refer to the 2019 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination.

In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2019 Conceptual Framework.

The Board has also clarified that the acquirer should not recognize contingent assets, as defined in IAS 37, at the acquisition date. The change is not expected to have any material impact to the accounts.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Standards issued but not yet effective (continued)

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

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

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

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

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

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

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk

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

In the normal course of its business, the Bank incurs credit risk from deposits with banks, loans and advances to customers, staff loans and other assets.

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

Credit-related commitments risks

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

Impaired loans and advances

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

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

COVID-19 Pandemic Consideration

On 11 March 2020, the World Health Organization declared Coronavirus (COVID-19) outbreak a pandemic in recognition of its rapid spread across the globe. COVID-19 affects the Bank and results in certain uncertainties for the future financial position and performance of the Bank.
The President passed a range of directives during the year 2021 following a surge in Covid-19 infections. The directives were more restrictive than the previously issued guidelines that the country was still following and were expected to reduce the infection rates to tolerable levels. We highlight below the lockdown measures with perhaps the most significant impact on the Bank's operations.

a) Suspension of all cross-boundary district and intra-district movement of public transport and by private vehicles or boda bodas, except for movements between Kampala and Wakiso.
b) Closure of schools and institutions of learning.
c) Partial opening of the tourism sector.
d) Closure of business centers including prominent, high volume trade centers like Kikuubo, and Nakasero.
e) Suspension of movement of private vehicles except for specific essential sectors that are eligible to movement permits restricted to 10% of the staff complement.
f) Reduction of physical presence of staff at workplaces to 10% of the staff complement.

Following significant reduction in infections rates, the economy was fully opened up in January 2022.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

During the year, the Bank continuously assessed for the impact of the Covid-19 pandemic on the portfolio and approved deferment of payments for the facilities in the education and tourism sectors to June 2022 and September 2022 respectively. . The bank assessed and deferred payments on a case by case basis for the rest of the sectors.

To manage the loan book due to COVID-19, management adopted the following strategies;

- Undertook close monitoring of accounts that have been deferred more than once and those that had been outstanding for a long time because of circumstances surrounding them that are known by the Bank.
- Restructured and deferred client payments based on customer requests; and
- Adopted qualitative judgment on some specific borrowers.

Macroeconomic Forward-looking information for measuring of ECL

As a result of COVID-19 Pandemic, the global economy suffered a heavy blow and hence there was a need to revisit the forecasts used. The Bank obtained macroeconomic factors from Economic Intelligence Unit, Interbank Foreign Exchange Market (IFEM) and Bank of Uganda; the macro-economic variables that were eventually used were then obtained by a combination of quantitative and directional analysis of the impact of these variables on the portfolio in default.

Significant increase in credit risk

The Bank increased its analysis of restructured loans and loans that had their payments deferred to determine if they had a significant increase in credit risk instead of the restructure/ payment holiday being a trigger to transfer the loan to stage 2 or stage 3.

Use of estimates and judgements

There have been no material revisions to the nature and estimates of amounts reported in prior periods. However, the effects of COVID-19 have required significant judgments and estimates to be made, including determining which information obtained subsequent to period end provides evidence of conditions that existed as at the end of the reporting period ('adjusting events after the reporting period') and which do not ('non-adjusting events after the reporting period')

Use of assumptions

The COVID-19 pandemic continues to affect the Bank, countries and businesses at the time of issuing these financial statements. The directors expect that considering that the Bank is an essential service provider, the Bank's operations will continue despite the disruption caused by the pandemic. The directors have also assessed that no adjusting events or conditions existed at the reporting date affecting the financial statements.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

The Bank's management and directors are closely monitoring the economic developments in the key markets and sectors including undertaking scenario analysis. This enables the Bank's management and directors to take appropriate actions where necessary, including enhanced monitoring, amending the Bank's risk appetite and/or reducing limits and exposures.
Customer credit risk is not expected to increase further, management will continue to closely monitor customer segments to ensure that exposures are mitigated.

There are no conditions that would warrant impairment of non-financial assets. There are no significant financial assets measured at fair values that would materially impact the performance of the Bank.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial period are different from the judgements and assumptions used, could require a material adjustment to the carrying amounts of the assets or liabilities reported in these financial statements. The directors and management will continue to monitor the measures taken by the Government of Uganda and adjust the Bank's business strategies and plans accordingly.

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:

	2021	2020
	Ushs '000	Ushs '000
Bank balances	50,279,296	138,125,272
Deposits held in other banks	325,095,998	380,610,389
Loans and advances to customers	781,658,380	511,881,678
Staff loans and advances	5,823,741	6,207,271
Other assets	18,507,409	13,080,854
	1,181,364,824	**1,049,905,464**

The above table represents the worst case scenario of credit risk exposure to the Bank as at 31 December 2021 and 31 December 2020 without taking into account any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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.

	2021			
	Stage 1	Stage 2	Stage 3	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortised cost	630,229,933	80,153,588	130,326,893	840,710,413
Loss allowance	(9,359,939)	(4,341,141)	(41,760,449)	(55,461,529)
Interest income on stage 3	-	-	(3,590,504)	(3,590,504)
Carrying amount	**620,869,993**	**75,812,448**	**84,975,939**	**781,658,380**
Staff loans and advances	10,591,094	-	527,239	11,118,333
Loss allowance	(102,770)	-	(277,950)	(380,720)
Carrying amount	**10,488,324**	**-**	**249,289**	**10,737,613**

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

Collateral security held and other enhancements

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

64% (2020: 47%) of the total maximum exposure is derived from loans and advances to customers. Investment in fixed deposits represents 27% (2020: 35%) 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 2021 is Ushs 1.82 trillion (2020: Ushs 1.28 trillion).

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment.

See accounting policy note 4 (e).

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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

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

Definition of default

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

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

Incorporating forward looking information

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

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one best case scenario assigned a 20% probability of occurring and a worst case scenario assigned a 30% probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental organisations.

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

The economic scenarios used as at 31 December 2021 included the following key indicators for Uganda for four years up to 31 December 2025.

Base Case	2022	2023	2024	2025
GDP growth	4.70%	5.60%	5.80%	6.20%
Inflation	3.90%	4.60%	4.40%	4.10%
CBR	6.90%	7.00%	7.00%	7.50%
Exchange rates	3,581	3,620	3,646	3,669

Worst Case	2022	2023	2024	2025
GDP growth	0.45%	0.53%	0.55%	0.59%
Inflation	4.30%	5.07%	4.85%	4.52%
CBR	6.98%	7.08%	7.08%	7.59%
Exchange rates	3,659	3,699	3,726	3,749

Best Case	2022	2023	2024	2025
GDP growth	8.75%	10.42%	10.79%	11.54%
Inflation	3.54%	4.18%	3.99%	3.72%
CBR	6.80%	6.90%	6.90%	7.39%
Exchange rates	3,520	3,558	3,584	3,606

b) Market risk

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

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

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

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(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.

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as ‘LIBOR reform’). The Bank has significant exposure to LIBORs on its financial instruments that will be reformed as part of this market-wide initiative. In line with announcements from the Financial Conduct Authority (FCA), LIBOR settings shall cease from 1 January 2022 and shall be calculated using panel bank submissions until mid-2023. The Bank has identified and assessed all existing LIBOR exposures by currency and tenor and established whether these exposures have contractual provisions embedded therein which will enable smooth transition to alternative reference rates. The Bank has already reached out to the funders to communicate next steps and discuss transition options. The main risks to which the Bank is exposed as a result of LIBOR reform are operational including the renegotiation of loan contracts through bilateral negotiation with lenders, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

The Bank has floating rate liabilities indexed to US dollar Libor.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

The table below shows the amounts of unreformed financial liabilities as at 31 December 2021.

