COMMITTED TO A BETTER TOMORROW

UDB
Inspiring Development

ANNUAL REPORT 2022

"

We are devoted to being the best we can be.

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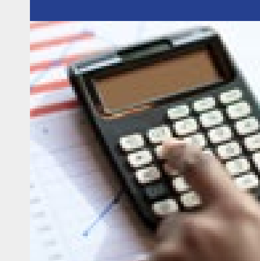

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DEFINITIONS

VALUE OF OUTPUT:
This is the market value of all goods and services produced by the UDB funded projects during the financial year.

TAX CONTRIBUTION:
Refers to the annual direct taxes paid by funded projects in form of corporation tax.

FOREIGN EXCHANGE EARNINGS: (FOREX)
Refers to the foreign currency generated by funded projects expressed as Uganda Shillings equivalent. The foreign currency generated includes earnings arising from the export of goods and services.

JOBS CREATED AND MAINTAINED:
Refers to the total number of permanent and temporary workers employed by funded projects and are paid a wage or income.

PROFIT FOR THE YEAR (USHS):
Annual income statement profit attributable to ordinary shareholders, minorities and preference shareholders.

EARNINGS PER SHARE (USHS):
Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

RETURN ON ASSETS (%):
Earnings as a percentage of average total assets.

NET INTEREST MARGIN (%):
Net interest income as a percentage of annual gross interest on loans.

YIELD ON LOANS (%):
Total interest income as a percentage of annual average total loans.

DEBT TO EQUITY RATIO (%):
Total debt as a percentage of total equity.

NET ASSET IMPAIRMENT RATIO (%):
Provision for credit losses per the income statement as a percentage of closing net loans and advances.

COST-TO-INCOME RATIO (%):
Operating expenses, excluding provisions for credit losses, as a percentage of total income.

ABBREVIATIONS AND ACRONYMS

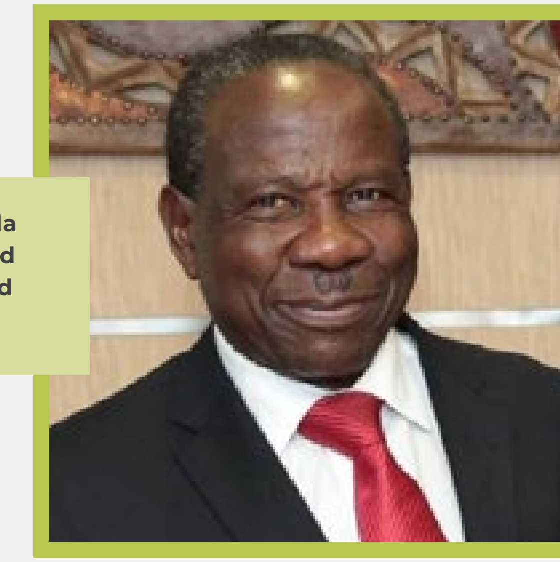
AADFI	Association of African Development Finance Institutions
AfDB	African Development Bank
AGM	Annual General Meeting
BADEA	Arab Bank for Economic Development in Africa
BARC	Board Audit and Risk Committee
BCC	Board Credit Committee
BSPC	Board Strategic Planning Committee
BEIC	Board Equity Investment Committee
DFI	Development Finance Institution
E&S	Environmental and Social Management Framework
EOSD	European Organization for Sustainable Development
ERM	Enterprise Risk Management
EU	European Union
EVP	Employee Value Proposition
EXCO	Executive Committee
GDP	Gross Domestic Product
IDB	Islamic Development Bank
IFRS	International Finance Reporting Standards
MD	Managing Director
MoU	Memorandum of Understanding
NDP	National Development Plan
NPA	National Planning Authority
PSC	Private Sector Credit
SDG	Sustainable Development Goals
SME	Small and Medium Enterprise
UDB	Uganda Development Bank Limited
UNCDF	United Nations Capital Development Fund
USHS	Uganda Shillings

The team that delivers the strategy

"It is now clear that the private sector is the one that creates wealth. It is also enough to say that for a country to create wealth, it must be done through private sector-led growth. Trade is the only way for survival, and it cannot be interfered with."

Yoweri Kaguta Museveni | *President of The Republic of Uganda during State of The Nation Address at Kololo Ceremonial Grounds - 7th June, 2023*

FOREWORD FROM THE **MINISTER OF FINANCE**



I have the honor, to submit herewith the report of Uganda Development Bank Limited (UDB) activities for the period 1 January 2022 to 31 December 2022, including its audited financial statements.

The year 2022, commenced with heightened socio-economic volatility that affected the global economic landscape registering a growth rate of 3.4% compared to 6.2% in 2021. This was due to reduced demand, disrupted supply chains, and decreased confidence caused by the persistent effects of the COVID-19 pandemic, and the geopolitical tensions between Russia and Ukraine.

However, Uganda's economy weathered the successive shocks in 2022 with GDP growth expected to recover to 5.7% during FY23.

To achieve this, the government instituted several agile and sequential reforms. Each action taken was intended to drive sustained economic recovery underpinned by a strong rebound in commodity prices, the rollback of pandemic-induced restrictions, recovery in domestic consumption, and a gradual revival of the key sectors of the economy.

UDB was at the core of institutionalizing these reforms as an institution mandated with the socio-economic development of Uganda. As per the performance reflected in this report, the Bank registered major strides in the delivery of its mandate.

During the year, the Bank's operations and activities were undertaken in line with the approved strategic priorities which are mid-way implementation. They were also undertaken in line with the best global practices evidenced by the Annual Karlsruhe Sustainable Finance Awards that the Bank and its leadership received.

The Bank's financial performance reflects strong earnings growth, solid asset growth, high asset quality, and improved efficiency. This performance gives me renewed optimism about the sustainable socio-economic development of this country.

To affirm our commitment to the Bank as shareholders, in 2021, we raised the Bank's authorized share capital from UGX500 Billion to UGX2 Trillion. By December 2022, the total capital to the Bank had progressively grown to UGX1.14 trillion.

I would like to extend my gratitude to the Board, Management, and Staff of UDB, for their unwavering dedication and commitment towards improving the quality of life of Ugandans.

I also extend my appreciation to the Bank's funders who continue to entrust the Bank with the capital required to deliver its mandate.

Finally, I applaud the Bank's customers and partners in development who have braved the economic turmoil and soldiered on to meet their obligations.

I remain confident that the successes and learnings from 2022, will make 2023 a phenomenal year not only for the Bank but also for the country at large.

Matia Kasaija

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MESSAGE FROM THE STATE MINISTER OF **FINANCE FOR INVESTMENT AND PRIVATIZATION**

Beyond Recovery, Resilience and Economic Growth

In 2022, the Uganda Development Bank stood, head above shoulders, in the otherwise turbulent waters of the global economic environment which continues to be characterized by weak growth and disruptions owing to geopolitical events in Europe and the Middle East. As reported in the Bank's performance, the prospects of Uganda are better than the foregoing 24 months.

The country has put behind the worst effects of the COVID-19 pandemic and is adapting well, thanks to the government efforts to increase production at home through import substitution and expansion of agricultural production, through various interventions to expand access to capital including the Parish Development Model funds, the Agriculture Credit Facility, Small Business Recovery Fund and Emyooga. These efforts have augmented UDB's robust interventions to facilitate private sector resilience and growth.

Uganda's economic performance is one of the highest in the region and comparatively one of the most promising globally.

I commend the Bank for taking deliberate steps to empower the Youth and Women through tailor-made solutions that address their unique needs.

Once again, the Bank continues a path of efficiency and is deploying the allocations of capital from the government through disbursements to qualifying entities.

I congratulate the leadership of the Bank and its staff for their efforts, and I encourage Ugandans to embrace this wave toward building a vibrant, independent, and self-sustaining economy.

Evelyn Anite Kajik

UDB was at the core of institutionalizing the government's agile and sequential reforms intended to drive sustained economic recovery and a gradual revival of the key sectors of the economy

COMMITTED TO A BETTER TOMORROW

WHO WE ARE

Our journey towards improving the quality of life of Ugandans starts here

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

- Profitably finance viable economic development in key sectors.
- Provide finance in the form of short, medium and long term secured loans:
- Acquire shareholding in viable businesses; and
- Make funds available for reinvestment.

The National Development Plans (NDPs) identify priority sectors and key public and private delivery partners that will drive the achievement of the Country's strategic objective of attaining high middle-income status by 2040.

As a Development Bank, it is recognized by the Government that UDB is one of the key entities in implementing the interventions outlined in the NDPs, particularly those that relate to the provision of affordable finance to facilitate and catalyze private sector investment and support the growth and development of SME's. UDB is, therefore, a key player in promoting private sector development.

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"

OUR VISION

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

OUR MISSION

"Accelerating socio-economic development through sustainable financial interventions"

OUR VALUES

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

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

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

OUR HIGH IMPACT GOALS

In 2022, the Bank undertook a mid-term strategy review of its Strategic Plan 2020-2024. Resultantly, the Bank's High Impact Goals (HIGs) were enhanced to improve clarity. It is anticipated that achieving these strategic goals will increase household incomes with a medium to long-term impact of improving the quality of life of Ugandans. The enhanced HIGs are as follows:

1 GOAL 1: To Build a Sustainable Agrifood System for Uganda

Under this goal, UDB focuses on supporting the entire agriculture ecosystem, encompassing the full range of activities in the primary production of food and non-food agricultural products, as well as their storage, aggregation, post-harvest handling, transportation, processing, distribution, and marketing.

2 GOAL 2: To Promote Sustainable Industrialization in Uganda

UDB aims to support industrialization in the country by playing a major role in making the economy competitive and innovative. The Bank will boost value addition to increase the country's competitiveness and hence increase foreign exchange earnings through the following specific interventions:

Agro-industrialization: UDB supports secondary production processes aimed at value addition to agricultural produce, leveraging the growing local market of agro-manufactured products and fully exploiting the opportunities available in international markets through export promotion.

Manufacturing: This is the industry sub-sector which does not utilize agricultural produce as raw materials. The Bank's focus in this sub-sector extends to financing the local production of essential goods as a precursor to achieving import substitution, and value addition to locally produced products as a foundation for export promotion.

Knowledge-based Industries: This industry is considered the backbone of the new economy due to its potential to accelerate national development. It consists of 1) the Pathogen economy and (2) Electric mobility. This industry is the least developed due to a lack of well-articulated structures and financing modalities. The Bank aims to give impetus to this industry by financing viable projects that have significant socio-economic impact.

Extractives Industries: This sub-sector includes iron ore & steel, mining, and oil & gas. To facilitate growth within this subsector, the bank supports industrial enterprises that focus on extraction and value addition for industrial and construction purposes.

Therefore, the Bank will target cottage, small, medium, and large size industries to improve the industrial base of the country and increase the value of industrial exports. By promoting local industries, Uganda will reap several benefits including employment creation and import substitution, thereby reducing the pressure on the country's foreign reserves.

3 GOAL 3:
To Develop a Sustainable Services Sector

Being the largest contributor to GDP (over 40% of GDP in FY 21/22), the sevices sector presents huge economic opportunities for Uganda's development and in creating gainful employment if well exploited.

Through this goal, the Bank pursues the following select sub-sectors:

Tourism – The Bank will continue to support the private sector players to increase the stock and quality of the tourism facilities, and in developing a pool of skilled personnel along the tourism value chain.

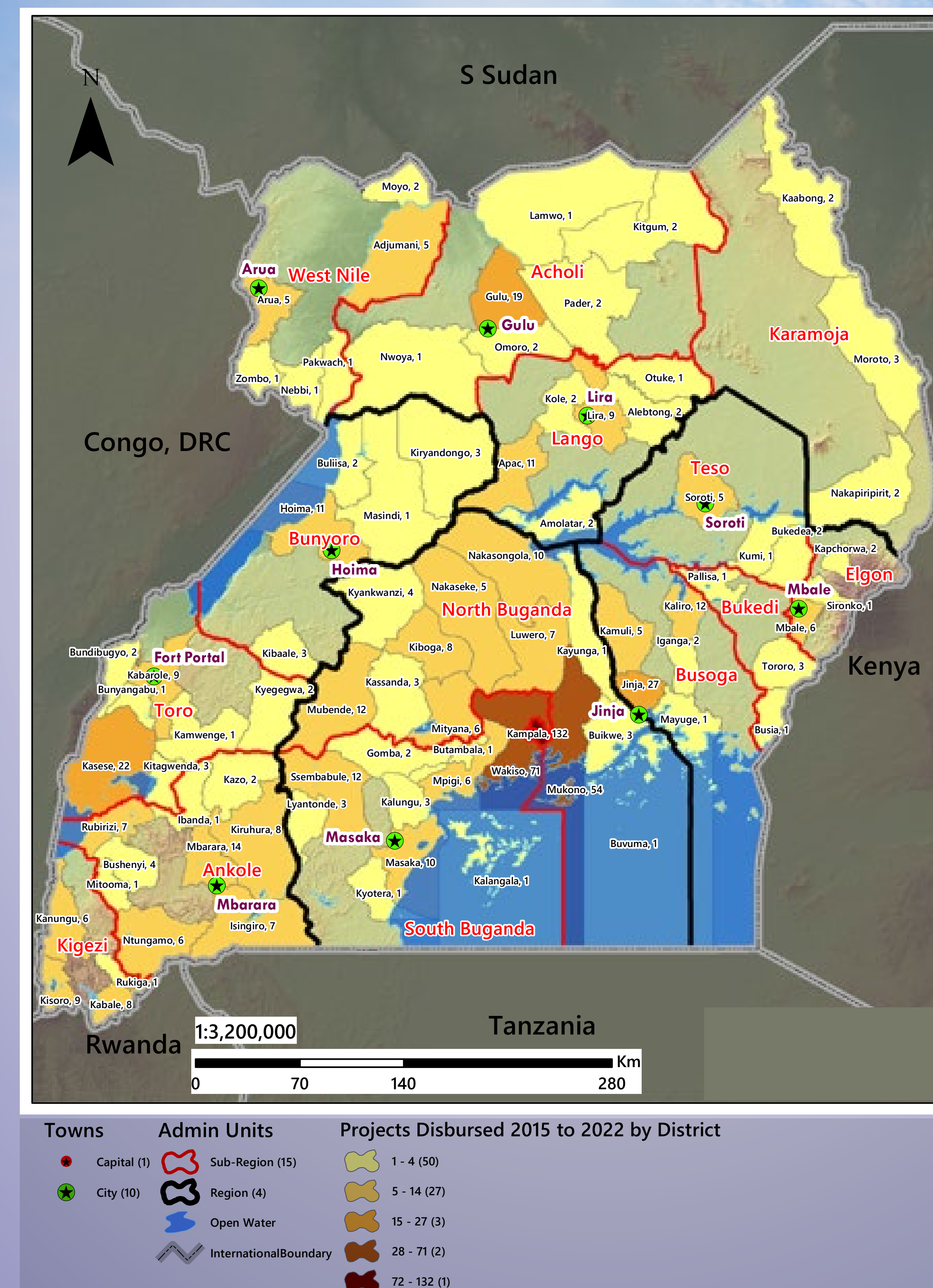
Health – The Bank's focus remains on supporting the establishment of infrastructure that enhances access to quality healthcare services.

Education – the Bank will work in close collaboration with both the Government and the Private Sector in advancing the development of skills relevant to the key growth sectors to increase the productivity of the population and create a workforce that is highly skilled with better and high-paid jobs. This comprises among others, supporting the establishment or refurbishment of institutions for skills development in scientific research, innovation, technology, and skills in new and emerging industries that are pivotal in addressing challenges of sustainable development.

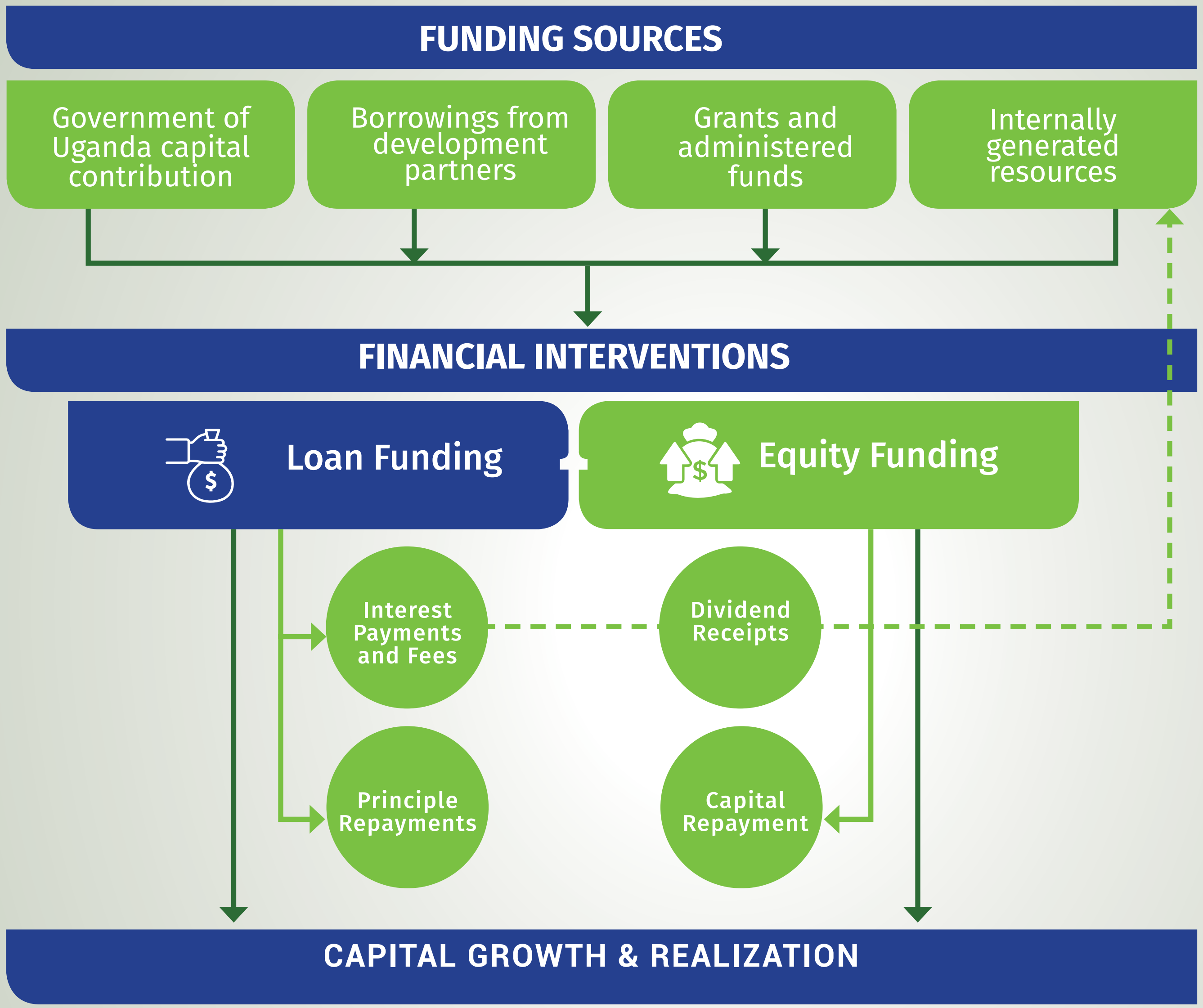
Science, Technology, and Innovation (STI) – Working in partnership with the STI Secretariat, the Bank supports the government's efforts to finance the commercialization of viable scientific research innovations.

OUR FOOTPRINT

The map below represents the coverage of projects funded by the Bank across the country

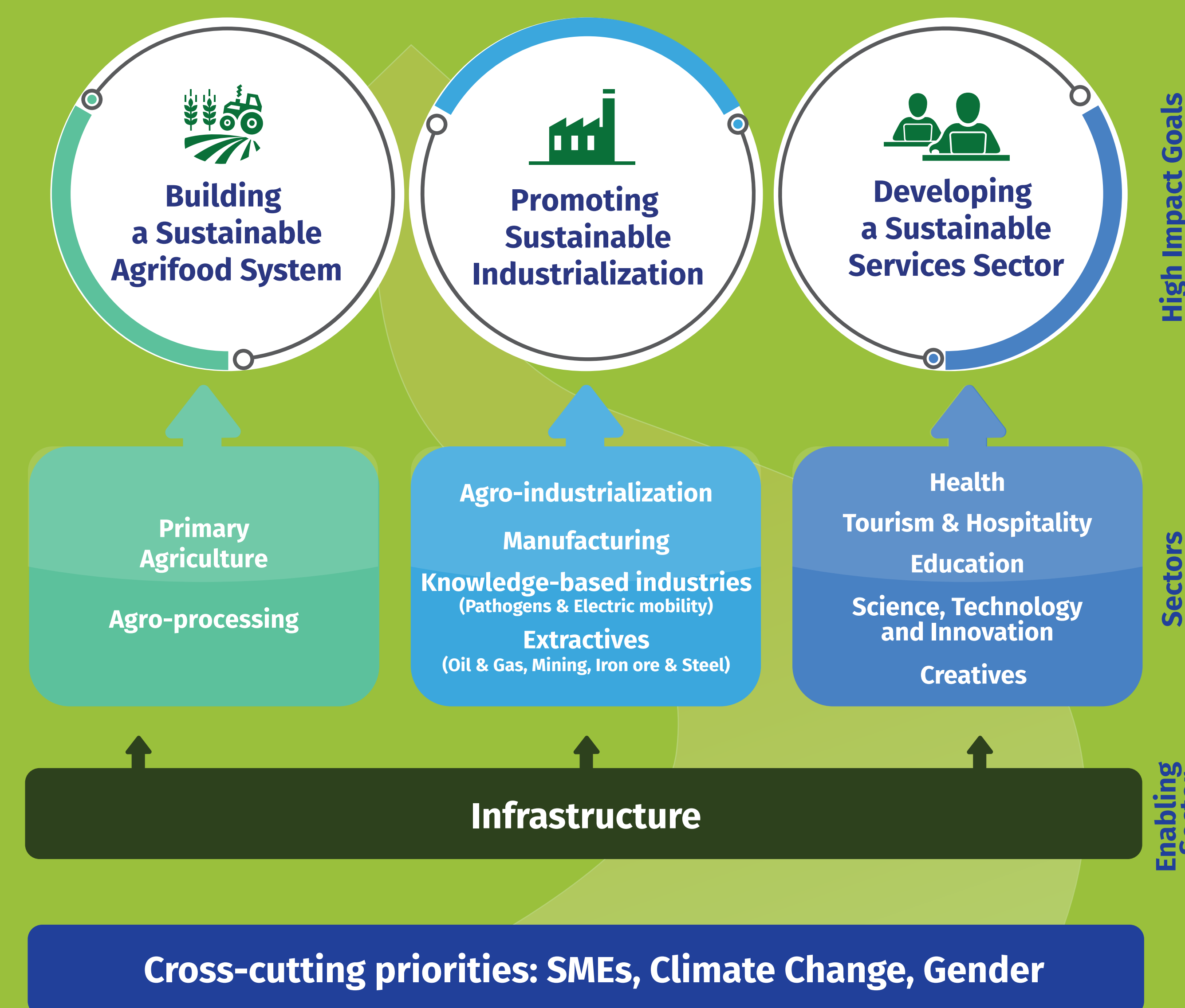


OUR FUNDING **MODEL**



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

DELIVERING OUR STRATEGY **THROUGH PRIORITY SECTORS**



PRODUCTS AND SERVICES

FINANCIAL INTERVENTIONS

Term Loans

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

Equity Investment

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

NON-FINANCIAL INTERVENTIONS

Business Accelerator for Successful Entrepreneurship

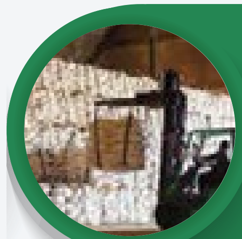
The Bank provides advisory services to clients pertaining to management best practices, good governance, record keeping, financial management etc. based on the Bank's wider knowledge of the business, operating environment, and experience gained from funding, implementing, and monitoring such projects.

Project Preparation

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

SPECIALIZED PRODUCTS

Trade Finance



This product may be used to finance bulk purchase of produce during peak periods as well as other structured commodity trade finance products/collateral management solutions It is also used to support manufacturers to acquire critical raw materials that are available locally or may not be available in the country and support the importation of fastmoving items needed to facilitate local contracts.

Letters of credit/ Bill of collection

Safeguard risk of payment for goods & Facilitate the importation or exportation of goods, equipment, and services. Paid on maturity, secured by cash, landed property, commodities, fixed deposits, first class bank guarantees, GOU bonds or corporate guarantees for 12 months maximum.

Structured Trade & Commodity Finance

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

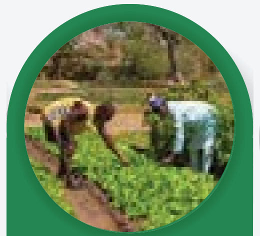
Asset Finance

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

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

SPECIALIZED INTERVENTIONS

Farmer Groups, Cooperative & Associations



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

SME Financing Initiative

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

The Bank provides a specialized credit facility (SME Kazi Loan) complimented by business advisory services (BASE)

Qualifying entity must be a Small or Medium Enterprise with annual turnover of up to UGX 100M (small) and UGX 360M (medium).

Women Financing Initiative

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

Qualifying entity must be women-owned, women-led or producing products for women.

Youth Financing Initiative

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

Qualifying entity must be youth-owned (>30% Shareholding), or with more than 35% youth employees.

Project Finance

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

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

Water for Production Initiative

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

Ugandan Contractors Financing Initiative

Infrastructure plays an indispensable role as an enabler for the growth of the Ugandan economy as it is a significant employer and source of economic opportunities especially for SMEs. The Bank is supporting the development of Ugandan contractors to enable them participate in infrastructure projects by availing funds to facilitate purchase of equipment and to guarantee contract perfomance

Hybrid Electricity Connections Initiative

The Bank in partnership with the Electricity Regulatory Authority developed the hybrid electricity connections program. This program aims to connect 550,000 households over the next five years. Connection applicants are required to make a down payment of UGX200,000 as their contribution towards a connection, while UGX250,883 will be an investment by the utility and recovered through the general end-user tariff. The remaining UGX270,000 is provided as an interest-free credit facility by UDB.

Water Connection Initiative

UDB in partnership with the government-owned Housing Finance Bank and National Water & Sewerage Corporation is financing the upgrade of water supply infrastructure across several areas in Uganda including: Lyantonde, Hoima, Kyankwanzi, Tororo, Soroti, Moroto, Bushenyi, Kanungu, and Kalungu. The upgrade involves the construction of intake structures, raw water pumping mains, and associated pipework fittings, conventional water treatment plants, clear water storage reservoirs of different capacities, and treated water delivery mains.

Oil Seeds Initiative (Sunflower Project)

The Bank is currently supporting efforts aimed at local production of improved oil seeds varieties through a partnership with the National Semi-Arid Resources Research Institute (NaSARRI) which is based in Serere. Under the initiative, the Bank is supporting efforts aimed at the multiplication and commercialization of improved seeds developed by Ugandan researchers at NaSARRI. UDBL has allocated funds towards the research aimed at enabling the commercialization of improved oil seed varieties.

OUR **OPERATING MODEL**

CAPITAL

FINANCIAL CAPITAL
- Capital contributions from the Government of Uganda
- Principle and Interest repayments from loans
- Borrowings from development partners
- Dividends and capital profits from equity investment
- Fees from project preparation and business advisory services

SOCIAL CAPITAL
- Network of entrepreneurs, clients and project partners.
- Government ties
- Other funders and development partners

HUMAN CAPITAL
- Our staff

INTELLECTUAL CAPITAL
- Industry-specific and macro-economic research
- Knowledge gained through our experience
- Due-diligence, credit granting, and post-investment processes.

MANUFACTURED CAPITAL
- IT infrastructure and systems.

NATURAL CAPITAL
- Upholds strict environmental standards

HOW THE RESOURCE IS USED TO ENABLE OUR BUSINESS MODEL

- Extending new loans
- Making new equity investments
- Repaying borrowings
- Cover operating expenses

- Sourcing projects to finance
- Developing and co-investing projects
- Leveraging our balance sheet to increase the impact
- Partnering to implement the strategy
- Generating investment income

- Assessing funding applications
- Monitoring and managing our portfolio and all other aspects of our business

- Developing strategies for the development of key priority sectors
- Providing inputs to government policy formulation
- Identifying and managing risk in the businesses that we fund

- Improving our processes
- Connecting with our key stakeholders

- Monitoring the carbon emissions of projects we invest in and their environmental policies

- Providing funding that reduces companies' impact on the environment

CATEGORY / ACTIVITIES

ACTIVITIES DIRECTLY RELATED TO PROVISION OF FUNDING
- Assessing the viability of business plans
- Providing funding to potentially viable businesses
- Developing and funding projects in key priority sectors
- Sourcing partners for development projects

ACTIVITIES SUPPORTING THE DEVELOPMENT IMPACT OF OUR BUSINESS
- Providing non-financial support to entrepreneurs
- Developing and managing specialized funding products to address specific development outcomes
- Undertaking sector and economic research
- Participating in government and private sector development initiatives
- Supervision and monitoring of projects

ACTIVITIES DIRECTLY SUPPORTING SUSTAINABILITY OF OUR BUSINESS
- Sourcing and managing loans and other funds at the lowest possible cost to pass on these benefits to our clients
- Managing our portfolio of loans and investments to ensure that we collect principal, interest and dividend payments

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

OUTPUTS

LOAN APPROVALS
CUMULATIVE VALUE APPROVED FROM 2017 TO 2022
UGX **2,710.43 Bn**

LOANS DISBURSED
DISBURSEMENTS FROM 2017 TO 2022
UGX **1,877.53 Bn**

FUNDING RAISED
VALUE OF FUNDING RAISED FROM 2017 TO 2022
UGX **87,057 Bn**

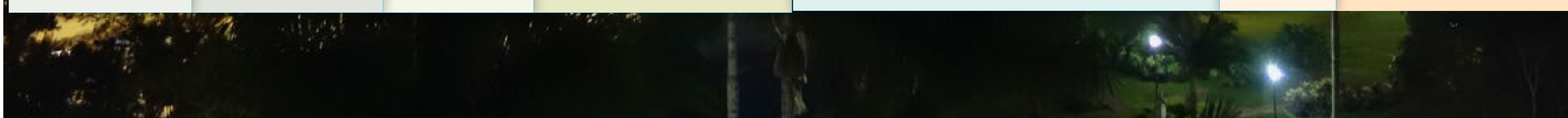
DEVELOPMENT OUTCOMES

Turnover and profitability of projects financed in 2022
TURN OVER: UGX **3,359Bn**
PROFITABILITY: UGX **493Bn**

Jobs created/ maintained in 2022
51,439 DIRECT AND INDIRECT JOBS

Priority sectors supported
SECTORAL DISTRIBUTION OF LOAN PORTFOLIO
12.3% Primary Agriculture | 66.6% Industry 4.3% Infrastructure | 7.3% Human Capital Development | 2.8%Tourism & Hospitality 6.6% Others

Financial outcomes
TOTAL ASSETS 2022: UGX **1,520Bn**
CUMULATIVE NET PROFIT AFTER TAX FROM 2016 TO 2022: UGX **137.69Bn**



2022 STRATEGIC PERFORMANCE AND **2023 STRATEGIC OUTLOOK**

Year 2022 in perspective

2022 marked the third year of implementation of the Bank's -5 year Strategic plan and this was achieved through its 2022 Business Plan that was guided by the following strategic objectives:

- Advancing focused sustainable industrialization for inclusive growth, gainful employment and wealth creation;
- Optimizing the value-chain for strategic crops as a means of alleviating hunger and poverty;
- Accelerating access to finance by SMEs, women and youth through the Bank's special programs strategy;
- Leveraging strategic partnerships to enhance development impact;
- Growing and maintaining proactive stakeholder engagement to enhance the Bank's visibility and reputation;
- Achieving service excellence through a holistic customer-centric and relationship model;
- Optimizing organizational efficiency through adoption of innovative digital solutions and lean processes;
- Re-engineering the Bank's lending processes thereby enhancing response and turnaround time to customer applications;
- Improving tracing, reporting and communication of Development Impact; and
- Positioning UDB as a policy bank to influence and support the implementation of government policy.

