UDB
Inspiring Development

Accelerating **Socio-economic Development** through Sustainable Financial Interventions

2018 ANNUAL REPORT

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.

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DEFINITIONS

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

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

Foreign exchange earnings: Refers to the foreign currency generated by funded projects expressed in Uganda Shillings equivalent. The foreign currency generated includes earnings arising from 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 (Shs): Annual income statement profit attributable to ordinary shareholders, minorities and preference shareholders

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

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

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

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

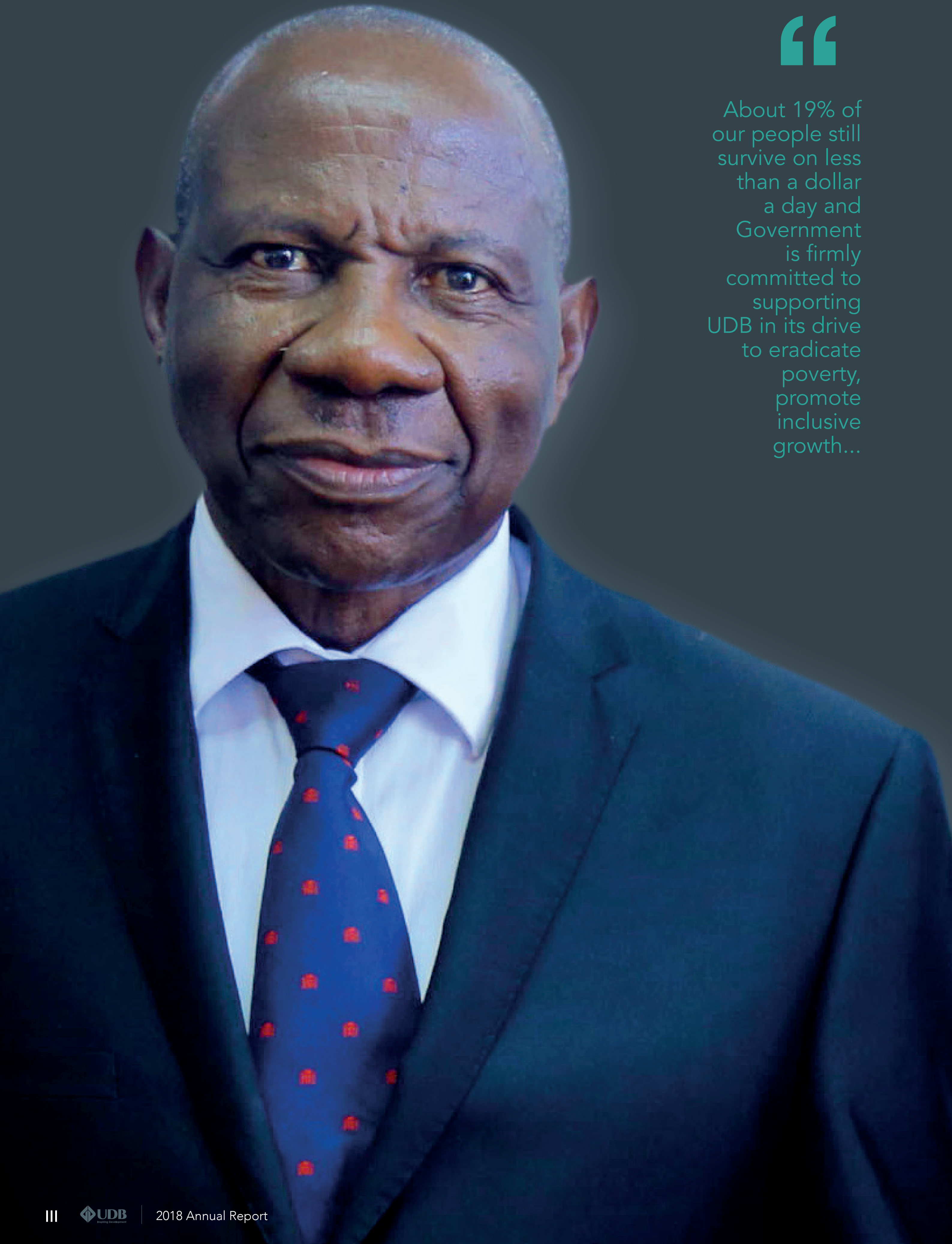
Debt to Equity ratio (%): Total Debt as a percentage of Total Equity

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

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

ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institutions
ADFIMI	Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank
AfDB	African Development Bank
AGM	Annual General Meeting
AGM	Annual General Meeting
BADEA	Arab Bank for Economic Development in African
BARC	Board Audit and Risk Committee
BCC	Board Credit Committee
BS&PC	Board Strategy and Planning Committee
CEO	Chief Executive Officer
DFI	Development Finance Institution
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



"About 19% of our people still survive on less than a dollar a day and Government is firmly committed to supporting UDB in its drive to eradicate poverty, promote inclusive growth...

FOREWORD FROM THE MINISTER OF FINANCE, PLANNING & ECONOMIC DEVELOPMENT

In accord with good corporate practices, the Uganda Development Bank Ltd (UDB) produces annual reports in order to facilitate stakeholders and the general public in gaining a deeper understanding of the Bank, its operations and performance. As such, I am most pleased to share this very 2018 UDB Annual Report.

The Report clearly shows significant improvement in the allocation of the Bank's credit and corresponding investments in the country's priority sectors as articulated in the National Development Plan (NDP II). It is my belief that the support to these priority sectors will compliment other measures the Government of Uganda is taking to reduce poverty and improve the quality of life in our country. In providing credit, the Bank is also always mindful of the country's environmental sustainability concerns.

While UDB's financial interventions in the priority sectors is helping to improve the lives of many Ugandans, additional development finance is needed. For that matter, Government has firmly committed to support UDB in its drive to support Government poverty reduction efforts, promote inclusive growth and develop a local entrepreneurial capacity. In doing so, we will fully capitalize the bank and assist it in assessing development finance lines of credit from other development agencies as we have previously done.

Fortunately, its current management is doing a good job as evidenced by the Bank's performance indicators over the last few years. In this regard, I wish to remind both the Board and Management that the Bank must provide the financial support it does with innovative solutions to better respond to the diverse and sometimes specific needs and challenges of the private sector. It must embrace and continue to uphold best governance practices and preserve the Shareholders' value and stakeholder confidence in the Bank.

As Shareholder and Minister responsible for UDB, I stand ready to do all that is necessary to avoid the pitfalls of its past and all that is necessary for its successes.

It is my sincere hope that stakeholders and the general public will find this report useful; and that the information therein will ultimately result in the enhancement of their partnerships with UDB. Finally, I would also like to extend my sincere thanks to the Board for its stewardship and Management and Staff for the improved performance for the year; and not least for joining hands in the preparation of this report. They have demonstrated a real and stalwart partnership in achieving good results and enhancing the visibility of the Bank.

Matia Kasaija

KEY PRIORITY SECTORS

AGRICULTURE

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

TOURISM AND HOSPITALITY

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

MANUFACTURING

The Bank supports feasible projects in the manufacturing and industrial sectors on competitive terms.

HUMAN CAPITAL DEVELOPMENT

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

INFRASTRUCTURE

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

MINERALS OIL & GAS

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

2018 PERFORMANCE HIGHLIGHTS

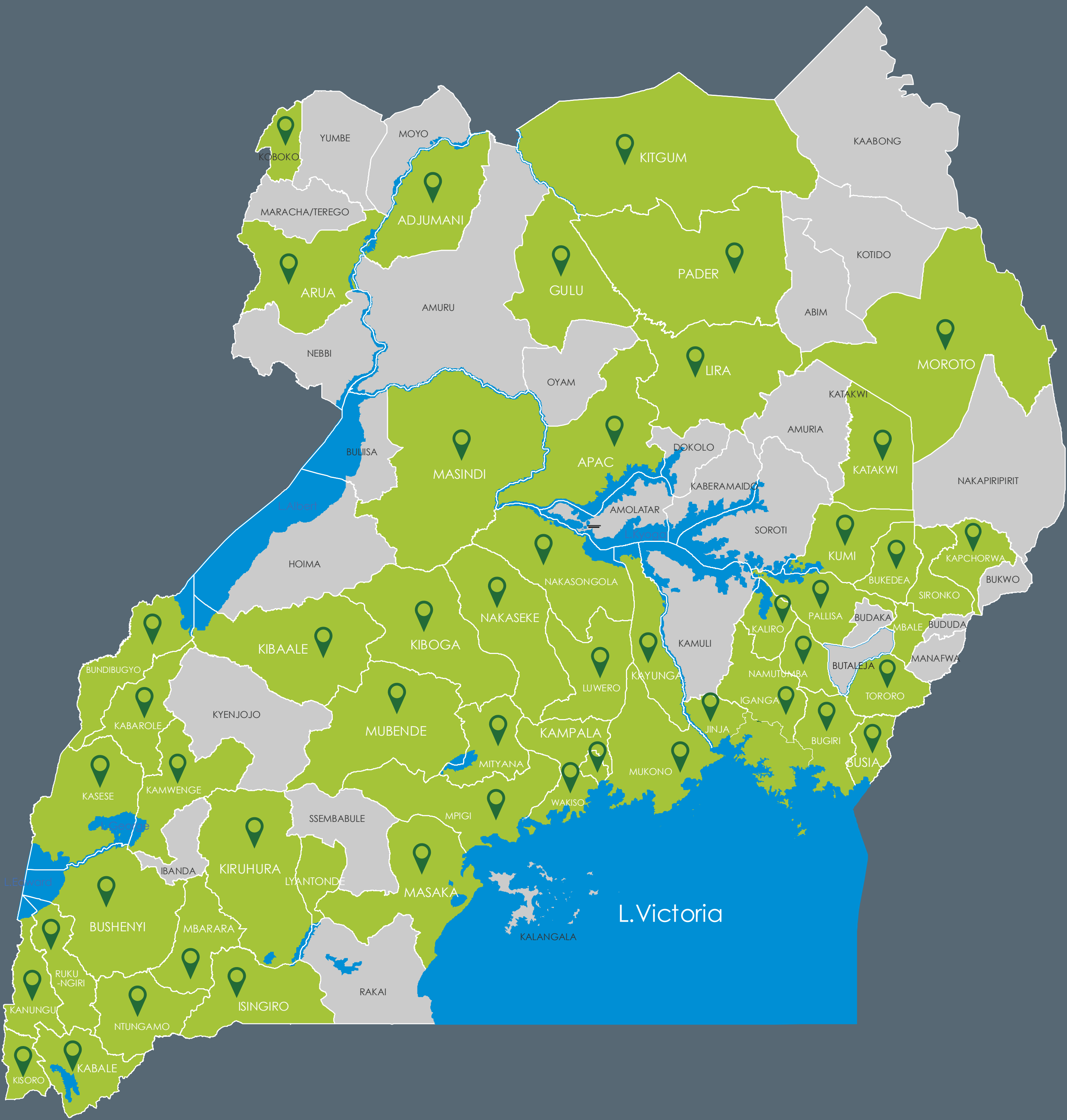
UDB continues to play a meaningful role in contributing towards the transformation of Uganda's economic landscape while remaining financially sustainable.

51 TRANSACTIONS APPROVED	Ushs 257.8billion (↑54%)
TOTAL FUNDING DISBURSED	Ushs 154.6 billion (↑ 62%)
APPROVED FOR THE AGRICULTURE & AGRO - INDUSTRIALISATION SECTOR	Ushs 116.2billion (↑58%)
APPROVED FOR THE MANUFACTURING SECTOR	Ushs 113.1 billion (↑ 103.8%)
JOBS SUPPORTED	54,034 (↑19%)
TAX CONTRIBUTION	Ushs 156billion (↑ 23%)
NET PROFIT AFTER TAX	Ushs 9.5 billion (↑ 14%)
TOTAL ASSETS	Ushs 370.1 billion (↑ 24%)

COMPANY OVERVIEW

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

REGIONAL DISTRIBUTION OF UDB PROJECTS



WHO WE ARE

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

OUR STRATEGY

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

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

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

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

Strengthen human capital and governance structures for sustainable performance

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

VISION

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

MISSION

Accelerating socio-economic development through sustainable financial interventions

OUR VALUES

Our day-to-day activities and business conduct are guided by our values

INTEGRITY

COMMITMENT

EXCELLENCE

OUR FUNDING MODEL

The UDB is funded through:

- Internally generated resources
- Grants and administered funds
- Government of Uganda capital contribution
- Borrowings from development partners

We use these to provide funding to businesses in the form of loans and equity investments

LOAN FUNDING

EQUITY FUNDING

These investments and loans result in

- **Interest payments**
- **Capital repayments**
- **Dividend receipts**
- **Capital growth and realisation**

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

OUR BUSINESS MODEL

OUR RESOURCES

CAPITAL	HOW THE RESOURCE IS USED TO ENABLE OUR BUSINESS MODEL
FINANCIAL CAPITAL • Capital contributions from the Government of Uganda • Interest and principle repayments from loans provided • Borrowings • Dividends and capital profits from equity investments	• 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-investin projects • Leveraging our balance sheet to increase 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-invest ment processes	• Crafting strategies for the development of key priority sectors • Providing inputs to policy formulation • Allows us to identify and anage risk in the businesses that we fund
MANUFACTURED CAPITAL • IT infrastructure and systems	• Improving our processes • Connecting with our stakeholders

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 specialised 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 payments, interest and dividends
CROSS-CUTTING SUPPORTING ACTIVITIES	• Assets and Liabilities management • Human capital management • Business technology • Strategy and economic research • Governance, compliance and legal services • Enterprise risk • Corporate affairs • Procurement • Business advisory

OUTPUTS

LOAN APPROVALS

CUMULATIVE VALUE APPROVED FROM 2015 TO 2018

Ushs **611.0 bn**

LOANS DISBURSED

DISBURSEMENTS FROM 2015 TO 2018

Ushs **364.4 bn**

TRANSACTIONS APPROVED

NUMBER OF APPROVALS FROM 2015 TO 2018

164

EMPLOYEES TRAINED

2018 TRAINING COST AS A % OF STAFF COST

6%

FUNDING RAISED

VALUE OF FUNDING RAISED FROM 2015 TO 2018

Ushs **243.5 bn**

SUSTAINABILITY INITIATIVES

- UDB entered into an MoU with the European Organization for Sustainable Development in July 2018, in testament of the Bank's commitment to sustainability
- UDB was also admitted amongst the 4 pioneer financial institutions in the world to undertake the Sustainability Standards Certification Initiative (SSCI)

DEVELOPMENT OUTCOMES

TURNOVER AND PROFITABILITY OF PROJECTS FINANCED

2018 TURNOVER

Ushs **1.2 tn**

2018 PROFITABILITY

Ushs **183.9 bn**

JOBS CREATED AND SAVED

DIRECT AND INDIRECT JOBS IMPACT FROM 2015 TO 2018

54,034

PRIORITY SECTORS SUPPORTED

CUMULATIVE SECTORAL DISTRIBUTION OF FUNDING APPROVALS FROM 2015 TO 2018

42% Agriculture & Agro-processing
39% Manufacturing
10% Infrastructure
3% Human Capital
2% Tourism
4% Other

TAX CONTRIBUTIONS

TAX CONTRIBUTION FROM 2015 TO 2018

Ushs **495 bn**

HUMAN CAPITAL DEVELOPMENT

NUMBER OF STUDENTS ENROLLED FROM 2015 TO 2018

TOTAL NUMBER OF STUDENTS

39,582

ACCESS TO HEALTH SERVICES

TOTAL NUMBER OF PATIENTS SERVED IN UDB FUNDED PROJECTS

710,577

2018 FINANCIAL OUTCOMES

2018 TOTAL ASSETS

Ushs **370.1 bn**

CUMULATIVE NET PROFIT AFTER TAX FROM 2015 TO 2018

Ushs **26.2 bn**

OUR STRATEGY

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

Our 5 year strategy is delivered through annual business plans that are reviewed on a quarterly basis with the Executive Committee and the Board. These reviews take into account changes in the operating environment and are guided by robust discussions by the Board and the Executive Committee. Details of the pillars of our strategy and how they address different aspects of our business model can be seen on page 15 of this report.

Focus areas for 2018

2018 marked the first year of implementation of the Bank's 5 year strategic plan. The strategies laid out in the 2018 - 2022 strategic plan were informed by among others sector priority and constraints as outlined in NDP II and Vision 2040. The strategy maintains focus on social-economic development but with a renewed focus on driving financial and non-financial investments in the priority sectors of Agriculture and Agro-processing, Manufacturing, Tourism, Human Capital Development, Infrastructure, and Minerals, Oil & Gas.

The Bank pursued the following priorities during 2018 and achieved the following:

Focus Areas	Key Achievements
Resource mobilization	o The Bank undertook its maiden credit rating process with Fitch Ratings and was awarded a rating of B+ (with stable outlook). o Approval of new funding from Africa Development Bank Group (US$ 20 mn); India Exim Bank (US$ 5 mn) and Islamic Corporation for the Development of the Private Sector (US$ 15 mn) o Progressed a healthy pipeline of funding with the French Development Agency (US$ 10 mn), Arab Bank for Economic Development of Africa (US$ 20 mn), European Development Bank (US$ 20 mn) and United Nations Capital Development Fund (Euro 2 mn) o Admitted and signed an MOU with China Development Bank under the CDB – Africa InterBank Association (CAIBA)
Aligning organisational capacity to focus on key priority sectors	o Operationalization of the new organizational structure for effective delivery of priorities o Roll out of the Monitoring & Evaluation framework.
Tailoring products to meet client needs	o Set up of equity investments, project preparation and business advisory units within the Bank to support projects in need of services of these units. o Conducted business clinics in the Bunyoro sub-region and Bugisu-Sebei sub-region so as to expand knowledge and reach of the Bank
Close human capital and governance structures for sustainable performance	o Operationalization of the new organizational structure o Delineation of sector expertise in the business. o Review, approval and implementation of revised policy framework o Filling all planned positions following organizational restructure

The table below summarises the performance against the 2018 targets and the targeted deliverables for 2019 that will drive the anticipated development impact.

Selected key performance indicators	**2019**	**2018**	**2018**	**2017**	**2016**
	Target	**Target**	**Actual**	**Actual**	**Actual**
	Ushs billions	**Ushs billions**	**Ushs billions**	**Ushs billions**	**Ushs billions**
Funding raised	Ushs 187 bn	Ushs 114 bn	Ushs 84 bn	Ushs 136 bn	Ushs 89 bn
Gross loan portfolio	Ushs 375 bn	Ushs 325 bn	Ushs 309 bn	Ushs 243 bn	Ushs 183 bn
Loan approvals	Ushs 299 bn	Ushs 232 bn	Ushs 258 bn	Ushs 167 bn	Ushs 120 bn
Loans disbursed	Ushs 187 bn	Ushs 139 bn	Ushs 155 bn	Ushs 95 bn	Ushs 57 bn
CI with impairment	65%	65%	65%	61%	64%
CI w/o impairment	46%	45%	45%	48%	47%
Return on equity	4%	4%	4%	5%	4%
Return on Assets	2.5%	3%	3%	3%	3%
Customer Satisfaction score	80%	80%	70%	72%	62%
Employee Engagement score	80%	80%	75%	-	-

KEY FOCUS AREAS FOR 2019

Goals

Promote sustainable growth and remain a key player in socio-economic development	Enhance financial sustainability& funding to facilitate the execution of our mandate	Strengthen human capital and governance structures for sustainable performance

Strategic Objectives

- Grow quality loan book - Improve customer satisfaction - Enhance stakeholder engagement - Enhance financing solutions to meet client needs consistent with NDP II sector priorities	- Reduce loan losses - Increase profitability - Improve shareholder value - Grow the funding base	- Optimize operating efficiency - Enhance employee engagement - Improve compliance with policies, procedure and applicable laws - Improve staff competencies and bench strength - Undertake work culture change initiatives within the Bank

Focus Areas

Resource Mobilization	Reduce non-performing loans	Sustainable investment in priority sectors	Enhance our human capital and governance capabilities
- Implement the funding framework for the Bank - Progress Green Climate Fund accreditation - Progress certification process for the Sustainability Standards Certification Initiative - Work with AfDB to raise funds for the Bank through the capital markets - Full utilization of current funding to unlock new funding from current funders - Implement Sustainability Standards Certification Initiative (SSCI) standards	- Leverage of partnership with relevant stakeholders to de-risk our investment in export driven and agricultural projects - Embrace agriculture insurance for all primary agriculture projects - Initiate establishment of an export credit guarantee fund to support manufacturing and progress the national credit guarantee scheme - Pursue AfDB's risk sharing facility and explore partnership with Africa Guarantee Fund - Skills enhancements for all investment managers, credit staff and business committees	- Implement program based financing - Explore agency relationships to expand the Bank's reach - Develop specific sector strategies to address sector constraints - Operationalize equity finance product - Establish the infrastructure finance unit	- Implement employee engagement plan - Develop E-learning modules - Implement training interventions to address key organizational competency deficits - Prepare and implement a career development framework - Develop the coaching and mentoring leadership development program - Implement the Bank's succession plan

Key Performance Indicators

- Value of new funding mobilized - Green Climate Fund accreditation - Adoption rate of SSCI standards	- Non-performing loan ratio	- Number of program based projects financed - Number of agency relationships established - Value of equity investments	- Employee engagement score - Average corporate performance score - Training plan execution rate

Development Impact and Outcomes

- Contributes to Uganda's progress towards middle income status
- Ease private sector access to finance
- Improve private sector performance
- Improve social and economic infrastructure
- Facilitate creation of more productive sectors and value chains

UDB's 5 year strategic plan can be downloaded from our website www.udbl.co.ug

MANAGING OUR KEY RISKS & OPPORTUNITIES

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

Key Risks	Risk Mitigants
Strategic Risk – The possibility that unforeseen opportunities or threats may render UDB strategy ineffective or uncompetitive or that events or circumstances may occur which could hinder the ability of UDB to implement its strategy and successfully deliver on its mandate	• Quarterly reviews of performance vis-à-vis targets • Corrective action taken to address shortcomings noted • Annual Board and Senior Management strategy sessions
Credit Risk – 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 from external events	• Periodic review of key risk indicators • Periodic risk and control self-assessments • Ongoing skilling and competency building of staff
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 impact of changes on the business
Compliance Risk – non-compliance to laws and regulations	• Internal controls reviewed on a regular basis • Dedicated compliance and legal functions • Project-specific reviews for each of the deals we finance • Compliance monitoring process is in place
Reputational Risk – Failure to prevent and respond to reputational risk events impacting on UDB's goodwill and reputation	• Implementation of communication strategies

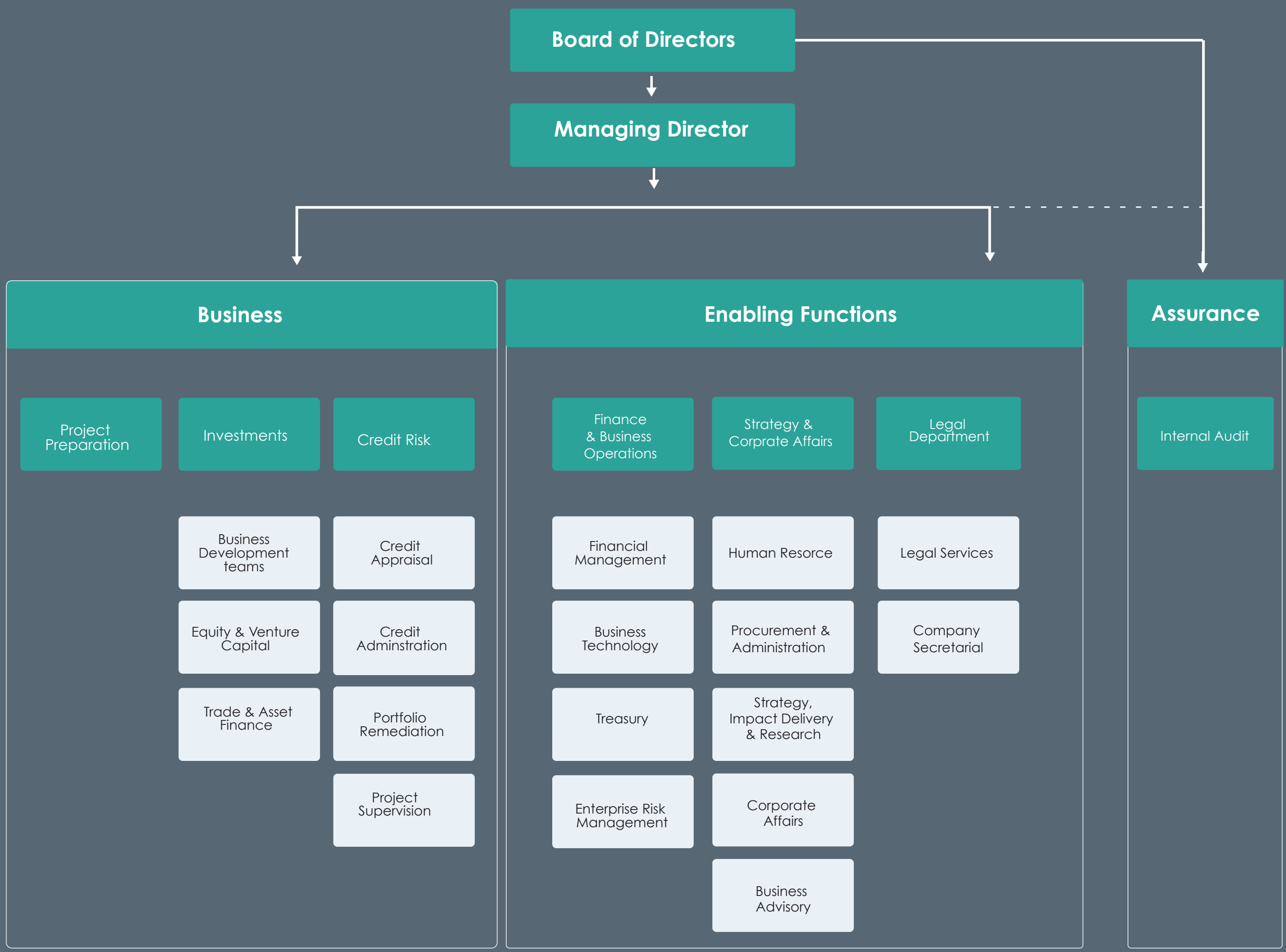
OUR OPERATIONAL STRUCTURE

In 2018, the Bank implemented its new organisational structure with 6 departments, each headed by a Director.

Two of the departments comprising of Investments and Credit are directly involved in transactions, focusing on all priority sectors and performing due-diligence on businesses applying for funding. The Investments Department comprises of professionals that prospect for and manage the Bank's investments in projects focusing on the priority sectors as outlined in NDP II while the Credit Department manages the credit risk of the loan portfolio. The Bank also established a project preparation unit charged with the responsibility of taking prospective project ideas through the respective preparation cycle, right from identification through concept design to commercialization.

The business units are supported by 4 departments that provided support in terms of:

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



ENGAGING WITH OUR STAKEHOLDERS

Stakeholder dialogue is important for the effective execution of the Bank's mandate. The Bank maintains an open dialogue with its stakeholders in all its activities and believes that dialogue and the development of strategic partnerships are fundamental sources of information and are also important for responsible corporate governance.

Engagement with our stakeholders is necessary for the good functioning of our business on a daily basis as much as in the long term. By establishing regular contact with our stakeholders, we develop insights into key trends and issues in society, business and the public sector. We can advance our cause and develop trust by enhancing UDB's visibility and credibility.

We can help find better solutions with greater synergy of interests.

Below is our stakeholder map indicating which stakeholders we engage with and what we engage on.

Stakeholders	How we engage	What we engage on	Stakeholders' contribution to value creation
Government	Formal meetings; Policy discussions; Conferences; Onsite 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	Strategy, financial performance; people development and training, code of conduct	To enhance employees' engagement and commitment as their efforts contribute to our success.
Customers	Customer surveys; customer engagement forums and communication activities	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	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	Key strategic initiatives; project information; operational and financial performances	Raise public awareness of our strategy, products and services as well as our operational results.

THE UGANDA DEVELOPMENT BANK BOARD OF DIRECTORS

Standing L-R: Mr. Francis Tumuheirwe, Mr. Henry Balwanyi Magino, Mr. John Ira K Byaruhanga, Mr. Nimrod Waniala.

Seated L-R: Ms. Patricia Ojangole (MD), Mr. Felix Okoboi (Board Chairperson), Ms. Silvia Angey Ufoyuru

STAKEHOLDER ENGAGEMENT AND STRATEGIC PARTNERSHIP

UDB's management team poses for a photo with Council members of the Uganda Chamber of Mines & Petroleum following a meeting to explore collaborative opportunities.

UDB's Patricia Ojangole and Dr. Emmanuel Lyamulemye, Managing Director Uganda Coffee Development Authority (UCDA), sign a Memoradum of Understanding. The two institutions have partnered to promote coffee production in the country.

2 GOVERNANCE

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

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the Bank will leverage on some of its achievements such as stakeholder confidence, support and good will of the Government of Uganda, its growing brand and image

CHAIRMAN'S STATEMENT

The Global and Ugandan economy are estimated to have grown by 3.7% and 5.3% respectively in 2018 and are projected to improve in 2019. This 2018 positive outlook contributed to the improved performance of the Bank during the year and the Bank will continue focusing on those initiatives aimed at ensuring that its mandate of accelerating socio-economic development in this country is sustained.