	2021 Ushs'000	2020 Ushs'000
Borrowings	114,826,602	124,682,155
	114,826,602	**124,682,155**

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 2021. 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 Ushs'000	Effect on equity Ushs'000	Effect of profit before tax Ushs'000	Effect on equity Ushs'000
At 31 December 2021				
Profit before income tax	365,844	256,091	(365,844)	(256,091)
At 31 December 2020				
Profit before income tax	416,265	291,379	(416,265)	(291,379)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(i) Interest rate risk (Continued)

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

	Up to 1yr Ushs'000	1 to 3yrs Ushs'000	3 to 5yrs Ushs'000	Over 5yrs Ushs'000	Total Ushs'000
31 December 2021					
Financial assets					
Deposits held with banks	220,095,998	105,000,000	-	-	325,095,998
Loans and advances	137,278,780	70,720,648	101,001,987	472,656,965	781,658,380
Staff loans and advances	45,066	535,206	124,032	10,033,309	10,737,613
Total financial assets	**357,419,844**	**176,255,854**	**101,126,019**	**482,690,274**	**1,117,491,991**
Financial liabilities					
Borrowings	25,413,130	44,425,676	25,547,762	19,440,034	114,826,602
Total financial liabilities	**25,413,130**	**44,425,676**	**25,547,762**	**19,440,034**	**114,826,602**
Interest sensitivity gap	**332,006,714**	**131,830,178**	**75,578,257**	**463,250,240**	**1,002,665,389**
31 December 2020					
Total financial assets	409,459,568	58,632,097	113,077,539	320,371,859	901,541,063
Total financial liabilities	14,485,208	35,541,580	35,531,835	39,123,532	124,682,155
Interest sensitivity gap	**394,974,360**	**23,090,517**	**77,545,704**	**281,248,327**	**776,858,908**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (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 2021.

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 2021

	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
EUR	(5)	(5)	5	5
GBP	(152)	(152)	152	152
USD	(6,548,378)	(6,548,378)	6,548,378	6,548,378
Total	**(6,548,535)**	**(6,548,535)**	**6,548,535**	**6,548,535**

31 December 2020

	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	(714)	(714)	714	714
USD	(7,014,883)	(7,014,883)	7,014,883	7,014,883
Total	**(7,015,597)**	**(7,015,597)**	**7,015,597**	**7,015,597**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(ii) Currency risk (Continued)

The Bank's currency position is as follows:

	Uganda shillings Ushs'000	US Dollars Ushs'000	Euro Ushs'000	GBP Ushs'000	Total Ushs'000
31 December 2021					
Financial assets					
Cash and cash equivalents	40,042,568	10,235,156	1,523	49	50,279,296
Deposits held in banks	288,941,642	36,154,356	-	-	325,095,998
Staff loans and advances	5,823,741	-	-	-	5,823,741
Other assets (excluding non-financial assets)	18,376,281	131,128	-	-	18,507,409
Loans and advances	659,405,918	122,252,462	-	-	781,658,380
Total financial assets	**1,012,590,150**	**168,773,102**	**1,523**	**49**	**1,181,364,824**
Financial liabilities					
Amounts due to Bank of Uganda	10,352,531	-	-	-	10,352,531
Other liabilities	24,803,130	7,774,145	-	-	32,577,275
Borrowings	-	114,826,602	-	-	114,826,602
UNCDF Fund	2,562,003	-	-	-	2,562,003
European Grant	-		5,645,511		5,645,511
Total financial liabilities	**37,717,664**	**122,600,747**	**5,645,511**	**-**	**165,963,922**
Net currency position	**974,872,486**	**46,172,355**	**(5,643,988)**	**49**	**1,015,400,902**
31 December 2020					
Total financial assets	891,959,917	150,818,241	7,125,873		1,049,905,465
Total financial liabilities	36,875,410	131,546,582	7,125,873		175,547,865
Net currency position	**855,084,507**	**19,271,659**	**-**		**874,357,600**

UGANDA DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks.

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

At the reporting date, the exposure to equity securities at fair value was Ushs 143 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	2021	2020
		Ushs'000	Ushs'000
KENGEN	+10%	84	101
Uganda Clays Ltd	+10%	11,771	8,118
The New Vision Ltd	+10%	2,474	2,910
KENGEN	-10%	(84)	(101)
Uganda Clays Ltd	-10%	(11,771)	(8,118)
The New Vision Ltd	-10%	(2,474)	(2,910)

i) Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms.

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

Source of funding

The Bank maintains a diversified and stable funding base comprising from Development partners. The Bank also obtains periodic funding from the Government of Uganda.

UGANDA DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk

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.

UGANDA DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

	Up to 1 month	1-3months	3-6months	6- 12months	1-3yrs	3-5yrs	Over 5yrs	Contractual cashflows	Carrying Amount
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs'000
31 December 2021									
Financial assets									
Cash and cash equivalents	50,279,296	-	-	-	-	-	-	50,300,366	50,279,296
Deposits held in banks	32,695,804	109,000,000	-	78,634,551	105,000,000	-	-	325,330,355	325,095,998
Loans and advances	-	9,915,431	63,315,589	64,047,760	70,720,648	101,001,987	472,656,965	840,710,413	781,658,380
Staff loans and advances*	-	9,366	-	36,433	535,206	124,032	10,032,575	11,118,333	5,823,741
Total financial assets	**82,975,100**	**118,924,797**	**63,315,589**	**142,718,744**	**176,255,854**	**101,126,019**	**482,689,540**	**1,227,459,467**	**1,162,857,415**
Financial liabilities									
Amounts due to Bank of Uganda		-	1,000,000	1,600,000	7,752,531	-	-	10,352,531	10,352,531
Other liabilities	8,580,395	2,570,982	606,912	3,727,319	5,668,150	1,078,580	7,244,956	29,477,294	32,577,275
Borrowings	5,037,635	1,846,945	9,438,215	9,090,335	44,425,676	25,547,762	19,440,034	114,826,602	114,826,602
European Grant	-	-	-	-	-	-	5,645,511	5,645,511	5,645,511
UNCDF Fund	-	-	-	-	-	-	2,562,003	2,562,003	2,562,003
Total financial liabilities	**13,618,030**	**4,417,927**	**11,045,127**	**14,417,654**	**57,846,357**	**26,626,342**	**34,892,504**	**162,863,941**	**165,963,922**
Net liquidity gap	**69,357,070**	**114,506,870**	**52,270,462**	**128,301,090**	**118,409,497**	**74,499,677**	**447,797,036**	**1,064,595,526**	**996,893,493**
31 December 2020									
Total financial assets	168,632,505	150,741,134	211,779,046	16,337,753	58,440,270	112,708,471	357,010,917	1,075,649,996	1,036,824,610
Total financial liabilities	7,408,590	3,191,364	4,607,263	15,028,571	45,852,915	40,573,280	57,202,244	173,864,227	175,547,864
Net liquidity gap	**161,223,915**	**147,549,770**	**207,171,783**	**1,309,182**	**12,587,355**	**72,135,191**	**299,808,673**	**901,785,769**	**861,276,746**

* The amounts exclude the recognised discount on the staff loans

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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 2021 is set out below:

Recognition and measurement of provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of an amount can be made. The Bank's contingent liabilities have been disclosed in Note 37 of the financial statements.