During the year, the Bank operated in a dynamic environment characterized by high inflation rates, and rising commodity and fuel prices, in part resulting from the global geo-political tensions, COVID-19, and climate change effects. The later part of the year also witnessed the onset of the Ebola Virus Disease in Uganda which prompted containment measures including movement restrictions in some parts of the country. These challenges notwithstanding, the Bank registered significant institutional achievements during the year as follows;

1. Facilitating private sector growth

- Disbursements worth UGX776.6 billion representing an 81% Year on Year growth in comparison to 2021.
- Approval of funding worth UGX894 billion to support 249 projects in 68 districts, representing a 40% Year on Year growth compared to 2021.

2. Delivering sustainable development outcomes

- The approved investments above are expected to deliver varied and tangible development outcomes and impact including; (i) Creation of 35,372 jobs (ii) Output value worth UGX 9,350.42 billion (iii) Tax revenues worth UGX 393.79 billion and (iv) Foreign exchange worth UGX 1,5779.9 billion.

3. Expanding brand visibility

- Extension of the Bank's business and visibility through various strategic engagements and communications across varied media channels.

4. Promoting financial inclusion

- Implementation of the enterprise development program under the Bank's Business Accelerator for Successful Entrepreneurship (BASE) intervention, which had 450 enterprises across the country (in Kampala and the regional cities of Mbarara, Fort Portal, Lira, Gulu, Arua, Masaka and Mbale) trained on various business practices and processes to enable their access to financing. 291 of these businesses will be incubated under the Bank's inaugural Incubation Program in 2023.
- Roll-out of special programs to support under-served segments in the economy including Youth, Women and SMEs. Funding worth UGX24.4 billion was disbursed to 104 projects in addition to UGX23 billion approved to finance 107 projects.

5. Improved organizational efficiency

- Approval and commencement of implementation of various strategies and frameworks including an Industrialization strategy, Customer Experience Management strategy, and a Change Management and Adoption framework, among others. These frameworks will enhance the Bank's delivery of its mandate and their implementation will continue through 2023.
- Implementation of integrated human capital management strategies to ensure an adequate level of talent to deliver the Bank's strategy and business. By December 2022, the Bank had attracted 32 new staff to fill various mission-critical positions in the business. Among these included a new directorate - Economic Research and Knowledge Management.

6. Strategic partnership development

- Several strategic partnerships were developed to support strategy implementation and enhance the sustainability of the Bank's financing interventions including partnerships with Uganda Registration Services Bureau, Uganda National Bureau of Standards, Uganda Women Entrepreneurs Association Limited, Uganda Revenue Authority, National Social Security Fund, USAID FEED THE FUTURE, National Semi-Arid Resources Research Institute, and Economic Policy and Research Centre, among others.
- The Bank gained membership to East Africa Venture Capital Association (EAVCA) – a regional grouping of private equity and associated practitioners in the funding process. This membership provides strategic positioning for the Bank to among other benefits, access critical market information useful in valuing the Bank's portfolio.

7. Global ratings

- Global Credit Rating Company Limited (GCR) assigned the Bank national scale issuer private ratings of AA+(UG)/A1+(UG) in the long and short term respectively, a notch below the highest possible rating with the outlook accorded as Stable.

8. Increasing shareholder value

The Bank continues to be a financially sustainable institution and profitable, registering an after-tax profit of UGX 42.6 billion as at end of December 2022.

> *Several strategic partnerships were developed to support strategy implementation and enhance the sustainability of the Bank's financing interventions.*

Implementation of the Bank's Sustainability Strategy

In 2022, the Bank set out to invest UGX612 Billion (debt) and UGX10 Billion (private equity), in addition to a host of other key strategic initiatives. These investments were to be channelled through the Bank's five priority areas namely: Agriculture; Tourism and Hospitality; Industry; Infrastructure; and Human Capital Development, and delivered through both financial and non-financial offerings – Term loans, Asset finance, structured Trade finance, Working capital, Equity investment, Project Finance, Farmer group and value-chain financing models, Business Advisory and Project preparation services.

Some of the anticipated intermediate outcomes from the 249 approved projects in 2022 include:

Some of the anticipated intermediate outcomes from the 249 approved projects in 2022

Result Area	Key Achievements
HIG 1: Reducing Poverty in Uganda while protecting the natural environment	
Sustainable Water for production for crop & livestock husbandry	Construction of two (2) private irrigation schemes and twenty-four (24) valley dams under the farmer group model
Increased access to medical services	Support to four (4) health institutions
Reduction in post-harvest losses	Support to 6 projects in dairy and grain post-harvest handling
Increased financial inclusion of small holder farmers	Extension of financial inclusion to over 11,000 smallholder farmers, 14 farmer cooperatives and 18 Agri SMEs
Increased industrial skill development	Support to five (5) youth-led enterprises
Creation of dignified & gainful employment in the key priority sectors	Creation of 35,372 jobs (Ex-ante)
HIG 2: Build a Sustainable Food System for Uganda	
Increased food production and yields in select value chains	Support to seven (7) large scale farms and four (4) out-grower schemes with anchor off-takers in poultry, soybean, maize and coffee value chains; to improve their food production and productivity
Increased support for organic farming and adoption of climate smart farming techniques	Support to fourteen (14) farms in organic farming and 4 farms in the adoption of climate smart agriculture
HIG 3: To promote sustainable Industrialization in Uganda	
Increased share of output value in industries	Output value worth UGX 9,350.42 billion to be realized upon full implamantation
SME industrial growth	Support to eighty-one (81) SMEs for industrial development
Improved Infrastructure development	Support to three (3) local contractors under the local contractor support program
	Through an implementing partner, extension of electricity connectivity to over 550,000 people over the next 5 years
Increased BTVET skills for improved efficiency	Support to four (4) BTVETs
Import Substitution & Export Advancement resulting into increased foreign exchange earnings	Support to thirty-one (31) industries across the country under the Bank's industrialization strategy
	Foreign exchange worth UGX 1,5779.9 billion to be realized
Increased participation of women in industrial development	Support to thirty-three (33) women-owned or led enterprises

Strategic Outlook for 2023

As the Government's primary development financier, UDBL aligned its Strategic Plan -2020 2024 to the country's Vision 2040, now under implementation through the National Development Plan III (NDP III). Consequently, the 2023 Business Plan is aligned with the NDP III.

The 2023 business plan was developed through a rigorous business planning process which included an evaluation of the Bank's operating environment, and a review of past and present performance. Additionally, in line with the Bank's policy and best practices, the Bank conducted a mid-term review to assess the progress of the five-year strategy, midway through its implementation. This review proposed several recommendations that were considered during the business planning cycle.

The 2023 business plan is therefore anchored on the implementation of the approved strategic plan 2020-24, an appreciation of the prevailing business environment, and findings from the mid-term review exercise. Highlights of the 2023 Business Plan include;

SCALING UP IMPACT OF UDB

The Bank will seek to achieve the following strategic objectives in 2023:

- Mobilize appropriate funding to deliver the Bank's strategy to support priority sectors including the emerging industries and sectors in the economy (oil and gas, creatives industry, and ICT and innovations).
- Improve organizational efficiency through mainstreaming data management and reporting, adoption of customer-centric technology solutions, and other organizational arrangements guided by the SSCI Version 2;
- Improve portfolio quality through enhanced portfolio and relationship management;

- Optimize interventions for improved development impact including piloting program-based financing;
- Promote thought leadership through the scaling up of various knowledge management practices;
- Enhance stakeholder experience through the implementation of the stakeholder engagement strategy as well as the customer service experience and management strategy, and
- Foster employee experience by supporting competency development through the implementation of a comprehensive learning and growth framework.

These objectives will be realized through the implementation of various initiatives in the sustainability and operational plans.

The following is a summarized graphical representation of the Bank's 2023 Sustainability strategy.

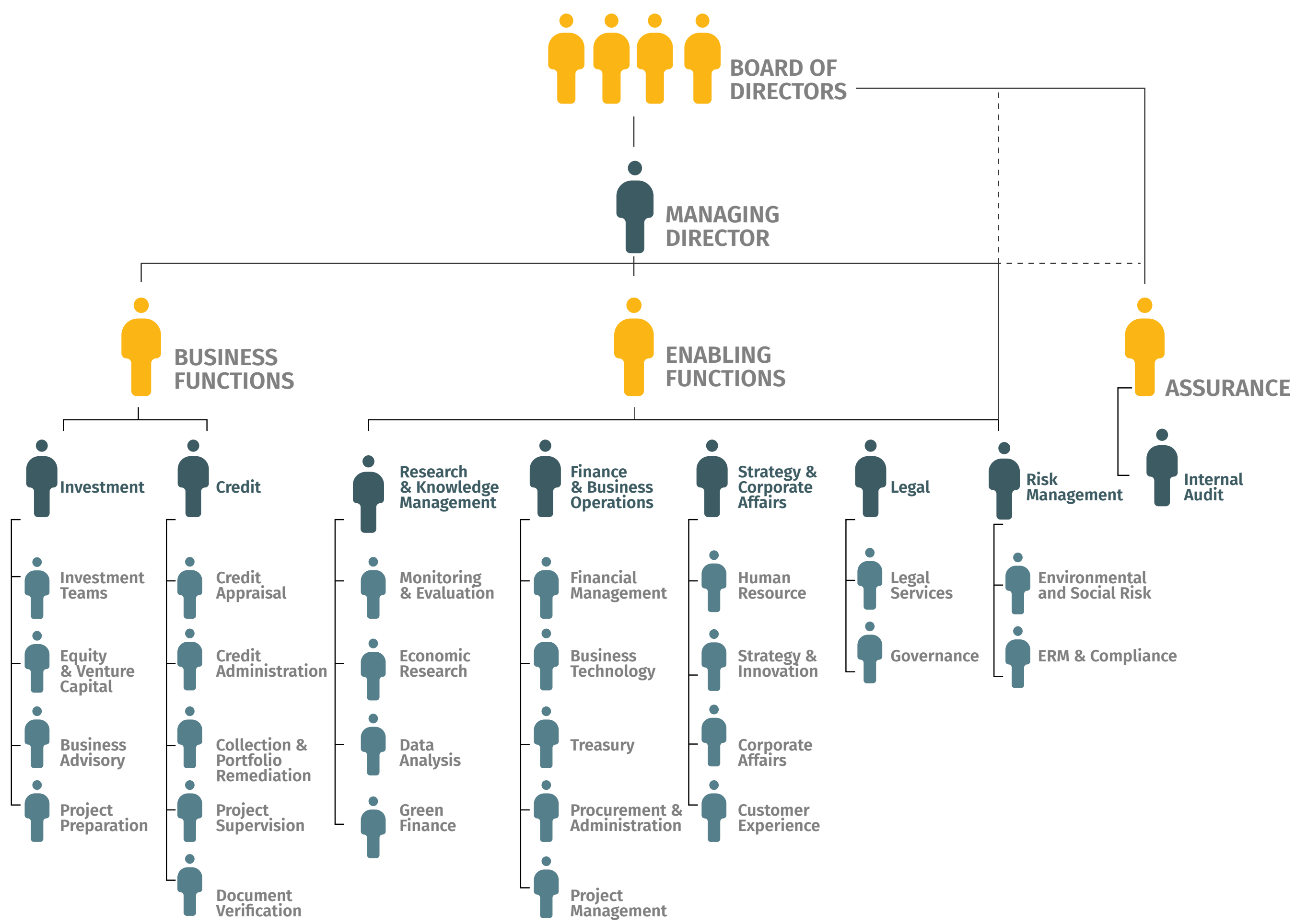
IMPACT ON THE SOCIETY	IMPACT ON THE ECONOMY	IMPACT ON THE ENVIRONMENT
KEY RESULT AREAS		
▪ Enhancing the quality of life through safer, better, higher-paying jobs ▪ Promoting entrepreneurship and innovation ▪ Enabling inclusive prosperity	▪ Boosting the real economy ▪ Creating a high-income, internationally competitive future-proof economy ▪ Building economic resilience	▪ Achieving climate neutrality through resource efficiency and preserving and enriching biodiversity by the funded businesses
SELECT INITIATIVES		
▪ Implement measures to improve occupational health and safety within businesses funded ▪ Undertake initiatives to ensure social protection within projects funded by the Bank ▪ Promote the development of the Creative Industry ▪ Promote entrepreneurship as an avenue to build sustainable businesses ▪ Implement the enterprise development program to improve the competitiveness and sustainability of SMEs ▪ Promote Women-owned enterprises ▪ Promote spatial equity within the Bank's investment portfolio ▪ Promote Youth Enterprise	▪ Build sustainable large-scale enterprises ▪ Improve the access to finance by SMEs ▪ Increase production & productivity of agrifood value chains ▪ Crowd-in private investment to boost the real economy ▪ Support the adoption of technology and green transformation ▪ Develop smart core infrastructure to lower production costs, enhance competitiveness and facilitate the sustainable exploitation of development opportunities ▪ Support the establishment of electric mobility in Uganda ▪ Finance the establishment of water for production systems ▪ Promote economic diversification through the development of nascent industries and support import substitution ▪ Support the development of the tourism sector ▪ Support human capital development interventions aimed at producing an appropriately skilled labor force and improving access to health services	▪ Implement a framework to account for / mitigate the effect of UDB activities on the environment ▪ Undertake the baseline computation of specific metrics for environmental impact parameters

KEY RISKS AND **OPPORTUNITIES**

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

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

ORGANIZATIONAL **STRUCTURE**



The Bank continued to implement the Board approved structure comprised of 8 directorates. Two of the directorates i.e. Investments and Credit are directly involved in transactions, focusing on all priority sectors and performing due diligence on projects applying for funding

- The Investments Directorate comprises of professionals that prospect for business, manage client relationships and the Bank's investments as well as undertake project preparation and business advisory services.
- The Credit Directorate manages the credit risk of the Bank's investment portfolio.

The business functions are supported by 6 directorates that facilitate:

- The legal aspects of transactions
- Strategy formulation and implementation monitoring, human capital management, customer experience and corporate communications
- Resource mobilization & optimization, and business technology services
- Enterprise risk management & assurance.
- Research, knowledge management & Green Finance

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

STAKEHOLDER **ENGAGEMENT AND MANAGEMENT**

At UDB, we continue to underscore the importance of stakeholder engagement in shaping effective and sustainable business strategies.

Building a resounding stakeholder engagement and management strategy has been key to the Bank specifically in the previous year. We have developed and adopted holistic strategies to better engage our stakeholders with disruptive relevant interventions.

Our approach has been involving various stakeholders in the shaping of our business strategy but most importantly seeking feedback on what we can do better. The Bank remains cognizant that any effective business strategy approach requires the buy-in and commitment of both the internal and external stakeholders to create a real impact. Beyond this, we have had to optimize the right channels and platforms that can foster constructive dialogue with our stakeholders structured around strategic objectives.

This has worked, reaffirming UDB's position on the table of men with a revamped positioning of authority in the development finance space.

While seeking to attain perfect alignment is always a work in progress, our approach in wanting to create both value for ourselves and each of our partners has meant that our goals have naturally become aligned with those of our stakeholders.

PROMOTING **TRANSPARENCY**

Transparency is embedded in our ethos. On a quarterly basis, we publish our results across various platforms because we owe it to the public to account for the funds that are entrusted to us by the government. Internally, we work in an open environment with an open-door Policy where staff have access to all Bank-related information. The Bank highlights quarterly direct impact results.

Thought Leadership

The Bank has developed and published various thought leadership material in the form of opinions and features. This has positioned the Bank as the number one expert in development finance and an authentic and reliable source of information. We have optimized and curated stories to communicate our messages.

Brand and communication

To promote the Bank's products and services, UDB has engaged in robust unconventional marketing approaches. We reemphasize the power that our products must foster the development agenda of Uganda. The Bank continued to sustain the brand campaign to create public awareness, evoke interest as well as increase uptake of the Bank's products and services.

Public relations and media partnerships

To amplify our rich content, the Bank has developed mutually beneficial and collaborative relationships with varied media houses through messaging, content production, and visibility. The partnerships are a critical component of the Bank's reputation ecosystem as it continues to grow and post exceptional results in line with its High Impact Goals (HIGS).

UDB on social media

Social media has added a whole new dimension to the way we communicate. It allows for rapid engagement, and gives us an additional avenue from which we can share the progress and impact of our efforts.

Through our social media platforms, the Bank has facilitated two-way communication with its customers and the public with real time updates on the Bank's activities, products, and services. The Bank is currently active on Twitter, LinkedIn, YouTube and Facebook.

Through social media, we have broken down the intricate and complex development finance topics through infographics appealing to the young demographics of the population as well.

Proactive Engagement Strategy for Sustainability

One of the Bank's key objectives in the implementation of UDB's 2022/24 Strategic Plan was to grow and maintain a proactive Stakeholder Engagement and management strategy for enhanced visibility and reputation of the Bank. To achieve this, a multitude of approaches for involving stakeholders was put in place thus a comprehensive Stakeholder Engagement Strategy was developed using a participatory approach to gather necessary inputs from a selection of key Stakeholders. The strategy facilitates the achievement of UDB's strategic objectives by providing a clear roadmap for engaging stakeholders. The engagements facilitate a two-way approach that allows for feedback and input. We are an organization that listens, consequently new approaches are continuously being developed to respond to the ever-growing needs of our stakeholders. Various groups of stakeholders were engaged last year to include but not limited to: Executive, Parliament, Collaborating MDAs, Professional Bodies, Partners, Funders, Media and customers.

Business Clinics and Symposiums

Teso-Karamoja Business Clinic

The Clinic was held with an objective to harness economic opportunities within the region and discuss solutions to address barriers to the exploitation of these opportunities. The event hosted over 1,300 people from the 18 districts that make up the region, drawn from political, business, academia, and civil society leadership.

Ankole Symposium

Uganda Development Bank Limited (UDBL) in partnership with Operation Wealth Creation (OWC) held the third investment symposium targeting the Greater Ankole region under the theme "The contribution of Financial Innovation to the resilience of the economy for sustained growth". Attracting over 1,200 stakeholders, the two-day symposium took place from February 21st to 23rd 2022.

Impactful Partnerships

UDB partners with Ministry of Science, Technology and Innovation

Uganda Development Bank entered a partnership with Ministry of Science, Technology and Innovation aimed at supporting nascent innovation and knowledge-based industries. The MoU was signed by the UDB Managing Director Ms Patricia Ojangole and the Minister of Science, Technology and Innovation, Hon. Dr. Monica Musenero.

UDB commits UGX 148 Billion to Enhance Electricity Access in Uganda

The Bank committed UGX 148.5 billion to enable 550,000 households to access hydroelectricity. The commitment was announced at the launch of the 5-year Hybrid Electricity Customer Connection Credit Framework by UDB and the Ministry of Energy and Mineral Development presided over by the Minister of Energy and Mineral Development Hon. Ruth Nankabirwa (C).

The MSME Week Uganda 2022

Uganda Development Bank participated in the MSME Week 2022, Uganda's premier event that celebrates the innovation and contribution of Uganda's Micro, Small, and Medium-Sized enterprises in Uganda to the country's economic development. Dr Francis Mwesigye (2ndL), UDB's Chief Economist / Director Economic Research and Knowledge Management represented the Bank at the event.

UDB enters US$ 20Million Partnership with BADEA

The Arab Bank for Economic Development in Africa (BADEA) approved a USD20 Million funding line to Uganda Development Bank Ltd (UDB), aimed at supporting the private sector in Uganda. The two organizations signed agreements to augment the commitment signed by H.E. Dr. Fahad Aldossari, the Chairman Board of Directors BADEA and Mrs. Patricia Ojangole, the Managing Director UDB and witnessed by the Minister of State for Finance (General Duties), Hon. Henry Musasizi.

Engaging our Shareholders and Key Stakeholders

2021 Annual General Meeting

UDB's Shareholders and the Board at the 2021 AGM held in Kampala.

Annual Press Briefing

A cross section of UDB Management and Stakeholders at the 2022 Annual Press Briefing held in Lira.

Awards and Recognition

UDB wins Global Sustainable Finance Award for the Second Year Running

Uganda Development Bank and its Managing Director Patricia Ojangole were named Sustainability Leader of the Year 2022 at the Karlsruhe Sustainability Awards Ceremony that was held during the Global Sustainable Finance in Germany. Awarded by the International Council of Sustainability Standards and Certification Initiative (SSCI) for Value Driven Financial Institutions, the accolade is given to individuals and/or institutions that demonstrate commitment to creating value for all their stakeholders and protecting the environment.

At UDB, we continue to underscore the importance of stakeholder engagement in shaping effective and sustainable business strategies.

STRATEGIC PARTNERSHIPS

PARTNERSHIP WITH EUROPEAN UNION

The Tourism Facility

Uganda Development Bank (UDB) in partnership with European Union (EU) allocated funds in form of a grant attached to a loan (also known as 'facility') to enable the sector to revive through the hardship of COVID19. The facility seeks to stimulate businesses operating in the tourism sector, which has been heavily impacted by COVID-19 by providing a grant and soft loan with flexible terms aligned to the current needs of the sector. A total approximate pool of UGX 62 Billion (UGX 40 Billion UDB loan plus UGX 22 Billion EU Grant) was set aside for this facility.

START

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

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

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

EU IS A FUNDING PARTNER OF FAO AGRI-INVEST

What is AgrInvest?

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

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

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

Partnering with Uganda Development Bank

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

Key elements of AgrInvest to Uganda Development Bank for Uganda:

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

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

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

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

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

Partnership with European Organisation for Sustainable Development

European Organization for Sustainable Development (EOSD) is global partner that is dedicated towards developing and executing innovative programs that are contributing towards sustainable development of the economies of partner governments and institutions especially financial institutions. The work of EOSD is focused on supporting the transition to a new economy – an economy which is powered by technology, driven by innovation and is green, inclusive and sustainable. The bank has partnered with EOSD in developing and executing the Sustainability Standards and Certification Initiatives (SSCI) and Financing 4.0.

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

Following certification, the Bank is on track to be one of the very first DFI's to implement the Financing 4.0 program. In 2023, the Bank will pursue recertification under version 2 of SSCI.

Ensibuko

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

UWEAL

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

Other partnerships: Uganda Revenue Authority, Uganda Registration Services Bureau, Economic Policy and Research Center, Ministry of Science, Technology and Innovation, Uganda National Bureau of Standards and Electricity Regulatory Authority.

ENHANCING **CUSTOMER EXPERIENCE**

In 2022 the Bank launched its customer experience management strategy that defines the Bank's commitment and holistic approach to enhancing our service to the customer

The Bank recognizes the central role of the customers in facilitating UDB to deliver her mandate! By developing and launching the UDB Customer Experience Strategy in 2022, the Bank recomitted itself to delivering exceptional experiece to its customers.

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

Staff participating in a group activity during the launch of the UDB Customer Experience Strategy, October 2022.

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

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

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

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

For all your enquiries and feedback, please reach out to us on our dedicated customer contacts:
Email: clientrelations@udbl.co.ug

UDB **LOAN APPLICATION PROCESS**

As simple as ABC

A

Express interest

- A completed application form (available on the website)/formal letter addressed to the Director of Investments detailing requirements.

B

Submit the required documents

- Business constitution documents e.g Company registration documents, memorandum and articles of association, certificate of incorporation, etc)
- Previous transaction history e,g audited accounts, cash flow projection, budget estimates etc.
- Details of the proposed security for the requested loan, including current valuations.
- Feasibility report/business plan (business plan guide/outline is available on the website)
- Bank statement for the past 12 months (Where applicable)

C

Review of application

- UDB reviews and provides feedback

APPLICATION REVIEW PROCESS

01 Applications are received and considered by a Deal Review Committee to ensure that they fall within the bank's eligible sectors and meet the minimum requirements of feasibility and viability. At this stage, applications can be declined, and the applicant is advised accordingly.

02 Once an application is cleared by the Deal Review Committee, a term sheet will be issued to the client with additional requirements. The client is then required to sign the term sheet, provide any additional supporting information, and pay the appraisal fee for the application to progress for appraisal and full due diligence.

03 After full appraisal, the application is prepared and presented to the Credit Committees at either/or both Management and Board levels depending on the complexity and amounts requested.

04 Upon approval of applications, legal documentation will be prepared and shared with the successful applicant, who will be required to sign and return these to the bank upon fulfilment of the underlying conditions precedent.

05 After documentation and security have been fully perfected, facilities will be disbursed, followed by strict monitoring of its compliance with conditions subsequent and facility performance.

Please note that the bank reserves the right to cancel or grant the loan facility at its discretion even where the applicant meets all the eligibility criteria.

GOVERNANCE

UDB Executive Team

23%

increase in operating income

CHAIRMAN'S **STATEMENT**

On the backdrop of a challenging 2022, characterized by a less-than-ideal operating environment fraught with a diverse array of socio-economic challenges, including the lingering effects of the COVID-19 pandemic, geopolitical tensions, and the looming specter of climate change, the Bank persevered in its vital role as a catalyst for Uganda's economy. It made significant strides in executing its strategic initiatives, remaining unwavering in its commitment to enhancing the quality of life for the people of Uganda.

On behalf of the Board of Directors, I am deeply grateful for the opportunity to present an update on the Bank's performance in 2022, which is comprehensively detailed in this report.

During the year, the Bank conducted a mid-term review of its strategic plan for the period 2020-2024, reaffirming its dedication to aligning interventions with the nation's development priorities. The Bank remains steadfast in ensuring that its strategies and plans remain relevant to the evolving economic landscape and aspirations of our country, effectively addressing the barriers to Uganda's sustainable socio-economic progress.

The year concluded with the Bank on a solid footing, showcasing substantial growth across key performance indicators. In 2022, the Bank made substantial investments totaling UGX 777 billion in new disbursements, marking the highest amount in a single year. These resources will empower beneficiary enterprises to expand, thereby generating socio-economic opportunities, including the creation of meaningful jobs and increased tax revenue for the government.

The Bank continues to pursue financial sustainability by prudently managing and deploying its balance sheet, bolstering revenue while optimizing operational costs, and diversifying funding sources. These actions have laid a robust foundation for sustained improvements in the Bank's performance.

During the year, the Bank's balance sheet expanded by a notable 24% to reach UGX1.52 trillion. This expansion was bolstered by a concurrent 52% surge in gross loans. Additionally, with a 23% increase in operating income and complemented by the gains realized in efficiency, UDB achieved a corresponding annual uptick in post-tax profit of 10%, to yield UGX42.6 billion.

The Board remains dedicated to ensuring that the Bank fulfills its mandate and realizes its long-term vision of catalyzing Uganda's socio-economic transformation, in alignment with national priorities as encapsulated in the National Development Plans and Vision 2040. We regard our role as critically important and approach it with unwavering commitment. Consequently, the Bank continues to allocate resources to the key priority sectors of the economy, as evidenced by a substantial portion of the Bank's loan portfolio (71%), and disbursements (75%) being directed toward the primary agriculture, agro-processing and manufacturing sectors in 2022.

As we enter 2023, the Bank will leverage its accomplishments to enhance its operations, optimize its growing brand reputation and stakeholder confidence, and harness the support and goodwill of the Government of Uganda to meet the expectations of all stakeholders. UDB will align its available resources, operating structures, and policy frameworks to drive transformative initiatives in line with our strategic objectives.

On behalf of the Board of Directors, I extend our heartfelt appreciation to all stakeholders for their unwavering support of the Bank. Our deepest gratitude goes to the President of the Republic of Uganda, H.E. Gen. Yoweri Museveni; our shareholders, the Minister of Finance Planning and Economic Development, Hon. Matia Kasaija, and the Minister of State for Privatization and Investment, Hon. Evelyn Anite; and the Top Management Team of the Ministry of Finance for their relentless and steadfast support.

I extend my sincere thanks to the Managing Director, Ms. Patricia Ojangole, the Management team, and the entire staff for their tireless dedication to the Bank's mission and the development of our country. Their exceptional efforts and commitment have ensured that the Bank serves its clients and customers with distinction, achieving various business milestones in 2022.

Lastly, to my fellow Directors of the Board, I express my appreciation for your unwavering dedication and commitment to the pivotal role that the Bank plays in advancing our country's development. As we look ahead to 2023 and beyond, we do so with a profound sense of hope and optimism.