Financial Sustainability and Good Corporate Governance

Efforts to achieve financial sustainability through prudent management of the Bank's balance sheet include enhancing financial efficiencies and exploring various options to diversify as well as expand the Bank's sources of capital.

The Bank continued to post outstanding results. Net Interest Income grew by 52% and the Bank posted 14% growth in its Profit After Tax in 2018. The Bank's asset size grew by 24% in 2018 to Ushs 370 billion on account of continued strong financial support from the Government of Uganda and our development partners with a 93% and 24% year on year growth in funding respectively. The improved performance posted was despite the first time implementation of the IFRS 9 Financial Instruments standard which required the Bank to make additional provisions through its reserves of Ushs 9.39 billion.

In the year under review, various steps towards improving the Bank's governance environment were implemented. Towards this end, the Board's membership was increased from 6 to 7 members with Mrs. Patricia Ojangole joining the Board as Managing Director. Mr. Francis Tumuheirwe and I joined the Board in August 2018, replacing Prof. Samuel Sejjaaka and Mr. Stephen Robert Isabalijja who retired in 2018.

The Board also on-boarded technical Advisors to the Board Committees with Mr. Chris Kigenyi appointed as Advisor to the Board Credit Committee while Mr. Albert Otete was appointed as the Advisor to the Board Audit and Risk Committee. The advisors will provide the required technical support to ensure that committees work effectively in supporting the Board to drive the organisation forward while keeping it under prudent control.

Transformative Development and Outlook

The Board is dedicated to attainment of the Bank's strategic objectives including acceleration of socio-economic development within the Country. The Bank's strategies are focused on those priority development areas that are skewed to the Second National Development Plan (NDP II) and Vision 2040.

The 2018 approvals for funding in the key priority areas such as agriculture, agro-processing and manufacturing increased by 55% in from 2017. 44% of these approvals were in the manufacturing sector while 45% were in the primary agriculture and agro-industrialization sectors. The approvals for funding are a testament to our alignment to the key priority sectors that are envisioned in our strategy and Second National Development Plan.

In 2019, the Bank will leverage on some of its achievements such as stakeholder confidence, support and good will of the Government of Uganda, its growing brand and image, the positive Fitch rating among others and challenge itself to meet and exceed the needs and expectations of all its stakeholders.

Appreciation

I would like to thank my fellow Directors, Management and Staff of UDB for their unwavering commitment and dedication towards the Bank's pivotal role in the development of our Country.

I also wish to thank our shareholders, the Minister of Finance, Planning and Economic Development, Hon. Matia Kasaija, the Minister of State for Privatisation and Investment, Hon. Evelyn Anite and the entire top management team at the Ministry of Finance, Planning and Economic Development for continuously supporting the Bank in its initiatives towards driving the socio-economic development agenda for this Country.

Mr. Felix Okoboi
Board Chairman

THE BOARD OF DIRECTORS

Mr. Felix Okoboi
Board Chairperson

Independent Non- Executive Director

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

Age: 48
Appointed: 2018

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

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

Ms. Patricia Ojangole

Managing Director

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

Age: 41
Appointed: 2018

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

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

Mr. Henry Balwanyi Magino

Independent Non-Executive Director

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

Age: 55
Appointed: 2015

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

Committees:
Chairperson, 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)

Age: 66
Appointed: 2015

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

Committees:
Chairperson, Board Credit Committee;
Member, Board Strategy and Planning 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: 49
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 Strategy and Planning Committee; Member, Board Audit and Risk Committee

Mr. Francis Tumuheirwe

Independent Non- Executive Director

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

Age: 64
Appointed: 2018

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

Committees:
Member, Board Audit and Risk Committee.

Mr. John Ira K Byaruhanga

Non Independent/ Non- Executive Director

Masters of Public Administration (Economic Policy Management), Columbia University; Bsc. Economics, Makerere University

Age: 46
Appointed: 2017

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

Committees:
Member, Board Strategy and Planning Committee; Member, Board Credit Committee

The Board is dedicated to attainment of the Bank's strategic objectives including acceleration of socio-economic development within the Country. The Bank's strategies are focused on those priority development areas that are skewed to the Second National Development Plan (NDP II) and Vision 2040.

"Management will continue to improve its focus and optimize the operating model to make the Bank more efficient and effective in supporting the development and transformation agenda of this country.

MANAGING DIRECTOR'S STATEMENT

Delivering UDB's business strategy

In 2018, the Bank commenced the implementation of its newly approved 5 year strategic plan. The Bank's overall priority in 2018 was to create a solid base upon which it will continue to deliver the 5 year strategy. As a result, a number of key initiatives were kick started and achievements realized during the year as follows:

- **Reorganizing UDB's business** – the Bank implemented a new organisational structure that would enable it implement its renewed focus towards development financing. The implementation included among others a delineation of sector expertise within our project investment team and filling all planned new positions for the year. Further, new units were created in the Bank, mainly to respond to the market gaps that continue to negatively impact project implementation, SME business success and access to credit. Specific new units now rolled out included Project Preparation Unit, Business Advisory Unit and Equity Investments unit.

- **Policy and procedure amendments** - the Bank reviewed and approved a number of policies and procedures in view of the changes in the structure including rolling out the Monitoring & Evaluation framework to monitor development outcomes and impact, Environmental and Social governance framework among others.

- **Funding** – We continued to enjoy our shareholders commitment to capitalizing the Bank with an allocation of UGX 53 billion in FY2018/2019. The Bank also made significant strides in sourcing new lines of credit from Africa Development Bank Group (US$ 20 mn), India Exim Bank (US$ 5 mn) and Islamic Corporation for the Development of the Private Sector (US$ 15 mn). Progress was also made in establishing a healthy pipeline of funding from various multilateral partners resulting in a new funding pipeline of approximately USD 70 million during the year.

- **Credit rating** – the Bank undertook its maiden credit rating process with Fitch Ratings and was awarded a rating of B+ with a stable outlook. We expect this rating and outlook to have a positive impact on the Bank's future financing activities in terms of sourcing and pricing of funding as well as creating of meaningful partnerships with other development agencies.

- **Pioneering sustainable development** – the Bank signed a Memorandum of Understanding (MoU) with the European Organisation for Sustainable Development (EOSD) under which various sustainable and practical initiatives are to be implemented in 2019 and beyond. So far, the Bank is implementing the sustainability standards for value driven financial institutions which is an imperative for creating a strong financial sector needed to achieve Uganda's vision 2040 and the green growth development strategy; by crowding in private investments which is a core purpose of a development finance institution.

- **Creating valuable partnerships** – the Bank supported two Ugandan Interns from Makerere and Kyambogo Universities to undertake 3 months internship at Fraunhofer Institute for Chemical Technology. The students together with partners at the Universities and Fraunhofer are expected to champion development and adoption by Ugandan industries of relevant technology in Applied Electro Chemistry related disciplines.

Management will continue to improve its focus and optimize the operating model to make the Bank more efficient and effective in supporting the development and transformation agenda of this country.

Creating additionality in the economy

In promoting inclusive growth in the country, the Bank supported a number of private sector actors including small and medium sized enterprises (SMEs), manufacturers and organized business groups with additional financing of Ushs 154.6 billion in 2018. The Bank believes that supporting SMEs and organized farmer groups is the best channel for reaching the underserved segment of the population. As a result of the Bank's interventions, a number of development outcomes were realized in 2018. Using the three root core development indicators, namely jobs, gender and taxes, the development outcomes were as follows:

- Jobs created/maintained – the Bank's operations created/maintained 54,034 jobs in 2018;

- Gender distribution – 47% of the jobs created/ maintained were taken up by females while the rest of the jobs (53%) were taken up by males; and 43% of the total jobs created/maintained were taken up by the youth.

MANAGING DIRECTOR'S STATEMENT

- Tax contribution – the total contribution to government tax revenue by the various companies supported by the Bank was Ushs 110.26 billion.
- Improvement in private sector performance – there was a 16% improvement in annual turnover from 2017 and a 70% improvement in profitability of private sector entities financed by the Bank.

The Bank will continue to enhance its development impact monitoring and evaluation framework that was implemented in 2018 to ensure that only projects that create the highest additionality are financed and supported.

Financial Performance

The Bank's post-tax profit for the year rose from Ushs 8.31 billion in 2017 to Ushs 9.49 billion in 2018, a growth of 14.21%. This was a result of growth in the gross loan book by 27.6% from Ushs 242.66 billion in 2017 to Ushs 309.62 billion in 2018 which contributed towards a 54.73% increase in interest and similar income to Ushs 35.46 billion from Ushs 22.92 billion. This performance was however impacted by the first time adoption of IFRS 9 Financial Instruments which gave rise to a 79.55% increase in impairment losses on loans and advances from Ushs 3.87 billion in 2017 to Ushs 6.94 billion in 2018.

The Bank's balance sheet continued to grow with a 24.42% growth rate in 2018 to Ushs 370.12 billion in 2018 compared to Ushs 297.47 billion in 2017. This was mainly driven by a 92.57% increase of Government of Uganda capital contributions from Ushs 52.02 billion in 2017 to Ushs 100.17 billion in 2018. The Bank also drew down on the lines of credit with its development partners in 2018 giving rise to a 24% increase in borrowing in 2018 to Ushs 97.03 billion in 2018 compared to Ushs 78.54 billion in 2017.

The Bank will continue to leverage its equity to source alternative funding opportunities to support the funding of its activities.

Looking Ahead

Uganda is projected to grow to 5.5% in 2019 and 5.7% in 2020. Increased infrastructure investment, foreign direct investment in the oil and mining subsectors, and reforms to improve the business environment will drive stronger growth over the short and medium term. The current account deficit is projected to stabilize at 4.9% in 2019 and further weaken to 5.4% in 2020, and the fiscal deficit is projected to further narrow to 4.4% in 2019 and 4.3% in 2020. Headline inflation is projected to increase to 4.3% in 2019 and 4.8% in 2020. Downside risks will include adverse weather shocks, given agriculture's high reliance on rain, and the slow implementation of infrastructure projects. Despite the Government's recent large public infrastructure investments, the quantity and quality of transport, water and sanitation, energy, and agriculture infrastructure remain inadequate to meet the country's economic transformation and development objectives. The country continues to face shortages of skilled labor, especially in services and manufacturing, and several business climate challenges that undermine competitiveness.

It is against this backdrop that the Bank intends to pursue the following priorities in 2019:

1. **Develop sector specific financing strategies** – the Bank will develop sector specific strategies that are geared towards developing appropriate frameworks under which lending decisions to priority sectors are made. Key among developing these strategies will be how the Bank will address some of the sector specific constraints identified in the NDP II. Along with this, the bank will reimage its communication strategy in order to inform all stakeholders of the impact and outcomes of its interventions.

2. **Diversification of funding opportunities** – the Bank intends to pursue alternative funding opportunities that will provide the much needed funds to finance its ever growing project pipeline. Leverage will be made on the Bank's paid up capital to source external funding.

3. **Green Banking Initiative** -. In addition, the bank will embark on greening its operations in order to support implementation Uganda's green growth strategy and make a contribution to achieve the Nationally Determined Contributions and therefore reduce its carbon emissions while protecting the environment. Relatedly, the Bank will progress its efforts in getting accreditation to the Green Climate Fund.

4. **Sustainability Initiatives –** The Bank will be undergoing a Sustainability Standards Certification Initiative that will see it accredited

for Sustainability Standards. The initiative will lead to de-risking the critical areas of the 21st century economy and crowding in private capital and investments leading to achievement of the Sustainable Development Goals.

The Bank will spearhead these and more priorities in 2019 to ensure that it is well placed to sustain its mandate of accelerating socio-economic development in this country.

Appreciation

I wish to convey my gratitude to our shareholder, the Ministry of Finance, Planning and Economic Development for their continued support to the Bank and its activities. A special thanks to the Board of Directors for their stewardship and support that continues to strengthen the Bank year by year.

To my colleagues at UDB; the Management team and all staff, you are all special people who worked tirelessly to deliver our results.

To our dear clients and development partners who do business with us, we greatly appreciate your continued support and partnership. We look forward to working and serving you better in the years to come.

I wish all stakeholders a successful 2019.

Patricia Ojangole (Ms.)
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)

Mr. Denis Ochieng
Director Finance and Business Operations

MSc. Financial Risk Management, Glasgow Caledonian University; BCom (Accounting), Makerere University; Member of the Institute of Certified Public Accountants of Uganda (ICPAU); Fellow of the Association of Chartered Certified Accountants (FCCA); Graduate of the CEO Apprenticeship Program (CAP17)

Ms. Sophie K. Nakandi
Head Legal and Company Secretary

Bachelor of Law, Makerere University; Post graduate Diploma in Legal Practice, Law Development Centre; Masters in Business Law, De montfort University, Leicester.

Mr. Stephen Hamya
Chief Internal Auditor

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

Mr. Joshua Allan Mwesiga
Director Strategy and Corporate Affairs

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

COMMITTED TO GOOD CORPORATE GOVERNANCE

Overview

"The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. Corporate governance is therefore about what the board of a company does and how it sets the values of the company. It is to be distinguished from the day to day operational management of the company by full-time executives."

-UK Corporate Governance Code.

In pursuit of achieving this standard set forth in the aforementioned Code, the Board, Management and Staff of Uganda Development Bank Limited are committed to ensure that the Bank's operations and processes are governed by clearly defined principles of good corporate governance to ensure proper governance, transparency and accountability to its stakeholders through the existence of effective systems of self-regulation.

The Board strives to practice good governance principles and embed the same conduct and practices within all levels of the Bank's staff component to ensure efficient delivery of its services within principles enshrined in good corporate governance.

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

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

Board and the Directors

Composition of Board of Directors

The Board of Directors is the Bank's highest decision making body and is ultimately responsible for governance, monitoring of the Bank's strategy as well as its performance.

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

The size of the Board is determined by the Memorandum and Articles of Association, which currently permits 7 members, 6 being non-executive directors. As at 31 December 2018, the Board had 6 non-executive directors.

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

The Board of Directors is collectively responsible for the long term success of the Bank. Its role is essentially threefold - to provide strategic leadership, to monitor Management performance and to ensure that the Bank provides its stakeholders with a balanced and understandable assessment of the Bank's current position and prospects. As such, Board decision making is sufficiently informed by independent perspectives.

Directors have complete access to Senior Management through the Chairperson, Managing Director or Company Secretary. In addition to quarterly presentations by senior management at Board meetings, Directors may seek briefings from Senior Management on specific strategic matters.

Appointments

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

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

The appointment of Directors is governed by the Bank's Articles of Association. Directors are appointed by Shareholder at the Annual General Meeting (AGM) and interim Board appointments conducted between AGMs confirmed at the AGM.

Induction and training

All new Directors participate in a formal induction process coordinated by the Company Secretary. The induction process includes updates on 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. On a periodic basis, the Chairman and Company Secretary review Directors' training needs, in conjunction with individual Directors and match those needs with appropriate external seminars, courses and on site visits as applicable.

Board Succession Planning

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

As part of the Board's responsibility to ensure that effective management is in place to implement the Bank's strategy, management succession planning is an on-going consideration.

Board Meetings and attendance

The Board meets at least 4 times in a year and holds a strategy session at least once a year. Special board meetings are held where necessary. During the period ended 31 December 2018, the Board convened 8 times and in addition, a Board strategy session was held over 2 days during the year. Refer to details on page 30 for Board attendance during the period. To enable the Board effectively discharge its responsibilities, it maintains a scheduled forward programme of meetings and a rolling agenda. There is sufficient flexibility in the programme for specific items to be added to any particular agenda. To facilitate efficient decision making, the Management team and other senior executives may be invited to attend part of the meetings to ensure effective interactions with the Board while third party professionals may be in attendance on a need-to basis.

Changes to the Board

In satisfaction with the Bank's normal practice, all non-executive directors serve one 3 year term only renewable once. Mr. Samuel Sejjaaka and Dr. Stephen Robert Isabalija served two three year terms and were replaced by Mr. Felix Okoboi and Mr. Francis Tumuheirwe respectively.

The Board Charter

The Board has a charter which sets out the guidelines for the Directors of the Bank in the performance of their functions and responsibilities. It in particular, provides a governance framework through which the Board can properly conduct its affairs and monitor the operations of the Bank to ensure the fulfillment of its mandate. The Board periodically reviews the Charter in order to take into account changing circumstances and feedback received from key stakeholders.

Board Committees

The Board has 3 committees to assist it in discharging its authority. These include the Board Strategy and Planning Committee, Board Credit Committee and the Board Audit and Risk Committee. All Board Committees operate under Board approved terms of reference which are periodically reviewed to keep abreast of developments in corporate governance. The Chairperson of each Board Committee is a non-executive director and members of each committee are appointed by the Board Chairperson. At a Board meeting following each committee meeting, the Board receives a report on the deliberations, conclusions and recommendations. The reports of the 3 Board Committees appear on pages 28 to 31 to this report.

Strategy

The Board has overall responsibility for the Bank's strategic direction. In executing this role, the Board appreciates that strategy, risk, performance and sustainability are inseparable and give effect to this by:

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

The Bank's strategic and annual business plans are presented to the Board by Management annually for deliberation and approval.

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

The Board Chairman of Uganda Development Bank Limited receiving a certificate of attendance after completing a customized corporate governance training during his induction to the Board in September 2018.

Delegation of authority

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

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

The executive committee is set out on page 22 and 23.

Board Remuneration

The Board Strategy and Planning Committee plays an advisory role on the remuneration of staff and non-executive directors. The directors are remunerated for the meetings they attend. The Directors are paid fees, comprising an annual retainer and sitting allowances which are recommended to the shareholders at the Annual General Meeting (AGM) for approval. No performance-based remuneration is paid to directors. During the period ended 31 December 2018 the Directors were remunerated as per the table below:

	2018	2017
	Ushs millions	
Directors emoluments	308	373

Conflict of interest

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

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

At every meeting involving Board members, directors and executive management, members are required to disclose any potential conflicts and if required, to withdraw from the proceedings. Declarations of conflict are also made to the Company Secretary as and when necessary. The declarations are made at each Board meeting and at meetings of the Board committees responsible for considering transactions.

Board effectiveness and assessment

The Board operates in terms of a Charter that defines its duties, responsibilities and powers. The Charter is reviewed periodically.

The evaluation of the performance of the Board as a whole is conducted annually by means of a self-evaluation process. An evaluation of the Chairman is conducted by the other Directors and the evaluation of the performance of individual Directors is conducted on a bilateral basis between the Chairman and each Director.

The last evaluation was conducted in 2018 and the Board assessed its performance and that of its committees in terms of structure, process and effectiveness.

Codes and Regulations

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

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

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

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

Shareholders' Responsibilities

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

BOARD COMMITTEE REPORTS

All members of the Board Committees are non-executive directors. The Bank's Board structure is reflected in page 16 and 17.

A. Board Credit Committee Report

The Board Credit Committee (BCC) comprises of an Independent/Non-Executive Director, Mr. Nimrod Waniala and non Independent/No-Executive Mr. John Byaruhanga and the Managing Director, Mrs. Patricia Ojangole. The Director Investments and Director Credit Risk attend BCC meetings as a permanent invitees. The Board is satisfied that the collective skills of the members of the BCC are appropriate, relative to the size and circumstances of the Bank. The role of this Committee is to ensure that effective frameworks for credit risk governance are in place in the Bank. This involves ensuring that the Management Credit Committee (MCC) and the credit function operate according to clearly defined mandates and delegated authority. The Committee reports to the Board on credit portfolios, adequacy of provisions and the status of non-performing loans. With effective from 1 January 2018, BCC approves credit applications in the excess of Ushs 1.5 billion up from Ushs 0.5 billion in the previous years. The BCC meets as and when required to consider credit applications falling within its ambit and has therefore complied with its mandate.

During the year, the BCC contributed significantly to the overall funding approvals of Ushs 257.8 billion approved by the Committee in 51 transactions. Details of these and other transactions are provided in the sustainability section of this report.

B. Board Strategy and Planning Committee Report

The Board Strategy and Planning Committee (BS&PC) comprises two independent Non-Executive Directors and one non-independent non-executive director. Mrs. Silvia Angey Ufoyuru is the Chairperson of the BS&PC while Mr. Nimrod Waniala, Mr. John Byaruhanga and Ms. Patricia Ojangole are members. The Director Strategy and Corporate Affairs attends BS&PC meetings as a permanent invitee. The Board is satisfied that the collective skills of the members of the BS&PC are appropriate, relative to the size and circumstances of the Bank.

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

- Work closely with Management in developing the Bank's long term strategy and annual business, challenging management's ideas, assumptions and approaches. Management shall have the accountability of executing the strategy and report to the BS&PC on the performance against the strategy and annual business plans on a quarterly, including a detailed account of achievement against the targets outlined through the key performance indicators.
- Assisting the Board to oversee matters pertaining to the Bank's human resource policies;
- Assisting the Board in determining the broad policy for executive and Senior Management remuneration, and oversee the Bank's remuneration philosophy;
- Ensuring that the right caliber of Management is recruited and retained;
- Assisting the Board in the setting of performance-related incentive schemes, performance criteria and measurements;

During the year, the committee's oversight role included the following:

- An evaluation of the Bank's, Executive and Staff performance. On the basis of the achieved performance, the committee recommended the payment of applicable incentives for the year under review.
- The Committee considered a report on the Bank's succession plan and approved the plan for key leadership roles including that of the MD.

C. Board Audit and Risk Committee Report

The Board Audit and Risk Committee (BARC) comprises of three independent Non-Executive Directors, one of whom acts as Chairperson. The Chairman of the Board is not a member of the BARC. Mr. Henry Magino Balwanyi is the Chairman of the committee while Mr. Francis Tumuheirwe and Mrs. Silvia Angey Ufoyuru are members of the committee. The Chief Internal Audit, Director Finance and Business Operations and Senior Manager Risk attend BARC meetings as permanent invitees.

The BARC assists the Board in fulfilling its oversight responsibilities, in particular with regard to the evaluation of the adequacy and efficiency of accounting policies, internal controls, risk management and financial reporting processes. In addition, the BAC assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

Responsibilities, Composition and Functions of the Committee

The Committee's roles and responsibilities are as per the approved Board Charter. The Committee therefore reports that it has adopted appropriate formal terms of reference as approved by the Board, and is satisfied that it has discharged its responsibilities as expected.

The Committee has carried out its functions through discussions with Executive Management, Internal Audit and external advisers where appropriate. The BARC meets at least four times per annum, with authority to convene additional meetings as circumstances require.
To execute its key functions and discharge its responsibilities as spelt out in its terms of reference during the period under review, the Committee:

- Assisted the Board in its 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;

- Facilitated and promoted communication between the Board, management, the external auditors and Internal Audit department on matters which are the responsibility of the Committee; and

- Noted the appointment of KPMG as external auditors of the Bank acting on behalf of the Auditor General and who in the opinion of the Committee are independent of the Bank.

Internal Control

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

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

External Auditors

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

The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and audit fees for the financial year ended 31 December 2018.

The Committee:

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

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

Financial Statements

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

- Reviewed and discussed the audited Annual Financial Statements with the external auditors, the Managing Director and the Director Finance;
- Reviewed the external auditors' report and management's response to it;
- Reviewed any significant adjustments resulting from external audit queries and accepted unadjusted audit differences;
- Reviewed areas of significant judgements and estimates in the Annual Financial Statements; and
- Received and considered reports from the internal auditors.

Expertise and Experience of the Finance Function

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

Going Concern

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

Risk Management

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

Internal Audit

The Internal Audit department has a functional reporting line to the Committee Chairperson and an administrative reporting line to

BOARD STRUCTURE AND COMPOSITION				
	UDB Board	**Board Credit Committee**	**Board Strategy and Planning Commit-tee**	**Board Audit and Risk Committee**
	Responsible for the perfor-mance of the Bank while re-taining full and effective control	Considers credit transactions mandated to it by the Board	Responsible for the strategic direction of the bank; devel-ops compensation policies, resourcing plans and perfor-mance goals	Monitors the adequa-cy of financial controls and reporting, internal control environment and Risk Management
Committee membership and number of meetings attended				
Number of meetings	**9**	**8**	**8**	**6**
Felix Okoboi (Appointed 8th Au-gust,2018) – Chairperson	2**	2*	1*	2*
Samuel Sejjaaka (Retired 30th May 2018)	6	-	-	-
Nimrod Waniala	8	8**	6	2
Stephen R. Isabalija (Retired 30th May 2018)	2	1	-	-
Henry Magino	9	5	3	6**
Slyvia Ufoyuru	9	1	7**	4
John Byaruhanga	9	6	3	2
Francis Tumuheirwe (Appointed 8th August 2018)	2	-	-	2
Patricia Ojangole	7	5	3	1*

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

the Managing Director. The BARC, with respect to its evaluation of the adequacy and effectiveness of internal controls, receives reports from Internal Audit on a quarterly basis, assesses the effectiveness of the internal audit function, and reviews and approves the Internal Audit department's Audit Plan.

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

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

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

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

Company secretary

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

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

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

ENVIRONMENTAL AND SOCIAL GOVERNANCE

Environmental and social Management policy and Framework

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

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

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

The E&S risk framework is in line with the 2018 COSO update on Enterprise Risk Management in respect to the environmental, social and governance related risks

Risk Management & Compliance Overview

Over the course of 2018, the Bank embarked on implementation of the 2018 - 2022 strategic road map by completing some initiatives agreed upon at the development of the strategic plan and the adoption of the IFRS 9 standard. Significant effort went into effecting the new structural changes, policies and processes and high level initiatives that are meant to give the bank a necessary push in different areas of strategic significance and also provide the Bank with an enabling platform to deliver on its commitments within the 2018 – 2022 strategic plan. Among the initiatives implemented included;

the Bank obtained a B+/Stable maiden credit rating by Fitch Rating agency; the Bank got nominated to the Green Climate Fund (GCF) which is the first step in the accreditation process for green climate financing; filled critical positions within the new structure and redefined the key lending processes.

The risk environment in 2018 remained relatively stable amidst the geo-political disruptions in Uganda which were expected to have an impact on the lending decisions of the Bank as well as distortion of the payment patterns for already existing projects and businesses.

In 2019, the Bank will work towards reducing the NPL ratio to 8% or below on account of improvements in the credit appraisal process to stem the new portfolio from going bad and rigorous and stringent monitoring and supervision activities to ensure that projects under implementation are on schedule as planned.

Capitalization of the Bank remains a critical factor in growing the balance sheet size which can then be leveraged on to raise more funds from funding agencies across the globe. This will have an impact on the socio-economic outcomes the Bank and Government desire to see.

The market risk factors such as interest rate and foreign exchange movements had no adverse effects on the Bank's returns in 2018 due to the prudence exhibited in its hedging options and the stability of the USD/UGX currencies and LIBOR for the borrowed funds.

The Bank continues to exercise a high level of risk management awareness and prudence as it looks to be regulated for good governance practices and oversight. The Bank was rated A+ by AADFI and regulation will even make it stronger in years to come.

Risk Management framework

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

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

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

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

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

Managing our risks and opportunities

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

Credit Risk

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

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

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

Market Risks

Market risk is the risk of financial loss resulting from movements in market prices. Market risk is rated based upon, but not limited to, an assessment of the sensitivity of the financial institution's earnings or the economic value of its capital to adverse changes in interest rates and foreign exchanges rates. The nature and complexity of interest rate risk exposure arising from non-trading positions held by the Bank can exacerbate market risk if not mitigated. Uganda development Bank uses a combination of hedging practices and local market scenarios to illustrate the effect of market risk factors on its earnings and capital; this has made the Bank able to minimize earning and capital erosion. The Bank has maintained its net open position in the 4% - 8% range throughout 2018.

Currency Risk

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

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

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

Funding Risk

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

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

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

Operational Risk

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

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

Strategic Risk

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

Compliance Risk Management

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

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

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

3 REPORT ON THE OPERATING ENVIRONMENT

Global economy in 2018 and outlook for 2019

The global economy grew by 3.7% in 2018 and is projected to rise to 3.9% in 2019; mainly supported by rising profitability and improved business climate in advanced economies and emerging markets. However, the downward risks to the outlook will include the possibility of financial market stress (indebtedness, borrowing cost), escalating trade tension and geopolitical tension.

The implication of the global growth is that it will stimulate global demand and investment. Again, global inflation is expected to trend upwards gradually, but from low levels.

The World Trade Organization projects global commerce to contract in volume from 3.9% in 2018 to 3.7% in 2019. This will be contributed mainly by tensions between trading partners and tightening of monetary policy and associated financial volatility. This may impact negatively on exports & import trade and may trigger retaliation measures.

The Federal Reserve rates increased to 2.25% in November 2018 and 3 further hikes are planned for 2019 by the Federal Open Market Committee (FOMC) and the Euro area interest rates are expected to rise slowly. The implication of the rising rate is that it may slow down capital inflows to the developing economies and emerging markets and is likely to weaken their currencies and increase the cost of borrowing.