Impairment of loans and advances

Assets accounted for at amortised cost are evaluated for impairment on the basis described in note 4 (d).

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments and;
- Loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

Useful life of property and equipment Note 4(h)

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 Note 4(h)

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

6. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Income tax Note 4 c(i)

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in Other Comprehensive Income.

Deferred tax Note 4 c(ii)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.
The measurement of deferred tax reflects the tax consequences that would follow the manner in which the bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Valuation of the investment property and property and equipment Note 4(j) and 4(h)

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 2021, the Bank engaged an independent valuation specialist to determine the fair value of its investment property. Land and Buildings have not been revalued during the year. The carrying amounts of investment property and plant, property and equipment are disclosed in notes 22 and 23 to the financial statements.

Going concern

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

7. FAIR VALUE MEASUREMENT (CONTINUED)

Fair value hierarchy

31 December 2021	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 2021	143,297	-	-
Investment property	31 Dec 2021	-	-	32,089,000
Freehold land	31 Dec 2021	-		3,926,000
Buildings	31 Dec 2021	-		1,292,012
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	781,658,380	-
Staff loans and advances		-	5,823,741	-
Amounts due to Bank of Uganda		-	10,352,531	-
European Grant		-	5,645,511	-
UNCDF Fund		-	2,562,003	
Borrowings		-	114,826,602	-

Fair value hierarchy

31 December 2020	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 2020	111,285	-	-
Investment property	31 Dec 2020	-	-	34,151,000
Freehold land	31 Dec 2020	-		2,155,000
Buildings	31 Dec 2020	-		1,703,234
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	511,881,678	-
Staff loans and advances		-	6,207,271	-
Amounts due to Bank of Uganda		-	16,321,890	-
European Grant		-	7,125,873	-
UNCDF Fund Borrowings		-	2,490,371	-
Borrowings		-	124,682,155	-

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

7. FAIR VALUE MEASUREMENT (CONTINUED)

There were no transfers between level 1 and level 2 during 2021 or 2020.

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 2021		31 December 2020	
	Carrying amount Ushs '000	Fair value Ushs '000	Carrying amount Ushs '000	Fair value Ushs '000
Assets				
Financial assets				
Cash and cash equivalents	50,279,296	50,279,296	138,125,272	138,125,272
Deposits held in banks	325,095,998	325,095,998	380,610,389	380,610,389
Equity investments at fair value	143,297	143,297	111,285	111,285
Loans and advances	781,658,380	781,658,380	511,881,678	511,881,678
Staff loans and advances	5,823,741	5,823,741	6,207,271	6,207,271
Other assets	18,507,409	18,507,409	13,080,854	13,080,854
Total financial assets	**1,181,508,121**	**1,181,508,121**	**1,050,106,749**	**1,050,106,749**
Financial liabilities				
Amounts due to Bank of Uganda	10,352,531	10,352,531	16,321,890	16,321,890
Borrowings	114,826,602	114,826,602	124,682,155	124,682,155
European Union	5,645,511	5,645,511	7,125,873	7,125,873
UNCDF Fund	2,562,003	2,562,003	2,490,371	2,490,371
Other liabilities	32,577,275	32,577,275	24,927,576	24,927,576
Total financial liabilities	**165,963,922**	**165,963,922**	**175,547,865**	**175,547,865**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

7. FAIR VALUE MEASUREMENT (CONTINUED)

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)	
			2021	2020
Loans and advances	DCF method	WACC	11.60%	13%
Borrowings and KSF	DCF method	WACC	11.60%	13%
Investment Property	Income capitalisation method	Capitalisation rate	8%	7.8%

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

7(b) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

31 December 2021

	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	50,279,296	50,279,296	-	50,279,296
Deposits held in banks	325,095,998	220,095,998	105,000,000	325,095,998
Equity investments at fair value	143,297	143,297	-	143,297
Loans and advances to customers	781,658,380	137,278,780	644,379,600	781,658,380
Staff loans and advances	5,823,741	45,799	5,777,942	5,823,741
Current income assets	1,299,589	1,299,589	-	1,299,589
Current income tax assets				
Property and equipment	6,774,147	-	6,774,147	6,774,147
Investment Property	32,089,000	-	32,089,000	32,089,000
Other assets	18,507,409	13,231,381	5,276,028	18,507,409
Intangible assets	429,903	-	429,903	429,903
Total assets	**1,222,100,760**	**422,376,595**	**799,726,620**	**1,222,100,760**
Liabilities				
Amounts due to Bank of Uganda	10,352,531	2,600,000	7,752,531	10,352,531
Borrowings	114,826,602	25,413,130	89,413,472	114,826,602
UNCDF Fund	2,562,003	-	2,562,003	2,562,003
European Union	5,645,511	-	5,645,511	5,645,511
Deferred income tax liability	1,061,594	-	1,061,594	1,061,594
Other liabilities	32,577,275	17,006,434	15,670,841	32,677,275
Total liabilities	**167,025,516**	**45,017,564**	**148,059,207**	**167,025,515**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

7(b) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

31 December 2020

	Statement of financial position amount	(Current) No more than 12 months after the reporting period	(Non-Current) More than 12 months after the reporting period	(Current + Non-Current) Total
Assets				
Cash and bank balances	138,125,272	138,125,272	-	138,125,272
Deposits held in banks	380,610,389	380,610,389	-	380,610,389
Equity investments at fair value	111,285	111,285	-	111,285
Loans and advances to customers	511,881,678	28,722,803	483,158,875	511,881,678
Staff loans and advances	6,207,271	31,974	6,175,297	6,207,271
Property and equipment	5,152,592	-	5,152,592	5,152,592
Investment Property	34,151,000	-	34,151,000	34,151,000
Other assets	13,080,854	8,500,754	4,580,100	13,080,854
Intangible assets	483,723	-	483,723	483,723
Total assets	**1,089,804,064**	**556,102,477**	**533,701,587**	**1,089,804,064**
Liabilities				
Amounts due to Bank of Uganda	16,321,890	6,493,843	9,828,047	16,321,890
Borrowings	124,682,155	14,485,208	110,196,947	124,682,155
Kuwait Special Fund	2,490,371	-	2,490,371	2,490,371
UNCDF Fund	7,125,873	-	7,125,873	7,125,873
Income tax liabilities	724,052	724,052	-	724,052
Deferred income tax liability	2,747,128	-	2,747,128	2,747,128
Other Liabilities	24,927,576	9,256,735	15,670,841	24,927,576
Total liabilities	**179,019,045**	**30,959,838**	**148,059,207**	**179,019,045**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

8. INTEREST AND SIMILAR INCOME

Interest income calculated using the effective interest method

	2021	2020
	Ushs'000	Ushs'000
Interest on loans	62,597,708	45,308,030
Penalty fee income on loans	8,814,137	20,115,464
Interest on deposits held in banks	38,670,168	658,994
Interest on staff loans	830,151	658,994
Gross interest	**112,914,907**	**73,719,689**
Less: Transfers to Kuwait fund (Note 28)		
Interest earned on loans disbursed out of the fund	-	(1,657,346)
Total interest earned using effective interest rate method	**112,914,907**	**72,062,343**

The transfers to Kuwait fund in the previous year represent interest income earned from loan facilities disbursed under the Kuwait Special Fund for the period 1 January 2020 to 13 October 2020 in accordance with the Grant Agreement. Interest earned during that period was recapitalized back to the fund. On 14 October 2020, Kuwait approved the transfer of the fund from liabilities to Equity and thus any interest earned from loan facilities disbursed under the Kuwait Special Fund from that point on was recognised in interest and similar income.