Felix Okoboi (Mr.)
Board Chairman

> *"The Bank continues to pursue financial sustainability by prudently managing and deploying its balance sheet, bolstering revenue while optimizing operational costs, and diversifying funding sources.*

COMMITTED TO A BETTER TOMORROW

BOARD OF DIRECTORS

As at 31st December 2022

Mr. Felix Okoboi
Board Chairperson

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

Age: 51 Appointed: 2018

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

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

Ms. Patricia Ojangole
Managing Director

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

Age: 44 Appointed: 2018

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

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

Mrs. Rita A. Apell
Board Member

Master's degree in Business Administration from Herriot Watt University, postgraduate Diploma in Computer science and bachelor's degree in Mathematics & Physics from Makerere University.

Age: 49 Appointed: 2022

Directorship in other institutions: Director Finca, Network Support BV.

Other Roles: IT Consultant

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: 58 Appointed 2015

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

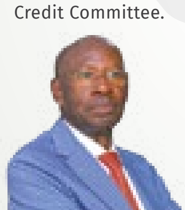
CommitteesL Chairperson, Board Audit and Risk Committee.

Mr. Joe Busulwa Kayongo
Board Member

Master of Business Administration (MBA) from the University of Nairobi, Bachelor of Commerce (BCom) from Makerere University, Post Graduate Diploma from the Research Institute of Advanced Training from the Netherlands.

Age: 73 Appointed: 2022

Directorship in other institutions: Director, Precision Consulting Limited.



Mr. Francis Tumuheirwe
Independent Non-Executive Director

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

Age: 67 Appointed: 2018

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

Committees: Member, Board Audit and Risk Committee.

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

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

Age: 49 Appointed: 2017

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

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

MANAGING DIRECTOR'S STATEMENT

Facilitating economic recovery

At the start of 2022, Uganda was emerging from the domino effects of the COVID-19 pandemic that had exerted an enormous socio-economic toll, affecting the lives and livelihoods of many Ugandans.

During this period of nascent recovery, geopolitical tensions continued to hold out, punctuated by the unprecedented Russia-Ukraine war which further exacerbated the strain on the country's path to full recovery. The year was also characterized by prolonged drought, landslides, and an Ebola outbreak. These factors resulted in the disruption of various supply chains, adversely impacting access to intermediate inputs, causing disruptions in services such as transport, and thereby affecting different core sectors of the economy.

The shocks and their deleterious effects resulted in heightened inflation, and exchange rate depreciation, among other impacts, with ripple effects on private sector performance. In addition, the general recession fears globally reduced aggregate demand for most of Uganda's exported products such as coffee and tea, hence affecting the country's export promotion agenda.

To abate these challenges, the government's efforts to rebuild and restore the country's economy remained unyielding. To complement these efforts, the Bank, being the country's national development finance institution and therefore the leading source of affordable patient development capital, implemented varied investments and solutions to facilitate resilience through these shocks and to aid recovery. Through its tailor-made financial and non-financial interventions, Uganda Development Bank remained focused on promoting a thriving, vibrant, and sustainable private sector in Uganda.

To this end, the Bank disbursed UGX777 billion in new financing to support various enterprises across the country, engaged mainly in primary agriculture, agro-processing, and manufacturing, representing an 81% growth in annual disbursements, from the UGX428 billion achieved in 2021. Furthermore, the Bank approved UGX894 billion in additional

UGX
3.4 trillion

was generated by enterprises funded by the Bank, growing 40% from UGX2.4 trillion the previous year funding to finance up to 249 projects spread across 68 districts. These investments will not only support job creation both directly and indirectly but will also support the beneficiary enterprises to enhance their contribution to the country's output/GDP, and tax contributions among other outcomes.

Building Uganda, together

The Bank funds enterprises that are not only financially viable and environmentally conscious but also show demonstrable promise to create tangible development outcomes in the country. In this light, the Bank's investment activities yielded the following contributions in 2022.

"The Bank implemented business development training sessions across 8 regions of the country, targeting over 1,000 SMEs, from which over 275 were selected to participate in the inaugural UDB Business Incubation Program.

Creating Gainful employment

A total of 51,439 Jobs were created and/or maintained within the enterprises funded by the Bank, a growth of 24% from the 41,338 jobs realized in 2021.

- **Youth:** 62% of these jobs (or 31,718 jobs) were taken up by persons aged between 18 and 35 years;
- **Women** accounted for 13,599 of these jobs as well as constituted 27% of the Boards of directors and 37% of the senior management teams of the enterprises funded by the Bank.
- **PWDs** (Persons living with disabilities) took up 806 jobs, growing from 288 PWDs in 2021.

Sustaining Growth in Output, Forex, and Tax contributions

The enterprises funded by the Bank generated output value amounting to UGX3.4 trillion, growing 40% from UGX2.4 trillion the previous year. Relatedly, on account of the improved performance of enterprises engaged in the production of foreign-destined products (mainly agro-processing and manufacturing), a 71% growth in forex contributions was registered, from UGX405 billion in 2021 to UGX694 billion in 2022.

Additionally, these enterprises posted 57% net growth in their profitability from UGX314 billion in 2021 to UGX492 billion, from which they contributed UGX147.5 billion in corporation tax, the same growing 76% over the UGX84 billion recorded in 2021.

Unlocking Barriers to access to finance

The Bank progressed the implementation of its specialized interventions to support key demographic and business segments that would otherwise be constrained in accessing capital i.e. the SMEs, Women, and Youth. Cognizant that these segments form the critical mass for the sustained vibrance of and production within the economy, and are therefore key to Uganda's socio-economic development, the Bank committed to allocate up to 20% of its core capital to finance eligible enterprises within these segments.

Through our proposition dubbed the "UDB Special Programs", the Bank is addressing the would-be barriers to access to credit by among others, simplifying the qualification requirements, undertaking appropriate credit structuring relevant for these segments, and providing the much-needed business development and advisory services.

Additionally, the Bank implemented business development training sessions across 8 regions of the country, targeting over 1,000 SMEs, from which over 275 were selected to participate in the inaugural UDB Business Incubation Program.

The Bank will continue to scale up its investment and business advisory activities to aid the formalization, multiplication, and survival of enterprises under these segments.

"The Bank funds enterprises that are not only financially viable and environmentally conscious but also show demonstrable promise to create tangible development outcomes in the country.

Ensuring the Bank's sustainability

The Board and Management continue to exercise prudence and ensure that the Bank operates and invests sustainably, deploys its available resources (assets) responsibly, and operates as a going concern.

Financial Performance

During the reporting period, the Bank realized a post-tax (net) profit of UGX42.57 billion, growing 9.6% from UGX38.8 billion realized in 2021. This sustained growth is on account of a growing balance sheet and the related benefit from prudent investments in interest-earning assets, notably loans to qualifying projects, and backed by a deliberate focus on cost optimization.

Bank Size

The Bank's total assets grew by 24% in 2022, from UGX1.22 trillion to UGX1.52 trillion. This growth is underpinned by the loan disbursements made in 2022 amounting to UGX777Billion, resulting in a related 56% uplift in the Bank's net loans, from UGX782 billion in 2021 to UGX1.22 trillion. The bank's gross loans grew significantly, registering a 52% upsurge from UGX851 billion to close 2022 at UGX1.298 trillion.

To fund its loan assets, UDB received UGX82.5 billion as additional capital contributions from the Government of Uganda, improving its cumulative capital position to UGX1.14 trillion, from UGX1.015 trillion in 2021. Additionally, the bank drew down some of its available lines

COMMITTED TO A BETTER TOMORROW

of credit, increasing its total borrowings from UGX114.8 billion to UGX213 billion.

Leveraging Institutional Efficiencies

The Bank continued to grow and leverage its pool of diverse professionals to deliver its broad mandate. Relatedly, the Bank implemented various operating strategies and policies, and improvements to its processes and technology to improve customer and stakeholder experience.

Awards

In recognition of the Bank's achievements in improving its operations, governance, and other parameters, UDB received varied local and international recognition during 2022, including:

- The Bank and its Managing Director were for the second year running, named Sustainability Leader of the Year at the Karlsruhe Sustainable Finance Awards in Germany. This recognition is awarded to individuals and/or institutions that demonstrate commitment to creating real value for all their stakeholders and protecting the environment.
- The Bank was assigned a national scale issuer private rating by Global Rating Company (GCR), of AA+(UG)/A1+(UG) in the long and short term respectively, a notch below the highest possible rating, with the outlook accorded as Stable.
- UDB has for the sixth consecutive year achieved the rating of "best-performing DFI" by the Association of Africa Development Finance Institutions (AADFI). The initiative recognizes members who have excelled in compliance with the DFI prudential governance, operational and financial performance standards.

Looking Forward

During the year, the Bank undertook a mid-term review of its 2022-2024 Strategic Plan, with the view to validate its achievements, review the continued relevance of its strategy in delivering its overarching mandate, and to capture stakeholder voices about the Bank's institutional purpose. As a result, the Bank will, in the short-medium term, seek to improve the quality of life of Ugandans through three revised High Impact Goals, namely:

a) GOAL 1: To Build a Sustainable Agrifood System for Uganda

Under this goal, UDB will continue to focus on supporting the entire agriculture ecosystem, encompassing the full range of activities in the primary production of food and non-food agricultural products and their storage, aggregation, post-harvest handling, transportation, processing, distribution, and marketing.

b) GOAL 2: To promote sustainable Industrialization in Uganda

UDB aims to support industrialization in the country by playing a major role in making the economy competitive and innovative. The Bank will boost value addition to increase the country's competitiveness and hence increase foreign exchange earnings through specific interventions to support Agro-industrialization, Manufacturing, Knowledge-based Industries, and Extractives Industries.

c) GOAL 3: To Develop a Sustainable Services Sector

Being the largest contributor to GDP (over 40% of GDP in FY 21/22), the sector presents huge economic opportunities in the development of Uganda, and in creating gainful employment if well exploited. Through this goal, the Bank will pursue projects engaged in the following select sub-sectors: Science, Technology, and Innovation (STI), Education, Health, Tourism, and Creative Industry.

To achieve these objectives, the Bank remains committed to addressing the enabling factors including:

- Develop, test, and implement models appropriate to promote industrialization and structural transformation for socio-economic development.

- Generate robust and credible evidence to inform policy formulation and implementation.
- Diversifying the Bank's funding sources and mobilizing appropriate funding to address the ever-growing demand for capital
- Scaling up interventions aimed at strengthening the capacity of SMEs and youth & women-owned enterprises, thereby deepening their access to credit
- Ideating novel solutions that sustainably address the sectorial gaps and constraints within the key and emerging economic sectors critical to the country's socio-economic development, including agriculture, industry, services, oil & gas, creatives, and Science, Technology & Innovation (STI), among others.
- Improving institutional efficiency by leveraging the Bank's human capital and adopting customer-centric technology solutions.
- Continuing to embed and foster holistic sustainability within the Bank's operations, taking into account the Bank's financial sustainability, and the impact of its operations and those of its customers, on the economy, environment, and communities within which the Bank operates.

In the coming year, the Bank will also focus on undertaking bold initiatives to protect the natural environment and combat climate change.

Appreciation

The successes registered by the Bank have been on account of the contributions of various actors. On behalf of Management and staff, I convey our commendation to all our stakeholders who continue to stand by the Bank; your unwavering support inspires us to redouble our resolve to strive for greater achievements in our mission to enhance the quality of life for the people of Uganda.

I express our heartfelt appreciation to the President of the Republic of Uganda, H.E Yoweri K Museveni for his invaluable support to the Bank. I also extend our sincere gratitude to the Bank's shareholders, the Ministry of Finance, Planning, and Economic Development; their enduring and steadfast support and guidance have been vital in establishing robust governance at the Bank, overseeing UDB's strategic endeavors, and securing the necessary funding to fulfill its mission.

We express our gratitude to the Chairman and Board of Directors for their vigilant oversight. Their ongoing invaluable guidance has consistently fortified and advanced the Bank, and it is under their leadership that UDB continues its remarkable journey.

I want to extend my heartfelt appreciation to all my colleagues, the Management team, and the entire staff at the Bank. Your unwavering passion and devotion, evident in your daily efforts, are the driving force behind the Bank's enduring success. It is your collective dedication that keeps the Bank reaching new heights.

To our esteemed clients, we extend our gratitude for entrusting us with the privilege to serve you. Your partnership with us is deeply valued, and we are committed to strengthening our relationship with you as we work together to improve the quality of life of Ugandans.

With our collective efforts and determination, I am certain that the Bank is poised for successful years ahead. We move forward with enthusiasm and anticipation for what lies ahead.

Patricia Ojangole
Managing Director.

THE EXECUTIVE TEAM

Ms. Patricia Ojangole
Managing Director

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

Mr. Mahamoud Andama
Director Investments

Master of Business Administration from the Edinburgh Business School – Heriot WATT University Scotland UK, and a Master of Arts in International Economics and Trade degree from Shanghai University-Peoples Republic of China. Degree in Bachelor of Business Administration from Makerere University – Uganda. Member of the Association of the Certified Chartered Accountants (UK) and a Fellow Member of the Association of Chartered Certified Accountants – UK (FCCA).

Mr. Denis Ochieng
Director Finance and Business Operations

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

Ms. Sophie K. Nakandi
Head Legal and Company Secretary

Bachelor of Law, Makerere University; Postgraduate Diploma in Legal Practice, Law Development Centre; Masters in Business Law, De Montfort University, Leicester; Member of the Chattered Governance Institute (ICSA)

Mr. Joshua Allan Mwesiga
Director Strategy and Corporate Affairs

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

Mr. Stephen Hamya
Chief Internal Auditor

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

Mr. Samuel Edem – Maitum
Director Credit

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

Mr. Sylver Kyeyune
Director Risk

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

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

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

GOVERNANCE STATEMENT

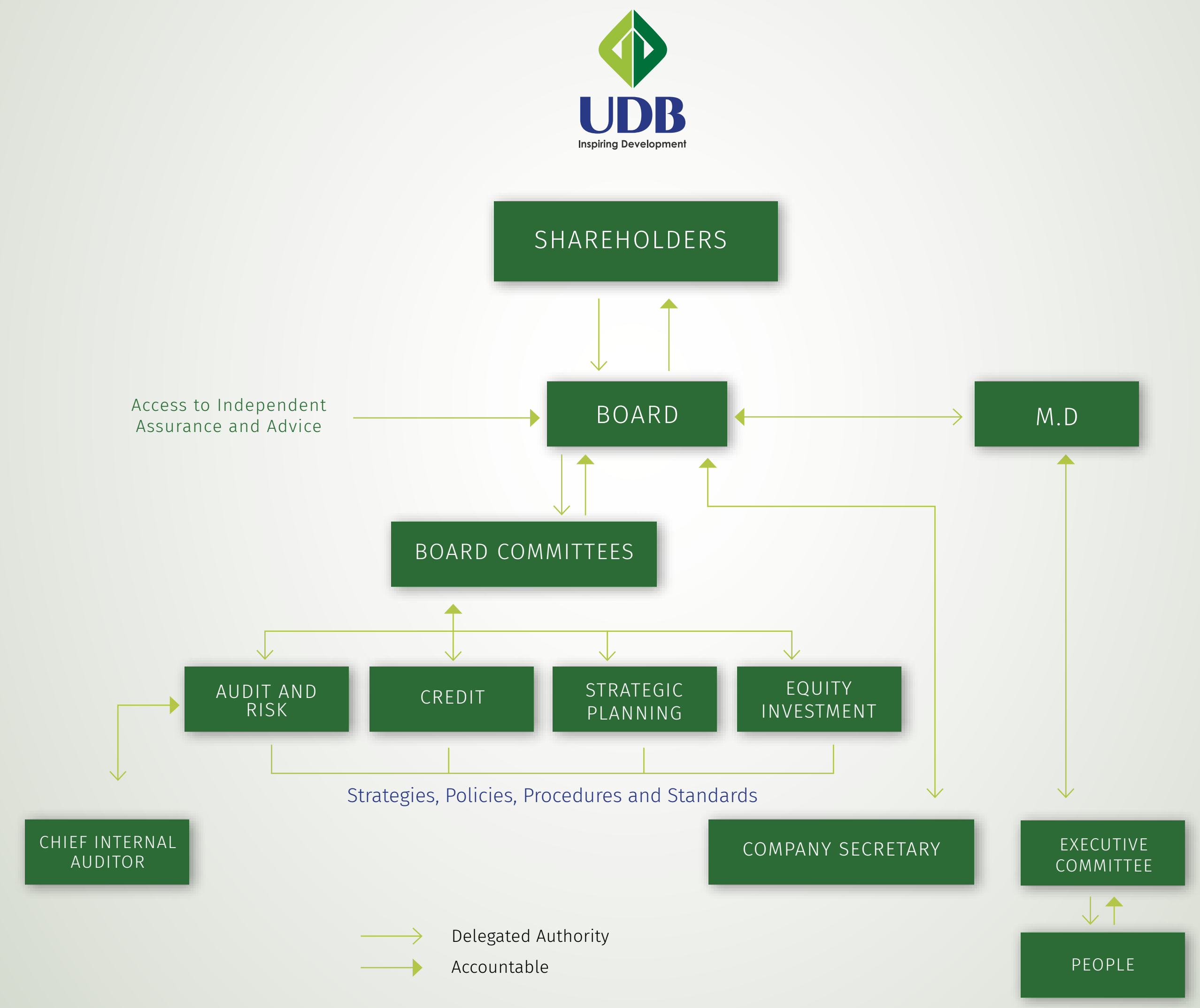
Overview

The Corporate Governance Statement demonstrates Uganda Development Bank Limited's commitment to the highest standards of corporate governance and compliance to applicable legal, statutory and regulatory requirements.

The Board of Directors and Management remain committed to ensuring that the Bank's operations and processes are executed with fairness, accountability, responsibility, and transparency.

Adherence to sound governance practices is paramount towards ensuring that sound decisions are made which protect the Bank's interests, enhance shareholder value, attract the right human capital as well as investment partners, maintain goodwill with all stakeholders and foster public confidence in the Bank's product and service offering.

The Bank's Corporate Governance Structure and Division of Responsibilities



Senior staff and Board of UDB during the 2022 Strategy Meeting.

Role of the Board

The Board is responsible for setting the strategic directionv of the Bank, in a way that maximizes shareholder value over the long term and oversees the implementation of the Bank's mandate to improve the quality of life of Ugandans. The Board is mandated with the overall control of the Bank's strategic affairs and is guided by the schedule of matters reserved for the Board as prescribed in the Board Charter.

The Board approves the Bank's strategic objectives, budget, and ensures resources are in place for the implementation of the strategy. The Board is also responsible for the appointment, removal, remuneration and performance review of Senior Executives, maintaining a sound system of risk management and internal controls which provide reasonable assurance on the achievement of organizational objectives, ensures the Bank is ethically operated and complies with all relevant laws, regulations, codes of business practice, and good corporate governance practices. The Board also approves operational policies, sanctions any amendments or waivers thereof and approves the financial statements.

Delegated authority to the Managing Director

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

Board structure and composition

Appropriate structures are in place to effectively govern the business. The size of the Board is determined by the Memorandum and Articles of Association, which is constituted of 7 members of which, 6 are non-executive directors and 1 executive director. This composition ensures a balance of power on the Board such that no individual Director has unfettered powers for the decision-making process.

Details of each Director and their date of appointment are disclosed on page 32. The Board structure is referenced on page 41.

BOARD STRUCTURE AND COMPOSITION

Board of Directors	Board Credit Committee	Board Strategic Planning Committee	Board Audit and Risk Committee	Board Equity Investment Committee
Responsible for the Bank's overall performance while retaining full and effective control.	Considers and approves Credit transactions within the committee's threshold and oversees Credit Risk as well as the credit portfolio.	Responsible for the strategic direction and performance of the Bank, compensation policies, resourcing plans and knowledge management.	Monitors the adequacy of financial controls and reporting, liquidity internal control environment and enterprise Risk Management.	Provides strategic direction and oversight over the Bank's equity asset portfolio and all equity activities including approval of investment projects.

COMMITTEE MEMBERSHIP AND NUMBER OF MEETINGS ATTENDED

	Full Board Meeting	Board Credit Committee	Board Strategic Planning Committee	Board Audit and Risk Committee	Board Equity Investment Committee
Number of meetings	**9**	**13**	**5**	**5**	**3**
Mr. Felix Okoboi	8**	N/A	N/A	N/A	N/A
Mr. Henry Magino	9	N/A	N/A	5**	N/A
Mr. John Byaruhanga	8	9	4	N/A	3**
Mr. Francis Tumuheirwe	9	N/A	N/A	4	N/A
Mrs. Rita Akot Apell	9	N/A	4**	4	N/A
Mr. Joe Busulwa Kayongo	9	9**	N/A	N/A	N/A
Mrs. Patricia Ojangole	8	10	3	N/A	3
Mr. Nimrod Waniala	1***	2***	1***	N/A	N/A
Mrs. Silvia Angey Ufoyuru	1***	N/A	1***	1***	N/A

** Chairperson of the respective committee
*** Retired from the Board on 16th February 2022

The Board recognises the contribution of the Non-Executive Directors who constructively challenge Management's ideas and proposals, scrutinise the performance of Executive Management, bring independent thought and judgment to deliberations and act in the best interest of the Company. Additionally, they develop proposals on strategy, satisfy themselves on the integrity of financial information, internal controls and risk management systems. The Executive Director ensures implementation of the strategy as well as Board resolutions and provides useful insight and perspective of the business at meetings facilitating quality discussions that are critical for informed decisions.

Board Skills and Experience

The Bank undertakes a regular review of the Director skills, experiences and competencies, knowledge as well as diversity requirements in terms of age, gender and skills available on the Board to meet current and future strategic needs of the Bank. The Board is comprised of influential individuals with high integrity who possess a wealth of experience, expertise diversity, skills and independence required to deliver the Bank's Strategy and High Impact Goals. These diverse attributes ensure a varied line of thought during discussions to make informed and balanced decisions.

Board Skills Matrix

The composition ensured the Board effectively executed its mandate. The appointment of directors is a preserve of the Shareholders as required by law. The Memorandum and Articles of Association stipulate the skills necessary for effective execution of the Bank's mandate and strategy:

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

Key:

- High competence/practiced

- Moderate awareness

The Board has access to independent advice/assurance and is supported by three Board Advisors who provide technical guidance to the Audit, Risk and Equity Investment Committees of the Board.

Director Appointments and Succession Planning

The Board Chairperson provides stewardship and is mandated with the appropriateness of the Board composition, sufficient size, balance in terms of skills, experience, independence, and knowledge of the Board. He also ensures plans are in place for an orderly and seamless succession of the Board.

Director appointments and re-appointments are a preserve of the Shareholders and is formally done at the Annual General Meeting (AGM). Interim Board appointments conducted between AGMs are confirmed at the subsequent AGM as required by the Bank's Articles of Association. Shareholders identify individuals of high integrity, experience, and skills necessary to deliver the Bank's mandate and objectives and recommends the same to Bank of Uganda for vetting prior to formal appointment.

A director appointed to the Board receives a letter of appointment stipulating the key terms of engagement which must be accepted before being onboarded. Non-Executive Directors are required to serve the Board for a term of three (3) years and re-election for one further term of three (3) years after the initial term subject to the Directors performance.

Following a review of the existing skills and diversity sets, the Board observed that skills in Information Technology and Innovations, Audit and Accounting, Credit and Project appraisal, and Economic, Social and Environmental skills needed to be enhanced which was brought to the attention of the shareholders.

In 2021, Bank of Uganda commenced a probity assessment on identified candidates recommended to join the Board of Directors and issued a no objection to the appointment of Mrs. Rita Akot Apell and Mr. Joe Busulwa Kayongo as Non-Executive Directors and they were appointed to the Board of Uganda Development Bank Ltd on 16th February 2022 for a term of three years.

The Board confirms that identified gaps in Information Technology and Innovations, Credit and Project appraisal, and Economic, Social and Environmental skills have been addressed.

Following the appointment of Directors Rita A. Apell and Joe Busulwa Kayongo, Mrs. Silvia Angey Ufoyuru and Mr. Nimrod Waniala formally retired from the Board after serving for 2 terms.

The probity assessment on the third candidate meant to replace Mr. Henry Balwanyi Magino is still ongoing by Bank of Uganda and the director recruitment process is expected to be completed before June 30th 2023. At the 8th Annual General Meeting held on 7th May 2021, shareholders resolved to extend Director Henry B. Magino's tenure until his replacement is appointed.

The Bank appreciates the retiring directors for their outstanding contribution.

Mr. John Byaruhanga who chairs the Equity Investment Committee shall retire from the Board on 1st June 2023 and the Shareholders will appoint a suitable replacement.

The Board confirms that identified gaps in Information Technology and Innovations, Credit and Project appraisal, and Economic, Social and Environmental skills have been addressed.

Induction and Professional development

Newly onboarded directors participate in a formal induction process which is either internally or externally facilitated and coordinated by the Company Secretary. The induction process enables an appreciation of the Bank's values, mission, vision, mandate, strategy, operations, governance, financial performance, internal controls and risks management and policies, operating environment, and any other developments. The induction program ensures a face-to-face engagement with the Senior Management team and site visits to the Bank's premises. The induction program is regularly reviewed to ensure its adequate and considers relevant developments.

The Chairperson with support from the Company Secretary regularly reviews Directors' training needs and arranges appropriate development programs so that directors update their knowledge and skills and remain effective, making valuable contributions to the Bank. A Director Development Matrix which entails the various trainings scheduled to be undertaken is approved annually.

Board Evaluation

The Bank undertakes a rigorous review on the effectiveness of the Board, its committees, and individual directors. Board evaluation assesses whether the Board remains effective in carrying out its mandate, whether individual directors continue to make quality contributions at meetings and continue to demonstrate a commitment to their director roles and whether there is presence of sufficient teamwork at Board level.

The evaluation exercise for the year ended 31st December 2022 was internally facilitated by the Company Secretary and the Board was found to be effective. Areas for improvement were identified and an action implementation plan created.

The Board will continue to refine its processes to ensure a robust and efficient Board in a way that creates sustainable long-term value to its shareholders and wider stakeholder

Board Meetings

The Board meets at least 4 times in a year and holds annual strategy sessions including any Special Board meetings required to attend to urgent business. During the period ended 31 December 2022, the Board of Directors convened 9 times. Refer to details on page 41 for Board attendance during the period.

To enable the Board to effectively discharge its responsibilities, the Board approves an annual calendar to facilitate planned Board activities. Papers are circulated at least four days before the meeting. To facilitate efficient decision making, the Management team, and other senior executives may be invited to attend part of the meetings to provide additional insights into technical matters.

The attendance of the meetings by directors in the reporting period was generally good save for times when they were indisposed due to conflicting priorities.

Digital Technology

The Corona virus (COVID-19) created an opportunity to exploit and optimise the digital strategy and technology. The Board has to date heavily relied on digital platforms to conduct business in a seamless and efficient manner. Board papers are circulated to the directors through a secure portal known as Convene.

The Bank continues to accelerate its digital transformation to ensure improved efficiency in work processes. The electronic mode of operation preserves the green environment with reduced paper use and carbon emissions.

The risk of cybersecurity remained a key focus area for the Board during the reporting period and effective internal controls were established to protect the Bank's data and interests.

Board Committees

The Board delegates some of its responsibilities to Committees but remains fully accountable to the shareholders. The Committees augment the Board's efficiency and effectiveness by giving more time to technical issues.

The Board is supported by four Board Committees namely, the Board Strategic Planning Committee, Board Credit Committee, Board Audit and Risk Committee and Board Equity Investment Committee. Committee operations are guided by approved terms of reference which are reviewed annually to ensure alignment with developments in best corporate governance practice, legal and regulatory frameworks.

The Chairperson of each Board Committee is a non-executive director and members are appointed by the Board Chairperson. The Board periodically reviews the composition of its committees as part of the Succession planning process. The Company Secretary serves as the secretary and provides secretarial services to all committees. At a Board meeting following the quarterly committee meetings, the Board receives a Recommendation report from each committee for review.

Board Remuneration

The Board Strategic Planning Committee plays an advisory role in the remuneration of staff and non-executive directors. The Board ensures the remuneration packages are appropriate to attract and retain talent. Non-Executive Directors are paid a monthly retainer and sitting allowance for the meetings attended. No performance-based remuneration is paid to non-Executive directors.

During the period ended 31 December 2022, the Directors were remunerated as follows:

No.	Job Title	Monthly pay/retainer	Sitting allowance
1	Board Chairperson	4,500,000	1,250,000
2	Member of the Board	3,500,000	1,000,000

Board Committees

Key activities undertaken by the Board and its committees during the reporting period:

Matters	Focus Area
Strategic matters	■ Held a one-day offsite meeting in August 2022 to undertake a mid-term review of the Bank's strategy. ■ Held a two-day offsite Annual Strategy meeting in November 2022 to review the Bank's overall strategy, performance, annual business plans and budgets, the culture and the Bank's capabilities and resources. The Board additionally approved the 2023 business plan and budget. ■ Regularly reviewed the impact of macro-economic indicators, global events, and trends on the business, including likely risks affecting the business. ■ Regularly reviewed and approved policies. ■ Considered and approved the roll out of Regional Business offices for commercial and strategic outreach to varied stakeholders with the commencement of the Gulu Business regional office. ■ Approved the Bank's Re-certification under Version 2.0 of the Sustainability Standards and Certification Initiative (SSCI).
Operational matters	■ Reviewed the Bank's funding plans and expenditure and investment requirements. ■ Provided oversight for the operational activities carried out by the different functions within the Bank.
Assurance and risk management	■ Approved the recruitment of Ms. PwC Auditors to Re-model and development an enhanced ECL Model which fully aligned to the requirements of IFRS9. The Bank transitioned from the simplistic approach to a more granular approach which allows the Bank to objectively provision for expected credit losses.

Matters	Focus Area
Assurance and risk management	▪ Considered reports on all material legal matters including recent regulation, key developments in the governance, legal and regulatory space, court matters. ▪ Reviewed the integrity of the financial statements, approved the annual report and authorised key corporate filings. ▪ Regularly reviewed the internal and external audit reports and held Management accountable for outstanding audit issues. ▪ Reviewed the adequacy of the internal controls and risk management systems.
Environmental Social and Governance matters	▪ The Board maintained its oversight role by ensuring that all approved transactions for financing conformed to the Bank's Environmental and Social Policy, National and International Environmental and Social standards, and requirements. ▪ Approved the Green Finance Policy to demonstrate the Bank's deliberate commitment to transform the country into a climate smart economy. ▪ Reviewed reports on employee engagement, welfare, and wellness. ▪ Received performance updates from the governance function on implementation of all governance issues.
Stakeholder Engagement	▪ Meetings and workshops were undertaken with key stakeholders including shareholders, Permanent Secretary to the Treasury among others. A Stakeholder Engagement Management Plan will be approved and implemented in 2023. ▪ Several projects funded by the Bank were visited and assessed on project management performance. ▪ Engagements at regional Business Clinics and symposiums.