Regional Economy and outlook for 2019s

Further, the Gross Domestic Product growth in Emerging Markets and Developing Economies is projected to rise from 4.5% in 2018 to 4.7% in 2019, mainly arising from recovery in commodity export prices e.g. oil. The Sub-Saharan Africa growth rate is projected at an average of 3.6% in 2019, mainly as recovery strengthens in Angola, Nigeria and South Africa, the region's largest economies. However public debts are high in these countries and debt servicing costs will absorb a large share of government revenues in some of these countries. Central banks in key emerging market economies have raised policy rates, responding to inflation and exchange rate pressure.

The real GDP growth rates for East Africa Countries in 2019 is projected at 6.01%, 7.8%, 6.6% for Kenya, Rwanda and Tanzania respectively and inflation rates are projected at 4.99% for Kenya, 5.0% for Rwanda and Tanzania. The regional countries provide markets for the Ugandan goods up to nearly 45%. Real GDP growth in the regional countries will boost Uganda's export demand, hence stimulating local investment and production. The effect of the above is to increase demand for investment resources from UDB and other providers of funds.

Uganda's Economy and outlook for 2019

Uganda's Real GDP growth rate is projected to rise from 5.8% in 2018 to 6.3% in 2019; driven mainly by factors such as the appropriate monetary policy, recovery in private sector credit, strong private & public sector investments, favorable external environment and improved agricultural productivity. Uganda's average headline inflation is projected to increase from 3.8% in 2018 to 4.3% in 2019, while the exchange rate is projected to depreciate from the current Ushs 3,713 to the dollar in December 2018 to Ushs 3,925 in 2019. The implications of the above to UDB business is that the growth in private sector investment will trigger higher demand for investment funds,

Banking Industry in Uganda and outlook for 2019

The Banking industry in the country remains sound and stable. Total assets of the industry rose from Ushs 24.5 trillion in June 2017 to Ushs 27.4 trillion in June 2018, a growth of 11.8% while the industry's profits rose from Ushs 404.5 billion in June 2017 to Ushs

738.7 billion in June 2018; this is a phenomenal growth in profitability of 82.6% over a one year period. This was partly contributed to by the decline in the Industry's non-performing loan ratio from 6.17% in June 2017 to 4.44% in June 2018 and declined further to 3.41% in December 2018.

During the period under review, the central bank policy rate rose from 9.50% in January 2018 to 10.0% in December 2018. However, the average lending interest rate for shillings denominated loans declined marginally from 20.26% in January 2018 to 20.15% in December 2018. The interest rates on the foreign currency denominated loans also recorded a marginal decline of 0.05 percentage points from 7.88% in January 2018 to 8.83% in December 2018.

Private sector credit increased from Ushs 12,597 billion in January 2018 to Ushs 14,169.5 billion in December 2018, while total domestic credit increased from Ushs 15,151.6 billion in January to Ushs 17,121.2 billion in December 2018.

The level of private sector credit is likely to recover further on account of a projected improvement in economic activity. The ratio of the non-performing loans is also expected to remain low with the implication that credit standard and interest rates may be eased by banks, hence further growth in private sector credit.

Awards

1. Certificate of merit for best innovation in financial services
2. Certificate of Acceptance to the sustainability standards and certification initiative
3. Certificate of AADFI rating – the Bank obtained an A+ rating in governance, financial and operating standards
4. 2018 Financial Reporting Award – winner Banking Services category
5. 2018 Bronze Award for excellent financial reporting


Financial FiRe Reporting
Awards - Uganda
2018 Financial Reporting Award
Winner
Banking Services
Presented to
Development Bank Limited
4
ASSOCIATION OF AFRICAN DEVELOPMENT FINANCE INSTITUTIONS (AADFI)
CERTIFICATE OF AADFI RATING
This is to certify that
UGANDA DEVELOPMENT BANK LTD (UDBL) - UGANDA
obtained the Rating
A+
3
Financial FiRe Reporting
Awards - Uganda
2018 Bronze Award
Presented to
Uganda Development Bank Limited
for Excellent Financial Reporting
Chairperson
FiRe Awards Committee
CPA
cma
Uganda Securities Exchange
5

The Managing Director receiving the 2018 best performing Development Financial Institution award from the Chairman of AADFI and CEO DBSA, Mr. Patrick Dlamini, in Busan, Korea during the AADFI general assembly.

UDB's Patricia Ojangole, flanked by Hon. Matia Kasaija, receives an award (Best Innovation in Financial Services) from Dr Frank Mentrup, the Lord Mayor City of Karlsruhe. The award, presented at the 2018 Global Sustainable Finance Awards, was in recognition of the success of UDB's Farmer Group Loan Scheme.

UDB Scores High with International Fitch Rating

During 2018, Fitch Rating, one of the top international Credit rating agencies worldwide based out of New York and London assessed and assigned Uganda Development Bank Ltd (UDB) a Long-Term Issuer Default rating (IDR) of B+ with a Stable Outlook.

A credit rating is an assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation; it can be assigned to any entity that seeks to borrow money — an individual, corporation, state or provincial authority, or sovereign government.
In determining the rating for UDB, Fitch Rating's assessment took consideration of UDB's ownership by the Government of Uganda, and also of the government's 'B+'/ Stable IDR. "The Stable Outlook on UDB's Long-Term Issuer Default Rating mirrors that on the sovereign," the credit rating agency highlighted.

KEY RATING DRIVERS

UDB is a state-owned development bank and its Issuer Default Ratings are driven by its Support Rating and Support Rating Floor of '4' and 'B+', respectively, which reflects Fitch's view of a high propensity of Ugandan authorities to support the bank in case of need. This is due to:

1) UDB's important, longstanding and clearly defined policy role in financing the country's priority sectors as part of the bank's mandate of contributing to economic growth and social development.
2) UDB's 100% state-ownership
3) Significant funding guarantees and ordinary capital contributions from the state.

This credit rating not only enhances our brand and credibility amongst various investors, funders and other stakeholders but will also complement the Bank's effort in accessing funds at lower cost from the market, thereby enabling UDB to offer lower interest rates on loans and other financial instruments.

The rating also opens up UDB to a wider audience for borrowing as it facilitates the Bank to approach financial institutions, multilateral banks and investing companies with greater ease and confidence, and is testament to the transparency of our lending practices.

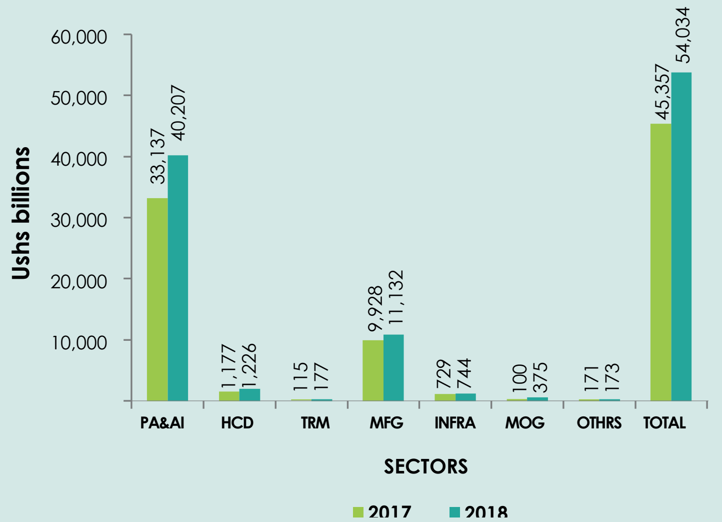
Sustainability Report

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

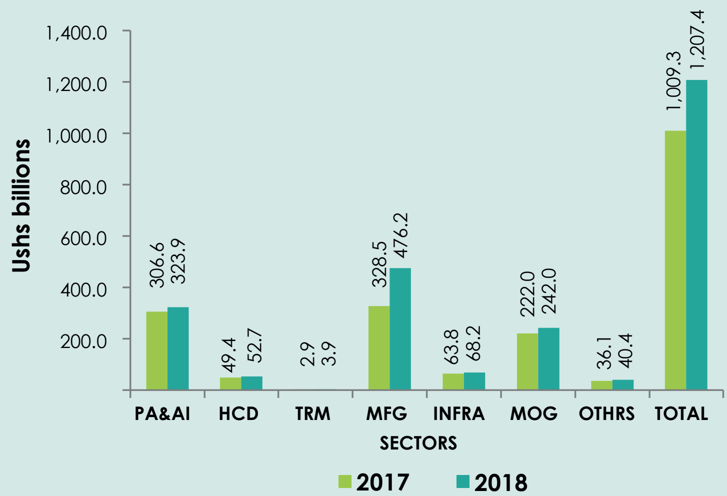
KEY SUSTAINABILITY HIGHLIGHTS

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

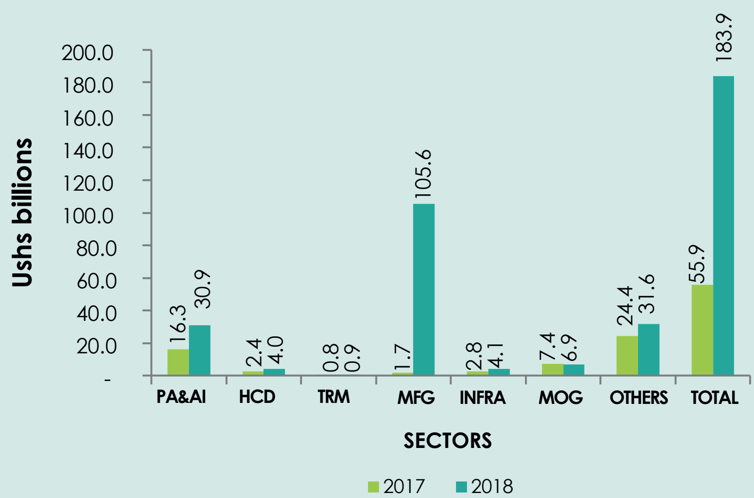
Employment Created/ Maintained



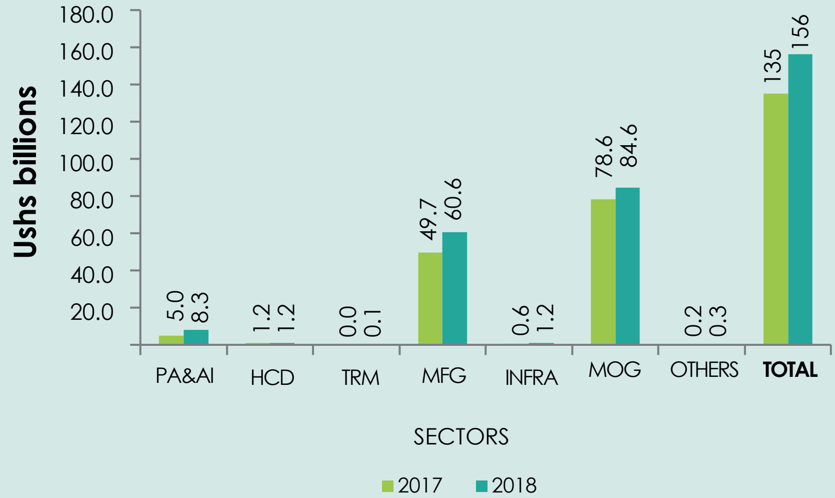
Turnover of Projects Financed



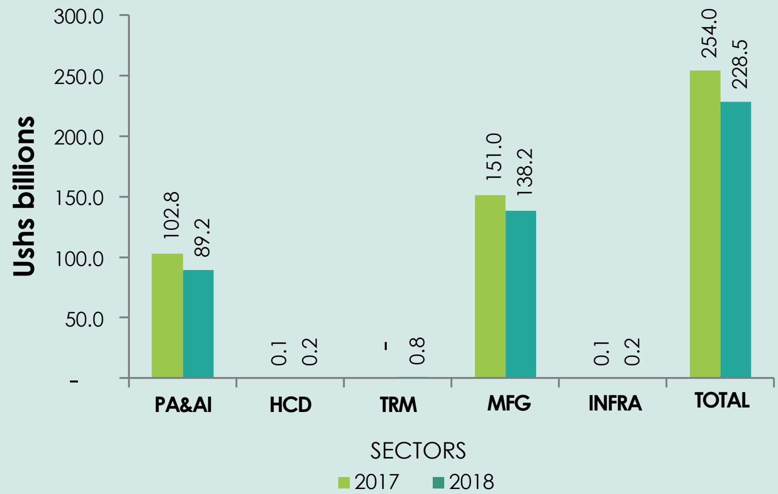
Profitability of Projects Financed



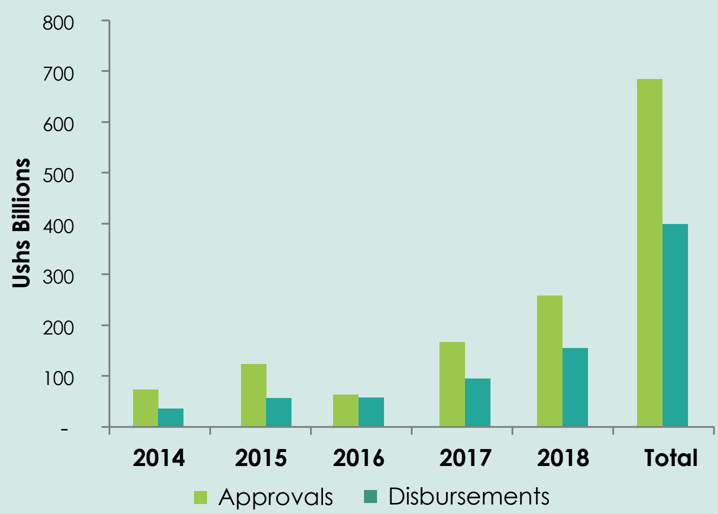
Tax Contribution



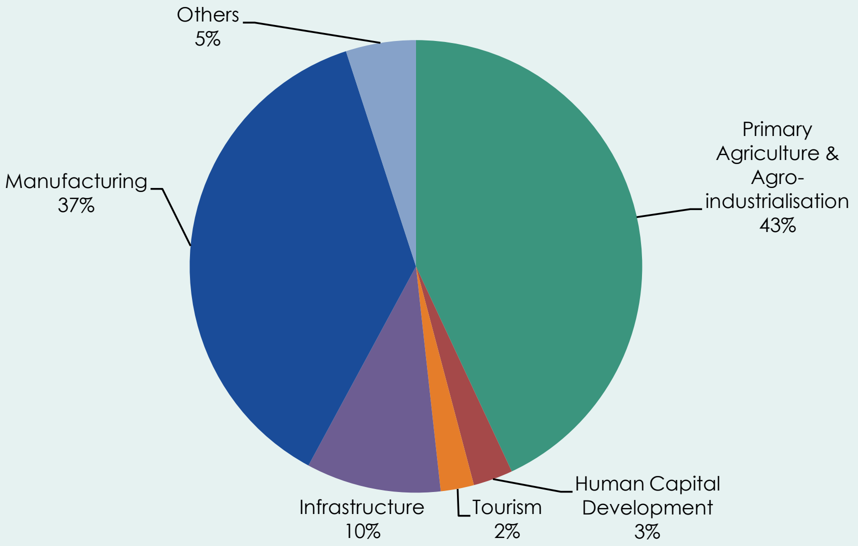
Foreign Exchange Earned



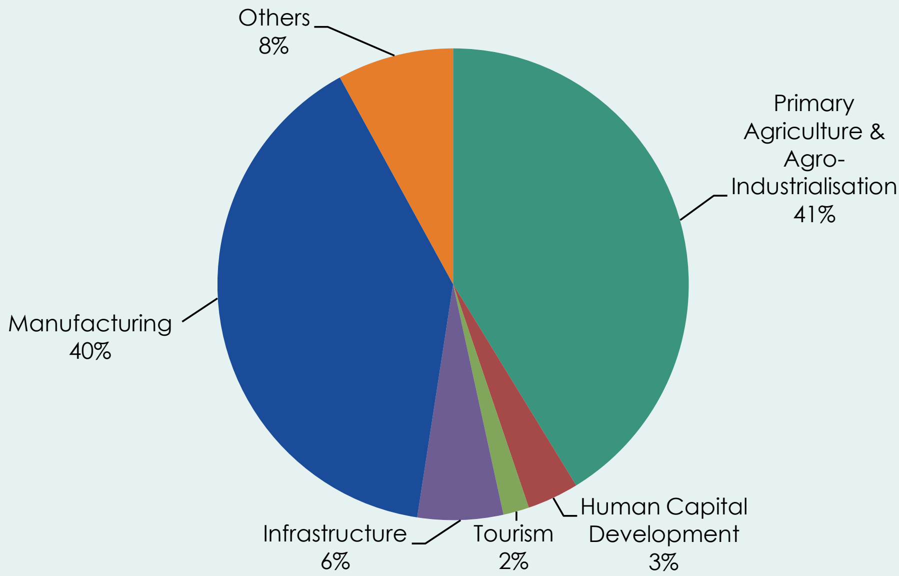
Approvals & Disbursements



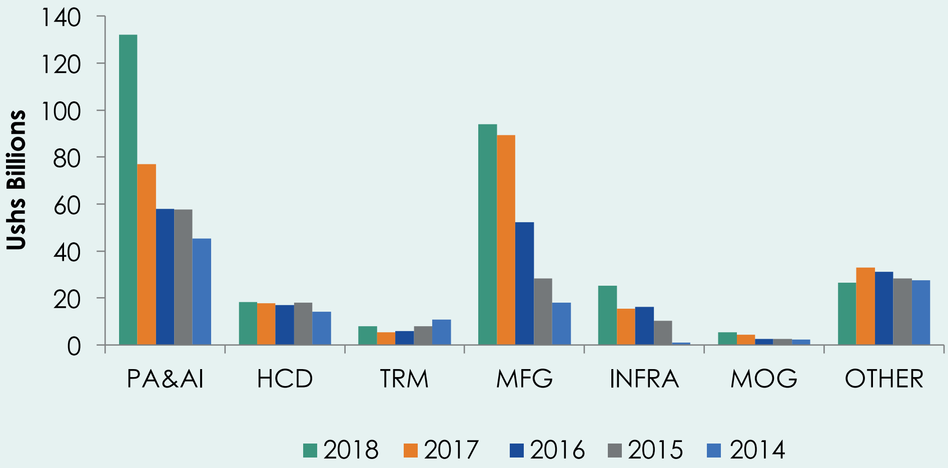
Sectoral distribution of Approvals



%age distribution of Disbursements



Sectoral Exposures



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

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

In fulfilling its mandate, UDB is guided by the Second National Development Plan (NDP II), applicable Ugandan laws and regulations, agreements with Development Partners, Association of African Development Finance Institutions (AADFI) prudential guidelines and local policies. The Bank also subscribes to the goals and targets of the United Nation's "Transforming our World: the 2030 Agenda for Sustainable Development". The priorities and sectors that the Bank finances are aligned to those of the Second National Development Plan (NDP II).

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

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

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

The following reports supplement this Sustainability Review:

- Our business model and strategy
- Financial Sustainability
- Corporate governance report

MANAGEMENT APPROACH TO SUSTAINABILITY GOVERNANCE

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

SUSTAINABILITY FRAMEWORK

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

A) MANAGING SUSTAINABILITY RISK AT A PROJECT LEVEL

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

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

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

B) CREATING SOCIO-ECONOMIC DEVELOPMENT IMPACT

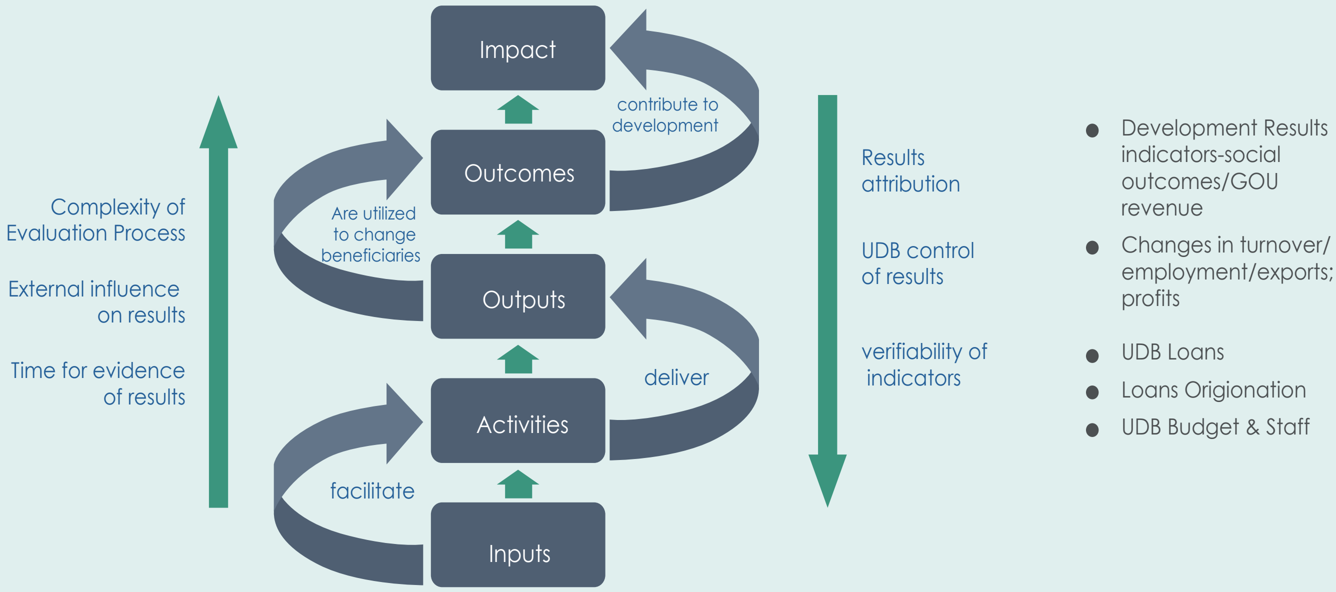
i) Introduction

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

During the year, the Bank implemented a Monitoring and Evaluation Framework. The framework establishes what is measured, how it is measured, when it is measured and roles and responsibilities for data collection, measurement, analysis and reporting. In measuring development impact, the Bank uses the following broad categories of development impact. Under each of the categories are various indicators that are tracked on a periodic basis.

Development Impact/ Outcome	Indicators to be tracked
UDB contributes to Uganda's progress towards middle income status	• Total Annual Turnover of firms supported by UDB • Foreign exchange earned • Corporation taxes paid • PAYE taxes paid • Indirect taxes paid
Improved private sector access to finance	• Interest rate subsidy provided by UDB loans (break-down by sector) • % of performing UDB clients previously unable to access financing from commercial banks for investment • Investments supported • Increase in value of loans approved (YTD) • Value of co-financed loans with other FIs • Increase in value of trade finance provided (YTD)
Improved private sector performance	• Average percentage change in sales/annual turnover for companies • Average percentage change in profitability • Average percentage change in Exports/FE earned • Net Jobs created – gender disaggregated • Net change in corporation tax and pay as you earn (PAYE) tax paid.
Improved social and economic infrastructure	• Change in number of students enrolled in educational institutions supported by UDB • Change in number of patients served by healthcare institutions supported by UDB • Change in quality of education, health and infrastructure services • Improvement in energy, transportation, water (measured as relevant by number of km new roads, # of MWH added, L/water capacity of new water facilities). • Number of loans with positive environmental impact
More productive sectors and value chains	• Change in payments to farmers/farmer groups • Change in land under production • Change in productivity per acre/ha under production • Change in number of room nights sold for tourist accommodations supported by UDB • Change in tourism product quality

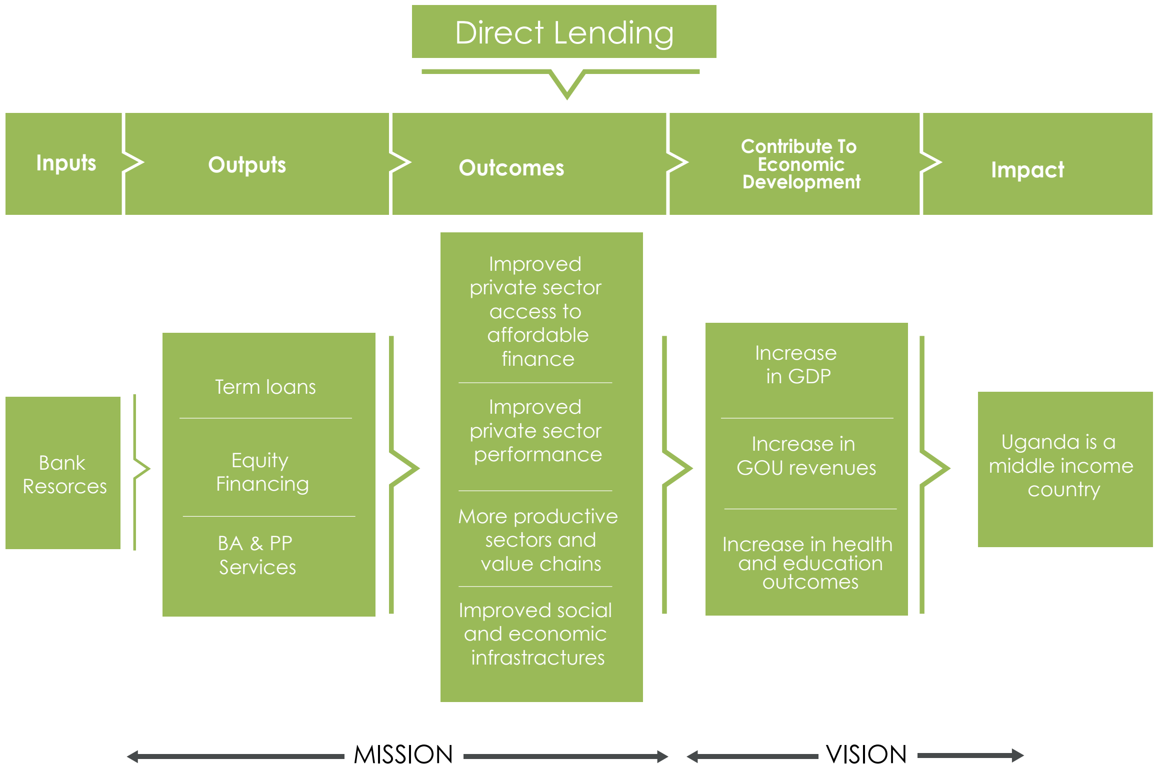
The Development Impact created by the Bank's interventions through the application of its resources towards the execution of a deliberate strategy is illustrated by a generic Results Chain shown below. The results chain demonstrates that inputs provided by the Bank are translated into specific activities and products or outputs intended to result in changes to clients' conditions, which cumulatively over time, will have an effect on the economy at large. The M&E system attempts to measure the scale and scope of such effects, recognizing that the extent to which UDB's impact on the economy at large can be measured diminishes as one moves further away from the direct application of UDB's resources.



In keeping with the GOU's Vision 2040, UDB's Vision Statement states that the Bank intends to contribute to economically transforming Uganda. UDB's development outcomes are derived both from the NDPII and from its corporate objectives established by the Board in 2017. Every activity undertaken by UDB – whether it is long, medium or short term loans, or other products and services to be defined, must contribute to one or more development outcomes.

UDB's intended Development Impact can be specifically demonstrated by a Theory of Change (TOC) diagram. A Theory of Change establishes the logical connection between what the Bank does, why it does it, and how it contributes to defined development outcomes. The Theory of Change is complementary to the Results Chain, and describes specifically how UDB's operations are intended to help the organization achieve its Vision. UDB's contribution to economic development is a function of time and attribution of UDB activities to the result or development effect. UDB's Theory of Change is illustrated below.

Activities



ii) Overview of development results for 2018

2018 being the first year of implementation of the M&E framework, the Bank mostly focused on resourcing the M&E unit and putting in place systems in place to enable its successful implementation. The Bank also had to re-base the previous development results reported to align them to the new requirements of the Framework. As a result, only data for previously reported indicators was collected and reported. In the coming year, the Bank will work towards ensuring that all categories of development impact and their respective indicators are reported on.

Key development impact highlights

Overall, there was significant growth across the major development impact indicators for 2018 compared to 2017. There was a 16% growth in turnover; 70% growth in profitability; and 13% growth in tax contribution by projects financed by the Bank. New jobs created and maintained rose from 45,565 to 54,034 in 2018 compared to 2017 representing a 16% increase. However, there was 11% decline in foreign exchange earned in 2018 compared to 2017.

The reasons advanced for the high growth in profitability ranged from acquisition of machinery that enabled increased productivity to meet the growing demand; penetration of new markets (local and international) for goods; and development of brand loyalty among local and international consumers. However, there were persistent challenges like bad weather (especially in agriculture); and high power tariffs among others which eroded profitability.

It is important to note that despite the gap between male and female in employment, the female employment received the highest growth at 19% compared to their male counter parts at 12% respectively. Evidence also showed a 16% growth in youth employment overall.

The decline in foreign exchange earned was attributed to the post South Sudan instability which affected the formal and informal cross border trade between Uganda and South Sudan; bad weather which affected firms' productivity in the agriculture value chain; and sharp fall in prices of grains.

Other socio-economic benefits

There were some socio-economic outcomes of the projects financed such as: two companies completed certification of ISO standards; product penetration into the global market; construction of community feeder roads; construction of places of worship; construction of valley dams; and provision of clean water (bore hole and protected springs).

Additional

UDB has a comparative advantage over other financial institution as a development bank. Its lending rate ranges from 8% to 16% with a tenor of up to 15 years. Of the firms supported, 61% had loans only from UDB hence benefiting from the additional and further improving the performance of the private sectors.