Included within the various line items under interest income for the year ended 31 December 2021 is a total of Ushs 3.6 billion relating to impaired financial assets.

The interest income reported above relates to financial instruments held at amortised cost only.

9. INTEREST EXPENSE

Interest expense calculated using the effective interest method

	2021	2020
	Ushs'000	Ushs'000
Interest expense	3,658,440	4,162,653

Included within interest expense for the year ended 31 December 2021 is interest and amortised commitment fees charged on BADEA Original, BADEA Trade, BADEA Private, IDB, AfDB, India Exim, European Investment Bank and Islamic Corporation for Development lines of credit.

10. NET FOREIGN EXCHANGE (LOSS)/GAINS

	2021	2020
	Ushs'000	Ushs'000
Net realized foreign exchange gains	(10,632,257)	1,441,982
Net unrealized foreign exchange losses	11,196,401	(942,263)
	(564,144)	**499,719**

The unrealised component of exchange losses arises from translation of foreign denominated transactions and revaluation of US Dollar denominated assets and liabilities to Uganda Shillings as at year end. Financial assets and liabilities denominated in foreign currencies are translated into Uganda Shillings using the rate ruling at the reporting date. The exchange rate for US Dollars to Uganda Shillings as at 31 December 2021 was 1 USD/ Ushs 3,545 (2020: 1 USD/ Ushs 3,640).

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

11. OTHER INCOME

	2021 Ushs'000	2020 Ushs'000
Loss of disposal of assets	(5,110)	-
Rental income	17,551	15,720
Agency fees	40,511	1,047,428
Trade finance revenues	157,378	371,501
Other income*	1,016,906	453,873
	1,227,236	**1,888,522**

*Other income above includes loan recoveries and dividends.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

12. PERSONNEL EXPENSES

	2021	2020
	Ushs'000	Ushs'000
Salaries	13,732,029	10,542,746
Service gratuity	661,997	560,600
NSSF contributions	1,132,883	940,244
Staff provident fund contributions	782,380	641,314
Staff welfare	921,248	788,413
	17,230,537	**13,473,317**

The total number of employees as at 31 December 2021 was 89 (2020: 74).

13. OTHER OPERATING EXPENSES

	2021	2020
	Ushs'000	Ushs'000
Administration expenses	1,701,255	1,565,633
Rent, utilities, and maintenance costs	1,631,890	1,084,044
Expense relating to short term leases*	989,779	898,816
Directors' emoluments	513,350	479,150
Other professional fees	1,952,628	2,889,292
Business promotions and publicity	1,175,305	1,658,698
Travel and subsistence	383,768	185,478
Auditors' remuneration	183,372	121,532
	8,531,347	**8,882,643**

***** 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):

	2021	2020
	Ushs'000	Ushs'000
Depreciation	665,028	434,855
Amortization of intangible assets	303,178	339,906
Directors' emoluments	513,350	479,150
Auditors' remuneration	183,372	121,532
Net foreign exchange (loss)/gains	(564,144)	499,719
Fair value loss on investment property	2,062,000	789,532

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

15. EARNINGS PER SHARE

	2021 Ushs'000	2020 Ushs'000
Net profit attributable to ordinary equity holders of the Bank (Ushs)	38,820,380	22,108,778
Weighted average number of ordinary shares in issue during the year	100,000,000	100,000,000
Basic and diluted earnings per share (Ushs)	**388.20**	**221.09**

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

	2021 Ushs'000	2020 Ushs'000
Current income tax:		
Corporation tax	20,418,507	12,580,300
Rental tax	-	4,716
Prior year under provision for corporation tax	-	120
Prior year over provision for deferred tax	-	-
Deferred income tax credit (Note 31)	(1,685,533)	(3,029,858)
	18,732,974	**9,555,278**

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

	Effective tax rate	2021 Ushs'000	2020 Ushs'000
Profit before income tax		57,553,354	31,664,056
Tax calculated at the statutory rate	30%	17,266,006	9,499,217
Tax effect of:			
Expenses not deductible for tax purposes	2.54%	1,459,905	55,941
Under provision in prior year current tax	0%	7,063	120
	32.54%	**18,732,974**	**9,555,278**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

16. TAXATION (CONTINUED)

b) Income tax (recoverable)/payable

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

	2021	2020
	Ushs'000	Ushs'000
At 1 January	724,052	(2,181,171)
Charge for the year	20,418,5073	12,585,016
Prior year under provision	-	120
Tax paid	(22,442,148)	(9,679,913)
At 31 December	**(1,299,589)**	**724,052**

17. CASH AND CASH EQUIVALENTS

	2021	2020
	Ushs'000	Ushs'000
Short term deposits with financial institutions	50,300,366	138,231,630
ECL allowance -17(a)	(21,070)	(106,358)
	50,279,296	**138,125,272**

a) MOVEMENT IN ECL ALLOWANCE

	2021	2020
	Ushs'000	Ushs'000
At 1 January	106,358	103,431
Movement in ECL allowance	(85,288)	2,927
	21,070	**106,358**

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

18. DEPOSITS HELD IN BANKS

	2021	2020
	Ushs'000	Ushs'000
Time deposits	325,330,355	380,871,167
ECL allowance – 18(a)	(234,357)	(260,778)
	325,095,998	**380,610,389**

The average effective interest rate was 8.8% for Uganda Shillings denominated investments (2020: 9.8%) and 2.0 % for USD denominated investments (2020: 2.7%).

As at 31 December 2021, the value of projects that have been appraised and approved but not yet disbursed (due to the phased disbursement/financing structure of projects) was Ushs 512 Billion.

The maturity analysis of the deposits held in banks is analysed as follows;

	2021	2020
	Ushs'000	Ushs'000
Amounts due before three months	32,695,804	135,346,974
Amounts due after three months	292,400,194	245,263,415
	325,095,998	**380,610,389**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

18 DEPOSITS HELD IN BANKS (CONTINUED)

a) MOVEMENT IN ECL ALLOWANCE

	2021 Ushs'000	2020 Ushs'000
At 1 January	260,778	44,193
Movement in ECL allowance	(26,421)	216,585
At 31 December	234,357	260,778

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Ordinary Shares	Original Cost Ushs'000	Fair value 2021 Ushs'000	Fair value 2020 Ushs'000
KENGEN	6,431	1,948	843	1,006
Uganda Clays Limited	10,147,335	538,036	117,709	81,179
The New Vision Limited	92,674	18,535	24,745	29,100
	10,246,440	558,519	143,297	111,285

Movement in number of shares

	Sector/Industry	At 1 January 2021 Opening Balance	Purchases /(Sales)	At 31 December 2021 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 and Broadcasting	92,674	-	92,674
		10,246,440	-	10,246,440

		At 1 January 2020 Opening Balance	Purchases /(Sales)	At 31 December 2020 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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Movement in fair value during the year ended 31 December 2021

	2021 % in class	2020 % in class	2021% held	2020 % held	Opening Balance Ushs'000	Fair value gain/(loss) Ushs'000	Closing Balance Ushs'000
KENGEN	1%	1%	0.1%	0.1%	1,006	(162)	843
Uganda Clays Limited	82%	73%	1.1%	1.1%	81,179	36,530	117,709
The New Vision Limited	17%	26%	0.1%	0.1%	29,100	(4,355)	24,745
					111,285	32,013	143,297