Conflict of Interest

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

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

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

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

Compliance with the Governance Framework, Codes and Regulations

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

The Board is charged with ensuring appropriate systems and controls are in place to monitor compliance with the established legal and regulatory framework. The Audit and Risk Committee receives quarterly reports on the status of compliance risk management in the Bank and significant areas of non- compliance. These are subject to review by the Internal Audit function.

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

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

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

The Bank was recognized for maintaining excellent Corporate Governance practices in the Public Sector Enterprises sector by the Institute of Corporate Governance of Uganda. The Bank was ranked the 2nd Runner up.

The Bank also received a certificate of Recognition for outstanding achievement in the Financial Reporting under the Banking Services Category at the 2022 Financial Reporting Awards.

Ethical Conduct and Responsibility

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

The Bank remains committed to the highest standards of ethical and lawful behaviour and professional conduct and understands that its reputation depends on the integrity of its Board members, Senior Management, and all staff.

Annually, the Staff are required to sign the Code of Conduct committing to exercise due care and diligence while executing their roles, act honestly, in good faith, and the best interests of the Bank at all times, not to allow personal interests to conflict with that of the Bank and to declare any interests when they arise, not to engage in any conduct likely to bring discredit upon the Bank, to comply with all applicable laws, regulations, policies and adhere to the principles of Good Corporate Governance, not to make improper use of any information acquired by virtue of their position and to keep the Bank's proprietary information confidential. The Directors are required to remain independent in their judgment and actions and take all reasonable steps to be satisfied with the soundness of their decisions, to use their powers for the proper purpose, and in the best interests of the Bank, to preserve and protect the Bank's assets and resources and promote their efficient usage. Any suspected violations to the Code of Conduct, Bank policies or regulation are required to be promptly reported.

Engagement with Shareholders

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

Shareholders attend the Annual General Meeting to exercise their rights including approving new director appointments, re-appointment of directors, approval of the audited accounts, appointment of external auditors for the period 2023, approval of director fees and approval of dividends or in the alternative, a re-investment of the net profits.

> *The Bank maintains and values regular communication with its shareholders.*

BOARD COMMITTEE REPORTS

Board Credit Committee Report

The Board made tremendous strides towards the operationalisation of the Board Equity Investment Committee during the year 2022. Terms of reference were approved, and the Equity product was rolled out in 2022. The Committee had its inaugural meeting in April 2022 and held 3 meetings during the year.

The Committee is comprised of 2 members; 1 Non-executive Director who chairs the Committee (Mr. John Byaruhanga) and 1 Executive Director (Mrs. Patricia Ojangole). The Director Investments, Director Risk, Head of Legal, Manager Equity and Equity Analyst are invitees to the meetings. The Committee is ably supported by 2 Independent Advisors namely Mr. Simon Rutega and Ms. Annette Mulira who possess expertise and experience in equity transactions.

The Committee provided strategic direction and oversight over the Bank's equity investment portfolio and all the investment activities. The committee only approves investments if the financing intervention will improve the capital structure of a potentially viable project with significant social development impact as well as increased financial returns to the Bank.

As at 31st December 2022, approvals registered were UGX 20billion against an annual target UGX 23.5billion. Over 50% of the approvals were to support businesses in the manufacturing sector. Preference shares constituted a significant portion of the capital at UGX 8.9 billion, representing 45% of the pipeline, followed by ordinary shares at UGX 6.6billion (33%) and convertible notes of UGX 4.5billion (22%). Convertible notes and preference shares featured as the preferred equity instruments owing to the inherent protections afforded to the Bank through the level of income certainty and recourse to underlying assets.

> *The Committee provided strategic direction and oversight over the Bank's equity investment portfolio and all the investment activities.*

Board Credit Committee Report

The Board Credit Committee (BCC) comprised of two (2) Independent Non-Executive Directors including Mr. Joe Busulwa Kayongo, the chairperson and Mr. John Byaruhanga and one (1) Executive Director, Mrs. Patricia Ojangole. The Director Investments, Director Credit and Director Risk are invitees to all meetings held. The Board is satisfied with the collective skills of the members of the BCC.

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

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

As at 31st December 2022, the Committee approved loans worth UGX 894 billion against the target of UGX 856 Billion which represented a 104% achievement. Details of these and other transactions are provided in the sustainability section of the Annual Report.

The Committee held a total of 13 meetings during the year and details of the attendance are indicated on page 41.

Board Strategic Planning Committee Report

The Board Strategic Planning Committee (BSPC) is comprised of two (2) independent Non-Executive Directors including Mrs. Rita Akot Apell, the Chairperson, Mr. John Byaruhanga, and one (1) Executive Director, Mrs. Patricia Ojangole. The Director Strategy and Corporate Affairs, Director Finance and Business Operations and Chief Economist are attendees at the meetings. The Board confirms BSPC membership consisted of appropriate skills, knowledge, experience and was of sufficient size relevant to the Bank needs.

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

- Working closely with Management in developing the Bank's long-term strategy and annual business plan. Management executes the strategy and reports to the BSPC on the performance against the approved strategy, annual business plans and key performance indicators every quarter.
- Oversight on matters relating to the Bank's human resource policies.
- Assisting the Board in determining the remuneration policy for Executive directors and Senior Management and maintaining oversight over the Bank's remuneration philosophy.
- Ensuring that the right caliber of Management is recruited and retained.
- Setting performance-related incentive schemes, performance criteria, and measurements.
- Oversight on the implementation of the Banks' Information technology and digitization Strategy.

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

- An evaluation of the Bank's Executive and Senior Management's performance.
- Reorganisation of the Bank with the recruitment of key personnel including Director Risk and Chief Economist, among others. The recruitments ensured the Bank continues to deliver on its mandate and achieve its strategy.
- Approval of Policies including; Project Management Policy, Research and Publications Policy.
- Roll out of Regional Business offices for commercial and strategic outreach to varied stakeholders.
- Re-certification under Version 2.0 of the Sustainability Standards and Certification Initiative.

The Committee held 5 meetings during the year and details of the attendance are indicated on page 41.

Board Audit and Risk Committee Report

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

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

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

- 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.
- Expected Credit Loss
- Management and Audited accounts
- Approved Policies including policy amendments namely: Compliance Policy, Anti-Money Laundering Policy, Data and Privacy Classification Policy, Enterprise Risk Management Framework.

The Committee held five (5) meetings during the period as indicated on page 41.

Internal Control

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

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

The BARC obtained assurance that the internal controls of the Bank were effective in all material aspects throughout the year under review.

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

Internal Audit

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

The BARC monitors the adequacy and effectiveness of internal controls on a quarterly basis and assesses the effectiveness of the Internal Audit Function. The BARC reviewed and approved the Internal Audit Plan which was fully implemented during the period.

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

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

External Auditor

In accordance with the Law, the Bank's principal external auditor is the Auditor General. At the 9th Annual General Meeting held on 24th June 2022, the Auditor General informed the shareholders that his office would directly undertake the audit of the affairs of the Bank for the year ended 31 December 2022, and this position was approved by the shareholders.

The committee confirms that the external auditor was independent of the Bank and conducted the audit in accordance with International Standards on Auditing.

The Committee, in consultation with the Senior Management, agreed to the engagement letter and audit plan for the financial year ended 31 December 2022.

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

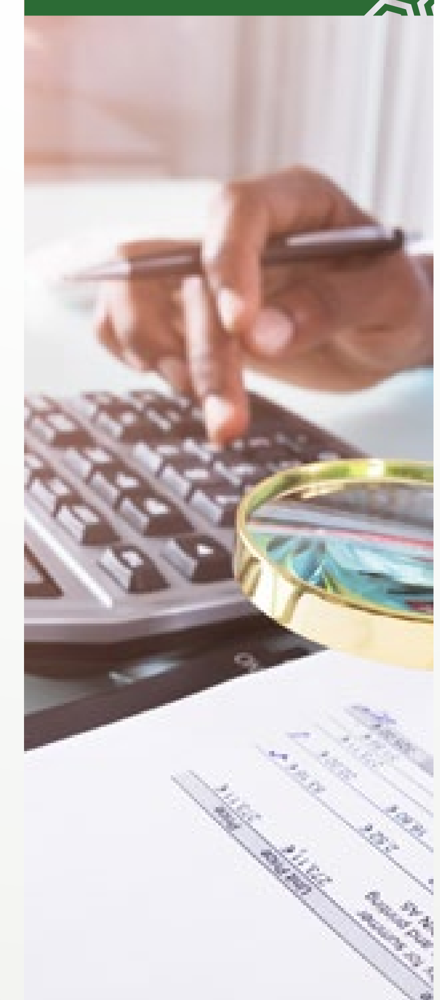
The External Auditor's report was presented to the Committee for review and endorsement of the recommended action plans. Senior Management is required to regularly provide the implementation status of the issues raised in the Management letter.

The BARC meets the External Auditor to discuss matters that the Committee or the External Auditor believes should be discussed privately and confirms that no such matters arose during the year.

Financial Statements

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

The committee confirms that the external auditor was independent of the Bank and conducted the audit in accordance with International Standards on Auditing



- Reviewed and discussed the audited Annual Financial Statements with the External Auditor and Management.
- Reviewed the Management Letter and Management's responses.
- Reviewed significant adjustments resulting from 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 Audit Function.

Expertise and experience in the Finance Function

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

Going Concern

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

The Board assigned the Audit and Risk Committee (BARC) with oversight of the Bank's risk management function, which includes financial reporting risks, internal financial controls, fraud risks, and information technology risks. The BARC oversaw the Bank's risk management function during the period under review and was satisfied that appropriate and effective controls were in place to manage these risks, enabling the identification and mitigation of potential risks and ensuring the Bank's stability and security. The BARC is committed towards continuous monitoring and improving risk management processes to maintain resilience and adaptability. Overall, the BARC is satisfied with the Bank's risk management controls that were in place for the period under review and remains dedicated to providing effective oversight to safeguard the Bank's financial stability and security.

Company Secretary

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

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

The Company Secretary acts independently, her appointment and removal is a matter for the entire Board. The Board provides a safe environment for her to effectively execute her role.

The Company Secretary fulfils a dual role as Secretary on the Board and General Counsel on the Executive Committee of the Bank.

A cross section of UDB Board Members at a strategy session. L-R: Mr. Francis Tumuheirwe, Mr. Nimrod Waniala, Mr. Felix Okoboi (Board Chairman), Ms. Patricia Ojangole, Mr. Henry Balwanyi Magino, Mr. John Ira K. Byaruhanga

RISK MANAGEMENT STATEMENT

Overview of the Bank's risk environment in 2022

During the year, UDB registered an improved risk maturity as evidenced in the maturity assessments that were conducted, underpinned by the increasing levels of trust among stakeholders and the feedback from independent reviews.

The Bank's risk management standards apply across all lines of operations to facilitate a risk-conscious environment in pursuit of the set strategic objectives.

The Bank carried out a risk and opportunities assessment in both internal and external contexts. This involved the proactive identification, assessment, and management of uncertain events in a coordinated and consistent approach as set out in the Bank's Risk and Opportunities Framework. It detailed the aims, objectives, and actions required to deliver a sound approach to integrating risk and opportunity management into the leadership, business planning, Bank culture, and operational delivery of all the Bank's High Impact Goals.

UDB remains committed to improving the risk approach as demonstrated in the compliance with SSCI standards, the Bank's Environment and Social Management Systems, annual credit ratings, and continuous benchmarking.

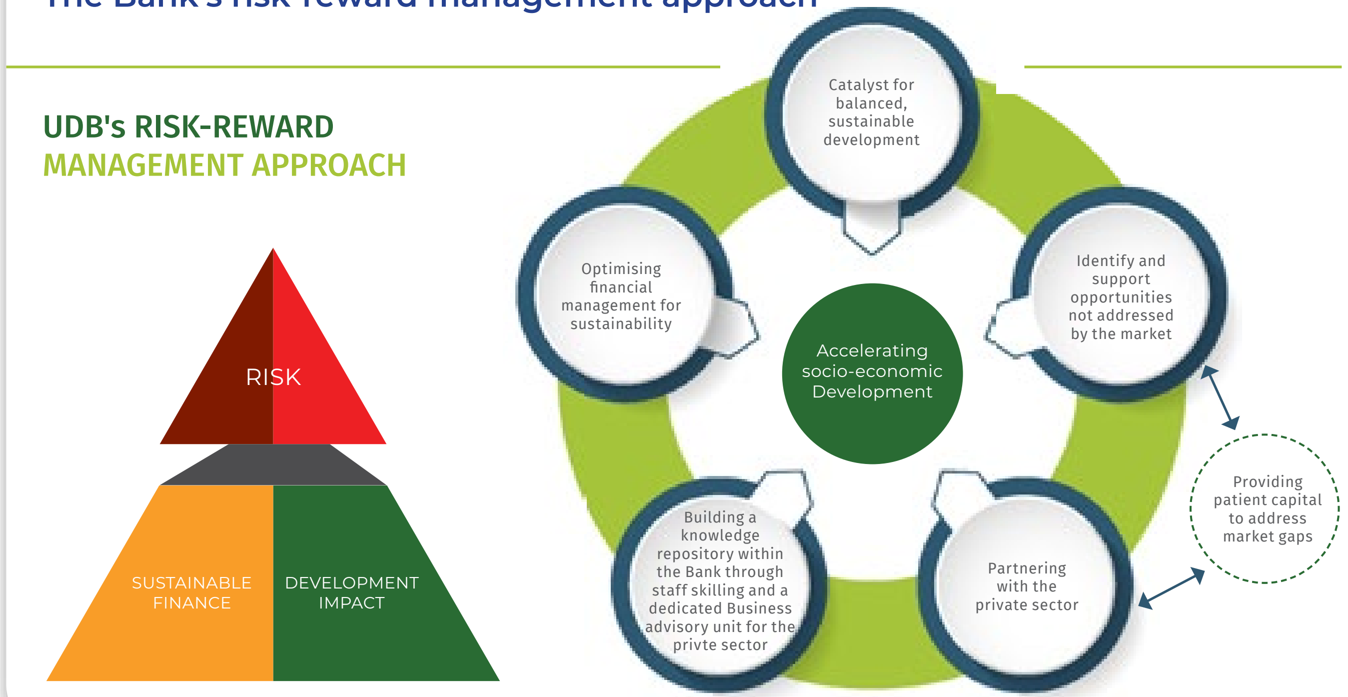
Key insights from the year

In 2022, UDB demonstrated a vigilant awareness of its operating environment, diligently assessing how changing variables impacted the projects it funded. Considering the soaring cost of credit and the consequent tightening of monetary policy, the Bank maintained close communication with its clients to ensure that credit risk was effectively managed. To ensure the successful delivery and sustainability of the funded projects, the Bank proposed various credit interventions to clients, such as offering moratoriums, grace periods, and advisory services.

Additionally, the Bank has implemented prudential limits in credit administration to ensure that there is no high concentration in terms of individual borrowers and sectors.

The Bank's capitalization was sound throughout the year, a trend that is anticipated in the foreseeable future; as funded by a healthy mix of debt, shareholder contributions, and organic sources through retained earnings.

The Bank's risk-reward management approach



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

Risk governance at UDB

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

UBD's risk management model

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

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

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

Risk Management Implementation approach

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

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

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

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

Overview of the Bank's Risk Profile

UDBL is exposed to a mix of conventional banking risks and emerging risks driven by the business model in delivering on the bank's mandate, operating environment (internal and external), the target markets among others. Table 1 below highlights the various risk categories the bank was exposed to in 2022.

UDB risk universe 2022

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

Risk Assessment Approach

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

Risk Control

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

Risk Monitoring

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

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

Outlook for 2023

The risk management focus for 2023 shall entail the following aspects among others:

- Review and implementation of a Risk and Opportunities Management framework; an enhancement to the conventional Enterprise Risk Management framework.
- The bank is expediting the finalization and implementation of climate risk assessment tools to facilitate the identification and classification of climate-related risks in different regions across the country. This tool will subsequently recommend appropriate mitigation measures aimed at reducing the risk exposure of financed projects.
- Enhancing the Bank's risk intelligence by leveraging big data and data analytics.
- Harness business process re-engineering for efficiency and effective processes towards stakeholder value creation and sustainability. By optimizing the Digital Agenda, and critical processes' automation the bank envisions significant efficiency gains for better performance.
- By harnessing the Combined Assurance approach across all the lines of defense, the Bank shall align its control validation approach and efforts across the control functions to drive efficiency and the right levels of risk management comfort.
- Maintaining a zero tolerance to noncompliance shall be sustained and as such the bank shall front its compliance unit to proactively identify and avert any areas of noncompliance; complemented by Internal Audit review and assurance.

Uganda's economy is projected to grow from 3.5% in 2021 to 6.1% in 2024.

OPERATING ENVIRONMENT

ECONOMIC PERFORMANCE FOR 2022 AND **OUTLOOK FOR 2023**

EXTERNAL ECONOMIC ENVIRONMENT

Global Economic Activity and Outlook

The global economy experienced a significant slowdown in 2022 with a growth rate of 3.4% compared to 6.2% in 2021 due to reduced demand, disrupted supply chains, and decreased confidence caused by the persistent effects of the COVID-19 pandemic, and the geopolitical tensions between Russia and Ukraine (International Monetary Fund, 2023). The fight against inflation, Russia's war in Ukraine, and the resurgence of COVID-19 in China continued to negatively impact global economic activity in 2022, and these factors are expected to continue affecting the economy in 2023. The projection for 2023 suggests modest growth of 2.9%, still below pre-pandemic levels.

Ongoing geopolitical tensions between Russia and Ukraine, and the rising inflation levels are posing challenges to economic growth in 2023. Efforts to resolve geopolitical tensions and manage inflation levels are crucial for sustained economic growth. The projections for 2023 and 2024 indicate continued economic challenges, with slower growth in advanced economies and continued uncertainty in emerging markets and developing economies (See Table 1).

Global Growth and Projections, 2021-2024

	Actuals	Estimate	Projections	
	2021	2022	2023	2024
World Output	6.2	3.4	2.9	3.1
Advanced Economies	5.4	2.7	1.2	1.4
United States	5.9	2	1.4	1
Euro Area	5.3	3.5	0.7	1.6
Japan	2.1	1.4	1.8	0.9
United Kingdom	7.6	4.1	0.6-	0.9
Emerging Market and Developing	6.7	3.9	4	4.2
Economies (EMDEs)				
China	8.4	3.0	5.2	4.5
India	8.7	6.8	6.1	6.8
Russia	4.7	2.2-	0.3	2.1
Brazil	5	3.1	1.2	1.5
Sub-Saharan Africa	4.7	3.8	3.8	4.1

Data Source: International Monetary Fund (January 2023)

East African Community (EAC) Economic Activity and Outlook

The East African Community (EAC) experienced a real growth rate of 4.2% in 2021, with projected growth rates of 3.7%, 4.4%, and 5.3% for 2022, 2023, and 2024, respectively (See Table 2). The region's outlook is mixed, with Rwanda, DRC and Kenya experiencing growth rates of above 5%, while South Sudan is struggling. Political stability, infrastructure development, trade, and investment are among the factors impacting the current state and outlook for the EAC countries. The region's outlook for 2023 is positive, with most countries projected to experience higher growth rates as the global economy recovers. The EAC's efforts towards regional integration could help boost trade and investment within the region (World Bank, 2023).

Real GDP Growth Rate and Outlook (%) of East African Community -2021 2024

	Actual	Estimate	Projections	
	2021	2022	2023	2024
East Africa Community (EAC)	**4.2**	**3.7**	**4.4**	**5.3**
Uganda	3.5	4.7	5.5	6.1
Kenya	7.5	5.5	5	5.3
Tanzania	4.3	4.6	5.3	6.1
Rwanda	10.9	6	6.7	7
Burundi	1.8	2.1	3	4
South Sudan	5.1-	2.8-	0.8-	2.1
DR Congo	6.2	6.1	6.4	6.6

Source: World Bank (January 2023)

The implication to EAC economy and Uganda

East African Community (EAC): The mixed growth outlook for the East African Community (EAC) countries highlights the importance of addressing challenges such as political stability, infrastructure development, trade, and investment. Rwanda's high growth rate shows the positive impact of investing in governance and infrastructure, while Kenya's growth rate demonstrates the importance of a robust private sector. South Sudan's negative growth rate reflects the impact of political instability and conflict on the economy. The more positive outlook for 2023 is attributed to the global economic recovery and the EAC's efforts towards greater regional integration. Overall, addressing challenges and promoting factors such as political stability, investment in infrastructure, and regional integration will be crucial for continued economic growth in the region.

Uganda's Economy: Uganda's economy is projected to grow from 3.5% in 2021 to 6.1% in 2024, but still lags behind some other EAC countries. Infrastructure development, improving the business environment, and regional integration could enhance growth.

Uganda's economy is projected to grow from 3.5% in 2021 to 6.1% in 2024

Global Trade

The slowdown in global industrial production led to a deceleration in global trade in the second half of 2022, but goods trade surpassed pre-pandemic levels, while services trade continued to recover. Despite tourism flows rebounding due to eased travel restrictions, they remained well below pre-pandemic levels and varied across regions. Global supply chain pressures eased since mid-2022, but trade growth is projected to decelerate further to 1.6% in 2023 due to weakened global demand. Travel and tourism may pick up, but they will be constrained by slower global activity and high input costs. The outlook for global trade in 2023 is expected to remain subdued due to ongoing pandemic-related challenges and geopolitical risks.

Trade is anticipated to be particularly subdued in EMDEs with strong trade linkages to major economies where demand is expected to slow sharply. Downside risks to the global trade outlook include weaker-than-expected global demand and renewed supply chain bottlenecks. An intensification in trade protectionism, fragmentation of trade networks, and security concerns about supply chains could also increase trade costs and slow trade growth. Overall, the outlook for global trade in 2023 remains uncertain due to ongoing pandemic-related challenges and geopolitical risks (World Bank, 2023).

Implication to Uganda: Uganda's economy may be affected by the global trade deceleration, reducing demand for exports, and increasing production costs. The tourism sector may provide relief, but high input costs and restrictions may pose challenges. Downside risks, such as trade protectionism, could limit Uganda's access to international markets.

Global Commodity Markets Situation

Agricultural commodity prices remain high but have also declined, particularly for wheat and vegetable oils. Energy prices are expected to ease in 2023 but remain higher than previously forecast by the World Bank, primarily due to an upward revision to coal prices. Crude oil prices are projected to moderate, while agricultural prices are projected to decline 5% in 2023 after rising 13% in 2022. However, food insecurity remains a critical challenge in some EMDEs, with about 220 million people estimated to have faced severe food insecurity in 2022, which could rise further if upward risks to food prices materialize (World Bank, 2023).

Quarter-On-Quarter Analysis: International Prices

In Q4/22, international prices for commodities such as cocoa, maize, rice, wheat, and sugar increased due to supply disruption, low production due to climate change, and rise in demand. The dock strike at Côte d'Ivoire port caused the quarter-on-quarter increase in international cocoa prices. Maize production is expected to decline by 4 percent globally this season due to weather-related lower yields in the United States and the European Union. The international price of rice increased due to export policy changes in India and concerns about the impacts of heavy flooding in Pakistan. On the other hand, crude oil prices declined by 12%, and coffee, tea, and cotton prices also decreased due to low demand and surplus in the market. The Energy Information Administration (EIA) forecasts Brent crude oil prices to average $95.33/b in 2023, while WTI is expected to average $87.33/b in 2023 (See table 3).

Table 3: Quarterly global commodity prices, Q4 2021 to Q4 2022

Commodities	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22	% Change (Q3/22-Q4/22)
Crude oil, average ($/bbl)	78.28	96.62	110.10	96.43	85.26	-12
Cocoa ($/kg)	2.45	2.49	2.38	2.29	2.41	5
Coffee, Arabica ($/kg)	5.64	5.95	5.88	5.82	4.88	-16
Coffee, Robusta ($/kg)	2.41	2.38	2.28	2.36	2.12	-10
Tea, avg 3 auctions ($/kg)	2.81	2.75	3.06	3.34	3.04	-9
Soybeans ($/mt)	552.38	662.82	727.31	671.25	640.20	-5
Maize ($/mt)	250.97	301.59	342.91	308.49	322.24	4
Rice, Viet Namese ($/mt)	406.18	390.61	406.92	399.71	420.88	5
Wheat, US HRW ($/mt)	370.31	417.01	492.39	394.83	415.65	5
Sugar, world ($/kg)	0.42	0.41	0.43	0.396	0.404	2
Cotton ($/kg)	2.67	3.02	3.48	2.74	2.22	-19

Data source: World Bank

Global Inflation

Inflation rose throughout 2022 in almost all economies, with median global headline inflation exceeding 9% in the second half of the year, the highest level since 1995. This was due to a combination of demand and supply factors, including the acceleration of growth during the initial rebound from the 2020 global recession, compositional shifts in demand encountering ongoing capacity constraints and supply chain disruptions, shortages of key commodities, tight labor market conditions, and currency depreciations. Global core inflation reached over 6% late last year, its highest level since 1992, and short-term inflation expectations have risen in most economies. However, inflationary pressures started to abate toward the end of 2022, and both core and headline inflation are expected to decline over the forecast horizon, although high core inflation may persist in some countries.

The rising inflation has affected almost all countries that have adopted inflation targeting, with inflation above target in virtually all of them. Soaring inflation reflected a combination of factors, including the rebound from the 2020 global recession, supply chain disruptions, shortages of key commodities, and currency depreciations. However, inflationary pressures started to ease toward the end of 2022, and both core and headline inflation are expected to decline over the forecast horizon. Short-term inflation expectations have risen in most economies, but long-term inflation expectations have been relatively stable, reflecting the credibility of most central banks' commitment to confront inflation. Nonetheless, high core inflation may persist in some countries, suggesting that global inflation will remain elevated for longer than previously envisaged.

Implication to Uganda's economy: Rising global inflation poses challenges for Uganda's import-reliant economy, requiring effective inflation management, supply chain stabilization, and pricing strategy adjustments.

> *The rising inflation has affected almost all countries that have adopted inflation targeting, with inflation above target in virtually all of them.*

Global Financial Developments

The global economy experienced tight financial conditions in 2022, with slowing global growth, high inflation, and fast monetary tightening leading to a reduction in risk appetite. Long-term government bond yields in the US and Germany increased at the fastest pace in nearly three decades, causing a decline in equity markets worldwide. EMDEs faced weaker debt and equity flows, with China experiencing significant debt market outflows. The US dollar appreciated by 14% on a GDP-weighted basis by October 2022, leading to the depreciation of most EMDE currencies, with economies with fiscal deficits above 3% of GDP experiencing eight times more depreciation than other EMDEs.

The dollar's strength affected borrowers with net dollar exposures and contributed to inflation in countries with depreciating currencies. EMDE monetary authorities extended domestic tightening cycles or used foreign exchange reserves to lean against currency pressures, causing a decline in EMDE bond issuance to its lowest level in ten years. Investors increasingly avoided debt from the most vulnerable EMDEs, with spreads on dollar-denominated debt exceeding 10 percentage points in about one-in-five EMDEs, locking them out of global debt markets. Energy importers with weak credit ratings faced significant increases in sovereign spreads, making it more challenging to finance large current account deficits.

"The dollar's strength affected borrowers with net dollar exposures and contributed to inflation in countries with depreciating currencies.

Implication for Uganda: Uganda as a developing economy may face difficulties in accessing international capital markets due to the decline in risk appetite and reduction in debt and equity flows. The depreciation of the Ugandan shilling could also increase inflationary pressures. Uganda's monetary authorities may need to use foreign exchange reserves or tighten domestic monetary policy to prevent excessive currency depreciation and capital outflows. However, Uganda has a relatively low level of external debt and has diversified its export markets to mitigate risks.

Domestic Developments

Uganda’s post pandemic recovery has been disrupted by several shocks. The economy continues to suffer from adverse spillovers from the Russia-Ukraine war induced high global commodity prices, tight global financial conditions, and adverse weather conditions. The effects of the high inflation caused by these shocks and the associated tightening of domestic financial conditions are squeezing consumers into difficult living conditions and businesses into tight operating conditions.

Real Sector Developments

Inflation and Outlook

Inflation refers to the rate at which the general level of prices of goods and services in an economy is rising. In Uganda, the headline inflation rate has increased significantly from 2.21% in 2021 to 7.19% in 2022, while the core inflation rate increased from 2.77% in 2021 to 5.99% in 2022. One reason for the high inflation in Uganda is the global increase in commodity prices, particularly food and fuel prices. For example, due to the global pandemic, disruptions to supply chains and transport logistics led to higher food prices, which directly affected consumers. In addition, the recent conflict between Russia and Ukraine has caused a surge in energy prices which has also led to higher prices of fuel and electricity in Uganda.

Another reason for the high inflation in Uganda is the expansionary fiscal and monetary policies adopted by the government to counter the effects of the pandemic. For instance, the government increased its spending on social welfare programs and infrastructure development to cushion the economy from the pandemic's effects, which led to an increase in money supply. This, in turn, led to more money chasing fewer goods and services, driving up prices. The combination of these factors has put significant pressure on the cost of living in Uganda, with high inflation affecting both businesses and consumers.

Also, climate change led to extreme weather patterns in Uganda, affecting agricultural production and contributing to a decline in food supply. This

resulted in higher food prices and an increase in inflation, with the food Crops and Related Items Inflation rising from 1.9% in March 2022 to 29.4% in December 2022.

Nevertheless, the Bank of Uganda has lowered its inflation projection for 2023, expecting inflation to average between 6 to 8 percent. However, upside risks to inflation include increased commodity prices, shilling depreciation, and supply constraints due to bad weather. On the other hand, downside risks include a global recession, lower domestic demand, and decreased confidence.

Implication: High inflation in Uganda, driven by global increases in commodity prices, disruptions in supply chains, and expansionary fiscal and monetary policies, has put significant pressure on the cost of living for businesses and consumers. Managing inflation will be crucial for the country's economic stability and the welfare of its citizens, with upside and downside risks to inflation projected by the Bank of Uganda.