Catalytic effect

UDB operates as a catalyst enabling companies implement their investment plan and provide a form of mitigation against risks and funding. This leads to improved private sector investment. A total of 39% of firms under consideration had loans with other financial institutions (co-financing investment). Of interest is how UDB funding attracted other financial assistance in the form of grants and additional loans from other financial institutions.

Lessons Learned

There were also registered lessons which affected the performance of projects and the realization of desired outcomes during the period under consideration. There were client, sector, and bank specific lessons for which the Bank will draw up actionable and programmatic steps to address challenges identified.

iii) Sector specific interventions and outcomes

During the year, UDB continued to effectively exercise its role as a key agent in the realisation of socio-economic transformation in the country. The Bank undertook key business initiatives in 2018 which were informed by the broader sector focus. These included:

- Roll out of a project investment plan that generated a pipeline of Ushs 258.1 billion, approvals of Ushs 257.8 billion and new disbursements of Ushs 154.6 billion;
- Delineation of sector expertise within the Investments Department (formerly the Department of Development Finance). The department is now in better position to deliver on the Bank's mandate, with sector champions in place to drive realization of sector-based targets across the country;
- Implementation of a revised project appraisal frame work to augment and complement the delineation of sector expertise;
- Approval was granted for the introduction of Project Preparation and Business Advisory Services units to improve investment readiness for new projects and enhance the capacity of existing ones; and
- Implementation of regional business clinics. This served not only to garner new business, but also to improve our brand presence and expand our geographical footprint. Two successful business clinics were held, one in the Eastern region and another in the Mid-West.

Overall Performance overview

The Bank continued to register an increasing trend in funding with the gross loan book closing at Ushs 309.62 compared to Ushs 242.66 billion in 2017. This represented a 27.6% growth in the loan portfolio. Agriculture and Agro-Industrialisation comprised the largest part of the book at 43%, closely followed by manufacturing at 30% in line with government priorities and reflecting deliberate focus in those sectors in the year 2018. However, there is room for growth in other sectors of Human Capital Development, Tourism and Infrastructure.

A total of 51 facilities worth Ushs 257.8 billion were approved in 2018, an increase from 36 facilities worth Ushs 167.1 billion in 2017. Primary agriculture and Agro-Industrialisation constituted 45% of approvals, followed by manufacturing at 44%. This mirrors a deliberate drive to support agriculture along its value chain in line with government priorities. Support for manufacturing underscores the Bank's alignment to government initiatives to industrialise as a means of transitioning to a middle income economy. The Bank has been registering growth in these sectors in the last 3 years.

The year 2018 also registered a record high of Ushs 154.6 billion in disbursements (46 projects) compared to Ushs 95.3 billion in 2017. This is reflective of concerted sales drives augmented by improved and streamlined internal processes, increased human resources and new funding that was effectively utilised. Manufacturing accounted for 52% of disbursements in 2018 ahead of agriculture and agro-industrialisation, which accounted for 37%.

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

Primary Agriculture and Agro-Industrialisation Sector

Agriculture remains a strategic opportunity for spearheading the government's development objectives. Agriculture has been and remains central to Uganda's economic growth and poverty reduction. It is a major source of raw materials for the manufacturing sector, a market for non-agricultural output and a source of surplus for investment. Agriculture continues to be the largest employer of Uganda's labor force employing approximately 70% across the whole value chain of agriculture. The sector has the potential to transform the economy of Uganda in general and that of specific sectors such as manufacturing and services.

Funding Activity

During the year, the Bank's approved funding increased by 58% in 2018 to Ushs 116.2 billion from Ushs 73.4 billion in 2017. Ushs 57.2 billion was disbursed in 2018, up from Ushs 47.8 billion in 2017. Total funding approved between 2014 and 2018 totaled Ushs 294 billion out of which Ushs 165 billion had been disbursed as at 31 December 2018.

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

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

Stakeholder Engagement Activities in the Sector

The Bank has partnered with key stakeholders in the sector such as the United Nations Capital Development Fund (UNCDF) to avail expertise and funding for agri-business in the Northern region, which is rich in oilseed and grain, but whose productivity is hampered by a lack of capital and skills. The Bank also in conjunction with Makerere University, ran an inaugural programme (the I-growth initiative) to identify, reward and fund innovative projects in the agriculture sector.

The Bank also undertook a benchmark study to Morocco Agriculture Bank to draw lessons on successful financing of agricultural enterprises in anticipation of developing an Agricultural Financing Strategy for the Bank.

Development outcomes

In 2018, the sector had the highest contribution to jobs created/maintained and foreign exchange income earned. Approximately 40,207 jobs were maintained/created representing a 21% increase from 2017; Ushs 89.2 billion equivalent of foreign exchange earnings was earned and tax contribution averaged Ushs 8.27 billion from Ushs 5.01 billion in 2017. There was also a 7% increase in land tilled from 252,101 acres in 2017 to 291,816 acres in 2018. Further investments in this sector are expected to increase employment levels, improvement in private sector performance and additional tax contributions to the economy in the coming year.

Outlook

In 2019, our upcoming interventions in the value chain will continue to focus on addressing climate change challenges; supporting the construction of small scale irrigation schemes for sustainable use of water resources for irrigation, livestock & aquaculture; facilitating farmers' access to good quality inputs like pesticides; fertilizers through financing & collaboration with input dealers/ merchants/ agro- chemical manufacturers; supporting farmers access to improved seed variety and agro- chemicals. We also plan to develop sector specific financing strategies to guide our investment in this sector.

It is expected that the partnerships we fostered in the year will yield further growth in our interventions in the sector. In particular the UNCDF partnership is expected to yield a significantly higher number of investments in the Northern Region. In addition, the Bank targets to increase its funding approvals to Ushs 125.6 billion to support the above initiatives.

Below are some of the projects we financed in 2018:-

Gulu Agriculture Development Company, (GADC)

The Company is engaged in primary production and processing of cotton in Acholi and west Nile districts. The project is 100% dependent on out growers as the only source of seed cotton to run the factories situated in Kitgum, Gulu and Arua.

GADC works closely with the Uganda Ginners and Cotton Exporters Association (UGCEA) which distributes cotton inputs and extension services throughout northern Uganda. UGCEA and GADC both work very closely in a Public/Private partnership with the Cotton Development Organization (CDO). Through working in partnership, UGCEA and CDO have worked with all ginners to build the Ugandan cotton industry from around 55,000 bales to 200,000 bales currently.

GADC is the lead cotton production project in Northern Uganda; it has a sizeable market share in Uganda, contributing over 20% cotton export. The company is the leading company in the revitalization of cotton production and processing in Uganda.

By the Bank financing this project, the development impact to be created will include an increase in house hold incomes of the population in the sub region; Increase quantity of the Uganda cotton exports and creation of more jobs for the population especially woman and youth in the sub region.

Kinkiizi Development Company ltd,(KDC)

Is the pioneer of the tea production and processing in Kisoro and Kabale. Tea has been introduced as cash crop in the two districts to complement food crops as sources of income for the households. The Company is engaged in primary production and processing of tea in 3 major districts that include; Kanungu, Kisoro and Kabaale in Kigezi sub region, western Uganda. The project is 100% dependent on out growers as the only source of its input to run the factories; the project has 4 tea processing plants in Kisoro, Kabaale and Kanungu.

The project works with and supports over 50,000 small holder farmers as it's out growers who produce raw material for the factories. The farmers are given technical back stopping in tea production and provided inputs for primary production for their farms including; fertilizers, seedling, working capital and agro chemicals.

The key objectives of the project include increasing house hold incomes of the population in the sub region; increasing quantity and quality of the Uganda tea exports and creating jobs for the population especially woman and youth in the sub region.

Jesa Farm Diary Ltd

Jesa is the leading producer of fresh pasteurized milk, yoghurt and ultra-heat treated milk (UHT). Jesa enjoys the biggest market share and brand loyalty in fresh pasteurised milk with the market predominantly in the greater Kampala. It also exports to the neighbouring Kenya, Tanzania and South Sudan.

The Bank has supported the company by providing financing to expand its production capacity from 75,000 to 200,000 litres per day. The expanded production of Jesa at the time caused challenges with treatment of factory waste. The company's old Effluent Treatment Plant (ETP) was undersized and unable to treat waste in the manner required by NEMA. The bank once again supported the company in the procurement and set up an ETP waste management plant to manage the waste from the factory. Ever since this was installed and fully operational, the company has been able to effectively manage all the waste from the plant to the satisfaction of NEMA.

Jesa employees over 300 employees; contributes over Ushs 4 billion in tax revenues to the country and Ushs 10 billion in foreign exchange earnings as a result of exporting of its products to neighbouring countries.

AGRICULTURE AND AGRO-INDUSTRIALISATION VALUE CHAIN

Sector Focus

Increase agricultural production and productivity

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

Increase access to critical farm inputs

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

Improve agricultural markets and value addition for the 12 prioritized commodities

- Promote private sector investment in value addition.
- Build capacities of farmers, trades and processors in quality standards and market requirements.
- Promote investment in storage infrastructures to reduce post-harvest losses

Sector Specific Challenges

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

Sector Specific Stakeholders And Engagements

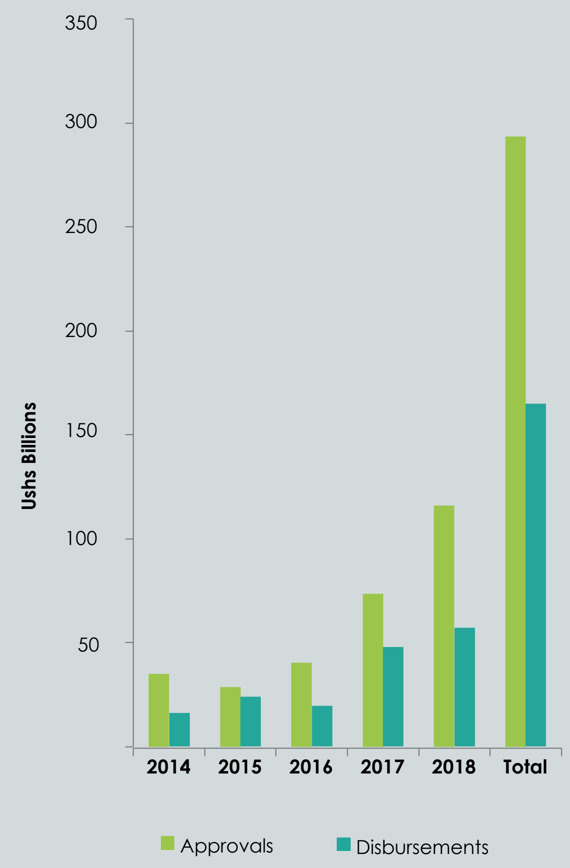
- Uganda Coffee Development Authority
- United Nations Capital Development Fund
- Private Sector Foundation of Uganda
- Farmer Associations & Cooperatives
- Food and Agriculture Organisation
- Ugandas National Farmers Federation
- Agence Française de Développement (AFD)
- Diary Development Authority (DDA)
- Ministry of Agriculture, Animal Industry an Fisheries (MAAIF)
- National Agricultural Advisory Services (NAADs)
- National Agricultural Research Organisation
- Operation Wealth Creation (OWC)
- Uganda Industrial Research Institute (UIRI)
- National Animal Genetic Resources Centre &Data Bank (NAGRC)

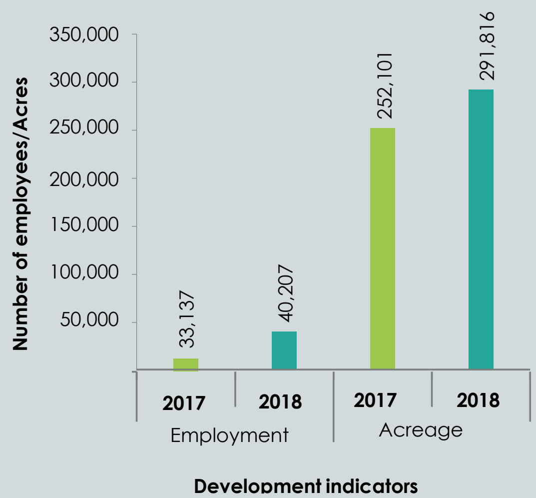
UDB Interventions

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

Funding Activity

Development Outcomes





FINANCIAL OUTCOMES

Size of portfolio

2018	2017
Ushs **132.11 billion**	Ushs **111.49 billion**

Manufacturing Sector

The manufacturing sector is characterized by limited value addition with very few capital goods industries and very low utilization of manufacturing capacity. This is further manifested in the absence of manufactured products in the export basket. The Government is therefore keen on diversifying the country's manufacturing sector. Government aims to promote sustainable industrialization and appropriate technology transfer and development and increase the sectors contribution to GDP to 24.5% in 2020.

Funding activity

During the year, the Bank's approved funding increased by 104% in 2018 to Ushs 113.06 billion from Ushs 55.5 billion in 2017. Ushs 80.8 billion was disbursed in 2018 compared to Ushs 37.9 billion in 2017 representing a 113% increase. Total funding approved from 2014 to 2018 totaled Ushs 253.1 billion out of which Ushs 158.5 billion had been disbursed as at 31 December 2018.

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

Stakeholder Engagement Activities in the Sector

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

Development outcomes

In 2018, approximately 10,855 jobs were maintained/created representing a 12% increase from 2017; Ushs 138.2 billion equivalent of foreign exchange earnings was earned and tax contribution averaged Ushs 60.6 billion from Ushs 49.7 billion in 2017.

In addition to modernization and expansion of the entities financed during the year, the Bank will place focus on supporting the development of skill-based vocations that underlie a significant part of the manufacturing processes. These skills are a valuable alternative and supplement to formal education.

Outlook

In 2019, the Bank has expectations of increasing funding to this sector with targeted new funding approvals of Ushs 77.8 billion. The Bank will continue to seek to address key sector constraints such as the lack of competitively priced long term funding sources; stagnation of Uganda's export volumes by value; inadequate technical, production and management skills in industries and inadequate funding to promote commercialization of projects that have undergone successful incubation.

Below is one of the key projects we financed in 2018:-

Steel and Tube Industries Limited (STIL) is one of the leading manufacturers of various steel products in the country with their marketing stretching around the whole of Uganda as well as within the entire East African region, stretching to Rwanda, Congo, Sudan, Kenya and Burundi.

STIL has achieved both local and international certifications confirming the quality of their products including ISO9001:2008 certificates from Nemko and IQNET as well as UNBS certification. The company consistently features amongst the fastest growing manufacturers of steel products in Uganda and within the east African region, commanding over 15% of the local market for steel products.

The company currently employs over 1,080 staff on permanent basis up from 580 staff in 2013. The total number of employment beneficiaries is approximately over 6,000, including casual labourers as well as various beneficiaries in their value chain.

The Bank has supported the company through provision of working capital facilities over the last three years. The Bank recently provided working capital towards revamping their profiling plant in Namanve with the objectives of increasing the share and supply of locally manufactured high quality steel products in the Ugandan market; closing the technical skills gap through partnership with Kyambogo University for internship and employment opportunities and create more employment opportunities.

As a result of revamping the profiling plant and together with the full functioning of the hot roll and cold roll mill, over 100 jobs have been created; additional tax contribution of Ushs 10.95 billion has been made; foreign exchange savings of US$ 3.5 million have been made through import substitution; foreign exchange revenues of Ushs 14.2 billion equivalent to 35% of total sales have been earned from re-exportation. Their export component (accounting for 35% of their total sales) is a boost to the country's balance of payment position.

MANUFACTURING VALUE CHAIN

Sector Focus

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

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

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

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

Sector Specific Challenges

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

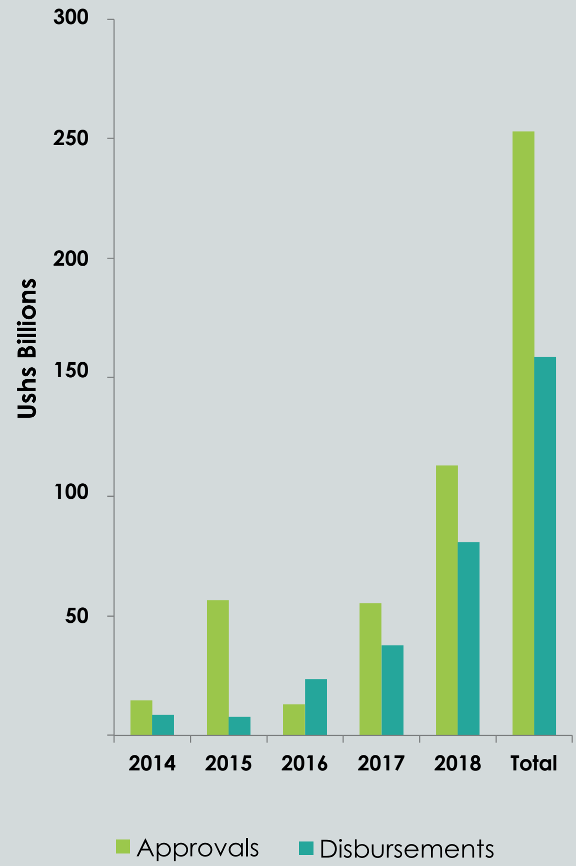
Sector Specific Stakeholders And Engagements

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

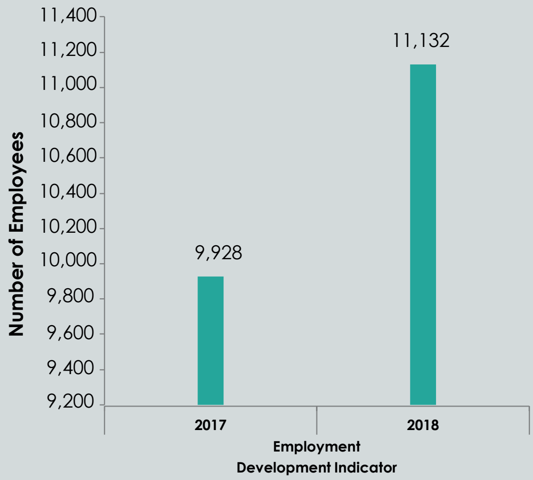
UDB Interventions

- Provide affordable financial support towards promoting labour light manufacturing industries and, acquisition & transfer of appropriate technology.
- Provide equity funding to startups and support these through to growth.
- Provide business advisory services to SMEs.
- Complete the accreditation process for accessing climate change finance
- Leverage the Bank's balance sheet to get alternative financing sources so as to become an engine for the roll-out of long term financing where at least 50% of credit to manufacturers is long term in nature in the next two years.
- Leverage the South to South Cooperation with governments and government vehicles for applied technology equipment sourcing from technology exporting countries.
- The bank increased its long term loans tenure from 10 to 15 years.
- Support incubation centres & innovative concepts for nurturing SMEs and start- up enterprises with the view to harness local technology innovations & adoption rate.
- Leverage the existence of the African Trade Insurance Agency and Export Credit Guarantee that can guarantee payment for exports to especially volatile countries. This intervention has the potential to more than double the value of Uganda's current exports volume.
- Collaborate with Research Institutions/ other stakeholders in the country in promoting the commercialization of technology incubations in support of SMEs development.

Funding Activity



Development Outcomes



Financial Outcomes

Size of portfolio

	2018	2017
	Ushs **93.94 billion**	Ushs **53.90 billion**

Human Capital Development Sector

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

In recognition of the fact that government is already heavily involved through other agencies in primary and secondary education through UPE and USE, the focus in education continues to be on tertiary institutions, particularly those with a vocational skills component. A gap was identified in the possession of appropriate skills on leaving formal education and UDB has undertaken to support efforts towards bridging this gap.

Funding activity

During the year, the Bank approved funding of Ushs 1.71 billion compared to Ushs 6 billion in 2017. Ushs 2.85 billion was disbursed in 2018 compared to Ushs 2.01 billion in 2017. Total funding approved from 2014 to 2017 totaled Ushs 19.3 billion out of which Ushs 14.2 billion had been disbursed as at 31 December 2018.

Stakeholder Engagement Activities in the Sector

UDB gave a keynote address at the Federation of None-State Education Institutions (FENEI) annual delegates conference in October 2018. The conference was an important springboard for information dissemination to targeted stakeholders and concrete value propositions are expected as a result. The bank further held discussions with the Executive team of Uganda Association of Private Vocational Institutions (UGAPRIVI). The association brings together private vocational institutes nationwide and was an important springboard to introducing the Bank's services to this target market. The engagement with UGAPRIVI has resulted in several expressions of interest which will be evaluated in the coming year.

Development outcomes

Overall, the sectors contribution towards jobs created/ maintained marginally increased by 4% to 1,226. The sector made Ushs 1.19 billion in tax contribution to the economy though 4% lower than the previous year; and Ushs 153 million equivalent in foreign exchange were earned in 2018.

With respect to health services sector, there was an 18% increase in patients served in hospitals funded by the Bank, from 147,825 to 180,675 while in the education sector, students enrollment increased by 8.44% from 6,457 to 7,002 students in 2018. The Bank also funds Business, Technical and Vocational Education and Training (BTVET) schools and these alone had enrolment levels increase by 1% from 2,303 in 2017 to 2,325 in 2018. These institutions have the capacity to create employable skills and competencies relevant in the labour market instead of educational certificates.

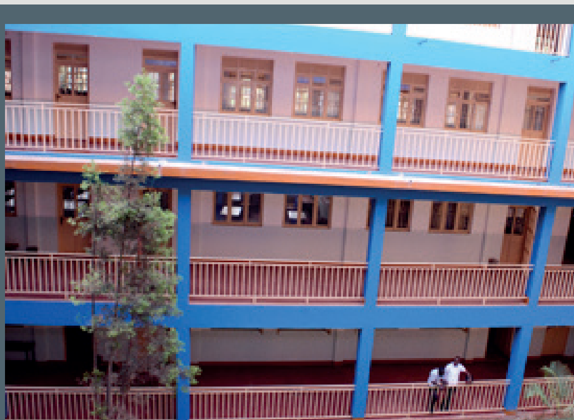
Outlook

In 2019, the Bank has expectations of increasing funding to this sector with targeted new funding approvals of Ushs 30 billion. The Bank will continue to seek to address key sector constraints such as inadequate support to the Implementation of Skilling Uganda Strategy; Undeveloped educational infrastructure that impacts on the quality & access to educational services and Limited skills of Women & Youth that limits their active participation in gainful economic activities.

Multitech BS

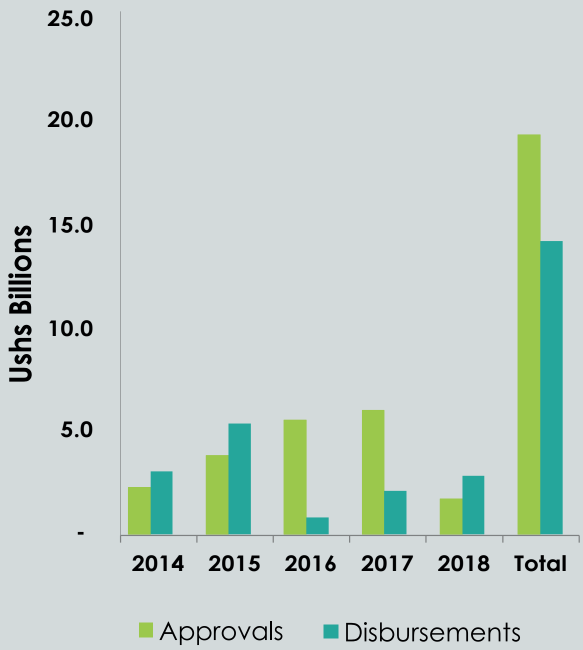
Multi-tech Business School (MBS), was incorporated in May 2002. It began as a business college best known for providing tuition for professional accounting courses. It has since grown to a fully-fledged tertiary institution registered by the National Council of Higher Education, offering certificate, diploma and undergraduate degrees with a career and vocational bias. However it has maintained its business courses namely accountancy, procurement and ICT.

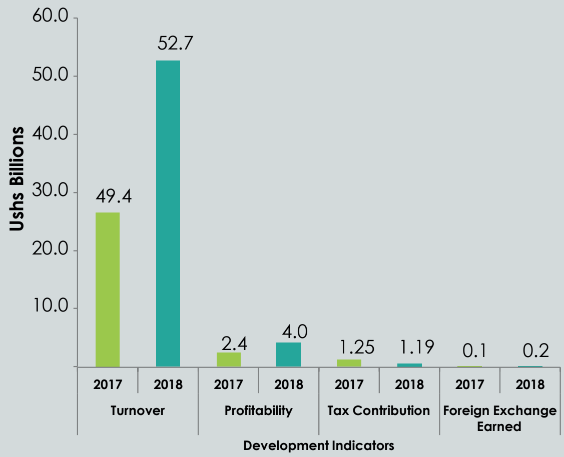
UDB advanced a loan facility to complete civil works and procure furniture and equipment for its Kampala campus. The school has an enrolment of over 1,000 students across its three campuses in Kampala, Kakiri and Hoima. Plans were underway to transform the Kakiri campus into a vocational skills centre offering tailoring and nursing courses. The school with the aid of UDB funding is providing much needed vocational skills to augment government efforts.

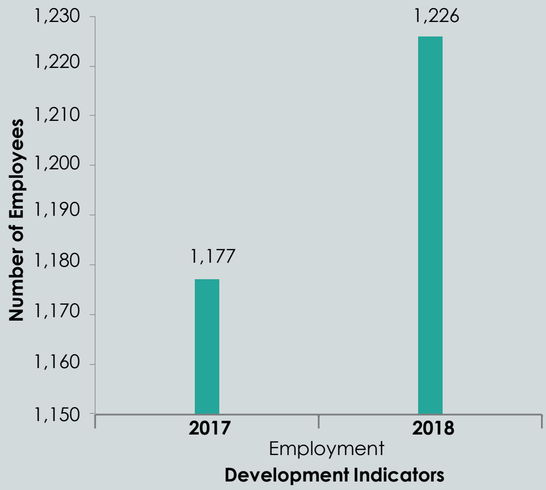


Funding Activity

Development Outcomes







Financial Outcomes

Size of portfolio

	2018	2017
	Ushs **18.43 billion**	Ushs **18.68 billion**

Tourism Sector

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

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

Funding activity

In 2018, the Bank's approved funding was Ushs 10.43 billion compared to Ushs 0.9 billion in 2017, an increase of 1085%. Ushs 3.09 billion was disbursed in 2018 representing an increase of 922% from funds disbursed in 2017 of Ushs 0.3 billion. Total funding approved from 2014 to 2018 totaled Ushs 16.2 billion out of which Ushs 7.1 billion had been disbursed as at 31 December 2018.

Outlook

In 2019, the Bank will increase funding to this sector with targeted new funding approvals of Ushs 29.9 billion. The funding will go towards addressing key sector constraints of lack of professionalism and skills i.e. lack of practical skills by workers in tourism sector; poor tourism infrastructure i.e. poor transport facilities and inadequate accommodation facilities.

Tesh Investments Ltd (TESH)

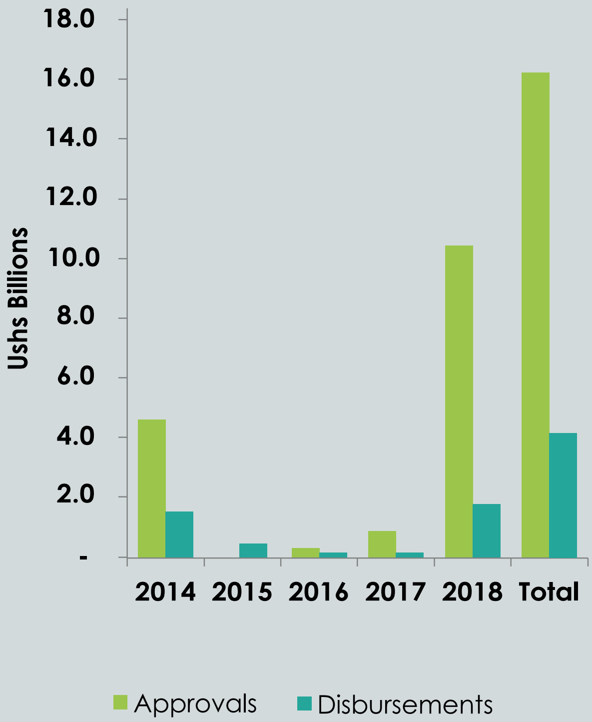
TESH currently has a running tourist business known as Park view Safari Lodge with 13 (thirteen) cottages, 02 (two) family cottages, a guest block, a conference hall, and other lodging facilities located at Kyambura-Kichwamba, Bunyaruguru, Rubirizi District. Through UDBL funding, the company is expanding its tourism business by building a new lodge targeting tourists coming to visit the Mountain Gorillas at Bwindi impenetrable Forest/National Park. The lodging facility dubbed Gorilla Heights Lodge-Nkuringo will comprise 14(fourteen) cottages, a main block and related lodging facilities including a health club, a bar, a swimming pool and others.

Once completed, the project is expected to provide 5 star accommodation for tourists; enhance the existing tourism infrastructure to attract and increase tourist visitors to the country; and increase foreign exchange earnings. The project also plans to set up a local hospitality training school within the lodge to undertake training and capacity building of local people. The project is also expected to create 23 direct jobs and contribute towards the tax revenues of the Country.