Movement in fair value during the year ended 31 December 2020

	2020 % in class	2019 % in class	2020 % held	2019 % held	Opening Balance Ushs'000	Fair value Loss Ushs'000	Closing Balance Ushs'000
KENGEN	1%	1%	0.1%	0.1%	1,322	(316)	1,066
Uganda Clays Limited	73%	76%	1.1%	1.1%	96,400	(15,221)	81,179
The New Vision Limited	26%	23%	0.1%	0.1%	29,614	(514)	29,100
					127,336	(16,051)	111,285

Price per share

Movement in price per share	2021 Ushs Closing	2020 Ushs Closing
KENGEN	131.15	156.37
Uganda Clays Limited	11.60	8.00
The New Vision Limited	267.00	314.00

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

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

20. LOANS AND ADVANCES

(a) Products

	2021 Ushs'000	2020 Ushs'000
Long term loans	481,968,509	321,294,242
Medium term loans	137,774,554	105,165,825
Trade finance loans	106,902,768	36,871,640
Working capital loans	114,064,582	84,533,632
Gross advances	**840,710,413**	**547,865,339**
Less:		
Interest income on stage 3 loans	(3,590,504)	(1,865,647)
Expected credit loss allowance 20(d)	(55,461,529)	(34,118,014)
	781,658,380	**511,881,678**

All loans and advances above are held at amortised cost.

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

	2021 Ushs'000	2020 Ushs'000
Less than one year	137,278,780	28,604,859
1- 5 years	171,722,634	170,855,438
Over 5 years	472,656,966	312,421,381
	781,658,380	**511,881,678**

(c) Gross loans to customers by sector composition:

SECTOR	EXPOSURE 2021		2020	
	Ushs'000	Percentage	Ushs'000	Percentage
Agro-Processing	234,700,163	28%	119,284,750	22%
Education Services	17,849,589	2%	14,094,220	3%
Health Care Services	17,531,054	2%	6,152,131	1%
Infrastructure	61,212,238	7%	29,081,201	5%
Manufacturing	201,513,423	24%	160,289,354	29%
Minerals, Oil & Gas	12,619,868	2%	5,759,533	1%
Primary Agriculture	173,894,484	21%	129,031,121	24%
Tourism & Hospitality	54,398,529	6%	24,376,270	4%
Others - Building, Construction and Real Estate	66,991,065	8%	59,796,759	11%
Grand total	**840,710,413**	**100%**	**547,865,339**	**100%**

The weighted effective interest rate on loans at 31 December 2021 was 7.7% (2020: 8%) for USD and 11.60% (2020: 13%) for Ushs.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

20. LOANS AND ADVANCES (CONTINUED)

(d) Movement in provision for impaired loans and advances

	2021	2020
	Ushs'000	Ushs'000
At 01 January	34,118,014	20,381,432
Additional provisions raised during the year	21,343,515	13,736,582
Recoveries and provisions no longer required	-	-
Written off during the year	-	-
At 31 December	**55,461,529**	**34,118,014**

(e) Net impairment loss on financial instruments

	2021	2020
	Ushs'000	Ushs'000
Additional provisions during the year	21,343,515	13,736,582
Provisions on off balance sheet items (Note 32)	1,416,340	820,443
Provisions for low credit risk financial assets	(111,709)	219,512
Direct write off	703,898	30
(Recoveries)/Provision for staff loans (Note 21(c))	254,084	(88,996)
Profit and loss effect	**23,606,128**	**14,687,571**

(f) Impairment and provisioning policies

The Bank recognizes the allowance for expected credit losses on all loans and advances.

Measurement of Expected Credit Losses

The Bank at each reporting date, measures the loss allowance for all loans and advances at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

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

(g) Impairment and provisioning policies

The expected credit losses shall be determined as follows:

ECL = PD x LGD x EAD x df.

Expected Credit Losses (ECL; The weighted average of credit losses with the respective risks of a default occurring as the weights.

Probability of Default (PD); This relates an estimate of the likelihood of default over a given time horizon.

Loss Given Default (LGD); This relates to an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

20. LOANS AND ADVANCES (CONTINUED)

Exposure at Default (EAD); This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Discount Rate (df); This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition.

Further details on how the above parameters are determined are well stipulated in the Bank's loss provisioning process.
Loans and advances are categorized into the following grades:

Status	Days in arrears	Loan category
Stage 1	0-29	Performing
Stage 2	30- 89	Performing with significant increase in credit risk
Stage 3	Over 90	Non-performing

Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and are generally updated every three years except when a loan is individually assessed as impaired. As an internal requirement, the forced sale value of the collateral security is over and above the amounts of loans and advances disbursed. The forced sale value of the collateral held by the Bank for stage 3 facilities was Ushs 133 billion as at 31 December 2021 (2020: Ushs 71 billion).

21. STAFF LOANS AND ADVANCES

(a) Staff loans and advances

	2021 Ushs'000	2020 Ushs'000
Staff loans	11,118,333	9,175,632
Provision for impairment	(380,720)	(126,636)
Discount on staff loans marked to market	(4,913,872)	(2,841,725)
	5,823,741	**6,207,271**

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

	2021 Ushs'000	2020 Ushs'000
Within three months	8,633	-
Between three and six months	-	-
Over six months	5,815,108	6,207,271
	5,823,741	**6,207,271**

Staff loans and advances are categorized 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 2021 was 8% (2020: 8%).

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

21. STAFFCLOANS AND ADVANCES (Continued)

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

	2021 Ushs'000	2020 Ushs'000
At 1 January	126,636	215,632
Additional provisions raised during the year	254,084	(88,996)
Loan write- offs	-	-
As at 31 December	**380,720**	**126,636**

22. INVESTMENT PROPERTY

	2021 Ushs'000	2020 Ushs'000
At 1 January	34,151,000	31,473,000
**Purchase of Land	-	3,467,532
Fair value loss on investment property	(2,062,000)	(789,532)
At 31 December	**32,089,000**	**34,151,000**

The value of the Bank's investment property, Commercial Towers, on Plot 22 Hannington Road, Kampala at 31 December 2021 has been arrived at on the basis of a valuation carried out 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 2020, the bank purchased land worth Ugx 3,467,532,000 from MTN Uganda. This land was purchased to increase the parking space which is a very significant factor that affects the potential occupancy rates of the property.

During the year ended 31 December 2021, the following amounts were recognised in the Bank's profit or loss:

Other income	2021 Ushs'000	2020 Ushs'000
Rental Income	17,551	15,720
Fair value loss on investment property	(2,062,000)	(789,532)
	2,044,449	**(773,812)**

Other operating costs	2021 Ushs'000	2020 Ushs'000
Property rates	6,394	21,262
Maintenance costs	338,092	226,970
	344,486	**248,232**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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 2020	2,155,000	1,703,234	675,760	1,046,325	915,858	6,496,177
Additions	-	-	50,859	-	446,938	497,797
At 31 December 2020	**2,155,000**	**1,703,234**	**726,619**	**1,046,325**	**1,362,796**	**6,993,974**
At 1 January 2021	**2,155,000**	**1,703,234**	**726,619**	**1,046,325**	**1,362,796**	**6,993,974**
Additions	-	-	14,870	-	917,045	931,915
Disposals	-	-	-	-	(6,055)	(6,055)
Revaluation gains/(losses)	1,771,000	(411,222)	-	-	-	1,359,778
At 31 December 2021	**3,926,000**	**1,292,012**	**741,489**	**1,046,325**	**2,273,786**	**9,279,612**
DEPRECIATION						
At 1 January 2020	-	135,200	339,325	375,775	556,227	1,406,527
Charge for the year	-	27,114	70,353	190,627	146,761	434,855
Reclassifications			(1,278)		1,278	-
At 31 December 2020	**-**	**162,314**	**408,400**	**566,402**	**704,266**	**1,841,382**
At 1 January 2021	**-**	**162,314**	**408,400**	**566,402**	**704,266**	**1,841,382**
Charge for the year	-	27,040	69,115	190,106	378,767	665,028
Eliminated on disposal	-	-	-	-	(945)	(945)
At 31 December 2021	**-**	**189,354**	**477,515**	**756,508**	**1,082,088**	**2,505,465**
NET CARRYING AMOUNT						
At 31 December 2021	**3,926,000**	**1,102,646**	**263,974**	**289,817**	**1,191,710**	**6,774,147**
At 31 December 2020	**2,155,000**	**1,540,920**	**318,219**	**479,923**	**658,530**	**5,152,592**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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 2021. The revaluation is carried out every after 3 years and was last done for the year ended 31 December 2021 by independent professional valuers that are not related to the Bank (Reitis Limited). 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.
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 817 million. This is disclosed below;