Business Perceptions and Economic Activity

In 2022, there was an overall improvement in the sentiments about doing business, as reflected by the rise in the Business Confidence Index (BCI) from 51.3 in 2021 to 54.2. The BCI measures the level of confidence among businesses in the economy, and an increase in this index suggests that businesses are optimistic

"Bank of Uganda has lowered its inflation projection for 2023, expecting inflation to average between 6 to 8 percent.

COMMITTED TO A BETTER TOMORROW

about the future prospects of the economy. However, despite the rise in the BCI, the Business Tendency Indicator (BTI) remained below the pre-pandemic level.

On the other hand, the Composite Index of Economic Activities (CIEA) increased by 6 percent from 139.9 to 148 during the same period. The CIEA measures the overall economic activity in the country, including production, consumption, and investment. An increase in the CIEA implies an improvement in the level of economic activity, which could be a result of factors such as increased consumer confidence, government spending, or favorable economic policies.

Implication: The improvement in business confidence and economic activity in Uganda in 2022 suggests positive future prospects for the economy.

Financial Sector Developments

As of June 2021, the Banking industry's total assets in Uganda were UShs. 39.7 trillion, a 10.9% increase from the previous year. The industry's net profit rose by 17.5% to UShs. 1.0 trillion in 2021 from UShs. 853.8 billion in 2020. However, the Non-Performing Loans (NPLs) to total gross loans ratio increased slightly from 5.26% in 2021 to 5.35% in 2022, which is attributed to low economic growth and the impact of inflationary pressures. Notably, the final Credit Relief Measures (CRM) set by the Bank of Uganda expired in September 2022, which may lead to increased lending rates in commercial banks due to the credit risk in the financial sector. Overall, the Banking industry in Uganda has shown resilience, but the rise in NPLs and the expiry of CRM may pose challenges in the near future.

Interest rates Movements

In 2022, Uganda's interest rates experienced an upward trend. Shilling-denominated lending rates increased from a weighted average of 18.42% in October 2022 to 18.98% in November 2022. Similarly, foreign currency denominated lending rates increased from a weighted average of 7.71% in October to 8.13% in November 2022. This increase in interest rates can be attributed to the Central Bank's tight monetary policy stance in response to the persistent increase in consumer prices, which is reflected in the rise in the inflation rate over the same period. The Central Bank Rate (CBR) is the interest rate at which commercial banks can borrow from the Central Bank, and it is a key instrument for implementing monetary policy. In October 2022, the Central Bank increased the CBR from 9% to 10%, signaling a tightening of monetary policy.

Implication: The increase in interest rates in Uganda in 2022 was due to the Central Bank's tight monetary policy stance in response to the persistent increase in consumer prices. This increase may help control inflation and maintain the value of the currency but can make borrowing more expensive, leading to a decrease in investment and consumption, and a slowdown in economic growth. The impact on the economy will depend on factors such as the level of consumer spending, investment, and foreign investment.

Outstanding Private Sector Credit and Net Credit to Government (NCG)

In 2022, Uganda experienced an increase in outstanding private sector credit and net credit to the government, leading to an overall increase in domestic credit. The outstanding private sector credit increased by 10.3% from UShs. 19.8 trillion in 2021 to UShs. 21.8 trillion in 2022. The growth in private sector credit remained below historical averages owing to the tightening of monetary conditions.

The increase in net credit to the government by 71.7% from UShs. 8.6 trillion in 2021 to UShs. 14.7 trillion in 2022 can be attributed to the government's need for financing to support its various programs and projects. However, an increase in government borrowing can lead to concerns about the sustainability of the country's debt levels and can potentially lead to higher interest rates in the future.

The overall increase in domestic credit from UShs. 28.5 trillion to UShs. 37.4 trillion during the same period can have both positive and negative impacts on the economy (BOU, 2022).

On the one hand, an increase in credit availability can stimulate economic growth by providing businesses and consumers with access to capital for investment and consumption. On the other hand, an increase in credit can lead to higher debt levels and can potentially lead to financial instability if not managed properly. Therefore, it is important for the government and financial institutions to ensure that the increase in credit availability is accompanied by appropriate risk management practices to mitigate potential risks.

Implication: Uganda's increased domestic credit in 2022 can boost economic growth but may also lead to higher debt levels and financial instability. Risk management is crucial. Notably, Uganda's increased net credit to the government can support programs but may lead to higher debt levels and interest rates

Exchange Rate Movements

There was a depreciation of the Ugandan shilling by 3% against the US dollar in 2022, and this can be attributed to several factors, including a rise in demand for the dollar from corporates and commercial banks. This demand for the dollar surpassed the inflows, leading to a scarcity of dollars in the market, and consequently, a weakening of the shilling. Additionally, the reduction of offshore participation in the securities market due to the COVID-19 pandemic resulted in a decrease in foreign inflows into the Ugandan economy. This reduction in offshore participation can be attributed to the uncertainty that arose due to the pandemic, leading investors to reduce their exposure to emerging markets. In addition, the war in Ukraine led to reallocation of funds, especially by the humanitarian agencies, away from local activities to attend to the humanitarian crisis in Ukraine. This led to a reduction of forex inflows and thus led to the shilling depreciation.

Implication: The Ugandan shilling's depreciation has significant implications, as it can improve export competitiveness and foreign exchange earnings, but also increase inflation and decrease purchasing power. Effective exchange rate management is necessary, and the pandemic highlights the need to diversify the economy and reduce reliance on external funding.

External Sector Developments

Merchandise Trade Balance

Uganda's merchandise trade deficit worsened significantly in 2022, increasing by 19.3% from USD 3.04 billion in 2021 to USD 3.63 billion. This means that Uganda imported significantly more goods than it exported during the year. The increase in the trade deficit can be attributed to a 4.8% increase in import receipts from UShs. 7.5 billion in 2021 to UShs. 7.9 billion in 2022, while export revenues from the trade of goods declined by 4.9% during the same period.

The increase in import receipts could be due to factors such as increased demand for imports to meet domestic consumption needs, investments, or a shift towards higher-end goods. Meanwhile, the decline in export revenues may have been driven by a reduction in global purchasing power due to high inflation, as well as a fall in production due to climate change effect especially prolonged drought which affected production and productivity.

> *The increase in interest rates in Uganda in 2022 was due to the Central Bank's tight monetary policy stance in response to the persistent increase in consumer prices. This increase may help control inflation.*

A large trade deficit can have a significant impact on a country's economy, leading to a strain on foreign exchange reserves and potentially increasing the external debt burden. Policymakers may seek to address this imbalance by promoting exports, reducing import dependence, and improving competitiveness. They may also consider implementing policies that encourage local production as well as import replacement industries, so as to reduce reliance on imports, which could contribute to the reduction of the trade deficit over time.

Implication: The worsening trade deficit in Uganda implies a strain on foreign exchange reserves and a potential increase in external debt burden. Policymakers may need to promote exports, reduce import dependence, and improve competitiveness. Encouraging local production and reducing import reliance could help reduce the trade deficit.

Economic Outlook and Risks

The Bank of Uganda has revised its GDP growth projection for FY 2022/23 to 5-5.3%, up from 4.6% in the previous fiscal year. This is driven by investments in the Oil sector, rebound in agriculture and industrial sectors. The growth momentum will increase in outer years but will remain below long-run trend until FY2025/26. The growth outlook faces downside risks, including weaker global growth, and escalation of geopolitical conflicts. The Bank of Uganda has revised inflation projection downwards, averaging 6-8% in 2023, subject to upside risks such as international commodity price increases and downside risks such as a global recession and lower domestic demand.

> The Bank continues to lead the process of promoting sustainability, not only in Uganda, but across Africa and in the wider world. The Bank supports financial institutions from across the world, heading the I-LEAD Group that stands for Innovating, Learning, Experimenting.

SUSTAINABILITY REPORT

ASSOCIATION OF AFRICAN DEVELOPMENT FINANCE INSTITUTIONS (AADFI)

CERTIFICATE OF COMPLIANCE

This document certifies that

UGANDA DEVELOPMENT BANK LTD [UDBL] – UGANDA

has been assessed on its compliance with the AADFI Prudential Standards and Guidelines at the **2021 AADFI Peer Review** and obtained the following results:

Areas of assessment	Governance	Finance	Operations	Weighted total
Compliance indexes	74/78	53/60	58/62	92%

Paul YUMA MORISHO
Peer Review Consultant

Cyril A. OKOYE
Secretary-General, AADFI

NOTE: The compliance indexes indicate the degree of compliance with the AADFI Prudential Standards and Guidelines, by area and in general.

LEADING THE **SUSTAINABILITY AGENDA** IN UGANDA AND BEYOND

In July 2022, the Bank commenced the recertification process under the more rigorous version 2 of the Sustainability Standards and Certification Initiative (SSCI) following its initial certification in July 2020 in which the Bank was awarded the SSCI Level 5 Certification. Since then, the Bank has enjoyed numerous benefits that have positioned it for sustained success in meeting the needs of all its stakeholders.

Under SSCI version 2, the Bank will measure its performance against over 150 selected targets that encompass boosting corporate performance on a long-term basis, inclusive prosperity, entrepreneurship and innovation, quality of lives, boosting the real economy, building economic resilience, creating a high income, internationally competitive and future proof economy, and achieving climate neutrality through resource efficiency, preservation, and enrichment of biodiversity among others.

The new Sustainability Certification will position the Bank as a leading financial institution worldwide in championing holistic sustainability.

In the same year, the Bank and its Managing Director Ms. Patricia Ojangole were named Sustainability Leader of the Year 2022 at the Karlsruhe Sustainability Awards Ceremony that was held during the Global Sustainable Finance Conference which took place on 1 and 2 December 2022 in Germany. Awarded by the International Council of Sustainability Standards and Certification Initiative (SSCI) for Value Driven Financial Institutions, the accolade is given to individuals and/or institutions that demonstrate commitment to creating value for all their stakeholders and protecting the environment.

Furthermore, the Bank continues to lead the process of promoting sustainability, not only in Uganda, but across Africa and in the wider world. The Bank supports financial institutions from across the world, heading the I-LEAD Group that stands for Innovating, Learning, Experimenting and Development, which is a part of the Sustainability Standards and Certification Initiative (SSCI), for complying with the rigorous sustainability standards. The Group under the leadership of the UDB MD Ms. Patricia Ojangole, is responsible for convening the i-Lead meetings; facilitating the implementation of the meeting decisions; organizing knowledge & experience sharing, peer-to-peer learning, and innovation sessions that deliver practical and highly hands-on solutions and cater to in-demand knowledge and skills within the SSCI Community; Supporting implementation of Sustainability Standards among the applicant and certified institutions; and ensuring the smooth and close collaboration for Innovating, Learning, Experimenting and Development among the members of SSCI Community.

The nomination of UDB to chair the i-Lead Group signifies the Bank's commitment towards being a global leader on sustainability as well as supporting like-minded institutions in embracing the sustainability agenda.

UDB REMAINS A SUSTAINABILITY - CERTIFIED FINANCIAL INSTITUTION

As a forward-looking institution, the Bank continues to challenge itself to be better everyday. The task ahead of the bank for sustainable social and economic development of Uganda is challenging. In this regard, UDB remains conscious about the sustainability of its operations and the related impacts on the society, the economy and the environment in which it operates. With the support of the European Organisation for Sustainable Development, its valued customers, shareholders, other key stakeholders and the wider SSCI community, the Bank will continue to achieve its ambitious goals of not only future proofing the institution, but the economy at large through impactful interventions as highlighted in the subsequent sections.

2022 INVESTMENTS TOWARDS **THE BANK'S SUSTAINABILITY GOALS**

In a bid to improve the quality of life of Ugandans, the Bank acheived remarkable growth in 2022 registering a staggering 54% portfolio increase. The Bank also exceeded expectations in its pipeline, approvals and disbursements, setting new expectations for 2023.

PORTFOLIO SIZE

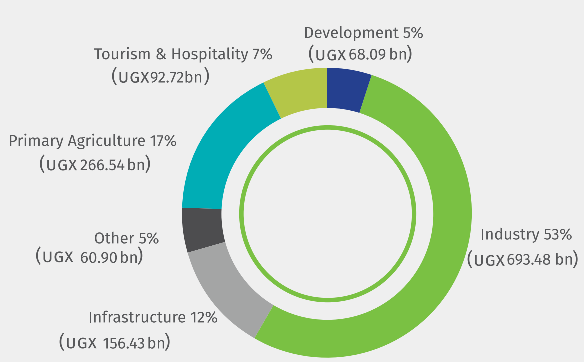
By the end of 2022, the portfolio stood at UGX 1.31Trillion representing an annual growth of 54.3% against the 2021 figure of UGX 851Bn. The table below summarizes the performance against key business parameters.

Year on Year Performance (2021 vs 2022)

Key KPI	2021	2022	YOY % Growth
Approvals	UGX 635Bn	UGX 894Bn	41%
Disbursements	UGX 428Bn	UGX 777Bn	82%
Gross Portfolio	UGX 851Bn	UGX 1.31Trn	54%
Collections	UGX 205Bn	UGX 416Bn	103%

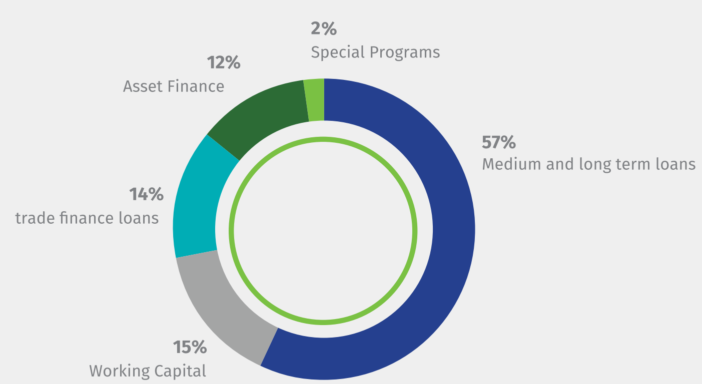
Classification of Gross Loan Portfolio by Sector

The industry sector registered the highest loan portfolio at 53.4% followed by Primary Agriculture at 18% and infrastructure at 12%. Tourism and Human Capital Development registered 7% and 5% respectively. Other sectors accounted for 5% .



Classification of the Gross Loan Portfolio by product

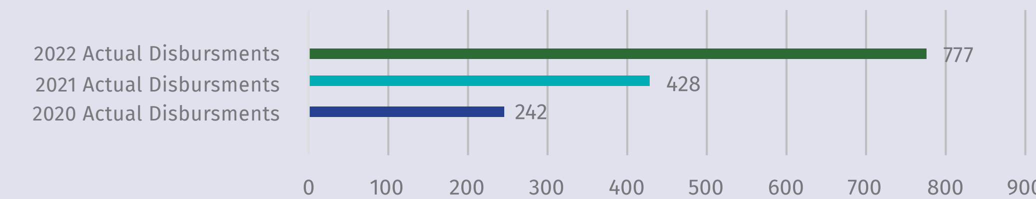
Term loans consisting of both medium and long term remain the dominant product accounting for 57% of the gross loan portfolio, followed by Working Capital at 15%, Trade Finance loans at 14%, Asset Finance at 12%, and Special programs at 2%. The proportionality is consistent with the Bank's strategy to provide long-term capital for sustainable businesses.



FINANCING BUSINESSES FOR **SUSTAINABLE GROWTH**

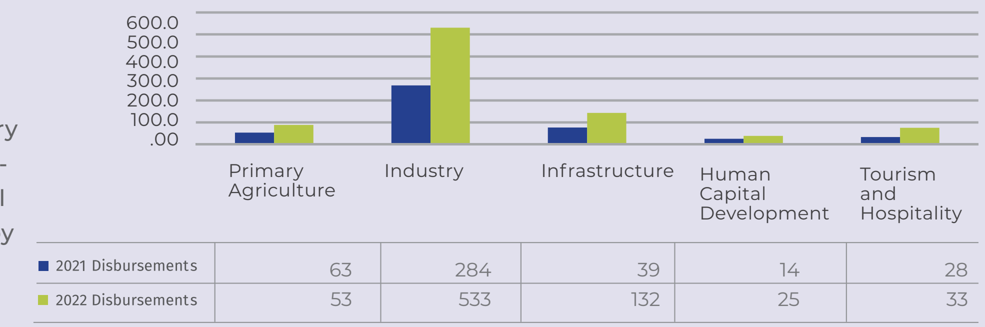
Analysis of Disbursements

The Bank disbursed UGX777 Bn against UGX428 Bn posted in 2021 representing a Year-on-Year growth of 82%.



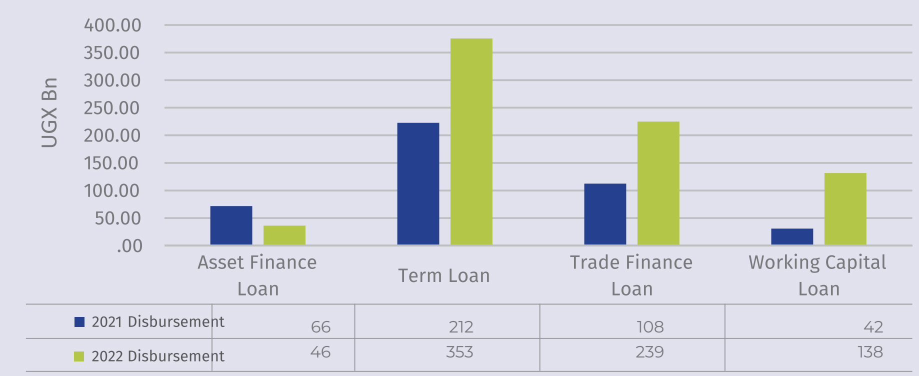
Disbursements by Sector

The highest disbursements were recorded in the Industry sector (Manufacturing, Agro-Industrialization and Mineral Based Industries) followed by Infrastructure.



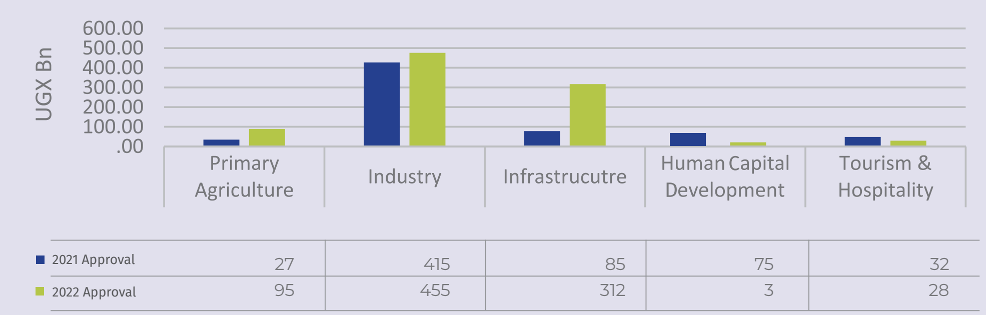
Disbursements by Products

The highest number of disbursements were registered under the Term Loans followed by Trade Finance facilities.



Approvals by sector

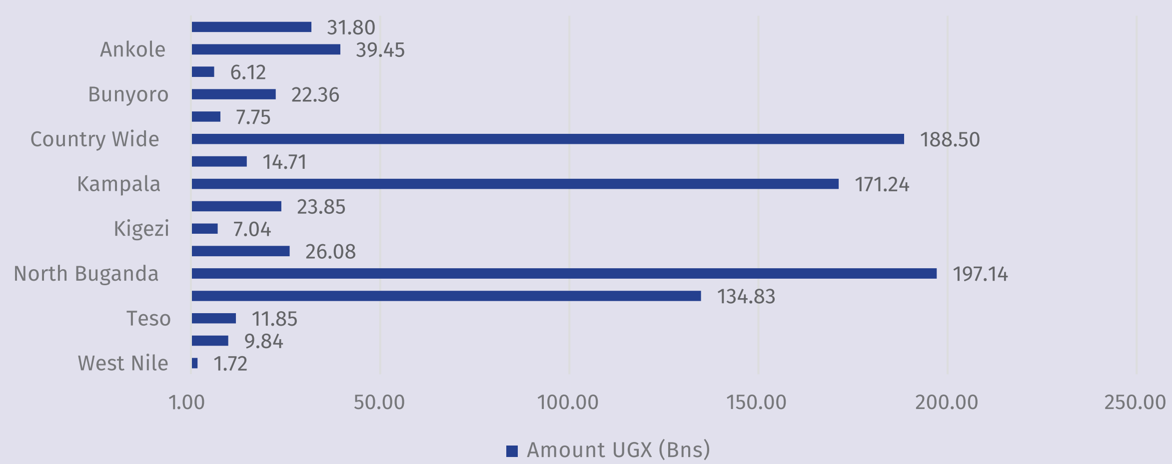
The highest number of approvals was registered under Industry followed by Infrastructure



Approvals by Products

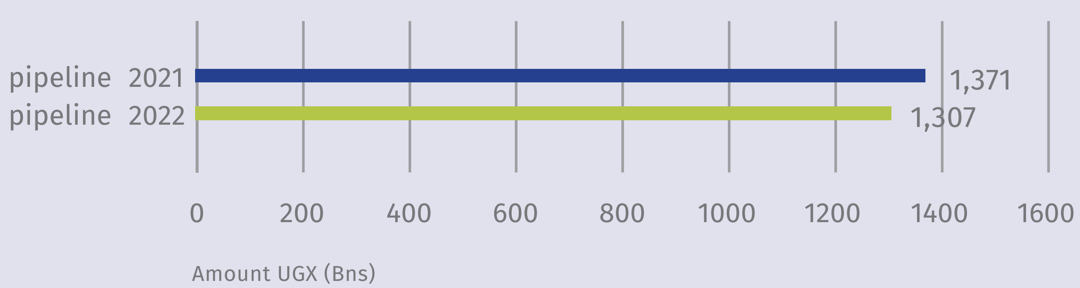
	Asset Finance Loan	Term Loan	Trade Finance Loan	Working Capital Loan
2021 Approvals	99	385	66	85
2022 Approvals	67	400	184	246

Approvals by Regions



Analysis of Pipeline

The Bank maintained a cumulative pipeline of UGX1.307 Tln during 2022.



UDB FOCUS ON **FINANCIALLY UNDERSERVED SECTORS**

SMEs, Youth and Women

To enhance development in the underserved segments of the country to include the SMEs, Youth and Women, the Bank has effectively implemented several strategies dubbed special programs, specifically tailor-made to bankroll their development. During the reporting period of the year 2022, the special programs grew its pipeline by UGX65Bn and disbursed loans worth UGX24.4Bn to 104 enterprises.

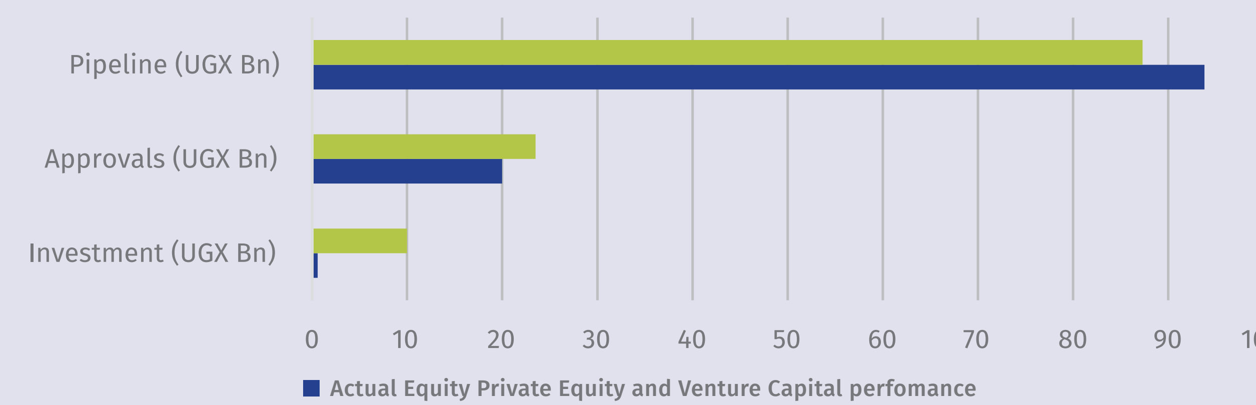
UGX**24.4**BN

disbursed loans

Private Equity and Venture Capital

The Bank's Private Equity and Venture Capital product is tailored to cater for the needs of SMEs or other entities such as startups that face challenges in accessing debt financing and require patient capital. The Bank invests in these entities by acquiring a stake in their ownership and eventually divesting after a stipulated period. UDB's equity investment enables investees to attract additional private capital if necessary. In 2022, its inaugral year, the unit made significant progress in developing a pipeline of potential investment opportunities and preparing projects for investment, leading to the following achievements:

- The bank built a robust pipeline worth UGX93.79 billion
- The Bank made its first deployment of capital in December 2022, amounting to UGX 599 million.



COMMITTED TO BUILDING A **SUSTAINABLE FUTURE AND BUSINESSES**

The Bank endeavours to bridge the gap of inadequate stock of bankable projects which are fundamental in driving development, by providing Project Preparation services. The Bank facilitates the movement of identified projects from the conceptual design stage, through pre-feasibility studies, feasibility studies, financial structuring, and ultimately to commercial operations. In this regard, the Bank is committed to undertaking planning and preparatory activities for project development within sector plans and the National Development Plan, as well as private sector projects. The Bank may further invest in these projects or collaborate with other funders to co-finance them when they are deemed ready for implementation.

Some Initiatives Under PPU

Hybrid Electricity Connections

To promote economic growth, poverty reduction, social and cultural transformation, it is critical to increase access to reliable, affordable, and clean energy services. Uganda's current grid electricity access is 19% substantially below the sub-Saharan African average of 43%. The government is committed to improve grid electricity access in Uganda.

The Electricity Regulatory Authority and Uganda Development Bank have partnered in the development of the Hybrid Electricity Connections programme. This programme aims to connect 550,000 households (110,000 connections per year) over the next five years. Customers or connection applicants will be required to make a down payment of UGX200,000 as their contribution towards a connection, while UGX250,883 will be an investment by the utility firm and recovered through the general end user tariff. The remaining UGX270,000 will be provided as interest free credit facility by UDB and channelled through the distribution companies.

NWSC Partnership

Uganda Development Bank and Housing Finance Bank (HFB) have collaborated to finance the National Water & Sewerage Corporation (NWSC) in upgrading water supply infrastructure across several areas in Uganda. The areas that will benefit from the upgrades include Lyantonde, Hoima, Kyankwanzi, Tororo, Soroti, Moroto, Bushenyi, Kanungu, and Kalungu. The upgrades will involve the construction of various structures such as intake structures with different abstraction capacities, raw water pumping mains, and associated pipework fittings, conventional water treatment plants, clear water storage reservoirs of different capacities, and treated water delivery mains.

The project is expected to have a significant impact on the country. It will create 132 new jobs, provide new connections to 48,212 customers, and bring clean water to 311,843 households. The water coverage will increase by 31%,the network will grow by 2,457km, and non-revenue water will reduce by 5%. Additionally, water productivity will increase by 53,965,980 cubic units.

Oil Seeds Initiative (Sunflower Project)

Oil seeds have the potential to significantly contribute to Uganda's socio-economic development by satisfying the country's edible oil requirements, providing employment opportunities, and enhancing household incomes. Consequently, the Eastern and Northern regions of Uganda have emerged as key production areas for oil seeds. Although the processing of edible oil in these regions is gaining traction, only 39% of the installed oil mills' capacity is currently being utilized due to limited seed availability. To address the challenges associated with seed availability, the Bank is partnering with the National Semi Arid Resources Research Institute (NaSARRI) based in Serere to support local production of improved oil seed varieties. The Bank's support will facilitate the multiplication and commercialization of these improved seeds, which have been developed by Ugandan researchers at NaSARRI.

The Bank has allocated UGX 178 million towards this research initiative aimed at enabling the commercialization of improved oil seed varieties.

Promoting Enterprise Excellence

Leveraging its expansive knowledge of the business landscape, operating environment, and expertise in funding, implementing, and monitoring projects, the Bank provides advisory services to equip its customers with the best management practices, good governance, sound record-keeping, and effective financial management techniques. This is achieved through tailored training and technical assistance aimed at developing and implementing the requisite processes in the company. The ultimate objective is to cultivate well-managed enterprises, thus significantly reducing the risk of project failure.

In 2022, the Bank conducted regional trainings with the singular goal of building capacity. These trainings, which attracted a total attendance of 442 members, were pivotal in supporting the registration of 45 businesses, enabling tax returns for 22 enterprises, and facilitating tax registration for 10 businesses. Such strategic interventions by the Bank not only foster the development of thriving enterprises but also serve as a crucial catalyst in driving economic growth and sustainable development within the region.

Perfomance highlights

8 regional training sessions targeting 1,130 SMEs were conducted in Kampala, Mbarara, Fort Portal, Lira, Gulu, Arua, Masaka, and Mbale districts. As a result of these sessions, the Bank identified funding prospects amounting to Shs147.3 billion. Additionally, 77 hitherto informal enterprises undertook various business formalization processes – with 45 registering their business names and 37 others formally registering as new taxpayers or for tax certification. Conversely, the Bank earmarked 274 enterprises to participate in the inaugural UDB Business Incubation Program with an aim to facilitate the incubatees to be credit-ready, and potentially prospective customers of UDB.

The BASE training in Kampala

Farmer Groups

The Bank recognizes the crucial role played by small holder farmers in driving agricultural productivity and food security in various regions. To this end, the Bank provides financing solutions tailored to the unique needs of small holder farmers organized in groups, cooperatives, and associations comprising more than 20 members who are involved in agricultural production or processing.

The funds availed to these farmers can be utilized for a wide range of production and agro-processing activities, including but not limited to, the purchase of inputs, improved breeds, tractors, and other machinery necessary for optimal agricultural production.

In 2022, the Bank took bold steps to support small holder farmers in various regions by financing 15 farmer groups. This intervention has tremendously benefited a total of 83,755 members in the districts of Isingiro, Kiruhura, Alebtong, Lyantonde, Mitooma, Iganga, Mityana, Kasese, Rwampara, Pader, Lira, and Buvuma. The Bank's unwavering commitment to supporting small holder farmers is not only critical in enhancing their productivity and economic viability but also reinforces its mission to promote inclusive and sustainable economic growth.