Currently, the existing project supports local women's group in Rubuirizi district to sell their hand crafts at the lodge. The project also conducts farmer training on improved method of farming and suitable food crops for the tourist visitors.

Funding Activity

Development Outcomes



Financial Outcomes

Size of portfolio

2018	2017
Ushs **7.99 billion**	Ushs **5.34 billion**

Infrastructure Sector

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

UDB's focus in this sector will mostly be through providing financial solutions to local content to enable them favorably compete for contracts in major infrastructure projects such as the Standard Gauge Railway (SGR).

Funding activity

The Bank approved funding of Ushs 14.03 billion in 2018. Total funding approved from 2014 to 2018 totaled Ushs 65.7 billion out of which Ushs 23.5 billion had been disbursed as at 31 December 2018.

Development outcomes

Through the Bank's interventions in supporting local content, the investments in this sector are expected to create employment, increase tax contribution to government and overall contribute towards creating a conducive environment for doing business.

Outlook

The Bank in 2019 anticipates generating new funding approval of Ushs 20.9 billion towards addressing the lack of capacity in local companies to support local content in the Infrastructure development projects in the country; and limited power generation capacity in the country leading to high energy cost. Financial support will be given to local content in the construction of major infrastructure projects in the sector such as the Standard Gauge Railway (SGR).

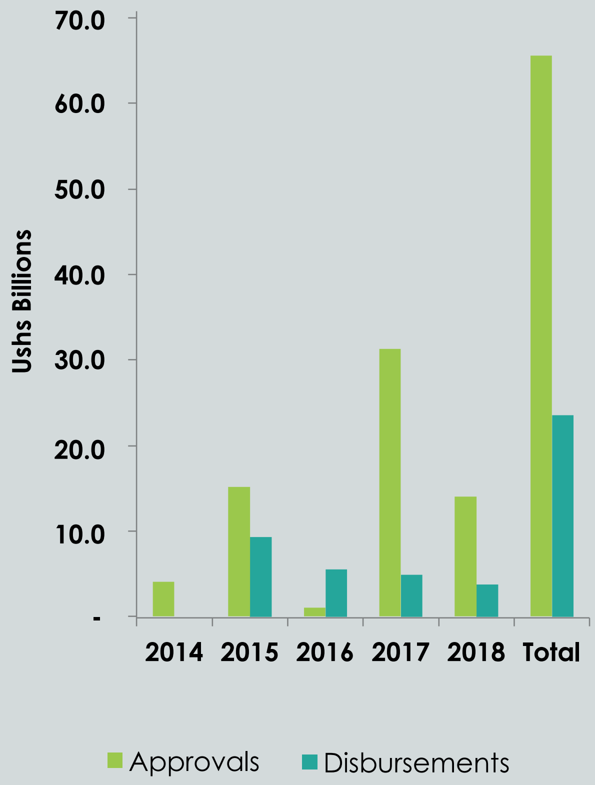
Abu Baker Technical Services Ltd

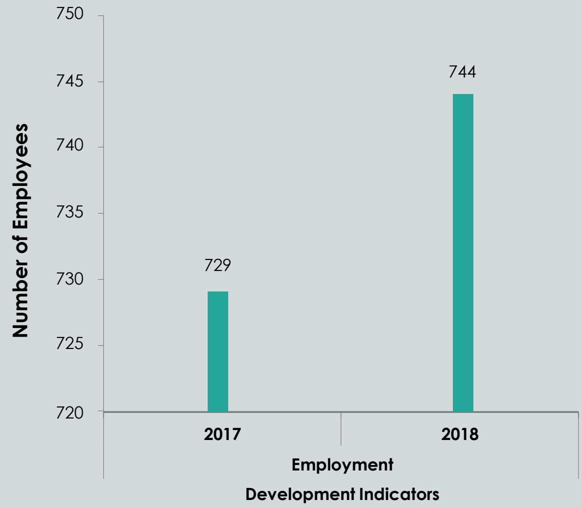
The Company is a leading road contractor employing about 600 staff across its locations. Its clientele is varied, including government, government agencies and donor funded projects. The Bank provided funding to the Company for procurement of stone crushing and road traction equipment and UGX 4.5 billion to augment working capital for execution of its contracts.

The company is a significant player in the infrastructural development sector. In the last 2 years it has tarmacked 82 km of road, with over 100 km more in contracts yet to be executed. The company also continues to contribute positively to the economy in other fields. Of its 600 employees, over a half are female. In the year ended 2018, the company had a gross turnover of UGX 41.6 billion and paid UGX 100 million in taxes. More socio economic benefits are expected with UDB's continued support.

Funding Activity

Development Outcomes





Financial Outcomes

Size of portfolio

	2018	2017
	Ushs **25.22 billion**	Ushs **21.45 billion**

Celebrating and Supporting Innovation: The UDB i-Growth Accelerator Program

Uganda Development Bank Limited (UDB) in partnership with the ResilientAfrica Network (RAN Innovation Lab) launched the inaugural UDB i-Growth Accelerator Program focusing on supporting the commercialization of local start-ups and stimulating a culture of innovation in Uganda. The program is in tandem with UDB's mandate of fostering socio economic development through intervention in priority sectors of the economy.

The Program, held under the theme 'Towards a Smart and Sustainable Agricultural and Manufacturing Sector', targeted local start-up enterprises in the Agriculture and Manufacturing sectors that require financial support to grow and commercialize.

L-R: Nathan Tumuhamye (RAN), the Managing Director of UDB Patricia Ojangole, Professor William Bazeyo (RAN), Dr. Dorothy Okello (RAN) conduct a press briefing at the launch of the i-Growth Accelerator Program.

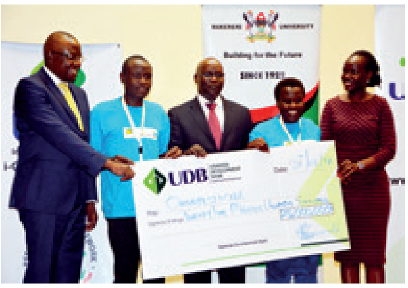
The call was open to individuals, youth groups, community based organisations, vocational institutes, students, and young entrepreneurs involved in projects that demonstrated transformative interventions in the form of 'solutions' or 'technologies'. Additionally, the successful projects had to portray attributes of regional, national and community–level scalability, creation of employment opportunities, multi-sectoral collaboration, and environmental conservation. Other aspects include; Originality of the idea, business sustainability, clear implementation plan, cost effectiveness and a clear competitive advantage of the solution.

At the close of the 8-week application window on 25th January 2018, a total of 430 projects were submitted for vetting. These were reviewed by a diverse panel of 20 Judges who selected the projects that best fit the application criteria. The top 25 applicants were granted the opportunity to showcase their projects at a public Exhibition held at Hotel Africana on 28th of February 2018.

The eventual award recipients were unveiled at a function presided over by the State Minister for Finance, Planning and Economic Development incharge of general duties, Dr. Gabriel Ajedra.

TOP WINNER

GUDIE LEISURE FARM OF THE ORGAPESTICIDE INNOVATION TOOK HOME THE FIRST PRIZE OF UGX 25 MILLION.



Dr Gabriel Ajedra Aridru, flanked by Prof. Samuel Sejjaaka, former Board Chair UDB, MD of UDB, Patricia Ojangole hands over a cheque of Ugx 25 Million to Gudula Naiga Basaza, the proprietor of Gudie Leisure Farm .

In order to maintain productive soil quality as well as fight crop pests, farmers in Uganda usually rely onthe use of chemicals and other forms of pesticides, some of which are hazardous to the enviroment and human life.

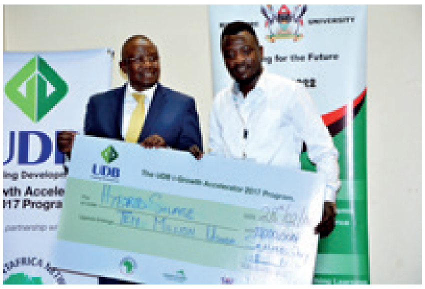
In response, Gudie Leisure Farm produces Orgapesticide, an organic fertilizer made from pepper, garlic and hydrogen from earthworms. The Farm also intergrates other low cost agricultural approaches and practices including "Resoil" (an organic soil enhancer that boosts soil quality), Orgafume(uses micro-oganisms and yeast bacteria to colonise harmful organisms); the Farm is also conducting trials for weed master, an organic weed control solution.

The project has been in existence for 2 years and has the capacity to produce 500 liters of Orgapesticide per week. Their intention is to reduce farmers losses associated with pests and diseases.

Dr Gudula explains the process of how to use Orgapesticide at the i-Growth expo.

FIRST RUNNER-UP

HYBRID SILAGE AND HAY MACHINE WON 10 MILLION UGANDA SHILLINGS.



Byron Ssemalago the inventor of Hydrid Silage and Hay Machine receives his cheque of Ugx 10 Million from Prof. Samuel Sejjaaka the Chairman UDB.

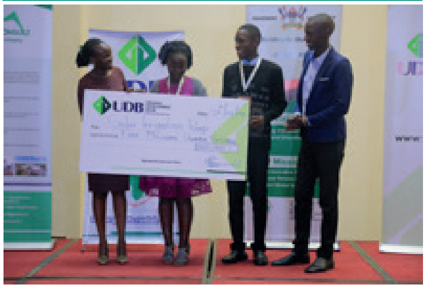
As a response to the unpredictable weather patterns, members of this team came together to develop an affordable, locally produced and maintained hybrid Hay and Silage Machine.

The Machine produces and compacts Hay and silage that can be kept for a period of up to 5-years; this enables farmers to feed their animals through periods of draught and scarcity. Additionally,the solution not only combines Hay and Silage production there by eliminating the need for two separate machines, it also provides a cost effective alternative to the Hay and Silage production machines in Uganda that are imported.

The project has been in existence for nearly two years and has been tested variously on farms in Mukono. Tests have confirmed that the machine can produce 20 tones of hay or silage over a period of 10 hours using just 24 liters of diesel.

SECOND WINNER

SOLAR IRRIGATION PUMP, A PROJECT THAT HAS BEEN IN EXISTENCE FOR A YEAR WON THE PRIZE OF UGX 5 MILLION.



CEO UDB Patricia hands over a Ugx 5 million cheque to Ssena Pump officials

On the back of increased incidences of prolonged draught, the youthful team from Ssena Pump Ltd, developed a Low Cost Solar Irrigation Pump.

The pump is manufactured from locally sourced materials and uses solar renewable energy. It also comes with a sprinkler mechanism that is also locally fabricated. The set is priced at Ugx 600,000. The team has piloted the project with three farmers who have reported positively about its functionality.

Locally made Solar Irrigation pump

The Winner's Testimony

"A few years back, I committed to transform 200,000 smallholder farmers to commercial farmers by 2026. These would grow on ten metrics that are measurable on a growth ladder, the ultimate being:

- Ability to save UGX10,000 per day,
- Business worth of UGX10m,
- Employing 6 persons,
- Balanced food security for the family,
- Using renewable energy for heating and lighting plus embracing organic farming,
- Secure health through family health insurance,
- Acquisition of basic assets (land, home, communication and transport means among others),
- Joining the Gudie Cooperative,
- A net income of US$500 per month and being able to pay taxes on profit.

In the last five years we reached 37,800 farmers in 315 villages. They are hardworking yet they earn so little, a big indicator of time poverty. We have been challenged to find solutions to the challenges that limit their productivity and thus profitability. We have made an ecosystem mapping of the partners we need for backstopping so that we offer a comprehensive solution. These include the National Agriculture Research Organization (NARO), Mannerheim University of Germany, Makerere University Business School, dfcu bank, Private Sector Foundation of Uganda and Uganda women entrepreneurs Association limited.

We responded to the UDB i-Growth Accelerator call seeking innovation to address farmers' challenges at production. We had four products that we had developed and proved to enhance farmer productivity, marketability of produce and ultimately profitability. We submitted two innovations and Orgapesticide emerged a winner. Orgapesticide is an organic pesticide that relies on the anti-virus, anti-fungi and anti-bacterial properties of garlic, insect repelling properties of pepper, stinging nettle and hydrogel and animal urine. This combination has given us a superior organic product for preventing and controlling pests and diseases.

We are very excited because we shall contribute to reduction of losses due to pests and diseases. It is estimated that a farmer losses up to 20% of their produce before harvest, 40% post-harvest and 100% at export because of pests and diseases. Farmers are willing to pay a premium for organic products. We need to guarantee that there are organic solutions along the value chain that can be traced and tested. Uganda has a competitive advantage in marketing organic products. Our ambition is to have an agent in each district in Uganda by the end of five years. We want to contribute to policy and promotion of marketing organic products.

What does the winning mean? Apart from the increased visibility, the Ugx 25 million that we won and the potential to access equity financing to increase investment in our project in a shorter time, the grant will support our initiatives for increased production to meet the demands, more research and certification of our product, increased promotion and opening an organic solutions outlet in container village in addition to getting agents in various town of Uganda."

Gudula Naiga Basaza, PhD
Overall Winner, UDB i-Growth Accelerator Awards

UDB sponsors students to attend internship in Karlsruhe, Germany

UDB's Director Strategy and Corporate Affairs Joshua Mwesiga (left), flags off Dalton Bakisuula and Martin Mugisha to attend a 3 months' internship at the Frauhofer-Institute in Germany. The function was attended by UDB managament, family members and Kyambogo University officials.

Applied Electro-Chemical students Dalton Bakisuula (3rd left) and Martin Mugisha (2nd right) at the Institute of Chemical Technology in Karlsruhe, Germany. 1st left is Arshad Rab, CEO European Organization for Sustainable Development and to his right is Patricia Ojangole, Managing Director Uganda Development Bank. 1st right is Dr. Frank Mentrup, Mayor of the City of Karlsruhe and 3rd right is Dr. Stefan Troester.

The Bank sponsored two university students to attend a fully-funded 3-month internship at the prestigious Fraunhofer-Institute fur Chemische Technologie in Karlsruhe, Germany. The beneficiaries, Dalton Bakisuula from Kyambogo University and Martin Mugisha from Makerere University are both students of Applied Electro-Chemistry at their respective learning institutions. They are the inaugural participants of an initiative spearheaded by the bank in collaboration with the European Organization for Sustainable Development (EOSD).

The partnership seeks to undertake cooperation in various areas including enhancing local capacity for a smart and sustainable economy and supporting innovation and technology transfer.

Uganda Development Bank co-financed the project, committing over 6,000 euros, to cater for the cost of the return air tickets for the students as well and living expenses for the duration of their residency in Karlsruhe. The training-related costs were covered by the Frauhofer-Institute.

Other corporate social investment initiatives

A cross section of staff hand over a cheque to the headmistress and student leaders of Gayaza High School, being the Bank's contribution towards the schools anual Agriculture fare.

The Bank's Legal Manager Elewa Apamaku (left) and Director Strategy & Corporate Affairs, Joshua Mwesiga, handover a Ugx10Million cheque to officials of Bukedea Progressive Academy.

FINANCIAL SUSTAINABILITY

For a detailed discussion on the Bank's financial performance, please refer to the financial review on page 72 of this annual report.

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

Below is the Bank's value added statement 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 valued added is calculated as the Bank's revenue performance minus payments such as cost of services, depreciation and amortization. The resulting amount is distributed to the stakeholders who include employees, shareholders, community investments and government.

The total wealth created by the bank in 2018 was Ushs 38.88 billion as shown in the value added statement below.

	2018	%	2017	%
	Ushs '000		**Ushs '000**	
Interest income	35,463,324		22,919,245	
Interest expense	(2,217,024)		(1,044,783)	
Wealth created from operations	**33,246,300**		**20,942,220**	
Foreign exchange gains	43,070		27,857	
Other income	5,587,550		8,412,317	
Total wealth created	**38,876,920**	**100**	**30,314,636**	**100**
Distribution of wealth				
Retained for growth	9,486,394	24	8,306,247	27
Employees	9,172,169	24	7,631,124	25
Government	4,107,403	11	3,569,344	12
Suppliers	7,516,011	19	6,464,485	21
Impairment loss on financial assets	7,910,558	20	3,865,375	13
Depreciation and amortisation	684,385	2	478,061	2
Total wealth distributed	**38,876,920**	**100**	**30,314,636**	**100**

UDB'S ROLE IN SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS

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

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

Strategic Partnerships

In line with the its' mandate and strategic aspiration, UDB continues to seek out and enter strategic partnerships that aim to enhance the capacity of the bank to effectively champion the sustainability agenda in the country. Amongst these partnerships include the Sustainable Development Goals Centre for Africa (SDGCA), the European Organization for Sustainable Development (EOSD), the Green Climate Fund (GCF), among others.

Sustainability Standards Certification Initiative (SSCI)

UDB entered into a memorandum of understanding (MOU) with the EOSD in July 2018, in testament of UDB's commitment to sustainability. Under this framework, UDB was also admitted amongst the 4 pioneer financial institutions in the world to undertake the Sustainability Standards Certification Initiative (SSCI). The initiative, which defines a set of sustainability standards for banking and financial institutions, seeks to position these institutions as key partners to governments in addressing national sustainable development challenges and to support them mobilize resources to fund projects of strategic social, economic and environmental significance. Other interventions under this initiative will include interventions to support renewal and sustainable energy, building cooperation between businesses, academia and research institutions, and supporting implantation of smart and sustainable production practices amongst SMEs and startups.

The Managing Director of UDB, Patricia Ojangole flanked by other delegates that attended the 1st Sustainability Standards Certification Initiative (SSCI) council meeting in Karlsruhe, Germany. UDB is among the 4 pioneer financial institutions in the world to undertake the SSCI.

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

THE TABLE ILLUSTRATES UDB'S SECTOR FOCUS RELATIVE TO THE SDG OUTCOMES

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

FINANCIAL SUSTAINABILITY

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

FINANCIAL PERFORMANCE OVERVIEW

Five year extract from the Bank's annual financial statements

Financial Statistics	2018	2017	2016	2015	2014
			Ushs millions		
Statement of Comprehensive Income					
Gross Interest on loans	35,463	22,919	17,759	16,339	11,220
Net Interest and fee Income	33,246	21,874	18,406	16,966	11,657
Net impairment loss on financial assets	(6,940)	(3,865)	(3,315)	(4,572)	(2,737)
Written off Loans	(970)	-	(801)	(6,871)	-
Non-Interest Income	5,630	8,440	6,693	9,005	7,790
Operating expenses	(17,373)	(14,573)	(11,890)	(11,750)	(9,764)
Profit before income tax	13,594	11,876	9,093	2,778	6,946
Profit for the year	9,486	8,306	6,449	1,911	4,868
Statement of Financial Position					
Loans and advances (Net)	276,694	224,286	168,798	141,547	108,888
Balances with other banks	44,383	29,797	11,904	12,132	21,685
Investment properties	34,796	32,800	30,200	29,100	29,100
Total assets	370,118	297,471	226,427	205,557	169,939
Capital and reserves	253,612	204,448	156,541	141,548	126,606
Total liabilities	116,506	93,023	69,886	64,009	43,333
Statement of cash flow					
Cash flow used in operating activities	(49,846)	(39,900)	(8,289)	(41,735)	(7,847)
Net cash (used in)/generated from investing activities	7,527	(16,112)	3,079	6,716	(9,565)
Net cash generated from financing activities	65,737	58,234	7,095	17,293	17,293
Key financial ratios					
Yield on interest bearing instruments	12.3%	10.3%	10.7%	11.6%	9.6%
Net interest income margin	94%	95%	98%	99%	100%
Cost income ratio (without impairment)	45%	48%	47%	45%	50%
Cost income ratio (with impairment)	65%	61%	64%	89%	63%
Return on assets	2.8%	3%	3%	1%	3%
Return on equity	4%	5%	4%	1%	4%
Loan impairment ratio	10.6%	7.6%	8.0%	7.9%	8.8%
Debt equity ratio	38%	38%	36%	38%	28%

The Bank remained profitable despite the economic conditions that prevailed during the year. The Bank managed to improve its financial performance compared to 2017. Profit for the year increased by 12% to Ugx 9.5 billion from Ushs 8.3 billion realized in 2017 on the back of growth in funding and capitalisation of the Bank as well as increase in loan disbursements to development projects.

Financial sustainability remains a priority for the Bank in its efforts to drive socio-economic development in the Country. For the foreseeable future, the Bank plans to raise sufficient funding through a combination of Government of Uganda Capital Contribution, debt, and internally generated funds to invest in new developmental loans into the economy. Credit Risk Management including resultant expected credit losses on the bank's financial assets will also continue to be key in ensuring our financial sustainability.

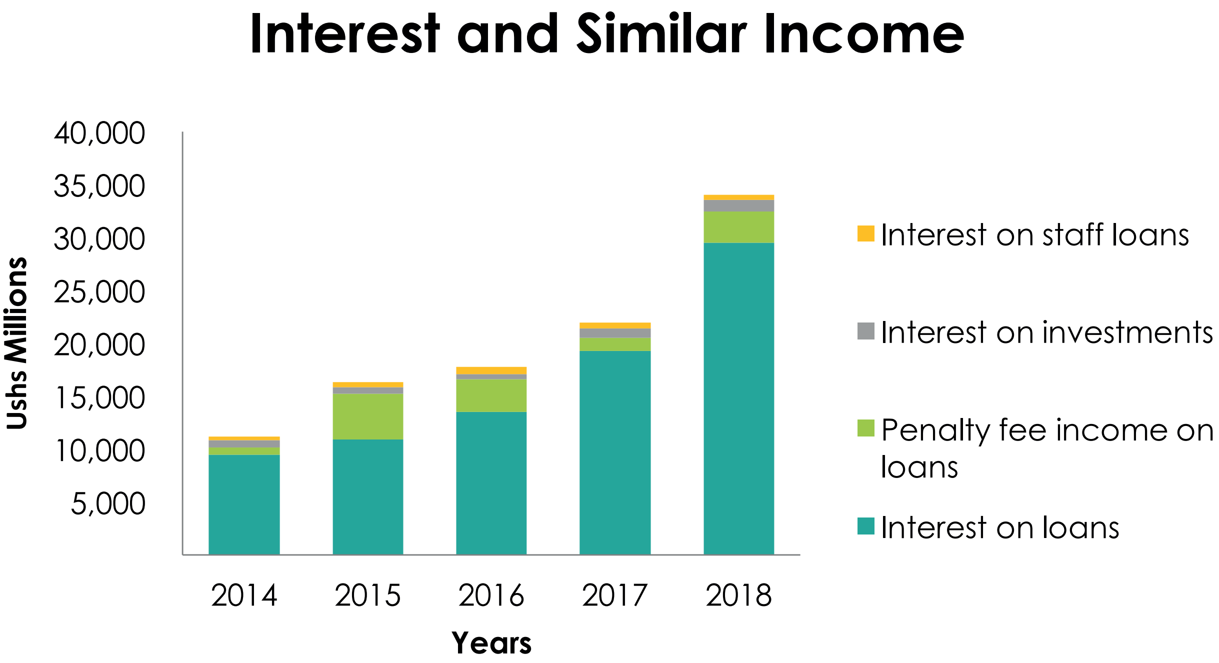
ENSURING FINANCIAL SUSTAINABILITY

A brief review of the financial performance of the Bank compared to the previous year is as follows:

Interest Income

The bank's net interest increased by 52% to Ushs 33.2 billion from Ushs 21.9 billion in 2017. Interest and similar income grew by Ushs 12.5 billion (54.7%) in 2018 as a result of a 27.6% growth in the gross loans and advances.

Interest expense and similar charges also increased by 112% to Ushs 2.2 billion from Ushs 1.04 billion in 2017 as a result of 115% increase in borrowings arising from new lines of credit of Ushs 42.8 billion secured by the bank in 2018 compared to Ugx 28.2bn drawn down in 2017.



Other Income

Other income reduced by 34.3% to Ushs 3.7billion from Ushs 5.6 billion in 2016. Other income includes Ushs 2.4 billion of rental income realized from the bank's investment property during the year.

Net Impairment Loss and write off of loans and advances

The impairment charge on the loan portfolio increased by 105% in 2018, equivalent to Ushs 4.0bn, mostly due to adoption of IFRS 9 Financial Instruments.

Operating expenses

Operating expenses increased by 19.2% to Ushs 17.4 billion in 2018 from Ushs 14.6 billion in 2017 majorly due to increased staff costs from increased headcount following a review and adoption of a new organizational structure at the beginning of 2018 coupled with various iniatives undertaken by the bank during the year following adoption of the new 5 year strategic plan (2018-2022). The cost-to-income ratio with impairment increased to 65% from 61% in 2017 while that without impairment improved to 45% from 48% in 2017

Strengthening the financial position of the bank

The bank's total assets increased by 24% to Ushs 370 billion on the back of increase in the Government of Uganda capital contribution as well as draw down 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

These comprise of lines of credit sourced from other Development Financial Institutions (DFI's) for the sole purpose of supporting the development mandate of the Bank. During the year, the Bank secured new lines of credit totaling US$ 25 million (approximately Ushs 92.7 billion) from the African Development Bank (AfDB) and Exim Bank of India. The Bank drew down Ushs 42.8 billion which was used in supplementing existing funding to grow the loan book. The draw downs gave rise to growth in borrowings by 59% to Ushs 57.5 billion from Ushs 36 billion in 2017.

Government of Uganda capital contribution

The Bank received additional capital contribution from the Government of Ushs 48.2 billion in 2018 compared to Ushs 39.6 billion in 2017. This gave rise to a 92.6% increase in total capital contribution in 2018 to Ushs 100 billion from Ushs 52 billion in 2017. The additional contribution was pivotal in the growth in the loan book registered during the year.

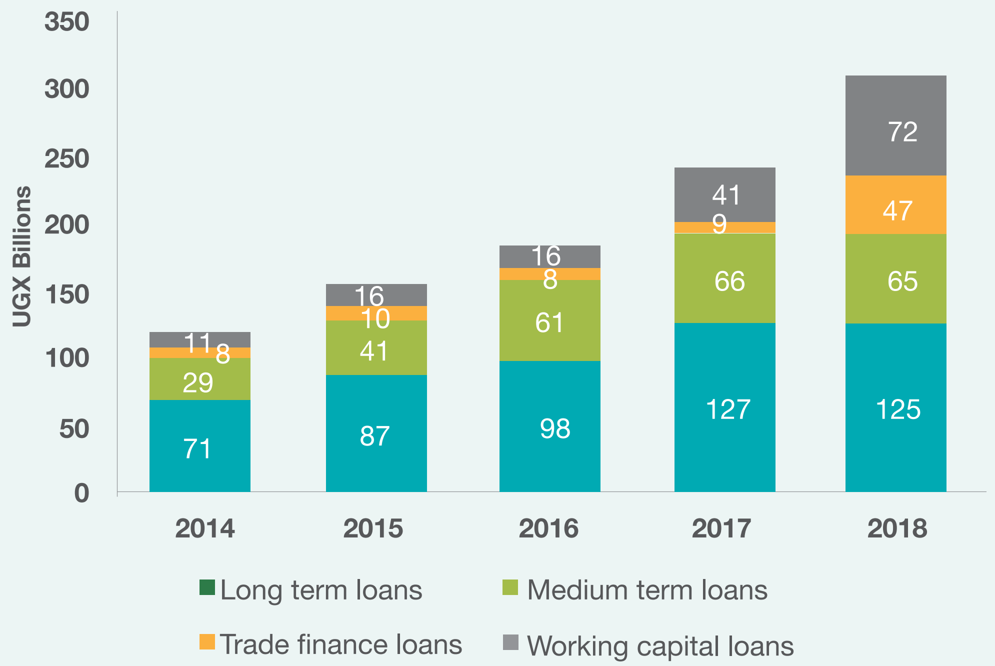
Retained earnings

The bank's retained earnings despite the profitability for the year evidenced minimal growth mainly due to transition adjustments of Ugx 9.4 billion following adoption of IFRS 9 Financial Instruments.

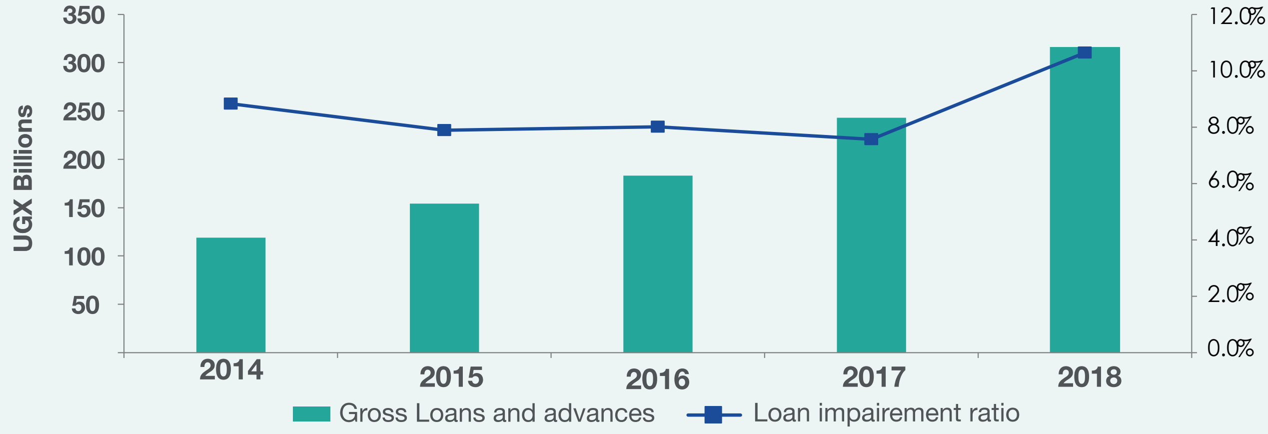
Gross Loans and Advances

Gross loan and advances rose by Ushs 67 billion (28%) during the year compared to a growth of Ushs 59.1 billion (32%) in 2017. Ushs 154.5 billion was disbursed to projects in 2018 compared to Ushs 95.3 billion in 2017 representing a 69% growth in disbursements. The growth in loans and advances was supported by the growth in the funding base of the Bank as described above in addition to the capital and interest repayments and the internal profits.