	Freehold Land Shs'000	Buildings Shs'000
Cost	1,270,000	950,000
Accumulated depreciation	-	(133,000)
Net book amount	**1,270,000**	**817,000**

24. INTANGIBLE ASSETS

Cost	2021 Ushs'000	2020 Ushs'000
At 1 January	2,695,824	2,695,824
Additions	249,358	-
At 31 December	**2,945,182**	**2,695,824**
Amortization		
At 1 January	2,212,101	1,872,195
Charge for the year	303,178	339,906
At 31 December	**2,515,279**	**2,212,101**
Net carrying amount		
At 31 December	**429,903**	**483,723**

Intangible assets comprise the initial cost of the core banking system Rubikon and other software.

25. OTHER ASSETS

	2021 Ushs'000	2020 Ushs'000
Prepayments	1,368,502	1,427,688
Security deposits*	362,156	198,739
Other debtors**	11,862,879	8,612,702
Discount on staff loans marked to market	4,913,872	2,841,725
	18,507,409	**13,080,854**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

25. OTHER ASSETS (CONTINUED)

*Security deposits include a deposit to registrar of the high court in respect to UDBL vs KAI Limited case amounting to Ushs 14 million. The amount is refundable on condition that UDBL wins the case against Afro Kai Ltd.

**Other debtors include investment interest receivable, Msingi guarantee interest receivable and withholding tax receivable.

The fair value of other assets approximates the carrying amount.

26. AMOUNTS DUE TO BANK OF UGANDA

	2021	2020
	Ushs'000	Ushs'000
At 1 January	16,321,890	16,017,692
Drawn down during the year	942,802	6,872,857
Repayments during the year	(6,912,161)	(6,568,659)
	(5,969,360)	304,198
At 31 December	**10,352,531**	**16,321,890**

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

	2021	2020
	Ushs'000	Ushs'000
Arab Bank for Economic Development in Africa (BADEA Loan 0632)	12,449,660	13,531,855
Arab Bank for Economic Development in Africa (BADEA Trade Finance)	-	-
Arab Bank for Economic Development in Africa (BADEA Private sector)	14,841,406	18,018,443
Islamic Development Bank (IDB)	6,643,792	7,997,871
African Development Bank (AfDB Public window)	50,447,457	55,313,266
African Development Bank (AfDB Private window)	16,341,141	18,641,150
India Exim Bank	14,003,146	11,179,570
	114,826,602	**124,682,155**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

27. BORROWINGS (CONTINUED)

The movements in borrowings were as follows:

	2021 Ushs'000	2020 Ushs'000
Balance as at 1 January	124,682,155	70,541,546
Drawdowns during the year	5,686,546	59,854,520
Interest charge	3,658,440	4,162,653
Repayments during the year	(15,697,892)	(8,608,318)
Foreign exchange losses	(3,502,647)	(1,268,246)
Balance at 31 December	**114,826,602**	**124,682,155**

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. The loan is unsecured.

As at 31 December 2021, USD 4,336,535 (2020: USD 4,336,535) had been disbursed from the loan account.

ii) BADEA Loan Private sector

This represents a US Dollars 6,000,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to Uganda Development Bank with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between BADEA and Republic of Uganda dated 13th February 2017. The loan is to be used solely for financing expenditures and permanent working capital of UDBL's eligible clients in the Republic of Uganda. The loan is repayable in 16 semi-annual instalments after a 2 year grace period. The loan is unsecured.

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. The average rate in the year is 4.47%.

As at 31 December 2021, the entire loan amount had been disbursed from the loan account.

iii) Islamic Development Bank (IDB)

This represents an asset line of financing equivalent US Dollars 10,000,000 loan from the Islamic Development Bank to Uganda Development Bank Limited with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between Islamic Development Bank and Republic of Uganda dated 18th May 2017.

For each transaction, the sale price shall be determined on the basis of the capital cost plus a mark-up of the US dollar swap rate prevailing at the time corresponding to the capital amortization period plus 135 basis points (One Hundred Thirty-Five basis points) per annum. The average US dollar swap rate is 2.33%.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

27. BORROWINGS (CONTINUED)

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 loan is unsecured.
The Bank had utilized USD 2,900,000 by 31st December 2021 (2020: USD 2,900,000).

1 African Development Bank (AfDB Public window) USD 15M Line of Credit

This represents a US dollar 15,000,000 line of Credit from African Development Bank extended to Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the Ministry of Finance. The agreement for the line of Credit was signed on 22nd May 2020.

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. The loan is unsecured. The average rate in the year is 1.38%.

As at 31 December 2021, the entire amount had been drawn down from the account .

2 African Development Bank (AfDB Private window) USD 5M Line of Credit

This represents a US dollars 5,000,000 line of Credit from African Development Bank extended to Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the Ministry of Finance. The agreement for the line of Credit was signed on 7th June 2020.

Interest is payable on the amount disbursed and outstanding from time to time during each interest period, at the LIBOR rate two (2) Business Days prior to the commencement of the relevant Interest Period plus a rate of five hundred (500) basis points per annum.
UDBL is required to repay the Line of Credit in full over a period of eight (8) years after the expiration of the two-year grace period by means of sixteen (16) equal and consecutive semi-annual instalments payable on each payment date. The first of such instalments are payable on the first Payment Date which immediately follows the expiration of the grace period.
It should be noted that UDBL cannot re-borrow from AfDB amounts repaid under the loan agreement. The loan is unsecured. The average rate in the year is 5.81%.

As at 31 December 2021, the entire amount had been drawn down from the account.

3 India Exim USD 5M Line of Credit

This represents a USD 5 million line of Credit from Exim Bank to finance import of goods and services from India from time to time. As per Agreement between UDBL and EXIM, signed on 8th October 2018, the Ministry of Finance, Government of Republic of Uganda fully guaranteed the line of Credit.

Interest on the line of credit is accrued on the outstanding principal amount at an interest rate determined as the sum of the applicable Margin and LIBOR. The average rate in the year is 3.21%.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

27. BORROWINGS (CONTINUED)

As at 31 December 2021, USD 5,000,000 had been disbursed from the loan account. (2020: USD 3,405,945).

Below is a table showing the total commitment per loan versus amount drawn down to date;

Loan	Total commitment (USD)	Amount drawn down (USD)
BADEA Loan	4,500,000	4,336,525
BADEA Loan Trade Finance	10,000,000	10,000,000
Islamic Development Bank	10,000,000	2,900,000
African Development Bank	15,000,000	15,000,000
African Development Bank (AfDB private window)	5,000,000	5,000,000
India Exim	5,000,000	5,000,000

The fair values of the borrowings above approximate the carrying amounts.