OUR **VALUE TO SOCIETY**

Employment generation and maintenance

The creation of gainful employment is a key economic development indicator for Uganda's economy. It defines living standards by enhancing individuals' purchasing power, supports economic growth through enhanced aggregate demand and tax contribution, and stimulates social harmony. To supplement government interventions, the private sector is a promising alternative in creating and absorbing the available skills. The businesses supported by the Bank significantly contributed to employment creation as presented in the Table below.

Sectoral distribution of employment generated and maintained in 2022.

sector	Total Employment	Total Women	Youth
Education	337	94	219
Health	635	215	362
Infrastructure	304	104	213
Manufacturing	17,745	2,896	12,244
Agro processing	7,463	5,195	4,926
Primary Agriculture	22,303	4,122	11,821
Tourism	2,528	964	1,845
Other sectors	124	9	88
Total	**51,439**	**13,599**	**31,718**

Source: Primary data, ex-post 2022.

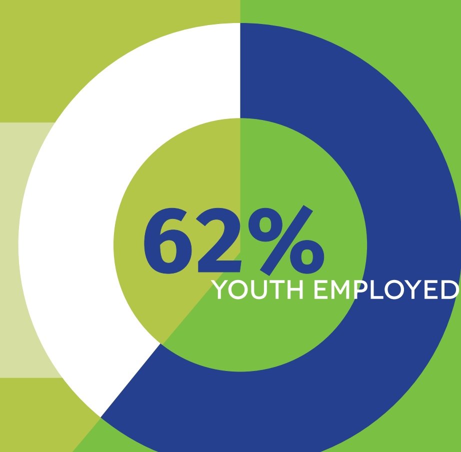
In selecting enterprises for funding, the Bank pays particular attention to the enterprise's potential to improve quality of life through the provision of sustainable jobs. In 2022, 51,439 jobs were generated and maintained by enterprises support by UDB . This represents a 24% increase from the 41,338 realized in 2021. The biggest contributors to employment were Manufacturing, Primary Agriculture, and Agro-Processing Sectors.

YOUTH AND **WOMEN EMPOWEREMENT**

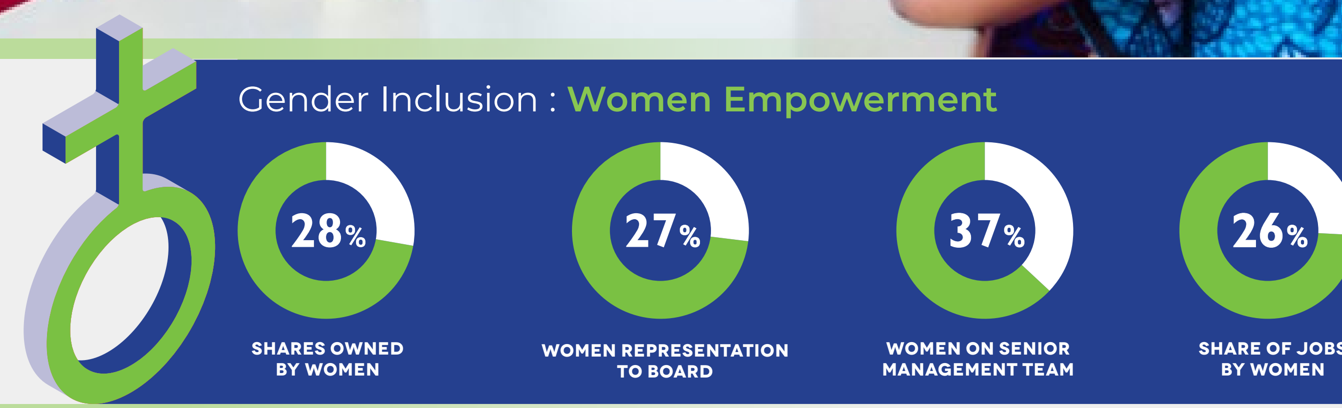
The gender distribution of employment shows more women employed in the three sectors of Agro-Processing, Manufacturing, and Primary Agriculture. Youth were more attracted to the sectors of Manufacturing and Primary Agriculture.

Youth Employment

Out of the 51,439 jobs generated and maintained in 2022, 62% were taken up by the Youth (18-35 years).



Gender Inclusion : Women Empowerment



Inclusion of Persons with Disability.

Of the 51,439 total jobs generated 806 are being performed by Persons With Disabilities. Of the 4,444 students enrolled in UDB-supported learning institutions in 2022, 47 are persons with disabilities. The Bank emphasizes inclusion as a condition precedent to funding an enterprise.

UDB'S **CONTRIBUTION TO THE ECONOMY**

40%
growth registered in annual sales/revenue generated by funded enterprises

UGX493bn
profitability reported in 2022

UGX148bn
realised in net tax contribution

UGX694bn
generated in forex earnings

Contribution to Gross Domestic Product.

The total value of sales/revenue generated from the enterprises funded by the Bank registered a 40% growth in 2022, from UGX 2.4 trillion, to close at UGX 3.36 trillion. Of this, the manufacturing sector contributed the highest at 44% while primary agriculture and agro-processing accounted for 28% and 22% respectively.

Private Sector Competetiveness

Profitability among the enterprises funded improved by 57% from UGX 314 Billion in 2021 to UGX 492.9 Billion in 2022. An increase in capacity utilization among enterprises, productivity, and efficiency in operations, as well as increased turnover, were the driving factors for profitability.

Sustained contribution to tax revenue

Taxation is critical in the sustenance of public goods and services and in creating the social contract between the economy and citizens; and the Bank recognizes the role tax plays in fostering economic growth. On account of improved profitability of the enterprises funded, their tax contribution (Corporation Tax) also improved by 75% from UGX 84 billion to UGX 147.5 billion,with the manufacturing sector contributing the highest share amounting to UGX56 billion.

Contribution to foreign exchange earnings

The supported enterprises generated a significant amount of forex earnings equivalent of UGX694 billion in 2022, growing 68% from UGX 405 billion the previous year. The key export goods contributing to forex earnings included coffee, fish and fish products, cotton, and tea. The tourism sector continued to also contribute to the growth of forex earnings in the economy.

Year	Jobs created/ Maintained	Output Value (UGX billion)	Tax Contribution (UGX billion)	Profitability (UGX billion)	Forex Earnings (UGX billion)
2020	24,013	2,480	160	409	175
2021	41,338	2,445	84	314	405
2022	51,439	3,358	148	493	694

SECTORAL **DEVELOPMENT IMPACT**

Distribution of core indicators based on sectors.

sector	Employment	Revenue	Profitability	Tax	Forex
Education	337	3,670,062,155	652,466,319	195,739,896	-
Health	635	44,396,450,000	1,547,000,000	464,100,000	443,964,500
Infrastructure	304	43,126,760,083	12,132,830,119	3,639,849,036	1,725,070,403
Manufacturing	17,765	1,493,111,539,069	188,007,621,678	56,037,865,257	379,537,906,249
Agro processing	7,463	937,360,632,712	121,462,302,394	36,438,890,718	253,025,270,832
Primary Agriculture	22,303	750,849,054,404	153,678,757,374	46,103,627,212	31,610,943,264
Tourism	2,528	77,378,261,775	14,796,517,562	4,438,955,269	27,857,702,270
other sectors	124	8,329,897,045	649,162,135	194,748,641	133,278,353
Total	**51,439**	**3,358,222,657,243**	**492,926,657,581**	**147,513,776,028**	**694,334,135,871**

Source: Primary data, ex-post 2022.

Creating a sustainable agriculture sector

Improved output

In the reporting year, the funded agricultural enterprises registered improved productivity, with coffee registering the highest change in productivity from an average yield of 3.8Kg to 4.4Kg per tree compared to the national average of 3.4kg; this is mainly attributed to increased use of irrigation and better agricultural practices.

Average Productivity of selected crops before and after UDB funds.

s/n	Crop	Average yield per acre per season prior to UDB Intervention	Average yield per acre per season with UDB project	% Change
1	Coffee	1,750Kg	2,010	14%
2	Tea	680Kg per acre	720Kg	6%
3	Sugarcane	24Tons per acre	26 Tons per acre	8%
4	Grains	1,500Kg per acre	1600kg per acre	7%

Source: Primary data, ex-post 2022.

Improved farm productivity

Varied improvements in milk productivity were realised with the average number of litres per cow per day increasing from 12 to 15 Litres (Exotic breeds) and 7 to 9 ltrs for cross breeds. The funding support towards the construction of valley dams and pasture improvement has raised productivity across the different breeds. The results also show an improvement in beef productivity.

Average productivity of Cattle before and after UDB funds.

Livestock	Productivity per cow before and with UDB Loan-MILK		Productivity per cow before and with UDB Loan-MEAT	
	Milk (Litres/cow/day)	Milk (Litres/cow/day)	Meat (kgs Per cow)	Meat (kgs Per cow)
Exotic breed cattle	12	15	300	500
Cross breed cattle	7	9	150	200
Local breed cattle	3.5	5	70	120

Source: Primary data, ex-post 2022.

Post harvest losses

Similarly, there are marked reductions in post-harvest losses, attributed to the construction of storage facilities and use of mechanised combine harvesters, and acquisition of transport facilities for immediate transportation of produce to the market.

SN	Crop	Average % loss prior to UDB Intervention	Average % loss with UDB intervention	% Change
1	Coffee	15	13	-13%
2	Tea	10	10	0%
3	Sugarcane	0	0	0
4	Grains	10	9	-10%

Source: Primary data, ex-post 2022.

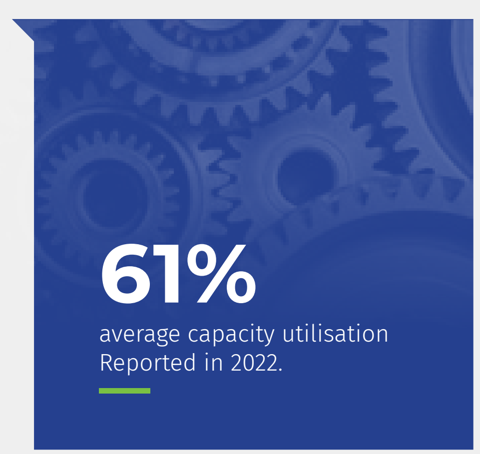
Developing the Industrial sector

Industrial output

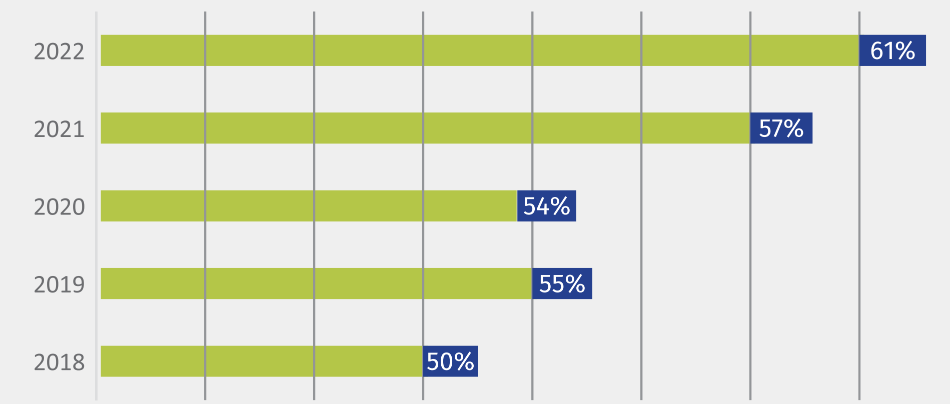
The industrial output is an important measure of contribution to GDP and economic performance which Uganda Development Bank considers as a key dimension to Improve Quality of Life among Ugandans. In 2022 the output of industrial enterprises increased by 33% from UGX1.83Tn to UGX 2.4Tn.

Capacity Utilisation

During the reporting year there was an increase in the capacity utilization for industries funded by the Bank from 57% in 2021 to 61% in 2022. The trend in growth of capacity utilisation is illustrated in the figure below.



Trend of average capacity utilisation.



Primary data, ex-post 2022.

Promoting a Sustainable Services sector

Health

The number of hospital beds in UDB-funded health facilities rose from 197 in 2021 to 264 in 2022, while the number of medical workers recruited grew from 284 in 2021 to 466 in 2022.

Trend of Key Health Indicators 2020-2022.

Key indicators	2020	2021	2022
Number of beds	140	197	264
Number of medical workers	263	284	466
Number of patients served	102,281	139,263	186,120

Source: Primary data, ex-post 2022.

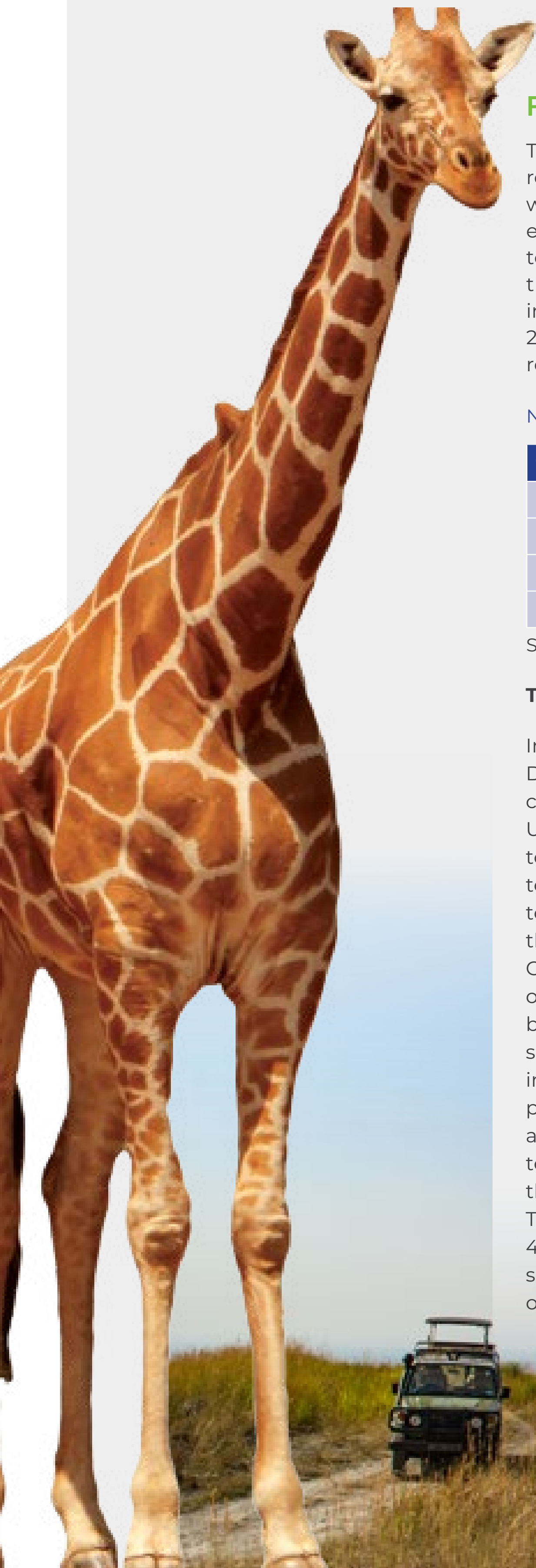
Education

The Bank's intervention to support the sector included capital investments in key infrastructure including construction of learning rooms and halls of residence, and asset acquisition as well as addressing working capital requirements.

Nature of investments funded under education.

Value	Percentage
Construction of Learning rooms	73%
Working Capital	27%
Construction of Dormitory/Halls of Residence	18%
Asset Acquisition	18%

Source: Primary data, ex-post 2022.



Financing recovery of the Tourism Sector

The Bank continued to fund recovery of the Tourism Sector that was adversely impacted by the effects of COVID-19. Through the tourism facility co-funded with the European Union, the Bank's intervention maintained up to 2,800 jobs. Additionally, the total room number from UDB-funded hotels grew from 618 in 2021 to 1,886 in 2022, and the occupancy rate which was significantly affected in 2021 due to COVID-19 rose from 33% in 2021 to 77% in 2022; this led to an upshot in the sector turnover and subsequently foreign exchange earnings.

Nature of investments funded under Tourism

Tourism Investments activity	% composition
Construction of hotel facilities	83%
Working capital	40%
Asset Acquisition	18%
Other purposes	2%

Source: Primary data, ex-post 2022.

Tourism Intervention

In the year 2020, the Uganda Development Bank (UDB) collaborated with the European Union (EU) to allocate funds towards a grant that was attached to a loan, aimed at aiding the tourism industry's recovery from the detrimental impacts of the COVID19 pandemic. The objective of this facility was to stimulate businesses involved in the tourism sector, which were severely impacted by the pandemic, by providing them with a grant and a soft loan that had flexible terms, which would align with the present needs of the sector. This effort proved to be fruitful, as 44 hotels and travel companies successfully benefited from the offer.

In 2022, capitalizing on the triumph of the initial call, the Bank launched a second call to further rejuvenate the industry. This initiative aims to achieve the following objectives:

- Foster the development of novel tourism products and services.
- Enhance the quality of existing tourism products and services.
- Promote domestic and regional tourism.
- Improve quality standards and safety measures in the industry.
- Facilitate the adoption of digital solutions and innovation within the sector.

Infrastructure development

Infrastructure

As an enabling sector, Infrastructure plays a significant role in driving socio-economic transformation. During the year, the key outcomes from the Bank's investment in the sector included:

- Construction of 41Km of road, of which 37 km were new roads (upgraded and paved).
- 68Km of water pipe was constructed to serve a population of 480,000 in Isingiro district in Ankole sub region, Madi Okollo District in West Nile, and Bukatube Mayuge district in Busoga region.

Types of Infrastructure Projects.

Nature of infrastructure project	%
Roads and Bridges	57%
Power and energy	14%
Other Infrastructure project (bonded warehouse)	14%
Water and waste management	14%

Primary data, ex-post 2022.

"As an enabling sector, Infrastructure plays a significant role in driving socio-economic transformation

SELECTED UDB **PARTNERS IN DEVELOPMENT**

INDUSTRY SECTOR

STEEL AND TUBE

Project Location: Namanve Industrial Park with various branches across the country.
Kampala District, Central Region
Sector: Industry

Steel and Tube Industries (STIL) is one of the leading manufacturers of various steel products in the country. It is an indigenous company that was incorporated in 2003 and maintains a market stretching throughout the region.

UDB has since 2016 financed the company's growing working capital requirements. The requirement was to finance the purchase of scrap (raw material needed to feed the new hot roll mill). The request was honored, and the hot roll mill started operating.

Post the Bank's intervention, Steel and Tube Industries anticipated to;

- Employ 1,043 permanent staff and over 6,000 in their value chain.
- Increase tax revenue from UGX15.8 billion to UGX19 billion.
- Achieve a development impact score of 68% which is way above average.
- Increase turnover from UGX427 billion to UGX512 billion.

HILLSIDE AGRICULTURE LIMITED

Project Location: Lango Sub-region, Apac District
Sector: Industry

The company has set up an oil palm plantation on a 30,000-acre piece of land in Apac District. The oil palm plantation will be complemented by a crude oil processing plant to produce crude oil, a requisite raw material for TASCO Industries Limited, a sister company to Hillside Agriculture Limited producing edible oils and soap.

TASCO Industries Limited currently relies heavily on imported Crude Palm Oil (CPO) which constitutes over 90% of its raw material requirement.

TASCO Industries Limited currently imports about USD20 million worth of CPO annually. Upon completion of the first phase of the project (10,000 acres), Hillside will meet 40% - 50% of TASCO's raw material needs. With optimum productivity on the 30,000 acres, the company will be able to meet 10-15% of the entire local industry CPO consumption in Uganda.

UDB financed the set up of a modern drip irrigation system on the farm, purchase of farm inputs including seedlings and the purchase of a crude oil processing plant.

So far, the project has created employment opportunities for over 225 staff. The community around the project is benefiting from the road and electricity extension, which has boosted trade and agricultural production consequently improving their livelihood.

The company shall also establish an out-grower scheme of over 1,000 farmers both within its estate and in the neighboring areas. The plant will lead to an average annual foreign exchange saving of USD20M and the activities will lead to an industrial output to the market of 120,000 tonnes of palm oil for consumption.

AGRICULTURE SECTOR

UGP TRADERS (U) LIMITED

Project location (District): Moruita Sub - County, Nakapiripirit District. Karamoja Sub-region

Sector: Secondary Agriculture

UGP (U) Ltd is an agribusiness company involved in the production and Export of quality seed and agricultural produce in Uganda. The company grows vanilla. Their farm production is supplemented with green vanilla beans sourced from smallholder farmers, processed for packaging and eventual export of the cured vanilla beans to USA, Europe, and Asia. This is in addition to the new sesame growing and processing project.

UDB financed the construction of a warehouse and its auxiliary units, purchase of a seed cleaning and packaging equipment, purchase of a tractor and accessories, complemented by a partial working capital for the purchase of sesame grains from farmers.

Upon completion, the project will provide ready market for over 580 vanilla farmers, employ 15 permanent and 100 temporary staff.

ATITE RIVER MIXED FARM ENTERPRISE COMPANY LIMITED

Project location (District): Lungulu Sub County, Nwoya District Acholi Sub Region

Sector: Primary Agriculture

Atite River Mixed Farm Enterprise Company Limited maintains a 100-acre nucleus farm in Nwoya District. They specialise in the production of various crops including soybeans, beans, maize, rice, and sesame for both Quality Declared Seeds (QDS) and grain trading. This is in addition to the livestock production.

UDB financed the purchase and installation of an Irrigation system, combined seed cleaner, trucks as well as partial working capital for the purchase of grains from the farmers.

The project directly employs 18 people with a planned source of livelihood for over 140 smallholder farmers in the out-grower scheme. Last year, the project made a Shs36 million tax contribution to the government.

BUKAWA AREA MARKETING ENTERPRISE COOPERATIVE SOCIETY LIMITED

Project location (District): Wairamu village, Nakisenyi Iganga District, East Central Sub Region

Sector: Primary Agriculture and Agro processing.

Bukawa Area Marketing Enterprise Cooperative Society Limited is an agri-business engaged in the primary production of maize and soyabeans currently with a member base of 1,206 members. The cooperative owns two warehouses with storage capacities of 500 metric tons, a maize milling plant with a capacity of 1,000 Mt per hour funded by Agriculture Cluster Development Program under MAAIF and a coffee huller with a capacity of 1,500 Mt per hour.

UDB financed the purchase of a Tata Lorry with a total capacity of 16 metric tons to be used in the transportation of produce to market and a tractor (75 Horsepower with a disc plough and trailer). The project will create ready market for the produce subsequently improving the livelihood of the youth women in Iganga and the surrounding districts. The cooperative has 15 permanent and 60 indirect staff. Last year, the project remitted Shs16 million in taxes with an output value of Shs120 million.

MASHA QUALITY HOLDINGS (U) LIMITED
Project location (District): Binyiny, Kween District.Sebei Sub region.

Sector: Primary Processing

The company involved in the production and processing of specialty arabica coffee under the brand name "Masha Coffee".

Masha Coffee was established as a partner for women and youth coffee farmers around the slopes of Mt Elgon with an aim of improving household incomes through training these farmers on improved farming practices, bulking, marketing, and value addition.

UDB Financed the setup of a solar coffee drying facility, installation of a coffee wash station as well as working capital for purchase of more coffee cherries from the farmers.

The project is expected to create direct employment for up to 7-30 permanent and 5-15 temporary staff respectively.

The project will also create indirect employment for about 200 coffee farmers with an expected increase to 600 farmers at optimal performance of the project.

TOURISM SECTOR

TABEBUIA SPA AND SAFARI RESORT LTD
Project Location: Along the shores of Nyabikere Crater Lake in Kyankwanzi Zone, Kyantambara Parish – Kasenda Sub County in Kabarole District

Sector: Tourism - Hotel

Tabebuia Spa and Safari Resort Ltd is a start-up business undertaking a three-phase development project to build hotel apartments and cottages to suit the demand of guests looking for 4 star and 5-star treatment in Kabarole District.

UDB financed the completion of the first (1st) phase of civil works and furnishings.

Upon completion, the project is expected to boost the tourism industry in the country and create employment opportunities to the people of Kabarole and the surrounding districts. So far, the project has 16 staff.

GORILLA LEISURE LODGE LTD
Project location: Rushaga village Rushaga subcounty Rubuguri town council in Kisoro District.

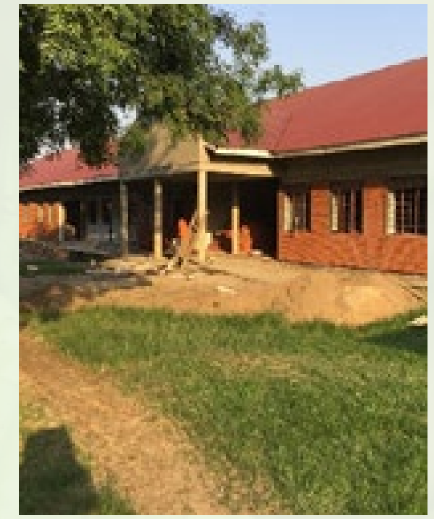
Sector: Tourism - Hotel

Gorilla Leisure Lodge is a luxury accommodation facility located in Rushaga gorilla tracking area of the misty Bwindi Impenetrable Forest national park. This safari lodge is a tranquil, hushed, and cool refuge framed by Bwindi Forest and the rolling, volcanic landscapes of the deep green Kisoro hills. Gorilla leisure lodge immerses tourists in stunning beauty and exhilarating gorilla trekking adventures while surrounding them with a mix of every modern and traditional comfort. Arriving guests are enthralled by the classic stone design and magnificent views of Bwindi Impenetrable Forest.

It is an exclusive safari lodge with a total of 12 rooms ranging from Deluxe singles, Doubles to executive family cottages. All rooms feature spectacular views of the forest.

The lodge employs 55 people. Last year, the lodge made a tax contribution of Shs69,030,180 and earned the country foreign exchange worth Shs624,255,050.

EDUCATION SECTOR



ADJUMANI MODEL SECONDARY SCHOOL
Project location (District): Adjumani District, Mbgwere village, Adjumani Town Council

Sector: Education industry

Adjumani Model school is a private mixed day and boarding school offering the O'level national curriculum.

The school approached UDB with a proposal to fund the construction of 3 science laboratories, a library, office block, 2 dormitory blocks, 2 classrooms, a dining hall and a multi-purpose building.

The proposal was approved thus the financing was disbursed. The school has created 42 staff and last year, the school generated a tax value worth Shs486 million.

BUKEDEA YOUTH PROFESSIONAL ASSOCIATION (BUYOPA) LTD
Project location (District): BUYOPA is located at Emokori Ward, Emokori 'B' Cell, Bukedea Town Council, Bukedea District

Sector: Education -BITVET

BUYOPA offers different certificate courses such as brick laying, carpentry and joinery, mechanics/driving, tailoring hair dressing and catering specifically to underserved children, women and the youth. The institute has an average of 627 students.

UDB financed the completion of classroom blocks and is the project is expected to improve the standards of living of the people in the community and reduce unemployment in the country.

The project currently employs 64 people and last year, it remitted Shs15 million to the government in the form of taxes.

HEALTH SECTOR

HEALTH SECTOR

UTATU MEDICAL AND MATERNITY HOME LIMITED
Project location (District): Is situated at Karai Road, Thereza Lane in Adjumani District.

Sector: Health

Utatu Medical And Maternity Home Limited provides medical services to include maternal and child healthcare, essential surgical care, general medical clinic and in-patient care, special clinics, in-patient and chronic care services, laboratory and diagnostic services, mental and psychosocial support services, men wellbeing services, health promotion and referrals.

UDB financed the purchase of clinical equipment and related items.

The project create 26 jobs, has enabled Ugandans in Adjuman and surrounding districts to access quality health care and with the funding, the cost of diagnostics and medication, with availability of high-tech machines within the facility, has reduced by 50% to the benefit of the patients.

ENVIRONMENTAL AND **SOCIAL RISKS**

BACKGROUND

Uganda Development Bank Ltd commits to sustainably enhance the positive environmental impacts arising from its business activities while reducing negative impacts and risks. This report provides information about how the Bank manages Environmental risks, and how the bank is embedding a culture of responsible banking across all its operations and lending activities. It includes an overview of our Environmental and Social framework, its material issues, and information about how we maintain a strong ethical culture and appropriate conduct across the Bank. The Bank maintained its commitment to sound sustainability standards in 2022 by implementing a robust Environment and Social Management System that was applied on a project-by-project basis right from onboarding to post-disbursement monitoring. During the year, the Bank also enhanced its internal footprint measurement and monitoring, complemented by internal awareness sessions aimed at building a formidable knowledge base about Environment and Social risk management. For proactive E&S risk sensing, the Bank set up a watch list to monitor transactions that may not be fulfilling their E&S commitments and covenant conditions; a move that has further supported the customers towards sustainable operations.

E&S Risk Management Approach

UDBL is committed to operationalizing and promoting an appropriate Environmental and Social Management System (ESMS) for itself as well as its borrowers to enable it to effectively assess and manage the environmental and social risk exposures associated with its lending activities. The following are some of the internal practices which help UDBL to manage its E&S risks:

- Categorisation of all UDBL-funded projects into A, B, and C ratings.
- Creation of terms and conditions for lending are determined partly by the E&S categorization.
- Coordination of capacity building programs for the staff, borrowers, and PFIs to increase their awareness regarding the benefits of compliance with E&S requirements.
- For Category A & B projects, the Bank subjects the borrowers' activities to comprehensive E&S risks analysis and routine monitoring supported by an Environment and Social Risks appraisal report and an Environmental and Social Risks Management plan for the borrower.

E&S Risk Management Principles

The E&S Risk Management Policy provides for sound principles that are the bedrock of UDBL's practices towards sustainability as provided below.

- E&S risk management is integrated into lending (credit) and investment processes, to ensure E&S risks are identified, managed, and mitigated.
- Credit risk management policies and processes include the assessment of E&S risks, the associated mitigation measures, and opportunities.
- High-risk industries, sectors, jurisdictions, and transactions (as identified by the bank) are subjected to enhanced due diligence.
- Development of new products and services incorporates E&S risk assessment.
- Opportunities to create positive E&S outcomes are actively identified and pursued.
- Investment governance includes E&S risk assessment and monitoring.
- The Bank proactively partners with its borrowers to assist them in managing E&S Risk along the customer journeys while encouraging them to apply the Precautionary Principle to their operations and activities

Executive Oversight of E&S Risk Management

E&S risk management is integrated into the Bank's Enterprise Risk Management (ERM) framework. The E&S risk policy provides the Bank's Executive management with an integrated view of the E&S risks. It defines structures and accountability for the oversight, governance, and execution of E&S risk management, including environmental issues and climate-related risks; social issues including labour practices, human rights, health and safety, and stakeholder relations. The Bank continues to leverage data as an asset and develop intuitive risk management supported by digitisation. The Bank Risk Directorate and risk committees oversee the implementation of the E&S risk framework, and report to the relevant board committees.