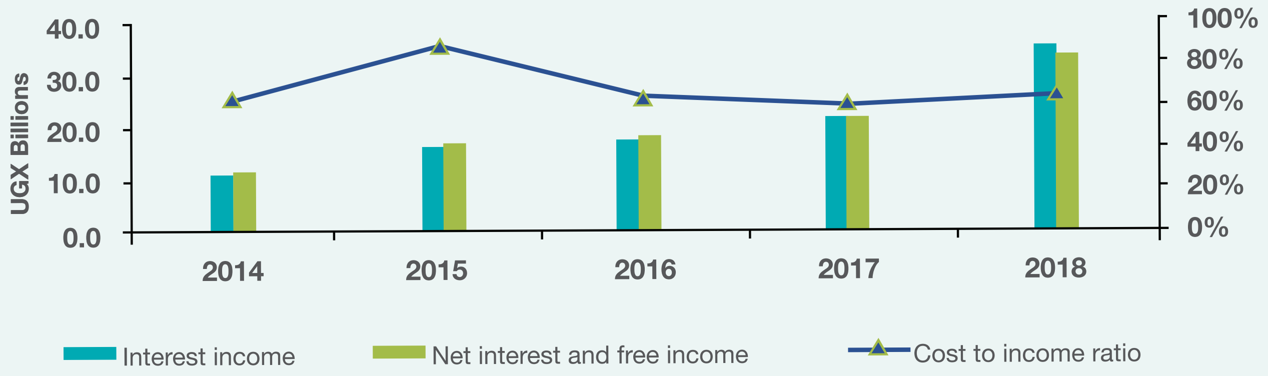
Loan Portfolio growth



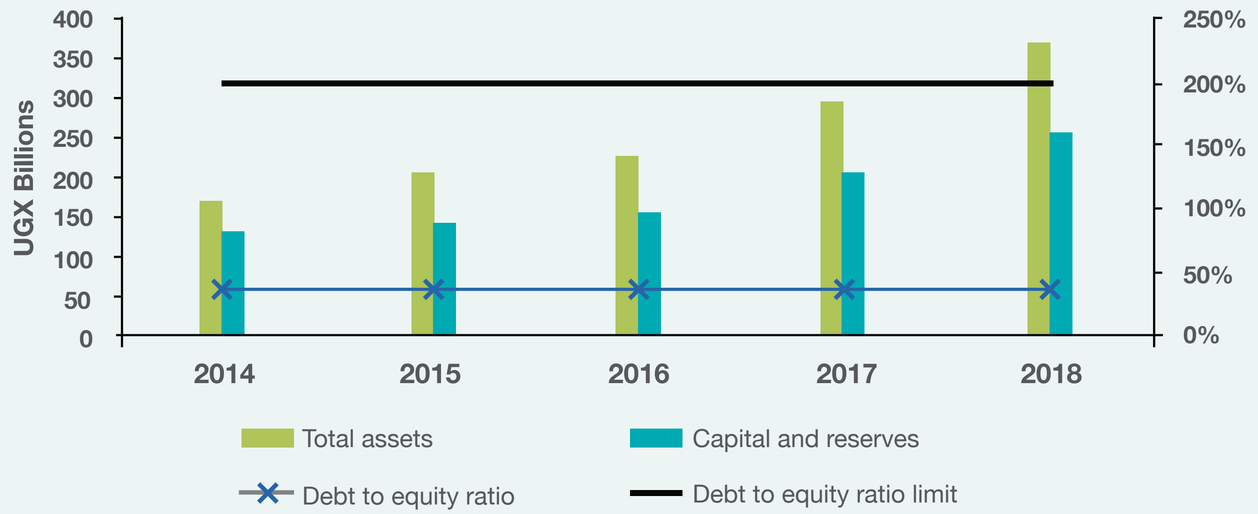
Gross loans vs loan impairment vs NPA ratio



Interest and net interest income vs cost-to-income ratio



Balance sheet growth vs debt/equity ratio



6 HUMAN CAPITAL

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

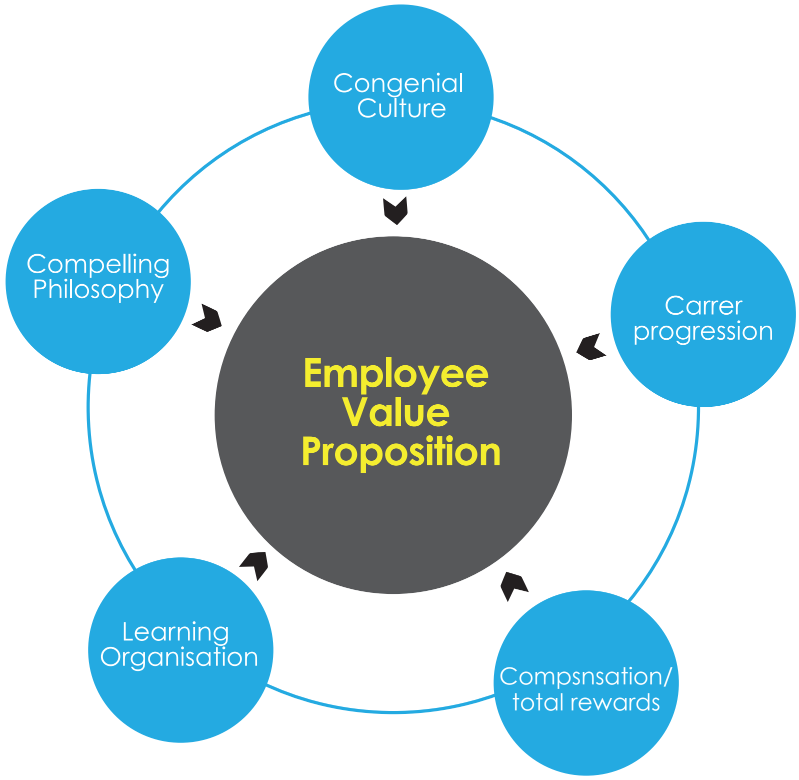
Our People

The reason we are growing

At UDB, we are cognizant that for the Bank to achieve its cardinal strategic aspirations as well as assure its continued and long term sustainability, deliberate strategies have to be undertaken to manage our most critical resource – Our People.

Supported by line-management, the HR function drives the processes that ensure the commonalty of purpose across the Bank. The HR function ensures: that the desired organizational culture percolates across the entire institution; that there is clarity of the overarching institutional objectives across the bank whilst ensuring that these are aligned with individual staff objectives; and that staff are appropriately skilled, facilitated, motivated and empowered to give their very best.

"We are intentional about investing in our people"



Our Headcount:

At 31st December 2018, the bank had 59 staff(full time), all Ugandans Including 35 males and s4 females.

Our Employee Value Proposition

To this end, the Bank offers a diverse Employee Value Proposition that supports this philosophy, the key levers of which are as follows:

- Creating a supportive congenial culture
- Nurturing a learning organization
- Facilitating career progression
- Appropriate total rewards and compensation;
- Leveraging on our unique and compelling corporate philosophy and mandate.

Organizational renewal

UDB continues to learn and metamorphose for the better. Following from the bank-wide organizational review conducted in the year 2017, the bank, in 2018, commenced the implementation of a revised strategic plan covering the period 2018-2022. Relatedly, the bank also implemented a revised governance structure, an improved organizational structure and a renewed policy framework that all aim not only to enhance the bank's operational efficiency but also further implant UDB's role and contribution in Uganda's socio-economic transformation agenda.

In this light, the bank among other initiatives delineated sector expertise within our business development (credit and investment) teams, introduced new and specialized units (including business advisory services, equity and venture capital, project supervision and monitoring, among others), as well as merged some functions. The outcome of this has been a more focused intervention in the sectors within which we operate as well as provision of complementary services to our customers.

Entrenching Organizational Culture

The Bank continues to implement various initiatives with the view to embed the organizational philosophy amongst staff, and to promote the adoption of the Bank's core values – i.e. Integrity, Commitment and Excellence. Through 2018, the bank implemented the staff-led Culture Campaign. The campaign featured various activities and values-challenges, the epitome of which was the "In-your-shoes" Program that featured various staff participating in roles other than their own.

A group of staff participate in a values-based word challenge during the 2018 culture campaign.

Learning and Development

In order to foster organizational capacity, UDB continues to provide staff with various learning and development opportunities, ranging from on-the-job learning and projects, structured instruction-based courses, online learning, benchmarking and exposure opportunities, professional certifications, among other approaches. In 2018 alone, the Bank sponsored 13 of its staff to undertake various professional qualification programs while other sections of staff participated in 16 other functional programs.

We continue to leverage our relationship with strategic partners to build the competencies of our staff. These partners include other DFIs - notably Development Bank of South Africa (DBSA), Crédit Agricole du Maroc (Agriculture Bank of Morocco); and other international agencies, notably the Association of African Development Finance Institutions (AADFI), European Organization for Sustainable Development (EOSD), among others.

During the year under review, the bank, together with the Frankfurt School of Finance and Management, undertook a competency gap assessment; the outcomes of this assessment will guide the bank's training agenda for 2019 and beyond.

We attract and recruit talented individuals, to whom we give opportunities to give their very best, as they continue to learn, thrive and grow.

Leadership Development

We are well aware that the quality of leadership in an organization directly impacts the success with which it implements its strategy. To this end, the bank continues to devote resources to facilitate staff to participate in various leadership development programs. In 2018, seven (07) staff participated in different modular leadership programs – including the CEO apprenticeship program (02 staff); Senior management leadership development program (02); Management leadership development program (02); and the New managers' program (01).

These programs were facilitated by renowned faculty including the CEO Uganda Summit, Gordon Institute of Business Science, Strathmore Business School among others.

Our staff, Happy and Joshua, on their graduation day. The duo attended the year-long 2018 CEO Apprenticeship Program

Employee Engagement Activities

At UDB, we believe that staff engagement is the anchor for sustained staff productivity. We facilitate activities aimed at cultivating a positive, fruitful and engaged work environment.

Our People

At UDB, we are cognizant that for the Bank to achieve its cardinal strategic aspirations as well as assure its continued and long term sustainability, deliberate strategies have to be undertaken to manage our most critical resource – **Our People.**

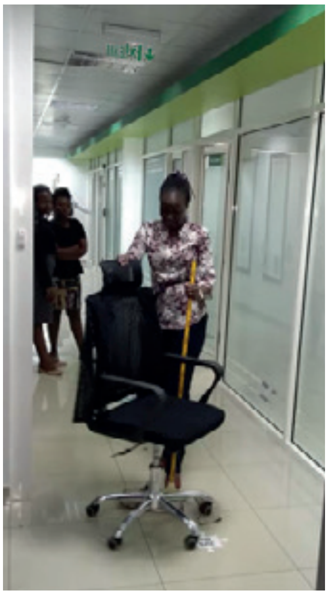
The Managing Director Patricia Ojangole, (left), presides over a staff function

A cross section of staff attend a training program on "fundamentals of project finance" facilitated by faculty from the Association of African Development Finance Institutions (AADFI), in Kampala.

A cross section of the UDB ladies attend a function to celebrate a colleague's personal milestone

The Culture Campaign

Staff participate in one of the activities of the Culture Campaign



The Managing Director Patricia Ojangole leads the staff to participate in the "In-Your-Shoes Program" in which staff interned in a role other than their own; the aim was for staff to build healthy synergies by living and appreciating what their colleagues go through at work on a daily basis.

Stephen Hamya, Chief Internal Auditor cleans the trophy cabinet

Richard Oola, Senior Manager Credit takes on kitchen duty

Moses Ebitu, Head of Risk & Compliance leads the cleaning team.

Staff participating in various team building and engagement activities through 2018

Team "Dunamis" (above) challenges team "Game Changers" to a gumboot dance at a recent team building event.

7 Financial Statements

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

Financial Statements

TELEPHONE

General Lines: +256 - 41 - 7336000
Auditor General: +256 - 41 - 7336004 Sec.

FAX: +256 - 41 - 4345674
Email: info@oag.go.ug
Website: www.oag.go.ug

THE REPUBLIC OF UGANDA

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

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

MISSION: "To Audit and report to Parliament and thereby make an effective contribution to improving public accountability and value for Money Spent"

IN ANY CORRESPONDENCE ON
THIS SUBJECT PLEASE QUOTE NO:.................. **FIIT.48/354/02/18**

12th April, 2019

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

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA DEVELOPMENT BANK LIMITED (UDBL) FOR THE YEAR ENDED 31ST DECEMBER, 2018

In accordance with Article 163 (4) of the Constitution, I forward herewith audited financial statements of Uganda Development Bank Limited for the financial year ended 31st December 2018 together with my report and opinion thereon.

John F. S. Muwanga
AUDITOR GENERAL

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

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

" The Chairperson, Board of Directors (UDBL)

" The Chief Executive Officer, Uganda Development Bank

" M/s KPMG
Certified Public Accountants
Kampala

Member of the international Organisation of Supreme Audit Institutions (INTOSAI)
Member of the Africa Organisation of Supreme Audit Institutions (AFROSAI)

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

DIRECTORS

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

Name	Designation
Dr. Samuel Sejjaaka	Chairperson (Retired on 16/05/2018)
Mr. Felix Okoboi	Chairperson (Appointed on 08/08/2018)
Mr. Francis Tumuheirwe	Director (Appointed on 08/08/2018)
Dr. Stephen.R. Isabalija	Director (Retired on 16/05/2018)
Mr. Nimrod Waniala	Director
Mrs. Silvia Angey Ufoyuru	Director
Mr. Henry Balwanyi Magino	Director
Mr. John Byaruhanga	Director

SECRETARY

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

BANKERS

Dfcu Bank Limited
Plot 2, Jinja Road
P. O. Box 70
Kampala, Uganda

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

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

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

AUDITOR

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

DELEGATED AUDITOR

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

LEGAL ADVISORS

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

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

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

Oundo and Co Advocates
Plot 1, Pilkington Road, Workers House,
7th Floor Southern Wing Suite 700
P. O. Box 11070
Kampala-Uganda

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

The directors submit their report together with the audited financial statements of Uganda Development Bank Limited ("the Bank" or "The Bank") for the year ended 31 December 2018, which disclose the state of affairs of the Bank.

1. INCORPORATION

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

2. PRINCIPAL ACTIVITIES

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

3. RESULTS

The results for the year are summarised below:

	2018	2017
	Ushs '000	Ushs '000
Profit before tax	13,593,797	11,875,591
Income tax expense	(4,107,403)	(3,569,344)
Profit for the year	**9,486,394**	**8,306,247**

4. RESERVES

The reserves of the Bank are set out on page 97.

5. DIVIDENDS

The directors do not recommend the payment of a dividend in respect for the year ended 31 December 2018 (2017: Nil).

6. DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 85.

7. RISK

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

i) Credit Risk

- Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Uganda Development Bank Limited measures, monitors and manages credit risk for each borrower and also at the portfolio level.
- The Bank has a standardised credit approval process, which includes a well-established procedure of comprehensive credit appraisal and rating.

ii) Market Risk

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

iii) Operational Risk

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

Detailed risk management disclosures are presented in the 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 2018, 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 87.91% representing a "High" performance level (a score of 60% is deemed to be average). The directors are committed to continuous improvement in the Bank's rating.

9. AUDITORS

In accordance with Article 163 of the Constitution of the Republic of Uganda, Section 17 of the Public Enterprises Reform and Divestiture Act, Cap.98 and Sections 13 (1) (a), 17 and 23 of the National Audit Act, 2008, the financial statements of The Bank is 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. For the year ended 31 December 2018, KPMG were appointed to act on behalf of the Auditor General.

10. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on **21st March 2019**.

By order of the Board,

....

Company Secretary

The Directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2018 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Companies Act of Uganda, and for such internal controls 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.

The Directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the Companies Act, the Directors are required to prepare financial statements for each year that give a true and fair view of the state of affairs of The Bank as at the end of the financial year and of the operating results of The Bank for that year. It also requires the Directors to ensure The Bank keeps proper accounting records that disclose with reasonable accuracy the financial position of The Bank.

The Directors accept responsibility for the separate financial statements set out on pages 11 to 90 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the reporting requirements of the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the loss and cash flows for the year ended 31 December 2018. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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.

Approval of the Financial Statements

The financial statements, as indicated above, were approved by the Board of Directors on **21st March 2019** and were signed on its behalf by:

....	....
Chairperson	**Director**

Date: 26th March 2019

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF UGANDA DEVELOPMENT BANK LIMITED FOR THE YEAR ENDED 31ST DECEMBER, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Uganda Development Bank (UDB) Limited, which comprise the statement of Financial Position as at 31st December 2018, 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 give a true and fair view, of the financial position of Uganda Development Bank Limited as at 31st December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Bank 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 Code of Ethics for Professional Accountants (Parts A and B) (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.

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">Impairment of Loans and Advances (Refer to notes 20, 4 d (xii) and note 5(a) to the financial statements)</td></tr>
<tr><td>On 1st January 2018, the Bank adopted IFRS 9 Financial Instruments, resulting in impairment charges being recognized when losses are expected rather than when they are incurred. Impairment of loans and advances to customers is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. Management has disclosed information regarding the transitional effect of this new and complex standard in note 4(d,xii) and accounting policy Note 4.

Subjective Estimate
During the year, loan provisions increased from UGX.19.6 Billion as at 31st December 2017 to UGX.34 Billion as at 31st December 2018. The key areas where I identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's implementation of IFRS 9 are;

Economic Scenarios
IFRS 9 requires the Bank to measure Expected Credit Loss (ECL) on a forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them and the associated impact on ECL.

Significant Increase in Credit Risk ('SICR')
For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgment within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.

Model Estimations
Inherently, judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL). The PD and EAD models used in the Stage 1 and Stage 2 loans are key drivers of the Bank's ECL results and are therefore the most significant judgmental aspect of the Bank's ECL modelling approach.</td><td>Based on my risk assessment and industry knowledge, I have examined the impairment charges for loans to customers and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.

My audit procedures in this area included, among others;
— Assessing the modelling techniques and methodology against the requirements of IFRS 9.

— Assessing the design and testing the operating effectiveness of relevant controls over the;
• Data used to determine the ECL parameters, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model; and
• Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.

— Assessing and testing the material modelling assumptions as well as overlays with a focus on the:

• Key modelling assumptions adopted by the Bank;
• Basis for and data used to determine overlays; and
• Sensitivity of the provisions to changes in modelling assumptions

— Assessing management's basis of determining SICR, whether the SICR criteria is aligned to management's credit risk processes, and how management establishes credit risk at origination.

— I further assessed whether management had considered all relevant, reasonable and supportable information when setting its SICR criteria.</td></tr>
</table>

Disclosure Quality The disclosures regarding the Bank's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results. Management has provided further information about the loans and advances to customers and staff including the impairment charge in note 20(f) to the financial statements.	— Examining a sample of exposures and performing procedures to evaluate the: • Timely identification of exposures with a significant deterioration in credit quality; and • Expected loss calculation for exposures assessed on an individual basis. — I reviewed management's documentation of the reasonableness and impact of the macroeconomic scenarios on the ECL including a review of the appropriateness of the macroeconomic scenarios selected. — Challenging management's assumptions on projected cash flows when assessing stage 3 impairments by evaluating the assumptions against current economic performance, assumptions most commonly used in the Banking industry, and also comparison with external evidence. — Involving my IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model). The IT specialists tested the integrity of the data used to develop the ECL model. — Assessing whether the disclosures appropriately disclose the key judgements and assumptions used in determining the expected credit losses.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of Uganda, 2012. My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of

accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal Requirements

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

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

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

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

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
12th April, 2019

	Note	2018	2017
		Ushs '000	Ushs '000
Interest and similar income	8	35,463,324	22,919,245
Interest expense and similar charges	9	(2,217,024)	(1,044,783)
Net interest income		**33,246,300**	**21,874,462**
Net foreign exchange gains	10	43,070	27,857
Fair value gains on investment property	22	1,996,000	2,600,000
Net (loss)/gain on financial assets recorded at fair value through profit or loss	19	(118,173)	170,366
Other income	11	3,709,724	5,641,951
Net impairment loss on financial instruments	20(f)	(7,910,558)	(3,865,375)
Operating income after impairment losses		**30,966,363**	**26,449,261**
Personnel expenses	12	(9,172,171)	(7,631,124)
Depreciation and amortisation	23, 24	(684,385)	(478,061)
Other operating expenses	13	(7,516,010)	(6,464,485)
Profit before tax	14	**13,593,797**	**11,875,591**
Income tax expense	16(a)	(4,107,403)	(3,569,344)
Profit for the year		**9,486,394**	**8,306,247**
Other comprehensive income			
Revaluation of property and equipment	23	1,298,234	-
Related tax	29	(389,470)	-
Total comprehensive income net of tax		**10,395,158**	**8,306,247**
Basic/diluted earnings per share	**15**	**94.86**	**83.06**

The notes set out on pages 99 to 149 form an integral part of these financial statements.

	Note	2018	2017
		Ushs '000	Ushs '000
ASSETS			
Cash and cash equivalents	17	30,694,491	7,234,004
Deposits held in banks	18	13,688,375	22,563,078
Equity investments at fair value	19	225,752	343,925
Loans and advances	20	276,693,583	224,286,442
Staff loans and advances	21	2,392,468	3,068,290
Current income tax recoverable	16(b)	1,243,751	196,722
Investment property	22	34,796,000	32,800,000
Property and equipment	23	5,218,471	2,800,452
Intangible assets	24	273,803	638,922
Other assets	25	4,890,831	3,539,629
Total assets		**370,117,525**	**297,471,464**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	31	100,000,000	100,000,000
Asset revaluation reserve	33	1,203,464	294,700
GOU capital contributions	32	100,171,606	52,017,077
Retained earnings		52,236,720	52,137,057
Total equity		**253,611,790**	**204,448,834**
Liabilities			
Amounts due to Bank of Uganda	26	9,290,181	13,055,418
Borrowings	27	57,478,060	36,143,511
Kuwait Special Fund	28	30,261,377	29,339,519
Deferred income tax liability	29	3,612,149	6,016,873
Other liabilities	30	15,863,968	8,467,309
		116,505,735	**93,022,630**
Total equity and liabilities		**370,117,525**	**297,471,464**

The notes set out on pages 99 to 149 form an integral part of these financial statements.

The financial statements were approved for issue by the Board of Directors on **21st March 2019** and signed on its behalf by:

....

Chairperson **Director**

	Share capital	GOU capital Contributions	Asset revaluation Reserve*	Retained earnings	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 1 January 2017	**100,000,000**	**12,415,774**	**294,700**	**43,830,810**	**156,541,284**
Total comprehensive income for the year	-	-	-	8,306,247	8,306,247
Contributions by equity holders					
GoU capital contributions	-	39,601,303	-	-	39,601,303
At 31 December 2017	**100,000,000**	**52,017,077**	**294,700**	**52,137,057**	**204,448,834**
Adjustment on initial application of IFRS 9 net of tax. See Note 4d(xii), Note 20(e)	**-**	**-**	**-**	**(9,386,731)**	**(9,386,731)**
Restated at 1 January 2018	**100,000,000**	**52,017,077**	**294,700**	**42,750,326**	**195,062,103**
Revaluation of property and equipment	-	-	1,298,234	-	1,298,234
Related tax on revaluation	-	-	(389,470)	-	(389,470)
Total comprehensive income for the year	-	-	-	9,486,394	9,486,394
Contributions by equity holders					
GoU capital contributions	-	48,154,529	-	-	48,154,529
At 31 December 2018	**100,000,000**	**100,171,606**	**1,203,464**	**52,236,720**	**253,611,790**

The notes set out on pages pages 99 to 149 form an integral part of these financial statements.

*The asset revaluation reserve is a non-distributable reserve for accumulated gains arising from the revaluation of the Bank's land and buildings. A revaluation was carried out based on the open market value of the assets as at 31 December 2018. The revaluation was carried out by East African Consulting Surveyors and Valuers- EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank

OPERATING ACTIVITIES	**Note**	**Ushs '000**	**Ushs '000**
		2018	**2017**
Operating profit before changes in operating assets and liabilities	**39**	**20,124,390**	**15,840,855**
Changes in operating assets and liabilities			
Increase in loans and advances		(73,641,669)	(59,353,659)
(Increase)/decrease in other assets		(1,351,202)	5,846,511
Increase in other liabilities		7,396,659	968,122
Decrease/(increase) in staff loans and advances		675,822	(445,758)
Increase in amounts due to the Kuwait Fund		921,858	973,886
Cash used in operations		**(45,874,142)**	**(36,170,043)**
Income tax paid		(3,972,234)	(3,730,218)
Net cash flows used in operating activities		**(49,846,376)**	**(39,900,261)**
INVESTING ACTIVITIES			
Acquisition of property and equipment		(1,412,330)	(97,212)
Acquisition of intangible assets		(26,720)	(372,443)
Proceeds from sale of property and equipment		130,084	-
Movement in deposits held in Banks		8,835,550	(15,643,185)
Net cash flows generated from investing activities		**7,526,584**	**(16,112,840)**
FINANCING ACTIVITIES			
Proceeds of amounts due to Bank of Uganda		1,961,605	2,746,120
Repayments of amounts due to Bank of Uganda		(5,726,842)	(932,961)
Proceeds from borrowings		35,970,862	20,369,940
Repayment of borrowings		(14,622,944)	(3,549,898)
Contributions from the Government of Uganda		48,154,528	39,601,303
Net cash flows generated from financing activities		**65,737,209**	**58,234,504**
Increase in cash and cash equivalents		23,417,417	2,221,403
Net foreign exchange difference		43,070	27,857
Cash and cash equivalents at 1 January		7,234,004	4,984,744
Cash and cash equivalents at 31 December	**17**	**30,694,491**	**7,234,004**

The notes set out pages 99 to 149 form an integral part of these financial statements.

1. REPORTING ENTITY

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

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

The Bank is primarily involved in development financing.

2. BASIS OF PREPARATION

a) Basis of accounting and statement of compliance

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

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

b) Basis of preparation

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

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

c) Functional and presentation currency

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

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES.

The Bank has initially adopted IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on The Bank's financial statements. Due to the transition method chosen by The Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 4(d)); and
- additional disclosures related to IFRS 9 see Note 4(d));

Except for the changes below, the Bank has consistently applied the accounting policies as set out in **Note 4** to all periods presented in these financial statements.

i) IFRS 9 Financial instruments;

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, The Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to The Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in see Note 4(d,xii).

ii) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how The Bank classifies financial assets under IFRS 9, see Note4(d,xii).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 4(d).

Impairment of financial assets;

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how The Bank applies the impairment requirements of IFRS 9, see Note 5.

iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied Retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then The Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4(d,xii).

4. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 3, the following are the principal accounting policies used in preparation of these financial statements. The policies have been applied consistently to all periods presented and are set out below.

a) Foreign currency translation

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

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

All translation gains and losses arising on non-trading activities are recognised in profit or loss. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition.

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

b) Revenue recognition

(i) Interest income and expense

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

Interest income and expense presented in profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and

- interest on available-for-sale investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

(ii) Fees and commission income

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

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

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry. Other fees and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

(iii) Other income

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

(iv) Dividend income

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

(v) Rental income

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

c) Income tax expense

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

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

Financial assets – ***Policy*** **applicable from 1 January 2018.**

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 SPPI.

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

iii) Business model assessment

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

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

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

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

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

- the frequency, volume and timing of salesb 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.

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.

a) Financial assets – Policy applicable before 1 January 2018;

The Bank classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
- held-for-trading; or designated as at FVTPL.

b) Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

vii) Derecognition

a) Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by The Bank is recognised as a separate asset or liability.

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 and measured. Before 1 January 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

b) Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. Modifications of financial assets and financial liabilities

Policy on derecognition applicable from 1 January 2018

a) Financial assets

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- Other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

b) Financial liabilities

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

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

Policy applicable on derecognition before 1 January 2018.

a) Financial assets

If the terms of a financial asset were modified, then The Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

b) Financial liabilities

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

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were 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.

viii) 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.

ix) Fair value measurement

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

When one is available, The Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then The Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

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

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

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

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

x) Impairment

a) Policy applicable from 1 January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; 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.

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

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

b) Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that The Bank expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- undrawn loan commitments: as the present value of the difference between the contractual

- cash flows that are due to The Bank if the commitment is drawn down and the cash flows that The Bank expects to receive; and

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

c) Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

d) Credit-impaired financial assets

At each reporting date, The Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- loan commitments and financial guarantee contracts: generally, as a provision; and

- 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. and;
- debt instru

f) Write-off

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

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

g) Non-integral financial guarantee contracts

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

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

If The Bank determines that the guarantee is an integral element of the financial asset, then any Premium payable in connection with the initial recognition of the financial asset is treated as a Transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL. If The Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired.