28. KUWAIT SPECIAL FUND

	2021 Ushs'000	2020 Ushs'000
Balance as at 1 January	31,222,552	30,777,916
Agency costs	-	(1,017,740)
Interest on loans disbursed out of the fund	-	1,657,346
Effect of foreign exchange movements	-	311,953
Reclassification to Equity	-	(31,729,475)
Liability as at 14 October 2020	**-**	**-**
Equity		
Balance as at 1 January 2021/14 October 2020	31,222,552	31,729,475
FX (gain)/loss	-	(506,923)
Balance as at 31 December	**31,222,552**	**31,222,552**

This represented a grant of US Dollars 7 million from Kuwait to the Government of Uganda that was used in the creation of a Trust Fund in Uganda Development Bank Limited ("the Bank"). The Bank was required to establish in its books a special account to which the grant as well as income accruing as a result of the investment and utilisation of the grant was to be credited.

The purpose of the fund was to finance farming and lending to small and micro business activities for the production of food and provision of related support services, including, without being limited to, food processing, storage and marketing. For the period to 13 October 2020, the Bank treated the grant as a liability as it represented funds managed in trust on behalf of the Government of Uganda.

Effective 14 October 2020, Kuwait approved the transfer of the Kuwait Special Fund account from the Bank's liabilities' to equity as the amounts are not payable/refundable.

The weighted effective interest rate on loans disbursed as at 31 December 2021 was 10% (2020: 10%). The fair value of the Kuwait special fund approximates the carrying amount.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

29. UNCDF FUND (UN CAPITAL DEVELOPMENT FUND)

	2021 Ushs'000	2020 Ushs'000
Balance as at 1 January	2,490,371	664,670
Drawn down during the year	-	1,805,772
Agency costs	(13,837)	(29,687)
Interest on loans disbursed out of the fund	85,469	49,616
Balance as at 31 December 2021	**2,562,003**	**2,490,371**

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 drawdowns are EUR 500,000 (Five hundred thousand Euros) per year based on the successful projects financed.

The beneficiaries of loans from the line of credit should be small and medium enterprises (SMEs) i.e. enterprises that employ between 5 to 100 employees with total assets between Ush 10 million but not exceeding 360 million. Loans from the line of credit to beneficiaries must not exceed EUR 100,000.

As per MOU, UDBL may charge 1 % p.a. as agency fees on the outstanding loan book in addition to 3.8% p.a. as Administrative Fees on the outstanding loan book. The fees are computed and charged monthly. The facilities from the line of credit are charged interest at a minimum rate of 10% p.a. and a maximum of 12% p.a.

UDBL is then required to capitalise amounts of interest over and above the agency and administrative fees.

As at 31 December 2021, Ush 2,469,829,420 had been disbursed from the fund (2020: Ugx 2,469,828,420)

The fair value of the UNCDF fund approximates the carrying amount.

30. EUROPEAN UNION (EU) GRANT

	2021 Ushs'000	2020 Ushs'000
Balance as at 1 January	7,125,873	-
Drawn down during the year	-	7,125,873
Disbursements from grant	(1,240,250)	-
Expenses relating to the grant	(252,931)	
Exchange losses on conversion of grant to Ush	12,819	-
Balance as at 31 December	5,645,511	7,125,873

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

30. EUROPEAN UNION (EU) GRANT (CONTINUED)

Uganda Development Bank Limited (UDBL) in partnership with European Union (EU) has allocated funds in form of a grant attached to a loan (also known as 'facility') to enable the sector soar through the hardship of COVID-19. The facility seeks to stimulate businesses operating in the tourism sector, which has been heavily impacted by COVID-19 by providing a grant and soft loan with flexible terms aligned to the current needs of the sector. A total approximate pool of Ushs 61.8 billion (Ushs 40 billion Uganda Development Bank loan plus Ushs 21.8 billion EU Grant) has been set aside for this intervention. The EU grant is subject to the signing of an agreement between EU and UDBL.

The facility will have the following components and additional benefits:
i) A non-repayable grant attached to the loan based on the number of staff maintained in the company during the two years' period that will benefit from this intervention in comparison with the number of staff in the company before COVID-19 pandemic (28th February 2021).
ii) Concessional loan interest rates not exceeding 12%; however, the effective cost of the facility to the borrower shall not exceed 8%.
iii) Extended working capital loan tenor of up to 5 years inclusive of a 2 years' grace period
a. Business advisory services as a non-monetary intervention.

The beneficiaries of the grant include business entities under Uganda Hotel Owners Association (UHOA) and Association of Uganda Tour Operators (AUTO).
The grant shall be accounted for as a liability in accordance with IAS 20.

As at 31 December 2021, EUR 1,602,400 (Ushs equivalent 7.13 billion) had been received from European Union.

31. DEFERRED INCOME TAX LIABILITY

Deferred income tax is calculated in full, on all temporary differences under the liability method using a principal tax rate of 30% (2020: 30%). The movement in the deferred income tax liability is detailed below:

	2021 Ushs'000	2020 Ushs'000
At the start of the year	2,747,127	5,776,985
Deferred tax credit to profit or loss	(1,685,533)	(3,029,858)
At the end of the year	**1,061,594**	**2,747,127**

Year ended 31 December 2021

	At 1 January 2021 Ushs'000	Charge/ (credit) to profit or loss Ushs'000	At 31 December 2021 Ushs'000
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	234,838	7,356	242,195
Provisions and unrealized losses	5,497,134	(3,041,146)	2,455,988
Tax loss on rental income	-	(11,314)	(11,314)
Capital gains/revaluation	(2,984,845)	1,359,571*	(1,625,275)
Net deferred income tax liability	**2,747,127**	**(1,685,533)**	**1,061,594**

***Amount inclusive of the tax charge on gain on revaluation of property and equipment.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

31. DEFERRED INCOME TAX LIABILITY (CONTINUED)

Year ended 31 December 2020

	*At 1 January 2020 Ushs'000	Charge/ (credit) to profit or loss Ushs'000	At 31 December 2020 Ushs'000
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	242,424	(7,586)	234,838
Provisions and unrealized losses	8,282,546	(2,785,412)	5,497,134
Capital gains/revaluations	(2,747,985)	(236,860)	(2,984,845)
Net deferred income tax liability	**5,776,985**	**(3,029,858)**	**2,747,127**

32. OTHER LIABILITIES

	2021 Ushs'000	2020 Ushs'000
Accrual and other liabilities	7,496,063	7,067,041
Deferred arrangement fees	10,507,180	6,859,607
Expected credit loss provision on off balance sheet items	3,099,980	1,683,640
Staff gratuity	178,076	152,502
Other creditors*	11,295,976	9,164,786
	32,577,275	**24,927,576**

*The other creditors balance includes suspense account, loan payment account, advance rental income and accruals for the quarter ended 31 December 2021.

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% (2020: 25%) of their total annual gross salary.