E&S Risks Due Diligence

The Bank's E&S Risk Unit determines the required scale and scope of E&S due diligence per transaction, commensurate with the potential level of E&S risk associated with a transaction (low, medium, or high). The E&S Risk team works with investment and credit departments to undertake due diligence for all project-related transactions and transactions identified as medium or high-risk. Enhanced due diligence is undertaken for transactions that represent significant risk to the Bank, society, and the environment.

Due diligence may include sector or issue specific questions, direct borrower engagement and site visits, or engagement of independent external E&S consultants. E&S Risk team determines whether a full due diligence process using independent external consultants is required. If not, the E&S Risk Management team undertakes an internal review of the borrower, its operations, and the transaction. Due diligence highlights issues that require mitigation or management, and actions required to ensure transactions comply with relevant national, international, standards and legislation.

COMMITTED TO A BETTER TOMORROW

E&S Risk Control

Where E&S risk is deemed significant, mitigation / treatment plans are proposed to the Lead Promoters and once agreed, they form part of conventions to be implemented. Depending on materiality of exposure, some controls actions are mandated to be closed prior to disbursement of facilities (Conditions Precedent) while others are considered as conditions subsequent, and these are enforced through the financing agreement with the borrowers. For E&S Risk control, the Bank's E&S Risk team is responsible for:

Ensuring that appropriate systems and processes are maintained to collect, and store required E&S risk data and that there is reasonable assurance of data integrity and completeness. Where external data or analysis is used, the E&S risk team relies on the source to provide assurance of data accuracy.

Prompt reporting and escalation of E&S policy breaches, breaches of applicable laws and regulations; serious E&S counterparty risk to relevant decision-making bodies.

Ensuring that the borrower's E&S risk incidents are recorded in the operational risk management system and appropriate actions are taken to prevent a recurrence.

E&S Risks Monitoring

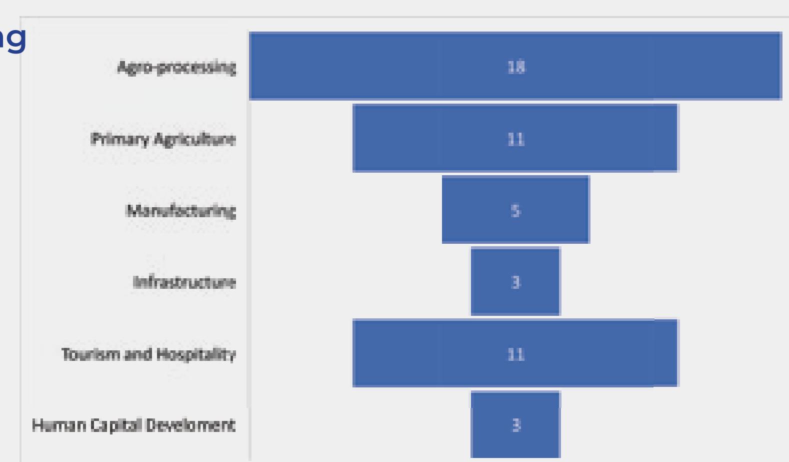
E&S frequency and type of monitoring are determined by the type of transaction and the level of risk. Category A (High Risk) projects are monitored on a quarterly basis while Category B (Moderate Risk) is monitored on an annual basis. All category A&B projects are subjected to on-site visits while category C projects may be remotely monitored.

The Bank's E&S Management systems provide for the outsourcing of Independent / external consultants to monitor implementation and progress if required, through annual compliance audits as required by National Environment Act, 2019 and National Audit Regulations, 2020.

The E&S risk team participates in portfolio-wide reviews of Bank's portfolio especially where E&S risks are considered high. These portfolio reviews enhance the Bank's decision-making during transaction approval processes; and provide a mechanism for proactive borrower engagement.

E&S Compliance Monitoring

To ensure the financed projects comply with the E&S standards, routine monitoring of the portfolio is undertaken by the Bank. In 2022, a total of 53 projects were monitored within the priority sectors as indicated below.



Transactions Appraised Against E&S Risks

As part of the Bank's credit process, all transactions before onboarding for financing must be screened against the four environmental and social risk categories i.e., A,B, C or FI (Financial Intermediaries). These categories denote the magnitude (sensitivity, nature, and extent) of potential E&S risks/impacts associated with the implementation of financed projects and to determine the level of the assessment required.

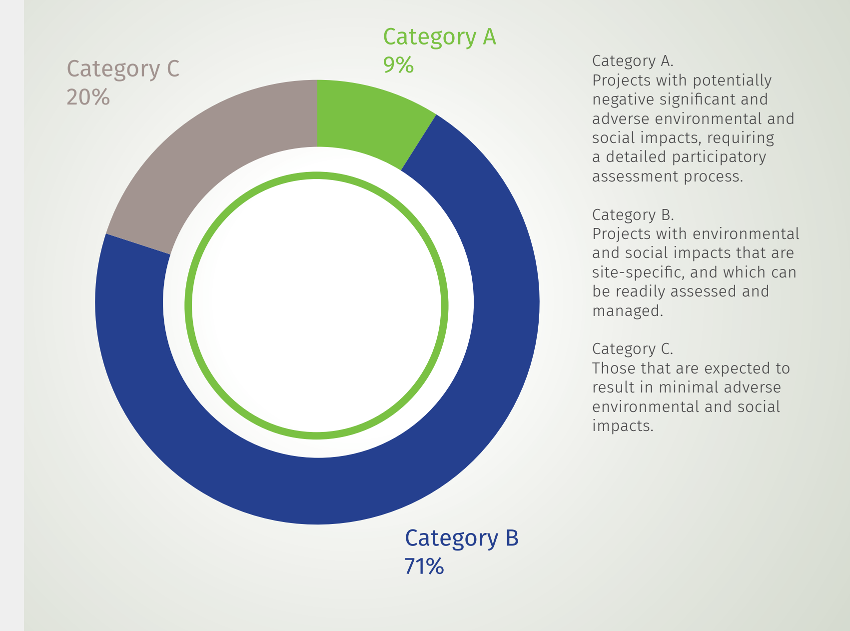
In 2022, 113 transaction requests were assessed against the E&S risks. Majority (75%) of the appraised transactions were brown field (existing) projects and the rest (15%) were start-ups (greenfield projects).

In terms of E&S risk categorisation, 71% of the appraised projects fell under B risk category (medium), 20% under category C (low risk) and just 9% under Category A (high risk).

For all transactions categorised as A, a detailed risk assessment was undertaken for all potential and actual risks associated with the transaction implementation activities, appropriate mitigation measures recommended, and mitigation action plan prescribed alongside loan covenant conditions (precedent and subsequent) and NEMA Environment Impact Assessment conditions of Approval. Similarly, Category B&C transactions were subjected to an appropriate level of E&S risks evaluation, potential risks and impacts analysed, and appropriate mitigation measures recommended.

"The Bank's E&S Management systems provide for the outsourcing of Independent / external consultants to monitor implementation and progress.

Annual Breakdown of Bank's appraised projects by category in 2022



ENVIRONMENTALLY ORIENTED **AND GREEN FINANCE INITIATIVES**

As the national DFI, UDBL is positioned at the forefront of championing and sustaining the recovery of Uganda's economy from the shocks of climate change and other global pandemics such as COVID-19. Certainly, most of the UDBL's economic recovery/investment interventions largely depend on natural capital resources which include land, soil air, or carbon storage resources such as water and fisheries. Therefore, sustainable economic recovery cannot be achieved at the cost of Natural Capital Resources/assets.

It is therefore imperative that the Bank supports and invests in initiatives aimed at climate change mitigation and adaptation. The climate finance initiatives involve managing facilities, funds, and programs that promote a greener economy, drive sustainability and development impact, and support a Just Transition to a low-carbon economy and adaptation to climate change.

Leading the Transition to a Green Economy

2022 marked the start of a more deliberate and intentional future – a future in which the Bank's investment actions and decisions will determine our ability to adapt to an already changing climate, reduce our carbon footprint and build resilience to the climate impacts.

The Bank created the right environment through a Green Finance Policy, a Green Finance and Investment Strategy, Guidelines, and Monitoring Indicators to enhance transparency in the impact of green investments and increase private capital flows.

Growing and Investing

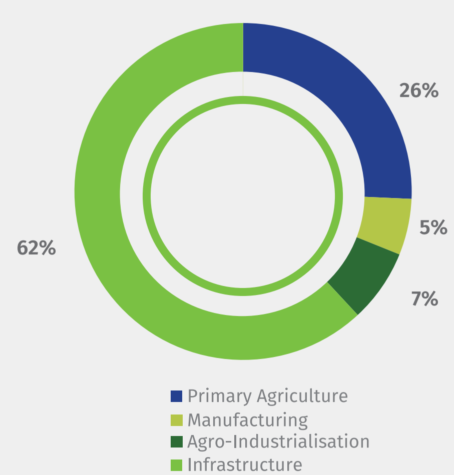
The number of green projects supported by the Bank has increased from 25 (8.9% of approved projects) in 2021 to 70 (28.1% of approved projects) in 2022. These investments are not simply projects. They reflect increasing efforts that are reshaping how we manage our investments in agrifood systems, produce and use energy, manage waste, promote value addition, improve technology and innovation, and rethink infrastructure development whilst protecting the natural capital to realize the promise of the Paris Agreement.

The new understanding is a departure from traditional investment paradigms to climate-smart approaches that have the potential to unlock finance decisions that align investments with the needs of socio-economic security, environmental sustainability, and climate action.

Our Sectoral Focus for Greening 2022

The Bank invested a total of UGX 123.6 billion in green loans and Uganda Shillings 19.9 billion in green equity. The biggest chunk of debt (61.9%) was approved for climate resilient infrastructure projects while climate-smart agriculture projects followed with 25.7% and the least investment was directed towards agro-industrialization (7%) and manufacturing (5.4%) respectively

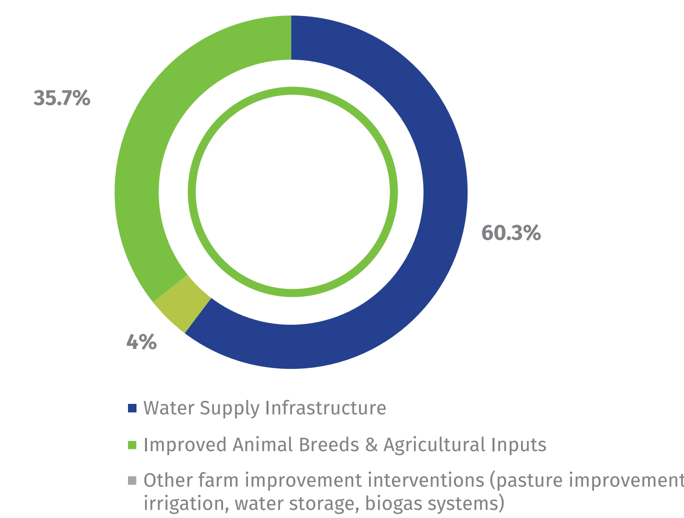
Green Investements Per Sector (2022)

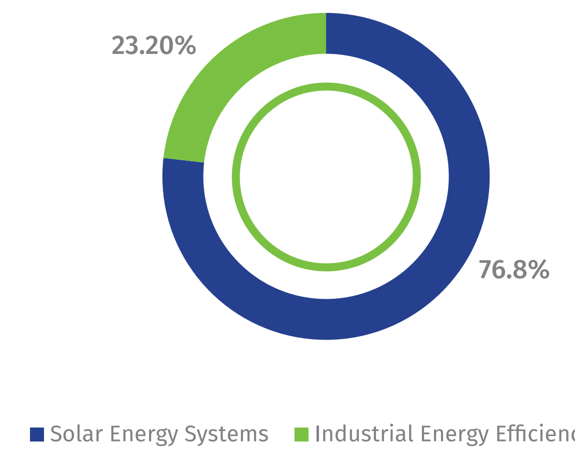


Our Adaptation and Mitigation Investments

80.5% of the total approved green loans were invested in adaptation strategies. Whereas the biggest amount (60.3%) was invested in resilient climate-resilient infrastructure with mitigation co-benefits, climate-smart agriculture had the largest number of green projects. The Bank approved financing for water supply infrastructure and water treatment facilities targeting to improve access to affordable and clean water in stressed areas countrywide.

The Bank's mitigation efforts targeted to increase access to renewable energy and improve energy efficiency through various solar application interventions such as solar driers, powered solar-powered irrigation, solar power systems, and more importantly a solar plant with an installation capacity of 22.7MWp with avoided emissions of 22.5 MtCO2 based on grid emission factor for the national power grid of Uganda 2017 of 0.573 tCO2/MWh. Further, the Bank invested in industrial energy efficiency through recycling, waste treatment projects and more efficient assets and machinery.





CONCLUSION AND **2023 OUTLOOK**

Conclusion

UDB is committed to taking appropriate steps towards reducing our exposure to the inherent E&S risks emanating from our day-to-day operations and lending activities. This will be achieved through different interventions as blue-printed by the E&S policy, National E&S requirement among other relevant standards. Routine monitoring of all bank-financed transactions remains key in fostering compliance of lending activities with E&S requirements and standards. Additionally, greening the bank's portfolio will go a long way in ensuring that the carbon and environmental footprint of our operations and lending activities are significantly reduced as well as contribute to climate change adaption, mitigation, and resilience building.

Outlook 2023

Building and maintaining an updated E&S database with quantifiable and traceable ESG results and gaps.Enhance ESG Risk mapping through the adoption of a consolidated project supervision and monitoring approach among all visiting teams across the bank's investment portfolio including following up on the implementation of covenant conditions precedent and subsequent of the bank investment portfolio.

Pioneering a green transition through the creation of a quality pipeline of investible projects through green advisory services and project preparation support to deliver innovative capital structuring solutions to make green projects bankable.

HUMAN CAPITAL

Our people are the most valuable resource that the Bank leverages on to deliver the strategy.

WINNING WITH **THE RIGHT TEAM**

To successfully realize its strategic goals, any forward-looking organization must ensure that its human capital, its people, are equipped with the requisite skills, behaviors, and motivation to succeed at their jobs. With this ethos in mind, UDB employs a range of strategies to identify, nurture, and retain its human capital. Through a multifaceted employee value proposition (EVP), the Bank actively seeks, recruits, nurtures, and retains talented individuals who are deeply committed to making a meaningful contribution to Uganda's socio-economic transformation. The Bank's EVP is grounded in five key tenets.

Compelling Organisational Philosophy:

UDB holds a distinct role as Uganda's national development financial institution. Our aspiration is to enhance the well-being of the people of Uganda and to set the benchmark as the premier provider of development finance services.

Appropriate Total Compensation:

The Bank implements a comprehensive and market-competitive total reward proposition that reco gnizes and rewards individuals for their relative contribution and skillsets.

A Congenial culture:

We facilitate a work environment of mutual respect and excellence, where staff are empowered and where every individual member's ideas count; our work environment is designed to facilitate continuous engagement and interactions amongst our staff.

Facilitating learning:

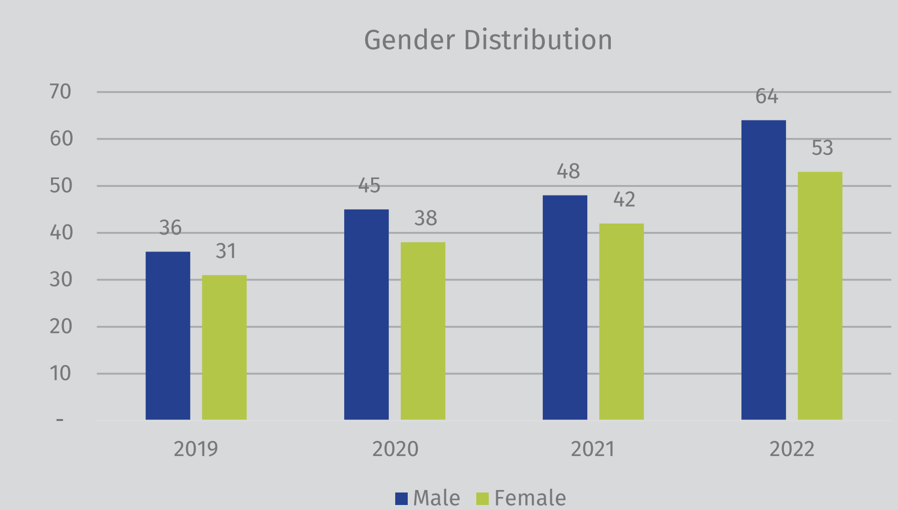
As a Development Financial Institution (DFI) offering distinctive interventions, we are dedicated to nurturing and cultivating our staff into experts in their designated fields. In pursuit of this objective, our employees are entrusted with challenging assignments that stimulate creativity and innovation, encouraging them to devise novel solutions. Concurrently, the organization offers the requisite learning opportunities to enhance their skillsets.

Supporting employee development:

The bank's talent management philosophy prioritizes the advancement of internal careers. In line with this commitment, the bank sponsors a range of initiatives aimed at enhancing the technical and leadership competencies of its staff. These initiatives not only empower employees to develop their skills but also create pathways for internal promotion and career growth within the organization. When vacancies become available, qualifying internal staff are given precedence, with priority granted to internal applicants before considering external recruitment.

Employee Demographics

The headcount as at 31st December 2022 was 117 staff (Full Time Employees) which indicated a 30% net growth from December 2021. The gender ratio remained 45:55 (female to male), reflecting the Bank's commitment to support gender equality and equal distribution of job opportunities. inclusive approach to human capital management



Future Proofing the Bank

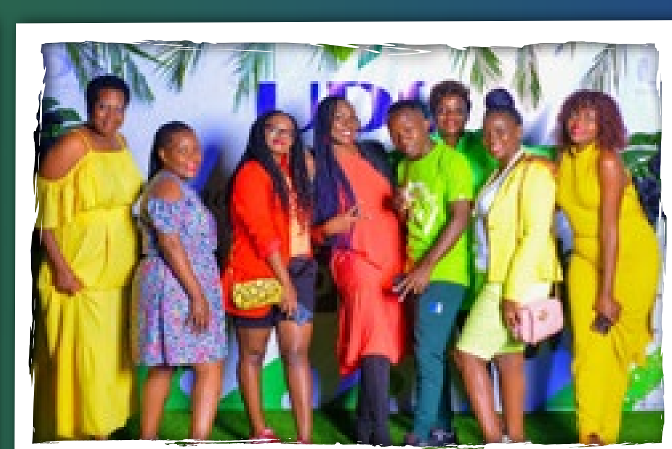
The Bank dedicates resources to the ongoing development of its staff, ensuring that they possess the necessary skills to excel in their current roles and to meet future challenges. Furthermore, the Bank actively engages in a range of talent pipeline initiatives, including structured internship programs and a young professionals' program known as the UDB Graduate Apprenticeship Program (GAP).

Through this GAP, a select group of recent graduates displaying exceptional professional potential is identified through a rigorous selection process. These individuals then undergo a structured learning and competency development journey, with the possibility of being absorbed into the Bank's workforce if they meet the qualifying criteria.

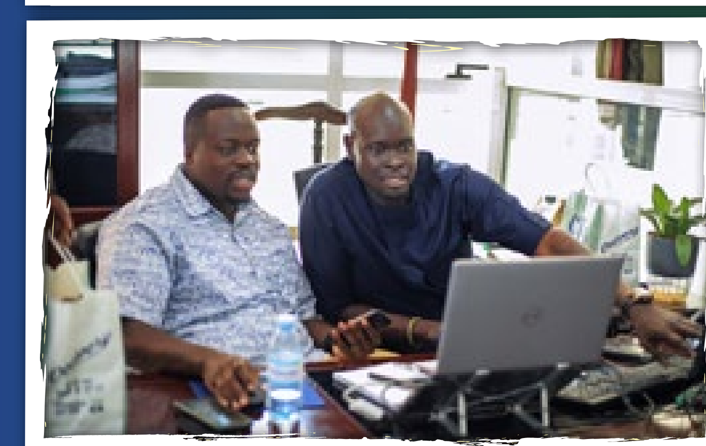
Successful candidates from GAP Cohort 1 attending the launch of the 2022 GAP intake (Cohort 2).

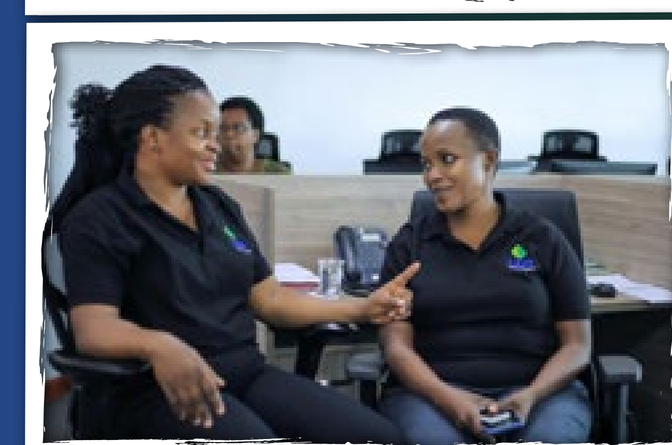
Employee Engagement

At UDBL, we acknowledge the fact that our business thrives on the unique capabilities of our staff. Our people are the most valuable resource that the Bank leverages on to deliver the strategy. The Bank deliberately goes out of its way to attract top talent and ensures that it creates an enabling environment for the talent to thrive and deliver organization objectives. The Bank invests in various initiatives to keep its staff engaged and motivated. Every year, the Bank runs a fully-fledged Employee Engagement Program with various activities that aim to promote work-life integration, physical wellness, financial wellness, mental health and social wellness. Below are pictures from various employee engagement activities.



2022 THROUGH **THE LENS**





FINANCIAL **SUSTAINABILITY**

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

FINANCIAL **SUSTAINABILITY**

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

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

The total wealth created by the Bank in 2022 was Ugx 129.17 billion as shown in the value-added statement below.

	2022	%	2021	%
Interest income	123,402,738		112,914,906	
Interest expense	-5,946,313		-3,658,440	
Wealth created from operations	117,456,425		109,256,466	
Foreign exchange gains	6,809,441		-564,144	
Other income	4,901,412		-802,752	
Total wealth created	**129,167,278**	**100**	**107,889,570**	**100**
Distribution of wealth				
Retained for growth	42,565,130	33	38,820,380	
Employees	23,163,999	18	17,230,537	
Government	22,601,177	18	18,732,974	
Suppliers	14,417,309	11	8,531,347	
Impairment loss on financial assets	25,087,475	19	23,606,128	
Depreciation and amortisation	1,332,189	1	968,205	
Total wealth distributed	**129,167,278**	**100**	**107,889,570**	**100**

FINANCIAL **PERFORMANCE OVERVIEW**

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

(Financial Statistics (Ugx'million)	2022	2021	2020	2019	2018
Statement of Comprehensive Income					
Gross Interest on loans	123,403	112,915	72,062	42,022	35,463
Net Interest and fee Income	117,456	109,256	67,900	38,917	33,246
Net impairment loss on financial assets	-25,087	-23,606	-14,688	-1,404	-7,910
Non-Interest Income (net)	11,711	-1,367	1,583	-1,432	5,630
Operating expenses	-38,913	-26,730	-23,131	-20,696	-17,373
Profit before income tax	65,166	57,553	31,664	15,385	13,594
Profit for the year	42,565	39,772	22,109	10,140	9,486
Statement of Financial Position					
Loans and advances (Net)	1,220,891	781,658	511,882	334,415	276,694
Balances with other Banks	220,401	375,375	518,736	103,147	44,383
Investment properties	31,171	32,089	34,151	31,473	34,796
Total assets	1,520,119	1,222,101	1,089,804	486,365	370,118
Capital and reserves	1,228,752	1,055,075	910,785	347,483	253,612
Total liabilities	291,366	167,026	179,019	138,882	116,506
Statement of cash flow					
Cash flow used in operating activities	-379,463	-230,308	-120,641	-43,970	-49,846
Net cash (used in)/generated from investing activities	196,005	54,333	-372,620	-68,803	7,527
Net cash generated from financing activities	220,674	88,129	539,695	103,841	65,737
Key financial ratios					
Yield on interest bearing instruments	10.00%	11.23%	10.38%	11.60%	12.30%
Net interest income margin	95.18%	96.76%	94.22%	92.61%	94%
(Cost income ratio (without impairment	30%	25%	33%	55.20%	45%
(Cost income ratio (with impairment	50%	47%	54%	58.80%	65%
Return on assets	3.10%	3.44%	2.81%	2.60%	2.80%
Return on equity	3.73%	4.93%	3.51%	3.70%	4%
Loan impairment ratio	5.60%	6.60%	6.23%	10.60%	10.60%
Debt equity ratio	19%	12%	16%	33.80%	38%

The Bank's private equity and venture capital product is tailored to cater for the needs of SMEs or other entities such as startups that face challenges in accessing debt financing and require patient capital. The Bank invests in these entities by acquiring a stake in their ownership and eventually divesting after a stipulated period. UDB's equity investment enables investees to attract additional private capital if necessary. In 2022, the unit made significant progress in developing a pipeline of potential investment opportunities and preparing projects for investment, leading to the following achievements:

Successfully building a robust pipeline worth UGX93.79 billion Holding 7 meetings with the Equity Review Committee (ERC) where business worth UGX 20 billion was approved. The unit made its first deployment of capital in December 2022, deploying UGX 599 million.

The Bank realised a profit for the year of Ugx 42.57 billion, representing growth of 10% from the Ugx 38.83 billion realized in 2021 driven by continued growth in capitalisation of the Bank coupled with increase in investment in interest earning assets, notably, loan disbursements to development projects.

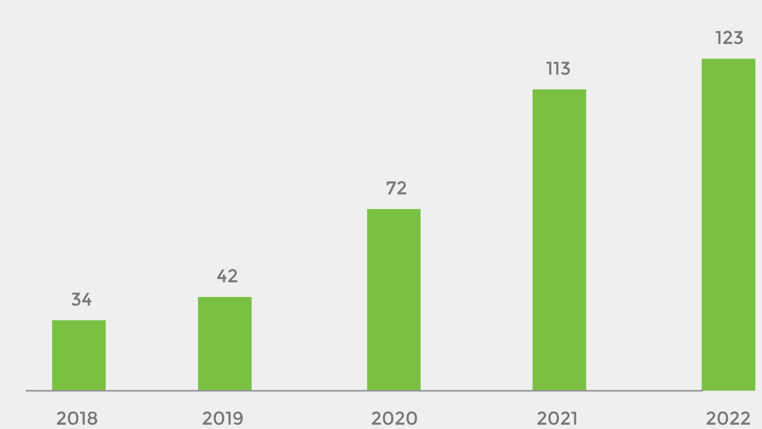
In its efforts to remain financially sustainable in the foreseeable future, the Bank has ramped up digitalisation of its operations to increase efficiency and enhance operational excellence, fast track the implementation of the capitalisation strategy, and seek innovative ways of raising financing to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

ENSURING **FINANCIAL SUSTAINABILITY**

A review of the Bank's financial performance for the financial year 2022 compared to 2021 is as follows:

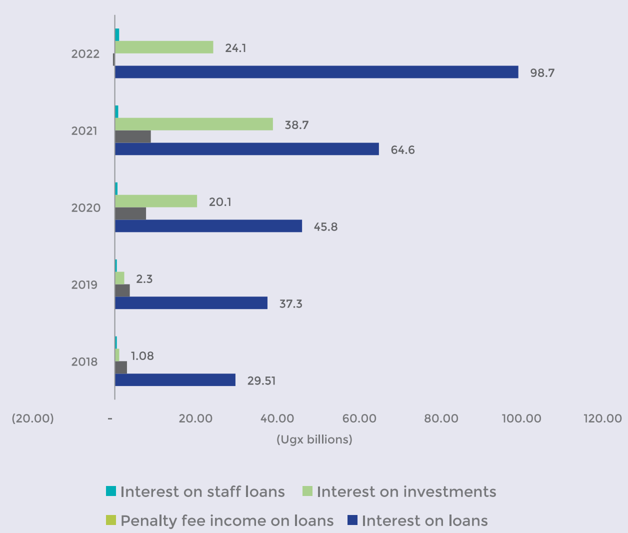
charges increased by 63% to Ugx 5.95 billion from Ugx 3.66 billion in 2021 arising from drawn down of new lines of credit from various funders and significant rise in the benchmark rate 6-month LIBOR from levels of 0.256% at the end of December 2021 to 5 .17% December 2022.

Total Interest income (Ugx billion)



The Bank realised a profit for the year of Ugx 42.57 billion, representing growth of 10% from the Ugx 38.83 billion realized in 2021

Interest and Similar Income (Ugx billion)



Profit after tax (Ugx billion)

Other Income

Other income increased by 511% to Ugx 4.9 billion from Ugx 802 million in 2021. Other income includes Ugx 3.92 billion from recovery of previously written off loans, increase in appraisal fees arising from loan approvals and Ugx 918 million loss on investment property realized as a result of the void period from the Bank's investment property during the year.

Net Impairment Loss and write off of loans and advances.

The expected credit losses (ECL) on the loan portfolio increased mainly because of the growth of the loans and advances. The Bank adopted an enhanced model that that proactively builds up provisions on all loans and is fully aligned to the requirements of the accounting standard.

Operating expenses

Operating expenses increased by 46% to Ugx 38.9 billion in 2022 from Ugx 26.7 billion in 2021 majorly due to increased staff costs arising from increase in headcount necessary for the Bank to cope with the growing business expectations, the Bank's digitization, BASE activities costs relating to various strategic initiatives, increased business promotions, stakeholder engagements and brand awareness campaigns. The cost-to-income ratio with and without impairment increased to 50% from 47% and to 30% from 25% in 2021 respectively.