These assets are recognised in 'other assets' (see Note 28). The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

Policy applicable before 1 January 2018

a) Objective evidence of impairment

At each reporting date, The Bank assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a Company of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by The Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a Company of assets, such as adverse changes in the payment status of borrowers or issuers in The Bank, or economic conditions that correlated with defaults in The Bank.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment

The Bank considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR).

Loans and advances and held-to maturity investment securities that were not individually significant were collectively assessed for impairment by Companying together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

b) Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for Company's of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held-to- maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

c) Measurement of impairment

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

d) Reversal of impairment

For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss. for available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

e) Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

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

f) Write-off

The Bank wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Company Credit determined that there was no realistic prospect of recovery.

xi) Designation at fair value through profit or loss

a) 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.

Before 1 January 2018, The Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

xii) Transition to IFRS 9

This note sets out the changes on re classification and re-measurement of the different financial assets and liabilities on transition to IFRS 9.

a) The following table provides a reconciliation between the line items in the statement of financial position and the categories of financial instruments;

	Note	Designated as at FVTPL Ushs'000	Amortised Cost Ushs'000	Total carrying amount Ushs'000
31 December 2018				
Financial assets				
Cash and cash equivalents	17	-	30,694,491	30,694,491
Deposits held in banks	18	-	13,688,375	13,688,375
Equity investments at fair value	19	225,752	-	225,752
Loans and advances	20	-	276,693,583	275,723,413
Staff loans and advances	21	-	2,392,468	2,392,468
Total financial assets		**225,752**	**323,468,917**	**323,694,669**
Financial liabilities				
Amounts due to Bank of Uganda	26	-	9,290,181	9,290,181
Borrowings	27	-	57,478,060	57,478,060
Kuwait Special fund	28	-	30,261,377	30,261,377
Total financial liabilities		**-**	**97,029,618**	**97,029,618**

	Note	Designated as at FVTPL Ushs'000	Amortised Cost Ushs'000	Total carrying amount Ushs'000
31 December 2017				
Financial assets				
Cash and cash equivalents	17	-	7,234,004	7,234,004
Deposits held in banks	18	-	22,563,078	22,563,078
Equity investments at fair value	19	343,925	-	343,925
Loans and advances	20	-	224,286,442	224,286,442
Staff loans and advances	21	-	3,068,290	3,068,290
Total financial assets		**343,925**	**257,151,814**	**257,495,739**
Financial liabilities				
Amounts due to Bank of Uganda	26	-	13,055,418	13,055,418
Borrowings	27	-	36,143,511	36,143,511
Kuwait Special fund	28	-	29,339,519	29,339,519
Total financial liabilities		**-**	**78,538,448**	**78,538,448**

b) The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for The Bank's financial assets and financial liabilities as at 1 January 2018.

Financial assets	Note	Original classification under Ias 39	New classification under IFRS 9	Original carrying amount under ias 39	New carrying amount under IFRS 9
				Ushs'000	Ushs'000
Cash and cash equivalents	17	Loans and receivables	Amortised cost	7,234,004	7,197,258
Loans and advances	20	Loans and receivables	Amortised cost	224,286,442	211,494,946
Staff loans and advances	21	Loans and receivables	Amortised cost	4,401,445	3,938,300
Equity investments	19	Available-for-sale	FVTPL	343,925	343,925
Deposits held in banks	18	Loans and receivables	Amortised cost	22,563,078	22,491,352
Total financial assets				**258,828,894**	**245,465,781**

Financial liabilities	Note	Original classification under Ias 39	New classification under IFRS 9	Original carrying amount under ias 39	New carrying amount under IFRS 9
				Ushs'000	Ushs'000
Amounts due to BoU	26	Amortised cost	Amortised cost	13,055,418	13,055,418
Borrowings	27	Amortised cost	Amortised cost	36,143,511	36,143,511
Kuwait Special fund	28	Amortised cost	Amortised cost	29,339,519	29,339,519
Total financial liabilities				**78,538,448**	**78,538,448**

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

c) The following table reconciles the carrying amounts under ias 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018;

Financial assets	IAS 39 carrying amount	Re-measurement	IFRS 9 carrying
	31-Dec-18		Amount 1 January 2018
	Ushs'000	Ushs'000	Ushs'000
Amortised Cost			
Loans and advances			
Opening balance	224,286,442	-	224,286,442
Re-measurement	-	(12,791,496)	(12,791,496)
Closing balance	**224,286,442**	**(12,791,496)**	**211,494,946**
Cash and cash equivalents			
Opening balance	7,234,004	-	7,234,004
Re-measurement	-	(36,746)	(36,746)
Closing balance	**7,234,004**	**(36,746)**	**7,197,258**
Deposits held in banks			
Opening balance	22,563,078	-	22,563,078
Re-measurement	-	(71,726)	(71,726)
Closing balance	**22,563,078**	**(71,726)**	**22,491,352**
Staff loans and advances			
Opening balance	4,401,445	-	4,401,445
Re-measurement	-	(463,145)	(463,145)
Closing balance	**4,401,445**	**(463,145)**	**3,938,300**
Total amortised cost	**258,484,969**	**(13,363,113)**	**245,121,856**

Financial assets	**IAS 39 carrying amount**	**Re-measurement**	**IFRS 9 carrying**
	31-Dec-17		**Amount 1 January 2018**
FVTPL	**Ushs'000**	**Ushs'000**	**Ushs'000**
Equity investments at fair value			
Opening balance	343,925	-	343,925
Re-measurement	-	-	-
Closing balance	**343,925**	**-**	**343,925**
Total FVTPL	**343,925**	**-**	**343,925**
Financial liabilities			
Amortised cost			
Amounts due to Bank of Uganda	13,055,418	-	13,055,418
Borrowings	36,143,511	-	36,143,511
Kuwait special fund	29,339,519	-	29,339,519
Closing balance	**78,538,448**	**-**	**78,538,448**
Total Amortised cost	**78,538,448**	**-**	**78,538,448**

d) Reconciliation of total re-measurements to the statement of changes in equity

	Ushs '0000
Opening balance	-
Total re-measurements on adoption of IFRS 9	13,363,113
Related tax on re-measurements	(3,976,392)
Total re-measurements on adoption of IFRS 9 net of tax	**9,386,731**

e) The following table summarises the impact of transition to IFRS 9 on the opening balance of retained earnings. There is no impact on on other components of equity.

Retained earnings	**Ushs '0000**
Closing balance under IAS 39 (31 December 2017)	52,137,057
Recognition of expected credit losses under IFRS 9 net of tax	(9,386,731)
Opening balance under IFRS 9 (1 January 2018)	**42,750,326**

f) The following table reconciles;

- the closing impairment allowance for financial assets under IAS 39 and provisions for loan commitments and financial guarantee contracts under IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to
- The opening ECL allowance determined under IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39/ IAS 37)	**Re-measurement**	**1 January 2018 (IFRS 9)**
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9	19,664,278	13,254,641	32,918,919
Low credit risk financial assets including cash and cash equivalents and deposits held in banks.	-	108,472	108,472
Total	**19,664,278**	**13,363,113**	**33,027,391**

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 face value changes recognised immediately in profit or loss.

g) Investment securities

Policy applicable from 1 January 2018

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;

Policy applicable before 1 January 2018

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

(i) Held-to-maturity

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

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

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

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

(ii) Fair value through profit or loss

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

(iii) Available for sale

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

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

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

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

h) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

(iv) Impairment

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

(v) Derecognition

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

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

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

j) Intangible assets

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

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

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The core-banking system acquired in the prior year has a useful life of five years.
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.

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.

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and involves an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether or not the arrangement conveys a right to use the asset.

Finance leases

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item to the lessee are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Where a finance lease results from a sale and lease back transaction, any excess of the sale proceeds over the carrying amount of the asset is deferred and amortised over the lease term.

Capitalised leased assets are depreciated over the shorter of the estimated useful lives of the assets, or the lease term if there is no reasonable certainty that the company will obtain ownership by the end of the lease term.

Operating leases

Operating leases are all leases that are not finance leases. Operating lease payments are recognised as expenses in the profit or loss on the straight line basis over the lease term.

Leases in which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

q) Kuwait Special Fund

The Bank manages these funds in trust on behalf of the Government of Uganda. The funds are recorded as a liability on receipt of the funds and the corresponding entries are recorded under cash and bank balances or loans and advances to customers.

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

r) New and amended standards and interpretations

The accounting policies are consistent with those reported in the previous year except for the adoption of the following standards and amendments effective for the current period.

IFRS 15 Revenue from Contracts with Customers (with effect from 1 January 2018)

This Standard replaces the existing revenue standards and the related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the Bank expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition. The adoption of IFRS 15 did not impact the timing or amount of income from contracts with customers and related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosurerequirements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (IFRIC 22)

The Standard provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The above mentioned standards and interpretation to the IFRS standards, adopted on 1 January 2018, did not affect the Bank's previously reported financial results or disclosures and did not impact the Bank's results upon transition or the Bank's accounting policies.

IFRS 9 Financial Instruments (IFRS 9) with effect from 1 January 2018, replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39)

IFRS 9 introduced new requirements which included an expected credit loss (ECL) impairment model and new requirements for the classification and measurement of financial assets, refer to **Note 4(d,xii)** for more detail. IFRS 9, adopted on 1 January 2018, impacted the Bank's results upon transition and materially impacted the Bank's accounting policies, refer to **Note 4 (d,xii)** for more detail.

s) 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 2018, the following Standards and Interpretations were in issue but not yet effective:

- **IFRS 16 Leases** - A new accounting standard that eliminates the classification of leases as either operating leases or finance leases for lessees and, instead, introduces a single accounting model, which recognises all leases on the statement of financial position. The standard is effective for the annual periods beginning on or after 1 January 2019.

IFRIC 23 Uncertainty Over Income Tax Treatments - Interpretation clarifying the accounting for uncertainties in income taxes. The standard is effective for the annual periods beginning on or after 1 January 2019.

IAS 19 Plan Amendment, Curtailment or Settlement. The standard is effective for the annual periods beginning on or after 1 January 2019.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Amendment (Effective for periods beginning 1 January 2020 with earlier application permitted).

The standard is effective for the annual periods beginning on or after 1 January 2019.

IFRS 16 Leases

This standard will replace the existing standard IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier). The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a Right Of Use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17. In addition, the standard requires lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.
The standard will be applied using the full retrospective approach. Management has performed an initial assessment and no significant impact is expected on the financial statements.

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

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Amendment (Effective for periods beginning 1 January 2020 with earlier application permitted)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements. The amendments will be applied prospectively.

The impact on the annual financial statements has not yet been fully determined.

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

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 Governance committee.

The Board Audit and Risk Committee is responsible for managing its assets and liabilities and the overall financial structure. It is also responsible for the funding and liquidity risks of the Bank.

Concentrations arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

a) Credit risk

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

In the normal course of its business, the Bank incurs credit risk from deposits with banks, loans and advances to customers, staff loans and other assets.

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

Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Impaired loans and advances

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

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

The detailed disclosures relating to credit risk have been included in note 20 (loans and advances).

The Bank's maximum exposure to credit risk is represented by the following balances:

	2018	2017
	Ushs '000	Ushs '000
Bank balances	30,694,491	7,234,004
Deposits held in other banks	13,688,375	22,563,078
Loans and advances to customers	276,693,583	224,286,442
Staff loans and advances	2,392,468	3,068,290
Other assets	4,890,831	1,475,195
	328,359,748	**258,627,009**

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 31 December 2017 without taking into account any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

Credit quality analysis

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

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

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortised cost	146,602,217	97,072,244	65,950,168	309,624,629	242,657,047
Loss allowance	(4,454,792)	(13,742,191)	(14,734,063)	(32,931,046)	(18,370,605)
Carrying amount	142,147,425	83,330,053	51,216,105	276,693,583	224,286,442
Staff loans and advances	4,328,610	227,315	851,394	5,407,319	2,392,468
Loss allowance	(246,966)	(111,166)	(449,947)	(808,079)	(808,079)
Carrying amount	4,081,644	116,149	401,447	4,599,240	1,584,389

Collateral security held and other enhancements.

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

83% (2017: 87%) of the total maximum exposure is derived from loans and advances to customers. Investment in fixed deposits represents 4% (2017: 9%) 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 2018 is Ushs 976 billion (2018: Ushs 743 billion).

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment. See accounting policy note 4 (d).

Significant increase in credit risk.

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

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

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

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

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

Generating the term structure of PD.

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

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

Determining whether credit risk has increased significantly

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

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

Definition of default

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

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

Incorporating forward looking information

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

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one best case scenario assigned a 20% probability of occurring and a worst case scenario assigned a 20% probability of occuring. 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 indentified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk are: GDP growth, inflation, foreign exchange and CBR.

The economic scenarios used as at 31 December 2018 included the following key indicators for Uganda for four quarters up to 31 December 2019.

Base Case	Q1 2019	Q2 2019	Q3 2019	Q4 2019
GDP growth	5.7%	6.0%	6.2%	6.4%
Inflation	3.0%	4.5%	3.9%	3.6%
CBR	10%	11%	11%	11%
Exchange rates	3,850	3,930	4,050	4,090

Worst Case	Q1 2019	Q2 2019	Q3 2019	Q4 2019
GDP growth	3.90%	4.10%	4.24%	4.37%
Inflation	3.40%	5.09%	4.41%	4.08%
CBR	10.27%	11.29%	11.29%	11.29%
Exchange rates	3,973	4,055	4,179	4,221

Best Case	Q1 2019	Q2 2019	Q3 2019	Q4 2019
GDP growth	7.8%	8.2%	8.5%	8.8%
Inflation	2.6%	4.0%	3.4%	3.2%
CBR	9.7%	10.7%	10.7%	10.7%
Exchange rates	3,750	3,827	3,944	3,983

b) Market risks

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

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

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

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

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

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

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

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

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2018.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below:

	10% fall in interest rates		10% rise in interest rates	
	Effect of profit before tax	Effect on equity	Effect of profit before tax	Effect on equity
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 31 December 2018				
Profit before income tax	221,702	221,702	(221,702)	(221,702)

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

	Up to 1yr	1 to 3yrs	3 to 5yrs	Over 5yrs	Total
31 December 2018	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**
Financial assets					
Deposits held with banks	13,688,375	-	-	-	13,688,375
Loans and advances	30,521,111	66,585,997	59,984,718	119,601,757	276,693,583
Staff loans and advances	151,120	735,368	1,594	1,504,386	2,392,468
Total financial assets	**44,360,606**	**67,321,366**	**59,986,312**	**121,106,143**	**292,774,426**
Financial liabilities					
Borrowings	15,287,072	4,587,843	6,039,473	31,563,672	57,478,060
Total financial liabilities	**15,287,072**	**4,587,843**	**6,039,473**	**31,563,672**	**57,478,060**
Interest sensitivity gap	**29,073,534**	**62,733,523**	**53,946,839**	**89,542,471**	**235,296,366**
31 December 2017					
Total financial assets	58,042,746	47,053,228	71,941,388	72,880,448	249,917,810
Total financial liabilities	7,995,151	-	-	28,148,360	36,143,511
Interest sensitivity gap	**50,047,595**	**47,053,228**	**71,941,388**	**44,732,088**	**213,774,229**

(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 2018.

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 2018

	10% Depreciation		10% Appreciation	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
GBP	(4,821)	(4,821)	4,821	4,821
USD	(1,238,679)	(1,238,679)	1,238,679	1,238,679
Total	**(1,243,500)**	**(1,243,500)**	**1,243,500**	**1,243,500**

31 December 2017

	10% Depreciation		10% Appreciation	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
GBP	(500)	(500)	500	500
EUR	(33)	(33)	33	33
USD	(277,118)	(277,118)	277,118	277,118
Total	**(277,651)**	**(277,651)**	**277,651**	**277,651**

The Bank's currency position is as follows:

	Uganda shillings	US Dollars	Euro	GBP	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
31 December 2018					
Financial assets					
Cash and cash equivalents	22,922,981	7,723,299	48,211	-	30,694,491
Deposits held in banks	-	13,688,375	-	-	13,688,375
Staff loans and advances	2,392,468	-	-	-	2,392,468
Other assets (excluding non-financial assets)	744,058	1,981,533	-	-	2,725,591
Loans and advances	197,824,960	78,868,623	-	-	276,693,583
Total financial assets	**223,884,467**	**102,261,830**	**48,211**	**-**	**326,194,508**
Financial liabilities					
Amounts due to Bank of Uganda	9,290,181	-	-	-	9,290,181
Other liabilities	14,594,714	1,269,255	-	-	15,863,969
Borrowings	-	57,478,060	-	-	57,478,060
Kuwait special fund	-	30,261,377	-	-	30,261,377
Total financial liabilities	**23,884,895**	**89,008,692**	**-**	**-**	**112,893,587**
Net currency position	**199,999,572**	**13,253,138**	**48,211**	**-**	**213,300,921**

31 December 2017					
Total financial assets	194,662,660	63,959,540	-	4,809	258,627,009
Total financial liabilities	16,636,359	67,462,004	326	5,309	84,103,998
Net currency position	**178,026,301**	**(3,502,464)**	**(326)**	**500)**	**174,523,011**

(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 266 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	2018	2017
		Ushs'000	Ushs'000
KENGEN	+10%	163	663
Uganda Clays Ltd	+10%	19,280	29,427
The New Vision Ltd	+10%	3,318	1,993
KENGEN	-10%	(163)	(663)
Uganda Clays Ltd	-10%	(19,280)	(29,427)
The New Vision Ltd	-10%	(3,318)	(1,993)

(iv) 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.

If 10% of repayable financial instruments were to prepay at the beginning of the year following the reported period, with all other variables held constant, the profit before tax for the year would be reduced by Ushs 36 million.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms.

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

Source of funding

The Bank maintains a diversified and stable funding base comprising from Development partners. The Bank also obtains periodic funding from the Government of Uganda.

Management of the liquidity risk

The Bank's approach of managing liquidity is to ensure that as far as possible , that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation.

In order to manage liquidity risk, the Bank invests its surplus reserves in time deposits with maturities concentrated in short term maturity of one to three months.

	Up to 1 month	1-3 months	3-6 months	6- 12 months	1-3yrs	3-5yrs	Over 5yrs	Contractual cash flows	Carrying Amount
31 December 2018	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs'000**
Financial assets									
Cash and Bank	30,694,491	-	-	-	-	-	-	30,694,491	30,694,491
Deposits held in banks	13,688,375	-	-	-	-	-	-	13,688,375	13,688,375
Loans and advances	6,263,196	9,028,191	15,629,479	14,549,634	95,057,916	90,429,483	180,546,067	411,503,966	276,693,583
Staff loans	102,493	47,361	39,862	88,039	445,558	83,538	6,651,232	7,458,083	2,392,468
Total financial assets	**50,748,555**	**9,075,552**	**15,669,341**	**14,637,673**	**95,503,474**	**90,513,021**	**187,197,299**	**463,344,915**	**323,468,917**
Financial liabilities									
Amounts due to BOU	195,855	-	74,464	1,164,941	3,221,262	1,890,584	2,743,075	9,290,181	**9,290,181**
Other liabilities	11,311,861	-	130,358	-	-	-	-	11,442,219	15,863,968
Borrowings	189,156	156,339	62,127	15,548,496	4,634,357	6,141,524	37,892,079	64,624,078	57,478,060
Kuwait special fund	-	-	-	-	-	-	32,824,516	32,824,516	30,261,377
Total financial liabilities	**11,696,872**	**156,339**	**266,949**	**16,713,437**	**7,855,619**	**8,032,108**	**73,459,670**	**118,180,994**	**112,893,586**
Net liquidity gap	**39,051,683**	**8,919,213**	**15,402,392**	**(2,075,764)**	**87,647,855**	**82,480,913**	**113,737,629**	**345,163,921**	**210,575,331**
31 December 2017									
Total financial assets	**49,792,795**	**1,546,027**	**2,620,809**	**20,672,228**	**26,208,140**	**87,808,679**	**129,939,256**	**318,587,994**	**260,691,443**
Total financial liabilities	**401,174**	**-**	**393,416**	**13,568,035**	**11,677,637**	**14,342,312**	**90,514,819**	**130,897,393**	**87,005,757**
Net liquidity gap	**49,391,621**	**1,546,027**	**2,227,393**	**7,104,193**	**14,530,503**	**73,466,367**	**39,424,437**	**187,690,601**	**173,685,686**

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 2018 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 34 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;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
debt investment securities that are determined to have low credit risk at the reporting date; and other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Useful life of property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors.

Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Revaluation of buildings

The freehold land and buildings categories of property and equipment are measured at revalued amounts. The fair value is determined based on the cost of equivalent properties obtained by summing up all the components of the building structure and other improvements.

Going concern

The directors have assessed the Bank's ability to continue as a going concern and are satisfied that the Bank has the resources to continue in business for the foreseeable future. This has been based on the fact that they are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

Valuation of the Investment Property and property and equipment

The Bank measures its investment property and property and equipment at fair value with the changes in the fair value recognised in profit or loss for investment property and other comprehensive income for property and equipment. These are valued with reference to market based evidence, using comparable prices adjusted for specific market factors such as location, condition of the asset.

During the year ended 31 December 2018, the Bank engaged an independent valuation specialist to determine the fair value of its investment property. Land and Buildings have not been revalued during the year. The carrying amounts of investment property and plant, property and equipment are disclosed in notes 22 and 23 to the financial statements.

7. FAIR VALUE MEASUREMENT

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments.

Valuation models

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

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

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

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

The Bank's current valuation techniques include comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

Fair value hierarchy

31 December 2018	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Ushs '000	Ushs '000	Ushs '000
Assets measured at fair value				
Equity investments	31 Dec 2018	225,752	-	-
Investment property	31 Dec 2018	-	34,796,000	-
Leasehold land	31 Dec 2018	-		2,155,000
Buildings	31 Dec 2018	-		1,703,234
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	296,457,410	-
Staff loans and advances		-	4,599,240	-
Amounts due to Bank of Uganda		-	9,953,765	-
Kuwait Special Fund		-	32,422,904	-
Borrowings		-	61,583,636	-
31 December 2017				
Assets measured at fair value				
Equity investments	31 Dec 2018	343,925	-	-
Investment property	31 Dec 2018	-	32,800,000	-
Leasehold land	31 Dec 2014	-		1,208,000
Buildings	31 Dec 2014	-		1,270,880
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	269,743,974	-
Staff loans and advances		-	5,111,754	-
Amounts due to Bank of Uganda		-	14,791,789	-
Kuwait Special Fund		-	33,241,675	-
Borrowings		-	39,393,589	-

There were no transfers between level 1 and level 2 during 2018 or 2017.

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 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Assets				
Financial assets				
Cash and cash equivalents	30,694,491	30,694,491	7,234,004	7,234,004
Deposits held in banks	13,688,375	13,688,375	22,563,078	22,563,078
Equity investments at fair value	225,752	225,752	343,925	343,925
Loans and advances	276,693,583	296,457,410	224,286,442	269,743,974
Staff loans and advances	2,392,468	4,599,240	3,068,290	5,111,754
Other assets	-	-	1,475,195	1,475,195
Total financial assets	**323,694,669**	**345,665,268**	**258,970,934**	**306,471,930**
Financial liabilities				
Amounts due to BoU	9,290,181	9,953,765	13,055,418	14,791,789
Borrowings	57,478,060	61,583,636	36,143,511	39,393,589
Kuwait Special Fund	30,261,377	32,422,904	29,339,519	33,241,675
Other liabilities	15,863,968	15,863,968	5,565,500	5,565,500
Total financial liabilities	**112,893,586**	**119,824,273**	**84,103,948**	**92,992,553**

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)	
			2018	**2017**
Loans and advances	DCF method	WACC	13%	13%
Borrowings and KSF	DCF method	WACC	13%	13%

7(b) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

31 December 2018

	Statement of financial position amount	(Current) No more than 12 months after the reporting period	(Non-Current) More than 12 months after the reporting period	(Current + Non-Current) Total
Assets				
Cash and bank balances	30,694,491	30,694,491	-	30,694,491
Deposits held in banks	13,688,375	13,688,375	-	13,688,375
Equity investments at fair value	225,752	225,752	-	225,752
Loans and advances to customers	276,693,583	30,521,111	246,172,472	276,693,583
Staff loans and advances	2,392,468	151,120	2,241,348	2,392,468
Property and equipment	5,218,471	-	5,218,471	5,218,471
Investment Property	34,796,000	-	34,796,000	34,796,000
Current income tax assets	1,243,751	1,243,751		1,243,751
Other assets	4,890,831	2,684,059	2,206,772	4,890,831
Intangible assets	273,803	-	273,803	273,803
Total assets	**370,117,525**	**79,208,659**	**290,908,866**	**370,117,525**
Liabilities				
Amounts due to Bank of Uganda	9,290,164	3,308,182	5,981,999	9,290,181
Borrowings	57,478,060	15,287,072	42,190,988	57,478,060
Kuwait Special Fund	30,261,377	-	30,261,377	30,261,377
Deferred income tax liability	3,612,149	-	3,612,149	3,612,149
Other liabilities	15,863,968	12,412,388	3,451,580	15,863,968
Total liabilities	**116,505,718**	**31,007,642**	**85,498,093**	**116,505,735**

31 December 2017

		(Current)	(Non-Current)	(Current + Non-Current)
	Statement of financial position amount	No more than 12 months after the reporting period	More than 12 months after the reporting period	Total
Assets				
Cash and bank balances	7,234,004	7,234,004	-	7,234,004
Deposits held in banks	22,563,078	22,563,078	-	22,563,078
Equity investments at fair value	343,925	343,925	-	343,925
Loans and advances to customers	224,286,442	35,399,540	188,886,902	224,286,442
Staff loans and advances	3,068,290	80,128	2,988,162	3,068,290
Property and equipment	2,800,452	-	2,800,452	2,800,452
Investment Property	32,800,000	-	32,800,000	32,800,000
Other assets	3,539,629	1,123,494	2,416,135	3,539,629
Intangible assets	638,922	-	638,922	638,922
Total assets	**297,274,742**	**35,399,540**	**188,886,902**	**297,274,742**
Liabilities				
Amounts due to Bank of Uganda	13,055,418	1,084,562	11,970,856	13,055,418
Borrowings	36,143,511	7,995,151	28,148,360	36,143,511
Kuwait Special Fund	29,339,519	-	29,339,519	29,339,519
Deferred income tax liability	5,967,868	-	5,967,868	5,967,868
Other liabilities	8,467,309	5,557,551	2,909,758	8,467,309
Total liabilities	**92,973,625**	**13,552,702**	**79,420,923**	**92,973,625**

8. INTEREST AND SIMILAR INCOME

	2018	2017
	Ushs'000	Ushs'000
Interest on loans	30,232,426	20,991,770
Loan appraisal fees	1,595,894	932,242
Penalty fee income on loans	2,908,902	1,235,423
Interest on deposits held in banks	963,354	920,577
Interest on staff loans	498,243	569,274
Gross interest	36,198,819	24,649,286
Less: Transfers to Kuwait fund (Note 28)		
Interest earned on loans disbursed out of the fund.	(735,495)	(1,730,041)
Interest income	**35,463,324**	**22,919,245**

The transfers to Kuwait fund represent interest income earned from loan facilities disbursed under the Kuwait Special fund and is credited to the Kuwait special fund in accordance with the Grant Agreement.

Included within the various line items under interest income for the year ended 31 December 2018 is a total of Ushs 96 million relating to impaired financial assets.

The amounts reported above relate to financial instruments held at amortised cost only.

9. INTEREST EXPENSE AND SIMILAR CHARGES

	2018	2017
	Ushs'000	Ushs'000
Interest expense	2,217,024	1,044,783

10. NET FOREIGN EXCHANGE GAINS

	2018	2017
	Ushs'000	Ushs'000
Net realised foreign exchange gains	(108,484)	(52,924)
Net unrealised foreign exchange losses	65,414	25,067
	(43,070)	**(27,857)**

The unrealised component of exchange gains arises from translation of foreign denominated transactions and revaluation of US Dollar denominated assets and liabilities to Uganda Shillings as at year end. Financial assets and liabilities denominated in foreign currencies are translated into Uganda Shillings using the rate ruling at the reporting date. The exchange rate for US Dollars to Uganda Shillings as at 31 December 2018 was 1 USD/ Ushs 3,710 (2017: 1 USD/ Ushs 3,640).

11. OTHER INCOME

	2018	2017
	Ushs'000	Ushs'000
Dividend income	1,969	12,556
Rental income	2,420,627	2,342,912
Agency fees	359,553	719,604
Grant income	-	1,098,415
Other income*	927,575	1,468,464
	3,709,724	**5,641,951**

*Other income above include loan recoveries and gains on disposal of assets out of property and equipment.