Movement in Provisions during the year;

Description	**1 January 2021 Ushs'000**	**Movement Ushs'000**	**31 December 2021 Ushs'000**
Staff gratuity	152,502	25,574	178,076
Leave provision	224,263	(19,596)	204,667
Total	**376,765**	**5,978**	**382,743**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

33. SHARE CAPITAL

	2021 Ushs'000	2020 Ushs'000
Authorized:		
At 1 January	100,000,000	100,000,000
400 million Ordinary Shares of Ushs 1,000 each	400,000,000	400,000,000
Additional 1.5 billion Ordinary Shares of Ushs 1,000 each	1,500,000,000	1,500,000,000
At 31 December	**2,000,000,000**	**2,000,000,000**
Issued and fully paid up:		
At 1 January	100,000,000	100,000,000
Issue of shares	-	-
At 31 December	**100,000,000**	**100,000,000**

The Bank's authorised share capital is Ushs 2 trillion (2020: Ushs 2 trillion) divided into 2 billion shares of Ushs 1,000 each. As at 31 December 2021, the Bank had issued 100 million shares (2020: 100 million). All issued shares are fully paid up.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and other general meetings of the company.

34. GOVERNMENT OF UGANDA CAPITAL CONTRIBUTIONS

	2021 Ushs'000	2020 Ushs'000
At 1 January	693,873,246	183,902,306
Contributions during the year*	104,110,067	509,970,940
At 31 December	**797,983,313**	**693,873,246**

* Included within GOU capital contributions for the year 2020 are funds of Ushs 455 billion from the Ministry of Finance, Planning and Economic Development (MoFPED) to finance the Republic of Uganda's response Plan to the Covid-19 pandemic by leveraging the medical, health and manufacturing sectors. This capital is pending allotment of shares.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

35. ASSET REVALUATION RESERVE

	2021 UShs '000	2020 UShs '000
As 1 January	1,203,464	1,203,464
Gain on revaluation	1,359,778	-
As at 31 December	**2,563,242**	**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 2021. The revaluation was carried out by a professional valuer by the names of Reitis Valuers and Surveyors (Chartered Surveyors), independent professional valuers that are not related to the Bank.

The freehold land and buildings were revalued on the basis of depreciated replacement cost reflecting prevailing market conditions at the time of valuation.

36. COMMITMENTS

Loan Commitments

To meet the financial needs of the customers, the Bank enters into various irrevocable commitments. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

	2021 Ushs'000	2020 Ushs'000
Loans approved but not disbursed at year end	511,726,231	258,095,918

37. CONTINGENT LIABILITIES

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, the Bank is involved in various litigation, arbitration and regulatory proceedings in Uganda in the ordinary course of its business. The Bank has formal controls and policies for managing legal claims. Based on professional legal advice, the Bank provides and/or discloses amounts in accordance with its accounting policies described in Note n. At year end, the Bank had several unresolved legal claims. The Bank's legal advisors' opinion is that it is possible, but not probable, that the court rulings may be in favour of Plaintiffs. 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 6.8 billion (2020: Ushs 5.5 billion), while the timing of the outflow is uncertain.

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2021, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

39. RELATED PARTY TRANSACTIONS

The Bank is controlled by the Government of Uganda which owns 100% of the share capital of the Bank. The main transaction between the Bank and the Government of Uganda relates to capital contributions.

In the normal course of business, the Bank carries out various transactions with related parties. The relevant transactions with related parties are shown below:

	2021	2020
	Ushs'000	Ushs'000
GoU capital contributions (note 34)	104,110,067	509,970,940
Staff loans: interest earned	830,150	659,994
Staff loans: repayments	2,477,613	1,875,131
Staff loans: disbursements	3,753,466	3,443,980
Outstanding balances		
Staff loans (note 21)	5,823,741	6,207,271

Key management compensation		
Salaries	2,294,685	2,061,445
NSSF Company contributions	229,469	206,145
Service gratuity	631,039	515,361
	3,155,193	**2,782,951**
Directors' remuneration	**513,350**	**479,150**

40. CAPITAL MANAGEMENT

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

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. The Bank’s Board Audit and Risk committee is charged with the responsibility of assessing the adequacy of its capital and on a quarterly basis assesses the capital requirements of the Bank.

The total capital of the Bank is shown in the table below:

	2021	2020
	Ushs ‘000	Ushs ‘000
Issued capital	100,000,000	100,000,000
Asset revaluation reserve	2,563,242	1,203,464
GOU capital contribution	797,983,313	693,873,246
Kuwait Special Fund	31,222,552	31,222,552
Retained earnings	123,306,137	84,485,757
	1,055,075,244	**910,785,019**

During the year, the Bank got additional capital contributions from Government of Uganda of Ushs 104,110,067 (2020: Ushs 509,970,940).

Effective 14 October 2020, Kuwait approved the transfer of the Kuwait Special Fund account from the Bank's liabilities' section to the equity section.

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

41. NET CASHFLOWS FROM OPERATING ACTIVITIES

OPERATING ACTIVITIES	2021 Ushs '000	2020 Ushs '000
Profit before taxation	57,553,354	31,664,056
Adjustments for:		
Unrealised foreign exchange gain on borrowings	(3,502,647)	(1,268,246)
Depreciation	665,028	434,855
Amortisation of intangible assets	303,178	339,906
Loss on disposal of fixed assets	5,110	-
Impairment loss on financial assets	23,606,128	14,687,571
Fair value loss on Investment properties	2,062,000	789,532
Fair value (gain)/ loss on equity investments	(32,013)	16,051
Interest expense on borrowings	3,658,440	4,162,653
Revaluation gain on Kuwait Fund	-	444,636
Operating profit before changes in operating assets and liabilities	**84,318,578**	**51,271,014**

42. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Borrowings Ushs'000	Amounts due to Bank of Uganda Ushs'000	Contribution from Government of Uganda Ushs'000	Total Ushs'000
31 December 2021				
Balance as at 1 January 2021	124,682,155	16,321,890	693,873,246	834,877,291
Changes in financing cash flows				
Proceeds from Debt	5,686,546	942,803	104,110,067	110,739,416
Repayments of Debt	(15,697,892)	(6,912,162)	-	(22,610,054)
Total changes from financing cash flows	**114,670,809**	**10,352,531**	**797,983,313**	**923,006,653**
Other changes				
Interest expense	3,658,440	-	-	3,658,440
Foreign exchange gains	(3,502,647)	-	-	(3,502,647)
Total liability related other changes	**155,793**	**-**	**-**	**155,793**
Balance as at 31 December 2021	**114,826,602**	**10,352,531**	**797,983,313**	**923,162,446**

UGANDA DEVELOPMENT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

42. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR (CONTINUED)

31 December 2020				
Balance as at I January 2020	70,541,546	16,017,692	183,902,306	270,461,544
Changes in financing cash flows				
Proceeds from Debt	59,854,520	6,872,857	509,970,940	576,698,317
Repayments of Debt	(8,608,318)	(6,568,659)	-	(15,176,977)
Total changes from financing cash flows	**121,787,748**	**16,321,890**	**693,873,246**	**831,982,884**
Other changes				
Interest expense	4,162,653	-	-	4,162,653
Foreign exchange gains	(1,268,246)	-	-	(1,268,246)
Total liability related other changes	**2,894,407**	**-**	**-**	**2,894,407**
Balance as at 31 December 2020	**124,682,155**	**16,321,890**	**693,873,246**	**834,877,291**

43. RETAINED EARNINGS

	2021	2020
	Ushs '000	Ushs '000
At 1 January	84,485,757	62,376,979
Total comprehensive income for the year	38,820,380	22,108,778
At 31 December	**123,306,137**	**84,485,757**

44. LEASES

The Bank entered into a commercial lease for premises with Pine Investments Limited which expired on 31 January 2020. 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 2023 to occupy its own premises at UDB-MTN towers.

The lease payments associated with the short-term lease are as follows:

	2021	2020
	Ushs '000	Ushs '000
Within one year	989,779	898,816
	989,779	**898,816**

45. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

SELECTED
ACCOLADES

UDB

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