12. PERSONNEL EXPENSES

	2018	2017
	Ushs'000	Ushs'000
Salaries	7,101,530	5,959,014
Service gratuity	364,913	321,762
NSSF contributions	659,848	577,111
Staff provident fund contributions	414,801	352,047
Staff welfare	631,079	401,254
Discount on staff loans marked to market	-	19,936
	9,172,171	**7,631,124**

13. OTHER OPERATING EXPENSES

Administration expenses	5,520,792	4,250,067
Rent, utilities and maintenance costs	1,551,715	1,689,688
Directors' emoluments	307,727	373,449
Auditors' remuneration	135,776	151,281
	7,516,010	**6,464,485**

14. PROFIT BEFORE TAX

Profit before tax is stated after debiting/ (crediting):		
	2018	2017
	Ushs'000	Ushs'000
Depreciation	292,545	167,200
Amortisation of intangible assets	391,841	310,861
Directors' emoluments	307,727	373,449
Auditors' remuneration	135,776	151,281
Write-off of fixed assets	-	3,080
Write back of accelerated amortisation	-	(108,643)
Net foreign exchange gains	(43,070)	(27,857)
Fair value gains on investment property	(1,996,000)	(2,600,000)

15. EARNINGS PER SHARE

	2018	2017
Net profit attributable to ordinary equity holders of the Bank (Ushs 000's)	9,486,394,000	8,306,344,000
Weighted average number of ordinary shares in issue during the year	100,000,000	100,000,000
Basic and diluted earnings per share (Ushs)	**94.86**	**83.06**

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

	2018	2017
	Ushs'000	**Ushs'000**
Current income tax:		
Corporation tax	2,270,434	2,819,913
Rental tax	693,605	702,873
Prior year over provision	(38,834)	(2,459)
Deferred income tax charge	1,182,198	49,017
	4,107,403	**3,569,344**

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:88

		2018	2017
	Rate	**Ushs'000**	**Ushs'000**
Profit before income tax		13,593,797	11,875,591
Tax calculated at the statutory rate	30%	4,078,139	3,562,677
Tax effect of:			
Expenses not deductible for tax purposes	0.5%	68,098	9,127
Over provision in prior year current tax	(0.29%)	(38,834)	(2,460)
	30.22%	**4,107,403**	**3,569,344**

b) Income tax recoverable

The movement in income tax recoverable is shown below:

	2018	2017
	Ushs'000	**Ushs'000**
At 1 January	(196,722)	13,169
Charge for the year	2,964,039	3,522,786
Prior year over provision	(38,834)	(2,459)
Tax paid	(3,972,234)	(3,730,218)
At 31 December	**(1,243,751)**	**(196,722)**

17. CASH AND CASH EQUIVALENTS

	2018	2017
	Ushs'000	**Ushs'000**
Short term deposits with financial institutions	30,797,922	7,234,004
ECL allowance	(103,431)	-
	30,694,491	**7,234,004**

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

18. DEPOSITS HELD IN BANKS

	2018	2017
	Ushs'000	Ushs'000
Time deposits	13,732,568	22,563,078
ECL allowance	(44,193)	-
	13,688,375	**22,563,078**

The average effective interest rate was 10% for Uganda Shillings denominated investments (2017: 9%) and 2.50% for USD denominated investments (2017: 2.5%).

The maturity analysis of the deposits held in banks is analysed as follows;

	2018	2017
	Ushs'000	Ushs'000
Amounts due before three months	3,824,980	6,304,862
Amounts due after three months	9,863,395	16,258,216
	13,688,375	**22,563,078**

19. EQUITY INVESTMENTS AT FAIR VALUE

	Ordinary	Original	Fair value	
	Shares	Cost	2018	2017
		Ushs'000	Ushs'000	Ushs'000
KENGEN	6,431	1,948	1,625	1,926
Uganda Clays Limited	10,147,335	538,036	192,799	294,273
The New Vision Ltd	92,674	18,535	31,328	47,726
	10,246,440	**558,519**	**225,752**	**343,925**

Movement in number of shares

	At 1 January 2018		At 31 December 2018
	Opening	Purchases	Closing
	Balance	/(Sales)	Balance
KENGEN	6,431	-	6,431
Uganda Clays Limited	10,147,335	-	10,147,335
The New Vision Limited	92,674	-	92,674
	10,246,440	**-**	**10,246,440**

	At 1 January 2017		At 31 December 2017
	Opening	Purchases	Closing
	Balance	/(Sales)	Balance
KENGEN	6,431	-	6,431
Uganda Clays Limited	10,147,335	-	10,147,335
The New Vision Limited	92,674	-	92,674
	10,246,440	**-**	**10,246,440**

19. EQUITY INVESTMENTS AT FAIR VALUE (CONTINUED)

Movement in fair value during the year ended 31 December 2018

	2018% in class	2017 % in class	2018% held	2017 % held	Opening Balance	Fair value gain/(loss)	Closing Balance
					Ushs'000	Ushs'000	Ushs'000
KENGEN	1%	1%	0.1%	0.1%	1,926	(301)	1,625
Uganda Clays Ltd	85%	85%	1.1%	1.1%	294,273	(101,474)	192,799
The New Vision Ltd	14%	14%	0.1%	0.1%	47,726	(16,398)	31,328
					343,925	(118,173)	225,752

Movement in fair value during the year ended 31 December 2017

	2017 % in class	2016 % in class	2017 % held	2016 % held	Opening Balance	Fair value gain/(loss)	Closing Balance
					Ushs'000	Ushs'000	Ushs'000
KENGEN	1%	1%	0.1%	0.1%	1,284	642	1,926
Uganda Clays Ltd	85%	85%	1.1%	1.1%	121,768	172,505	294,273
The New Vision Ltd	14%	14%	0.1%	0.1%	50,507	(2,781)	47,726
					173,559	170,366	343,925

Price per share	**2018**	**2017**
	Ushs	**Ushs**
Movement in price per share	Closing	Closing
KENGEN	252.40	299.42
Uganda Clays Limited	19	29.00
The New Vision Ltd	338	515.00

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

20. LOANS AND ADVANCES

(a) Products

	2018	2017
	Ushs'000	Ushs'000
Long term loans	124,961,789	126,805,277
Medium term loans	64,830,125	65,805,826
Trade finance loans	47,297,271	9,349,250
Working capital loans	72,535,444	40,696,694
Gross advances	**309,624,629**	**242,657,047**
Less:		
Expected credit loss allowance	(32,931,046)	(18,370,605)
	276,693,583	**224,286,442**

All loans and advances above are held at amortised cost.

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

	2018	2017
	Ushs'000	Ushs'000
Less than one year	28,313,019	35,399,540
1- 5 years	134,511,497	116,983,683
Over 5 years	113,869,067	71,903,219
	276,693,583	**224,286,442**

(c) Gross loans to customers by sector composition:

SECTOR	EXPOSURE			
	2018		2017	
	Ushs'000	%	Ushs'000	%
Agro-Processing	98,356,212	32%	67,769,822	28%
Education Services	10,767,535	3%	11,223,388	5%
Health Care Services	7,659,447	2%	7,461,323	3%
Infrastructure	25,223,353	8%	15,460,112	6%
Manufacturing	93,944,936	30%	53,904,160	22%
Minerals, Oil & Gas	5,506,375	2%	-	0%
Primary Agriculture	33,748,083	11%	62,889,277	26%
Tourism & Hospitality	7,986,169	3%	18,612,506	8%
Others - Building, Construction and Real Estate	26,432,519	9%	5,336,458	2%
Grand total	**309,624,629**	**100%**	**242,657,046**	**100%**

The weighted effective interest rate on loans at 31 December 2018 was 8.47% (2017: 8.3%) for USD and 12.26% for Ushs (2017: 13.3%).

(d) Movement in provision for impaired loans and advances

	2018	2017
	Ushs'000	Ushs'000
At 01 January	18,370,605	14,689,715
Adjustment on initial application of IFRS 9	12,791,496	-
Restated opening provision	**31,162,101**	**14,689,715**
Additional provisions raised during the year	6,481,402	3,705,070
Recoveries and provisions no longer required	-	(24,180)
Written off during the year	(4,712,457)	-
	32,931,046	**18,370,605**

(e) Reconciliation of the IFRS 9 transition adjustment to the statement of changes in equity

	2018
	Ushs'000
Transition adjustment on loans and advances	12,791,496
Transition adjustment on staff loans and advances (Note 21(c)	463,145
Transition adjustment on low credit financial assets (Note 4(d,xii)	108,472
Total of IFRS 9 transition adjustment	**13,363,113**
Related tax on transition (Note 29)	(3,976,392)
Adjustment on initial application of IFRS 9, net of tax	**9,386,731**

f) Net impairment loss on financial instruments

	2018	2017
	Ushs'000	Ushs'000
Additional provisions during the year	7,451,571	3,705,070
Provisions for low credit risk financial assets	39,153	-
Recoveries and provisions no longer required	-	(24,180)
Net provision for staff loans (Note 21c)	(550,526)	184,485
Direct write offs	70,360	-
Profit and loss effect	**7,910,558**	**3,865,375**

(g) Impairment and provisioning policies

The Bank recognizes the allowance for expected credit losses on all loans and advances.

The Bank at each reporting date, measures the loss allowance for all loans and advances at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

Measurement of Expected Credit Losses

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

The expected credit losses shall be determined as follows:
ECL = PD x LGD x EAD x df.

Expected Credit Losses (ECL); The weighted average of credit losses with the respective risks of a default occurring as the weights.

Probability of Default (PD); This relates an estimate of the likelihood of default over a given time horizon.

Loss Given Default (LGD); This relates to an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

Exposure at Default (EAD); This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Discount Rate (df); This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition.

Further details on how the above parameters are determined are well stipulated in the bank's loss provisioning process. Loans and advances are categorized into the following grades:

Status	Days in arrears	Loan category
Stage 1	0-29	Performing
Stage 2	30- 89	Performing with significant increase in credit risk
Stage 3	Over 90	Non-performing

Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. As an internal requirement, the forced sale value of the collateral security is over and above the amounts of loans and advances disbursed. The forced sale value of the collateral held by the bank for stage 3 facilities was Ushs 743 billion as at 31 December 2018 (2017: Ushs 754 billion).

21. STAFF LOANS AND ADVANCES

(a) Staff loans and advances

	2018	2017
	Ushs'000	Ushs'000
Staff loans	5,407,319	5,695,116
Provision for impairment	(808,079)	(1,293,673)
Discount on staff loans marked to market	(2,206,772)	(1,333,153)
	2,392,468	**3,068,290**

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

	2018	2017
	Ushs'000	Ushs'000
Within three months	-	11,911
Between three and six months	-	8,280
Over six months	2,392,468	3,048,099
	2,392,468	**3,068,290**

Staff loans and advances are categorised as staff advances, staff personal loans and staff housing loans. Staff advances and staff personal loans are unsecured and guaranteed by future staff salaries from the Bank. The weighted effective interest rate on loans at 31 December 2018 was 8% (2017: 8%).

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

	2018	2017
	Ushs'000	Ushs'000
At 1 January	1,293,673	1,109,188
Adjustment on initial application of IFRS9	463,145	-
Restated balance as at 1 January	**1,756,818**	-
Additional provisions raised during the year	-	384,361
Recoveries and provisions no longer required	(550,526)	(199,876)
Loan write- offs	(398,213)	-
As at 31 December	**808,079**	**1,293,673**

22. INVESTMENT PROPERTY

	2018	2017
	Ushs'000	Ushs'000
At 1 January	32,800,000	30,200,000
Fair value gain on investment property	1,996,000	2,600,000
At 31 December	**34,796,000**	**32,800,000**

The value of the Bank's investment property, commercial towers, on Plot 22 Hannington Road, Kampala at 31 December 2018 has been arrived at on the basis of a valuation carried out as at 31 December 2018 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 2018, the following amounts were recognised in the Bank's profit or loss:

22. INVESTMENT PROPERTY (CONTINUED)

	2018	2017
Other income	**Ushs'000**	**Ushs'000**
Rental Income	2,420,627	2,342,912
Fair value gains on investment property	1,996,000	2,600,000
	4,416,627	4,942,912

Other operating costs		
Property rates	54,258	34,769
Maintenance costs	54,357	11,305
	108,615	**46,074**

23. PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Furniture and fittings	Motor Vehicles	Computers	Total
	Ushs'000	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**
COST/VALUATION						
At 1 January 2017	1,208,000	1,352,000	411,341	528,946	438,248	3,938,535
Additions	-	-	6,745	-	90,468	97,212
Adjustment to reconcile to the fixed assets register	-	-	-	-	(3,080)	(3,080)
Write offs	-	-	-	(88,739)	-	(88,739)
At 31 December 2017	1,208,000	1,352,000	418,086	440,207	525,636	3,943,929
Additions	-	-	311,049	950,530	150,751	1,412,330
Revaluation gains	947,000	351,234	-	-	-	1,298,234
Disposals	-	-	(49,965)	(344,412)	-	(394,377)
At 31 December 2018	**2,155,000**	**1,703,234**	**679,170**	**1,046,325**	**676,387**	**6,260,116**
DEPRECIATION						
At 1 January 2017	**-**	**54,080**	**254,261**	**528,946**	**227,729**	**1,065,016**
Charge for the year	-	27,040	34,785	-	105,375	167,200
Write off	-	-	-	(88,739)	-	(88,739)
At 31 December 2017	**-**	**81,120**	**289,046**	**440,207**	**333,104**	**1,143,477**
Charge for the year	-	27,040	56,998	89,874	118,633	292,545
Disposals	-	-	(49,965)	(344,412)	-	(394,377)
At 31 December 2018	**-**	**108,160**	**296,079**	**185,669**	**451,737**	**1,041,645**
NET CARRYING AMOUNT						
At 31 December 2018	**2,155,000**	**1,595,074**	**383,091**	**860,656**	**224,650**	**5,218,471**
At 31 December 2017	**1,208,000**	**1,270,880**	**129,040**	**-**	**192,532**	**2,800,452**

The valuation of the Bank's Land and Buildings was based on the open market value of the assets as at 31 December 2018. The revaluation was carried out by East African Consulting Surveyors and Valuers- EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank. Had the assets been carried under the cost model, the carrying amount of the freehold land would be Ushs 1,270 million and that of the buildings, Ushs 867 million. This is disclosed below;

23. PROPERTY AND EQUIPMENT(CONTINUED)

	Freehold Land	Buildings
	Ushs'000	Ushs'000
Cost	1,270,000	950,000
Accumulated depreciation	-	(82,400)
Net book amount	**1,270,000**	**867,600**

The significant unobservable inputs for land and buildings were as follows:

Range of estimated value of buildings	Ushs 23 billion to Ushs 34.3 billion
Estimated value of bare land (1.272 acres)	Ushs 2.15 billion

24. INTANGIBLE ASSETS

Cost	**2018**	**2017**
	Ushs'000	**Ushs'000**
At 1 January	1,924,122	1,575,164
Adjustment to reconcile to the register	-	(23,485)
Additions	26,721	372,443
At 31 December	**1,950,843**	**1,924,122**
Amortisation		
At 1 January	1,285,200	1,106,467
Adjustment to reconcile to the register	-	(132,128)
Charge for the year	391,840	310,861
At 31 December	**1,677,040**	**1,285,200**
Net carrying amount		
At 31 December	**273,803**	**638,922**

25. OTHER ASSETS

	2018	**2017**
	Ushs'000	**Ushs'000**
Prepayments	467,644	731,281
Other receivables (Afrexim Bank)**	-	890,450
Security deposits***	198,739	359,514
Other debtors*	2,017,677	225,231
Prepayment on staff loans marked to market	2,206,772	1,333,153
	4,890,832	**3,539,629**

*The other debtors balance included deposits for unmatured letters of credit amounting to Ugx 1.92 billion in issued by the bank on behalf of their customers as at 31.12.2018.Included in 2017 other receivables was a deposit the Bank transferred to Afrexim Bank in the process of negotiating for a new line of credit in 2015. The amount was subsequently returned in 2018 to UDB having failed to negotiate the terms of the funding with Afrexim Bank successfully.

***Security deposits include a deposit to registrar of the high court in respect to UDBL vs KAI Limited case amounting to Ushs 164 million.

26. AMOUNTS DUE TO BANK OF UGANDA

	2018	2017
	Ushs'000	**Ushs'000**
At 1 January	13,055,418	11,242,259
Drawn down during the year	1,961,605	2,746,120
Repayments during the year	(5,726,842)	(932,961)
	(3,764,396)	1,813,159
At 31 December	**9,290,181**	**13,055,418**

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

	2018	2017
	Ushs'000	**Ushs'000**
Arab Bank for Economic Development in Africa (BADEA Loan 0632)	15,619,780	15,541,803
Arab Bank for Economic Development in Africa (BADEA Trade Finance)	12,962,628	8,190,000
Arab Bank for Economic Development in Africa (BADEA Private sector)	21,945,133	6,552,000
Islamic Development Bank (IDB)	6,950,519	5,859,708
	57,478,060	**36,143,511**

The movements in borrowings were as follows:

	2018	2017
	Ushs'000	**Ushs'000**
Balance as at 1 January	36,143,511	16,797,855
Drawdowns during the year	35,970,862	20,369,940
Interest	2,217,024	1,044,783
Repayments during the year	(14,622,944)	(3,549,897)
Foreign exchange losses	(2,230,393)	1,480,830
	57,478,060	**36,143,511**

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.

ii) BADEA Loan Trade Finance

This represents a US Dollars 10,000,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to Uganda Development Bank with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between Badea and Republic of Uganda dated 13th February 2018. The loan is to be used exclusively to finance import transactions from Arab Counties to UDB's eligible clients in the Republic of Uganda.

Interest is payable on the Interest payment date, to BADEA on the amount disbursed and outstanding from time to time during each Interest Period, at a rate of 6 months USD LIBOR or its successor rate, plus 325 basis points.

As at 31 December 2018, USD 8,316,534 had been disbursed from the loan account (2017; USD 3,000,000).

iii) BADEA Loan Private sector

This represents a US Dollars 6,000,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to Uganda Development Bank with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between Badea and Republic of Uganda dated 13th February 2017. The loan is to be used solely for financing expenditures and permanent working capital of UDB's eligible clients in the Republic of Uganda. The loan is repayable in 16 semi-annual instalments after a 2 year grace period.

Interest is payable on the Interest payment date, to BADEA on the amount disbursed and outstanding from time to time during each Interest Period, at a rate of 6 months USD LIBOR or its successor rate, plus 425 basis points. As at 31 December 2018, USD 5,781,814 had been disbursed from the loan account (2017; USD 1,800,000

iv) Islamic Development Bank (IDB)

This represents an asset line of financing equivalent US Dollars 10,000,000 loan from the Islamic Development Bank to Uganda Development Bank Limited on 18th May 2018.
For each transaction, the sale price shall be determined on the basis of the capital cost plus a mark-up of the US dollar swap rate prevailing at the time corresponding to the capital amortization period plus 135 basis points (One Hundred Thirty Five basis points) per annum. The sale price shall be paid to the bank within a period of up to 8 (Eight) years including a gestation period not exceeding 2 (Two) years calculated from the date of first disbursement for that transaction.

The bank had utilized USD 2,000,000 by 31st December 2018.

28. KUWAIT SPECIAL FUND

	2018	2017
	Ushs'000	Ushs'000
Balance as at 1 January	29,339,519	28,365,633
Agency costs	(359,553)	(719,604)
Interest on loans disbursed out of the fund	735,495	1,730,041
Effect of foreign exchange movements	545,916	(36,551)
	921,858	973,886
Balance as at 31 December	**30,261,377**	**29,339,519**

This represents a grant of US Dollars 7 million to the Government of Uganda to be used in the creation of a Trust Fund in Uganda Development Bank Limited ("the Bank"). The Bank is required to establish in its books a Special Account to which the Grant as well as income accruing as a result of the investment and utilisation of the grant is to be credited. The purpose of the fund is to finance farming and lending to small and micro business activities for the production of food and provision of related support services, including, without being limited to, food processing, storage and marketing. The Bank has treated the grant as a liability as it represents funds managed in trust on behalf of the Government of Uganda. The weighted effective interest rate on loans disbursed as at 31 December 2018 was 8.47% (2017: 8.3%) for USD and 12.26% for Ushs (2017: 13.3%).

29. 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% (2017: 30%). The movement in the deferred income tax liability is detailed below:

	2018	2017
	Ushs'000	**Ushs'000**
At the start of the year	6,016,873	5,967,856
Tax impact on IFRS 9 transition adjustment	(3,976,392)	-
Restated balance as at 1 January 2018	**2,040,481**	**5,967,856**
Deferred tax charge to profit or loss	1,182,198	49,017
Deferred tax to other comprehensive income	389,470	-
At the end of the year	**3,612,149**	**6,016,873**

Year ended 31 December 2018	At *1 January 2018	Charge/ (credit) to profit or loss	Charge/ (credit) to OCI	At 31 December 2018
	Ushs'000	**Ushs'000**	**Ushs'000**	**Ushs'000**
Deferred income tax liabilities/ (assets)				
Accelerated depreciation	143,276	30,633	-	173,909
Provisions and unrealised losses	(5,509,056)	552,765	-	(4,956,291)
Revaluation of property and equipment	-	-	389,470	389,470
Fair value gain on investment property	7,406,261	598,800	-	8,005,061
Net deferred income tax liability	**2,040,481**	**1,182,198**	**389,470**	**3,612,149**

* The balance at 1 January 2018 included the effect of initially applying IFRS 9.

Year ended 31 December 2017	At 1 January 2017	Charge/ (credit) to profit or loss	At 31 December 2017
	Ushs'000	**Ushs'000**	**Ushs'000**
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	138,568	4,708	143,276
Provisions and unrealised losses	(796,973)	(735,691)	(1,532,664)
Fair value gain on investment property	6,626,261	780,000	7,406,261
Net deferred income tax liability	**5,967,856**	**49,017**	**6,016,873**

30. OTHER LIABILITIES

	2018	2017
	Ushs'000	**Ushs'000**
Accrual and other liabilities	8,703,837	2,994,952
Deferred arrangement fees	3,451,580	2,901,758
Expected credit loss provision on off balance sheet items	970,169	-
Staff gratuity	130,358	155,259
Other creditors	2,608,024	2,415,340
	15,863,968	**8,467,309**

30. OTHER LIABILITIES (CONTINUED)

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% (2017: 20%) of their annual gross salary.

Movement in Provisions during the year;

Description	I January 2018	Movement	31 December 2018
	Ushs'000	Ushs'000	Ushs'000
Staff gratuity	155,259	(24,901)	130,358
Leave provision	48,361	20,839	69,200
Total	**203,620**	**(4,062)**	**199,558**

31. ISSUED CAPITAL

	2018	2017
	Ushs'000	Ushs'000
At 1 January/31 December	100,000,000	100,000,000

The Bank's authorised share capital is Ushs 100 billion (2017: Ushs 100 billion) divided into 100 million shares of Ushs 1,000 each. As at 31 December 2018, the Bank had issued 100,000,000 shares (2017: 100,000,000). 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.

32. GOVERNMENT OF UGANDA CAPITAL CONTRIBUTIONS

	2018	2017
	Ushs'000	Ushs'000
At 1 January	52,017,077	12,415,774
Contributions during the year	48,154,529	39,601,303
At 31 December	**100,171,606**	**52,017,077**

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

33. ASSET REVALUATION RESERVE

	2018	2017
	Ushs'000	Ushs'000
At 1 January	294,700	294,700
Revaluation surplus arising during the year	1,298,234	-
Deferred tax arising on revaluation	(389,470)	-
As at 31 December	**1,203,464**	**294,700**

A Revaluation of the Freehold land and Buildings asset categories was performed for the year ended 31 December 2018. The last revaluation was done for the year ended 31 December 2014. The revaluation was carried out by a professional valuer by the names East African Consulting Surveyors and Valuers- EACSV (Chartered Surveyors), independent professional valuers that are not related to the Bank.

The freehold land and buildings were revalued on the basis of depreciated replacement cost reflecting prevailing market conditions at the time of valuation.

34. COMMITMENTS

a) 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.

	2018	2017
	Ushs'000	Ushs'000
Loans approved but not disbursed at year end	170,273,109	108,454,187

b) Lease Commitments

i. Bank as a lessor

The Bank has entered into operating leases on its investment property consisting of certain office buildings. These leases have terms of 3 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The total rental income recognised in profit or loss during the year was Ushs 2.42billion (2017: Ushs 2.343 billion).

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2018	2017
	Ushs'000	Ushs'000
Within one year	876,195	1,556,020
After one year but not more than 5 years	-	-
	876,195	**1,556,020**

ii. Bank as a lessee

The Bank entered into a commercial lease for premises with Pine Investments Limited which expired on 31 January 2018. The contract was renewed for a further 5 years and will expire on 01st 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 31st August 2018 to occupy its own premises at UDB-MTN towers.

Future minimum lease payments under non-cancellable operating lease as at 31 December are as follows:

	2018	2017
	Ushs'000	Ushs'000
Within one year	876,195	62,790
After one year but not more than 5 years	-	-
	876,195	**62,790**

35. 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 m. At year end, the Bank had several unresolved legal claims. Below is a summary of the legal cases that the Bank is handling. The Bank's legal advisors' opinion is that it is possible, but not probable, that the court ruling may be in favour of Plaintiff. Accordingly, no provision for any claims has been made in these financial statements. The possible outflow which could result from such litigation, based on the current status of the legal proceedings, is estimated to be no more than 3,956 million (2017: Ushs 1,056 million), while the timing of the outflow is uncertain.

36. ASSETS PLEDGED AS SECURITY

As at 31 December 2018, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

37. RELATED PART 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:

	2018	2017
	Ushs'000	**Ushs'000**
GoU capital contributions (note 32)	48,154,529	39,601,303
Issue of shares (noted 31)	-	-
Staff loans: interest earned	498,056	569,274
Staff loans: repayments	2,497,624	1,052,994
Staff loans: disbursements	2,094,518	1,120,008
Outstanding balances		
Staff loans (note 21)	2,392,468	3,068,290
Key management compensation		
Salaries	1,215,274	968,264
NSSF Company contributions	135,193	115,274
Service gratuity	388,888	309,844
	1,739,359	**1,393,383**
Directors' remuneration	**307,727**	**373,449**

38. 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:

	2018	2017
	Ushs '000	**Ushs '000**
Issued capital	100,000,000	100,000,000
Asset revaluation reserve	1,203,464	294,700
GOU capital contribution	100,171,606	52,017,077
Retained earnings	52,236,720	52,137,057
	253,611,790	**204,448,834**

During the year, the Bank got additional capital contributions from Government of Uganda of Ushs 48,154,529 (2017: Ushs 39,601,303).

39. Net cashflows from Operating activities

	2018	2017
OPERATING ACTIVITIES	**Ushs '000**	**Ushs '000**
Profit before taxation	13,593,797	11,875,591
Adjustments for:		
Unrealised foreign exchange (gain)/loss on borrowings	(2,230,393)	1,480,830
Depreciation	292,545	167,200
Amortisation of intangible assets	391,840	310,861
Write-back of accelerated amortisation	-	(108,643)
Write-off of fixed assets	-	3,080
Gain on disposal of fixed assets	(130,084)	-
Impairment loss on financial assets	7,910,558	3,865,375
Net unrealised exchange gains	(43,070)	(27,857)
Fair value gain on Investment properties	(1,996,000)	(2,600,000)
Fair value loss/(gain) on equity investments	118,173	(170,366)
Interest expense on borrowings	2,217,024	1,044,784
Operating profit before changes in operating assets and liabilities	**20,124,390**	**15,840,855**

40. Analysis of changes in financing during the year.

Reconciliation of movements of liabilities to cash flows arising from financing activities.

	Borrowings	Amounts due to Bank of Uganda	Contribution from Government of Uganda	Total
	Ushs'000	**Ushs'000**	**Ushs'000**	**Ushs'000**
31 December 2018				
Balance as at I January 2018	36,143,511	13,055,418	52,017,077	101,216,006
Changes in financing cash flows				
Proceeds from Debt	35,970,862	1,961,605	48,154,529	86,086,996
Repayments of Debt	(14,622,944)	(5,726,842)	-	(20,349,786)
Total changes from financing cash flows	**21,347,918**	**(3,765,237)**	**48,154,529**	**65,737,210**
Other changes				
Interest expense	2,217,024	-	-	2,217,024
Foreign exchange losses	(2,230,393)	-	-	(2,230,393)
Total liability related other changes	**(13,369)**	**-**	**-**	**(13,369)**
Balance as at 31 December 2018	**57,478,060**	**9,290,181**	**100,171,606**	**166,953,216**

	Borrowings	Amounts due to Bank of Uganda	Contribution from Government of Uganda	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
31 December 2017				
Balance as at I January 2017	16,797,855	11,242,259	12,415,774	40,455,888
Changes in financing cash flows				
Proceeds from Debt	20,369,940	2,746,120	39,601,303	62,717,363
Repayments of Debt	(3,549,898)	(932,961)	-	(4,482,859)
Total changes from financing cash flows	**33,617,897**	**13,055,418**	**52,017,077**	**98,690,392**
Other changes				
Interest expense	1,044,784	-	-	1,044,784
Foreign exchange losses	1,480,830	-	-	1,480,830
Total liability related other changes	**2,525,614**	**-**	**-**	**2,525,614**
Balance as at 31 December 2018	**36,143,511**	**13,055,418**	**52,017,077**	**101,216,006**

41. EVENTS AFTER THE REPORTING PERIOD

There are no reportable events after the reporting date (2017: None).

Notes

Notes

UDB
Inspiring Development

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