STRENGTHENING **THE FINANCIAL POSITION OF THE BANK**

The Bank's total assets increased by 24.4% to Ugx 1.52 trillion as a result of an increase in the Government of Uganda capital contribution and a drawdown of approved lines of credit. Below is a brief review of the Bank's major assets and liabilities and how they impacted the performance above: -

Borrowings from development partners. Borrowings comprise lines of credit sourced from other Development Financial Institutions (DFIs) for the sole purpose of supporting the development mandate of the Bank. The Bank also generated a healthy funding pipeline of about US$ 500 million from various multilateral development partners to sustainably finance various sectors in 2022 in line with the Bank's mandate.

Government of Uganda capital contribution

The Government of Uganda continued to capitalise the Bank throughout 2022 with additional capital of Ugx 118.6 billion compared to Ugx 104 billion in 2021. This gave rise to a 14% increase in total capital contribution in 2022. The capital contributions remain key in facilitating the growth in the Bank's loan portfolio. The growth was further enhanced by capitalization of the receipts from the Kuwait fund worth Ugx 12.5 billion to support SMEs.

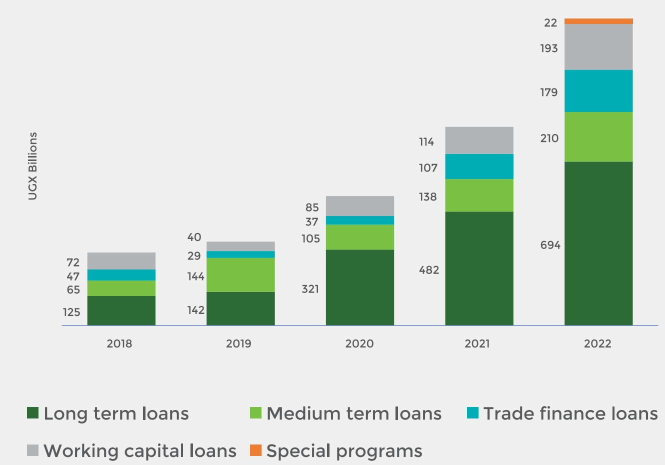
Retained earnings

The Bank's retained earnings increased by 34.5% due to profits of Ugx 42.6 billion registered during the year.

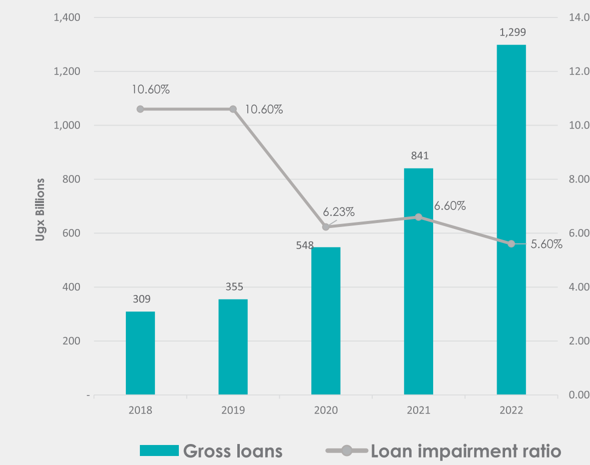
Gross Loans and Advances

Gross loan and advances increased by Ugx 458 billion (54%) during the year compared to a growth of Ugx 293 billion (53%) in 2021. Ugx 777 billion was disbursed to projects in 2022 compared to Ugx 428.2 billion in 2021 representing a 81.4% growth in disbursements with biggest sector being industry at 53.4% of the portfolio. The growth in the funding base of the Bank, the capital and interest repayments and the internal profits continued to support the growth in the loans and advances.

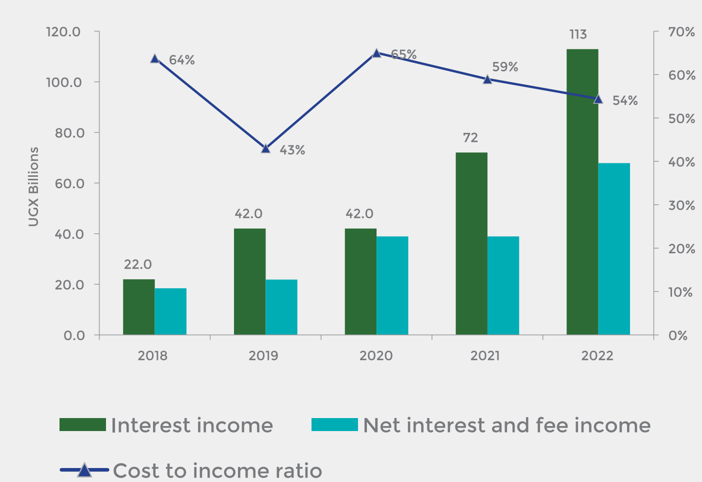
Loan portfolio growth



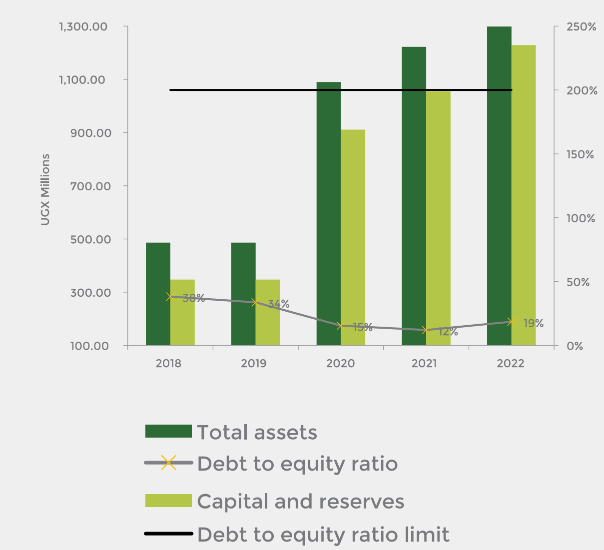
Gross loans vs loan impairement



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



Balance sheet growth vs debt/equity ratio



UDB
Inspiring Development

FINANCIAL STATEMENTS
31 DECEMBER 2022

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF THE FINANCIAL STATEMENTS OF UGANDA DEVELOPMENT BANK LIMITED FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER, 2022

THE RT. HON. SPEAKER OF PARLIAMENT

Introduction

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

Opinion

I have audited the accompanying financial statements of Uganda Development Bank Limited for the year ended 31st December 2022, which comprise the statement of Financial Position as at 31st December 2022, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Uganda Development Bank Limited as at 31st December 2022, and its financial performance and cash flows for the year then ended and are prepared in accordance with International Financial Reporting Standards (IFRSs) and requirements of the Companies Act of Uganda, 2012.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Allowance for impairment of loans and advances to customers (Individual and Portfolio Impairment) The allowance for impairment of loans to customers is considered to be a matter of most significance as it requires the application of significant judgment and use of subjective assumptions by the Directors when determining both when and how much to record as loan impairment. Furthermore, the evolving economic impact of global economic shocks like the Russia-Ukraine war and the general adverse economic environment has increased the overall risk of credit default and the possibility of significant increases in credit risk, hence raising the uncertainty surrounding management judgments and estimating processes. As at 31st December 2022, the gross loans to customers amounted to UGX.1,299 billion (2021: UGX.840 billion) contributing 80% (2021: 64%) of the bank's total assets and expected credit losses amounted to UGX.72.8 billion (FY2021: UGX.55.5 billion) Refer to Note 20 to the financial statements. The key areas where I identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's implementation of IFRS 9 include; • The judgments made to determine the categorization (staging) of individual loans and advances accounts in line with IFRS 9. In particular, the identification of a Significant Increase in Credit Risk ("SICR") and Default require consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime Probabilities of Default (PD) is used • Where there is uncertainty in respect of the respective models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates, and macroeconomic events, additional provisions are made via management overlays. Significant judgement was made in determining the management	My procedures included the following; • Obtained an understanding of the Bank's methodology for determining expected credit losses, including enhancements in the year, and evaluated this against the requirements of IFRS 9, Financial Instruments; • Testing the design and implementation of critical controls across all ECL-related processes, particularly the allocation of assets into stages and management overlays; • On a sample of contracts, I assessed the identification of loans and advances that had experienced a significant increase in credit risk or met the Bank's default definition criteria for classification purposes. This was completed by reviewing documentation and credit performance to determine whether the staging of such facilities was in accordance with Bank's policy and IFRS 9 standards; • Tested the data used in the ECL calculation by reconciling to source systems; • Assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards • I involved my internal modelling specialists to; a) Review the methodology and assumptions underlying the IFRS 9 impairment model b) Perform a quantitative reassessment of the IFRS 9 impairment model. I challenged the expected period to realize collateral that was used to discount the expected future cash flows and collateral values. Overall, the results of my evaluation of the Bank's allowance for impairment of loans are consistent with the Directors' assessment and I found that adequate disclosures had been made by the Directors pertaining to the allowance for impairment of loans and advances and the related credit risk as per Note 20 to the financial statements.

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

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the 'Corporate Information' and 'Report of Directors'. The other information does not include the financial statements and my auditors' report thereon. My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

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

Responsibilities of the Directors for the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Reporting Responsibilities

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

Report on Other Legal Requirements

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

John F.S. Muwanga
AUDITOR GENERAL

16th October, 2023.

UGANDA DEVELOPMENT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

CONTENTS

CORPORATE INFORMATION

DIRECTORS

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

Name	Designation
Mr. Felix Okoboi	Chairperson
Mrs. Patricia Ojangole	Managing Director
Mr. Francis Tumuheirwe	Director
Mr. Nimrod Waniala	Directorship lapsed on 16 February 2022
Mrs. Silvia Angey Ufoyuru	Directorship lapsed on 16 February 2022
Mr. Henry Balwanyi Magino	Directorship lapsed on 22 May 2023
Mr. John Ira Kirungi Byaruhanga	Directorship lapsed on 15 August 2023
Mrs. Rita Akot Apell	Director effective 16 February 2022
Mr. Busuulwa Joseph Kayongo	Director effective 16 February 2022
Dr. Albert Richards Otete	Director effective 22 May 2023
Mr. Bob Bonabo Munene	Director effective 15 August 2023

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY SECRETARY

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

BANKERS

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

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

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

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

CORPORATE INFORMATION (CONTINUED)

BANKERS

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

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

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

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

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

DELEGATED AUDITOR
Deloitte & Touche
Certified Public Accountant of Uganda
3rd Floor, Rwenzori House
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LEGAL ADVISORS

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P. O. Box 6061,
Kampala, Uganda

CITADEL Advocates
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P. O. Box 11070
Kampala-Uganda

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

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of Uganda Development Bank Limited ("the Bank") for the year ended 31 December 2022, which disclose the state of affairs of the Bank.

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

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

3. RESULTS
The results for the year which are set out on page 13 are summarised below:

	2022	2021
	Ushs '000	Ushs '000
Profit before tax	65,166,307	57,553,354
Income tax expense	(22,601,177)	(18,732,974)
Profit for the year	42,565,130	38,820,380

4. RESERVES
The reserves of the Bank are set out on page 15.

5. DIVIDENDS
The directors do not recommend the payment of a dividend in respect for the year ended 31 December 2022 (2021: Nil).

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

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

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

7. RISK (CONTINUED)

iii) Operational Risk

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

iv) Exogenous risk

Exogenous risk is driven by the Geopolitical tensions around the whole and in 2022 particularly in Russia and Ukraine along with the consequential economic downturn and spillover effects on the Bank's borrowers.

v) Climate risk

Intensities of climate risk continue to increase as manifested in increased heating of the earth resulting in extreme drought in the cattle corridor, floods in the Elgon and Rwenzori regions, and changing weather patterns, among others. The effects increase vulnerabilities in the Agricultural sector which is the back borne of Uganda's economy.

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

8. THE AADFI PRUDENTIAL STANDARDS, GUIDELINES AND RATINGS SYSTEM

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

In 2022, 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 94.42% (2021: 92.35%) representing a "High" performance level. The directors are committed to continuous improvement in the Bank's rating.

9. AUDITOR

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

Accordingly, M/S Deloitte &Touche Certified Public Accountant of Uganda were appointed on 12 June 2023 to carry out the audit on behalf of the Auditor General for the year ended 31 December 2022.

10. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue at the meeting of the Board of Directors held on 25th September 2023.

By order of the Board

Mrs. Sophie K. Nakandi
Company Secretary

UGANDA DEVELOPMENT BANK LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Bank's directors are responsible for the preparation and fair presentation of the financial statements of Uganda Development Bank Limited set out on pages 13 to 92, comprising the statement of financial position as at 31 December 2022, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Companies Act, 2012 Laws of Uganda.

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

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

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

Approval of the Financial Statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 25th september 2023.

FELIX OKOBOI Chairperson	Dr. ALBERT RICHARDS OTETE Director
25 September 2023	25 September 2023

UGANDA DEVELOPMENT BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 Ushs '000	2021 Ushs '000
Interest income	8	123,402,738	112,914,907
Interest expense	9	(5,946,313)	(3,658,440)
Net interest income		**117,456,425**	**109,256,467**
Net foreign exchange gain/(loss)	10	6,809,441	(564,144)
Fair value loss on investment property	22	(918,000)	(2,062,000)
Net gain on financial assets recorded at FVTPL	19	23,902	32,013
Other income	11	5,795,511	1,227,236
Net impairment loss on financial instruments	20(e)	(25,087,475)	(23,606,128)
Operating income after impairment losses		**104,079,804**	**84,283,444**
Personnel expenses	12	(23,163,999)	(17,230,537)
Depreciation and amortization	23&24	(1,332,189)	(968,206)
Other operating expenses	13	(14,417,309)	(8,531,347)
Profit before tax	14	**65,166,307**	**57,553,354**
Income tax expense	16(a)	(22,601,177)	(18,732,974)
Profit for the year		**42,565,130**	**38,820,380**
Other comprehensive income			
Items that will not be classified to profit or loss			
Gain on revaluation of property and equipment	23	-	1,359,778
Deferred tax on revaluation gain	31	-	(407,933)
		-	951,845
Total comprehensive income net of tax		**42,565,130**	**39,772,225**
Basic and diluted earnings per share	15	**48.46**	**397.72**

The notes set out on pages 17 to 92 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 Ushs '000	2021 Ushs '000
ASSETS			
Cash and cash equivalents	17	94,128,156	50,279,296
Deposits held in banks	18	126,273,264	325,095,998
Equity investment	36	598,786	-
Equity investments at fair value	19	167,199	143,297
Loans and advances	20	1,220,891,379	781,658,380
Staff loans and advances	21	9,444,717	5,823,741
Current income tax recoverable	16(b)	-	1,299,589
Deferred tax assets	31	8,745,880	-
Other assets	25	20,238,281	18,507,409
Investment property	22	31,171,000	32,089,000
Property and equipment	23	8,321,071	6,774,147
Intangible assets	24	138,797	429,903
Total assets		1,520,118,530	1,222,100,760
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	33	878,359,004	100,000,000
GOU capital contributions	34	150,736,195	797,983,313
Kuwait Special Fund	28	31,222,552	31,222,552
Asset revaluation reserve	35	2,563,242	2,563,242
Retained earnings	44	165,871,267	123,306,137
Total equity		1,228,752,260	1,055,075,244
Liabilities			
Amounts due to Bank of Uganda	26	9,519,197	10,352,531
Borrowings	27	213,014,327	114,826,602
European Union grant	30	2,639,887	5,645,511
UNCDF Fund	29	5,730,332	2,562,003
Current income tax payable	16(b)	5,420,622	-
Other liabilities	32	55,041,905	32,577,275
Deferred income tax liability	31	-	1,061,594
		291,366,270	167,025,516
Total equity and liabilities		1,520,118,530	1,222,100,760

The financial statements on pages 13 to 92 were approved and authorised for issue by the Board of Directors on 25th September 2023 and signed on its behalf by:

FELIX OKOBOI
Chairperson

DR. ALBERT RICHARDS OTETE
Director

The notes set out on pages 17 to 92 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital Ushs'000	GOU capital Contributions Ushs'000	Kuwait Special Fund Ushs'000	Asset revaluation Reserve* Ushs'000	Retained earnings Ushs'000	Total Ushs'000
At 1 January 2021	100,000,000	693,873,246	31,222,552	1,203,464	84,485,757	910,785,019
Total comprehensive income for the year	-	-	-		38,820,380	38,820,380
				1,359,778		1,359,778
Transactions with owners recorded directly in equity						
Government of Uganda capital contributions	-	104,110,067	-	-	-	104,110,067
Balance at 31 December 2021	100,000,000	797,983,313	31,222,552	2,563,242	123,306,137	1,055,075,244
At 1 January 2022	100,000,000	797,983,313	31,222,552	2,563,242	123,306,137	1,055,075,244
Total comprehensive income for the year	-	-	-	-	42,565,130	42,565,130
Transfers to share capital	778,359,004	(778,359,004)	-	-	-	-
Transactions with owners recorded directly in equity						
Government of Uganda capital contributions	-	131,111,886	-	-	-	131,111,886
Balance at 31 December 2022	878,359,004	150,736,195	31,222,552	2,563,242	165,871,267	1,228,752,260

The notes set out on pages 17 to 92 form an integral part of these financial statements.

UGANDA DEVELOPMENT BANK LIMITED

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 Ushs '000	Restated 2021 Ushs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit before changes in operating assets and liabilities	42	99,928,065	84,631,134
Changes in operating assets and liabilities			
Loans and advances		(464,320,474)	(293,382,830)
Other assets		(1,730,872)	(5,426,555)
Other liabilities		22,464,630	7,649,699
Staff loans and advances		(3,620,976)	383,530
Movement in amounts due to UNCDF		3,168,329	71,632
Movement in European Union Grant		(3,005,624)	(1,480,362)
Cash used in operations		**(347,116,922)**	**(207,553,752)**
Income tax paid		(25,688,440)	(22,442,148)
Interest paid		(5,946,313)	(3,658,440)
Net cash used in operating activities		**(378,751,675)**	**(233,654,340)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(2,565,484)	(931,915)
Acquisition of intangible assets		(29,134)	(249,358)
Movement of equity investment		(598,786)	-
Net cash used in investing activities		**(3,193,404)**	**(1,181,273)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of amounts due to Bank of Uganda		-	942,803
Repayments of amounts due to Bank of Uganda		(833,334)	(6,912,162)
Proceeds from borrowings		120,928,360	5,686,546
Repayment of borrowings		(24,586,991)	(12,039,452)
Contributions from the Government of Uganda		131,111,886	104,110,067
Net cash flows generated from financing activities		**226,619,921**	**91,787,802**
Net decrease in cash and cash equivalents		(155,325,158)	(143,047,811)
Cash and cash equivalents at 1 January	47	375,375,294	518,735,661
Effects of exchange rate changes on cash and cash equivalents		351,284	(312,556)
Cash and cash equivalents at 31 December	17	220,401,420	375,375,294

Refer to note 47 for correction of error on presentation of cash and cash equivalents

The notes set out pages 17 to 92 form an integral part of these financial statements.

1. REPORTING ENTITY

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

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

The Bank is primarily involved in development financing.

2. BASIS OF PREPARATION

a) Basis of accounting and statement of compliance

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

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

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

b) Basis of preparation

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

- Quoted and unquoted equity investments at fair value through profit or loss
- Investment property
- Freehold land and buildings

c) Functional and presentation currency

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

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank.

a) Adoption of new and revised International Financial Reporting Standards

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are not relevant to the Company in the current financial (annual) period given that it did not hold benchmark interest rate exposures with respect to hedges and financial contracts.

Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendment to IFRS 16.

In the prior year, the Bank early adopted Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021.

In March 2021, the Board issued Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022 (IAS 8:28(a)-(c); IFRS 16:C1C).

In the current financial year, the Bank has applied the amendment to IFRS 16 (as issued by the Board in May 2021) in advance of its effective date.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification (IFRS 16:46A).

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met (IFRS 16:46B):

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022)
- There is no substantive change to other terms and conditions of the lease

In the current financial year, the Bank has not been impacted by the amendment to IFRS 16 (as issued by the IASB in May 2021) in advance of its effective date.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

a) Adoption of new and revised International Financial Reporting Standards (continued)

New and revised standards that have been issued but are not yet effective

At the date of authorisation of these financial statements, The Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

New and Amendments to standards	*Effective for annual periods beginning on or after*
Amendments to IFRS 3: *Reference to the Conceptual Framework*	1 January 2022, with earlier application permitted
Amendments to IAS 16- *Property, plant and equipment-Proceeds before intended use*	1 January 2022, with earlier application permitted
Amendments to IAS 37: *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022, with earlier application permitted
Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	1 January 2023, with early application permitted.
IFRS 17: *Insurance Contracts*	1 January 2023
Amendments to IAS 1-*Classification of liabilities as current or non-current*	1 January 2023, with earlier application permitted
Amendments to IAS 1 and IFRS practice statement 2: *Disclosure of accounting policies*	1 January 2023, with earlier application permitted
Amendments to IAS 8: *Definition of accounting estimates*	1 January 2023, with earlier application permitted
Amendments to IAS 12: *Deferred Tax related to Assets and Liabilities arising from a Single*	1 January 2023, with earlier application permitted
Amendments to IFRS 16-Lease Liability in a Sale and Leaseback	1 January 2024, with earlier application permitted
Annual improvements to IFRS standards 2018-2021 Cycle: *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities, and IAS 41 Agriculture – Taxation in fair value measurements*	1 January 2022, with earlier application permitted

UGANDA DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

a) Adoption of new and revised International Financial Reporting Standards (continued)

New and revised standards that have been issued but are not yet effective (continued)

Amendments to IAS 16 - Property, Plant and Equipment-Proceeds before intended use	These are amendments regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.
Amendments to IFRS 3: Reference to the Conceptual Framework	The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The changes in Reference to the Conceptual Framework are as follows; a) Update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework; b) Add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and c) Add to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references at the same time or earlier. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.
Amendments to IAS 37: Onerous Contracts- Cost of Fulfilling a Contract	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

a) Adoption of new and revised International Financial Reporting Standards (continued)

New and revised standards that have been issued but are not yet effective (continued)

Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle *(Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities, IAS 41 Agriculture – Taxation in fair value Measurements, IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*)	IFRS 1 First-time Adoption of International Financial Reporting Standards The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16 (a).
	IFRS 9 Financial Instruments The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
	IFRS 16 Leases The amendment removes the illustration of the reimbursement of leasehold improvements.
	AS 41 Agriculture The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement
IFRS 17 Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees. In June 2021, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors do not expect that the adoption of the Standard will have a material impact on the financial statements of the Bank.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

a) Adoption of new and revised International Financial Reporting Standards (continued)

New and revised standards that have been issued but are not yet effective (continued)

IFRS 10 and IAS 28 (amendments) ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The directors of the Bank anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.
Amendments to IAS 1-Classification of Liabilities as Current or Non-current	The amendments aim at providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position- not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. In July 2021, the Board tentatively decided to defer the effective date of the 2020 amendments to no earlier than 1 January 2024. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

a) Adoption of new and revised International Financial Reporting Standards (continued)

New and revised standards that have been issued but are not yet effective (continued)

Amendments to IAS 8: Definition of accounting estimates	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. The changes to IAS 8 focus entirely on accounting estimates and clarify the following: a) The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. b) Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. c) The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. d) A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods. The amendments are effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.
Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

a) Adoption of new and revised International Financial Reporting Standards (continued)

New and revised standards that have been issued but are not yet effective (continued)

Amendments to IAS 1 and IFRS practice statement 2: Disclosure of accounting policies	The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways: a) An entity is now required to disclose its material accounting policy information instead of its significant accounting policies; b) several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material; c) the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial; the amendments clarify that accounting policy information is material if users of an entity’s financial statements would need it to understand other material information in the financial statements; and d) the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ to accounting policy information in order to support the amendments to IAS 1. The amendments are applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE (CONTINUED)

a) Adoption of new and revised International Financial Reporting Standards (continued)

New and revised standards that have been issued but are not yet effective (continued)

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16. The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8. A seller-lessee applies the amendment to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted and that fact must be disclosed. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.

b) Transition

The Bank plans to apply the amendments from 1 January 2022. Application will not impact amounts reported for 2021 or prior periods.

c) Early adoption of standards

The Bank did not early-adopt any new or amended standards in the year ended December 2022.

4. SIGNIFICANT ACCOUNTING POLICIES

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

a) Foreign currency translation

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

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

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

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

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

b) Revenue recognition

(i) Interest income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in profit or loss. The calculation takes into account all of the contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

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

Interest income and expense presented in profit or loss include:

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Revenue recognition (continued)

(ii) Fees and commission income and expense

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

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

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

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

(iii) Other income

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

(iv) Dividend income

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

(v) Rental income

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

c) Income tax expense

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

(i) Current income tax

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Income tax expense (continued)

(ii) Deferred income tax

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities

i) Recognition and initial measurement

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

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

ii) Classification

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

- the asset is held within a business model whose objective is to hold assets to collect Contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest **(SPPI).**

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

iii) Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

iv) Assessment of whether contractual cash flows are solely payments of principal and interest (continued)

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

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

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

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

vii) Derecognition
Policy on derecognition

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

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

(i) the consideration received (including any new asset obtained less any new liability assumed) and;
(ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

vii) Derecognition (continued)

Policy on derecognition (continued)

Financial assets (continued)

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.

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

viii) Modifications of financial assets and financial liabilities.

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

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

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see xi (6) for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

viii) Modifications of financial assets and financial liabilities (continued)

Financial assets (continued)

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.

Financial liabilities

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

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

ix) Offsetting

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

x) Fair value measurement

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

xi) Impairment

Policy applicable

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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.

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NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

xi) Impairment (continued)

Restructured financial assets

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

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

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

xi) Impairment (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

xi) Impairment (continued)

Non-integral financial guarantee contracts (continued)

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.

xii) Designation at fair value through profit or loss

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

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

e) Cash and cash equivalents

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

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

f) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to customers and staff are classified under amortised cost in accordance with IFRS 9.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Investment securities

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

h) Property and equipment

i) Recognition and measurement

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

After recognition as an asset, land and buildings are carried at their revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made after every 3 years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.
Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.
A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus. The revaluation surplus is transferred to retained earnings upon derecognition of the asset to which it relates.

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.

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NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Property and equipment (continued)

iv) Impairment

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

v) Derecognition

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

i) Investment property

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) **Intangible assets (continued)**

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

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

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

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

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

k) **Share capital**

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) **Employee benefits (continued)**

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

(i) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Impairment of non-financial assets (Continued)

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

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

p) Accounting for leases

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

Definition of a lease

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

As a lessee

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

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

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

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

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Accounting for leases (continued)

As a lessee (continued)

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

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

As lessor

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

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

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

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

The Bank has not recognised a right-of-use asset and lease liabilities as at 31 December 2022 due to the above practical expedient that the lease term ends within 12 months.

Amounts recognised in profit or loss

Details	2022 Ushs'000	2021 Ushs'000
Expenses relating to short-term leases	1,326,231	1,625,846

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Kuwait Special Fund

The Bank managed these funds in trust on behalf of the Government of Uganda. The funds were recorded as a liability on receipt of the funds and the corresponding entries were recorded under cash and bank balances or loans and advances to customers until 14 October 2021 when Kuwait approved transfer of this the Kuwait Special Fund from the Bank's liabilities' section to the equity section.

r) Grants

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

s) Investment in Associates

Associates are those entities in which the bank has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

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

5. FINANCIAL RISK MANAGEMENT

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

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

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

The Bank's Audit and Risk Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Committee is assisted in these functions by internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Bank's policy is that risk management processes are audited by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of its assessment with management and reports its findings and recommendations to the Audit and Risk committee.

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

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

a) Credit risk

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

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

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

Credit-related commitments risks

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Impaired loans and advances

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

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

Macroeconomic Forward-looking information for measuring of ECL

As a result of Geopolitical tensions in Russia and Ukraine, the global economy suffered a heavy blow and hence there was a need to revisit the forecasts used. The Bank obtained macroeconomic factors from Fitch Solutions; macroeconomic overlays were applied to the probability of default for three different scenarios: base case scenario, downside scenario and optimistic scenario.

Significant increase in credit risk

The Bank increased its analysis of restructured loans and loans that had their payments deferred to determine if they had a significant increase in credit risk instead of the restructure/ payment holiday being a trigger to transfer the loan to stage 2 or stage 3.

Use of estimates and judgements

There have been no material revisions to the nature and estimates of amounts reported in prior periods.

Use of assumptions

The COVID-19 pandemic and Geopolitical tensions continue to affect the Bank, countries and businesses at the time of issuing these financial statements. The directors expect that considering that the Bank is an essential service provider, the Bank's operations will continue despite the disruption caused by the pandemic and political tensions. The directors have also assessed that no adjusting events or conditions existed at the reporting date affecting the financial statements

The Bank's management and directors are closely monitoring the economic developments in the key markets and sectors including undertaking scenario analysis. This enables the Bank's management and directors to take appropriate actions where necessary, including enhanced monitoring, amending the Bank's risk appetite and/or reducing limits and exposures.
Customer credit risk is not expected to increase further, management will continue to closely monitor customer segments to ensure that exposures are mitigated.

There are no conditions that would warrant impairment of non-financial assets. There are no significant financial assets measured at fair values that would materially impact the performance of the Bank.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial period are different from the judgements and assumptions used, could require a material adjustment to the carrying amounts of the assets or liabilities reported in these financial statements. The directors and management will continue to monitor the measures taken by the Government of Uganda and adjust the Bank's business strategies and plans accordingly.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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:

	2022	2021
	Ushs '000	Ushs '000
Cash and cash equivalents	94,128,156	50,279,296
Deposits held in other banks	126,273,264	325,095,998
Loans and advances	1,220,891,379	781,658,380
Staff loans and advances	9,444,717	5,823,741
Other assets	20,238,281	18,507,409
	1,470,975,797	1,181,364,824

The above table represents the worst-case scenario of credit risk exposure to the Bank as at 31 December 2022 and 31 December 2021 without taking into account any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

Credit quality analysis

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

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

	2022			
	Stage 1	Stage 2	Stage 3	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortised cost	915,793,701	213,026,452	169,708,901	1,298,529,054
Loss allowance	(21,001,516)	(22,965,654)	(37,984,577)	(81,951,747)
Interest income on stage 3	-	-	(4,859,397)	(4,859,397)
Modification gain	-	-	-	9,173,469
Carrying amount	894,792,185	190,060,798	126,864,927	1,220,891,379
Staff loans and advances	15,363,248	3,134	416,648	15,783,030
Loss allowance	(223,812)	(612)	(155,564)	(379,988)
Carrying amount	15,139,436	2,522	261,084	15,403,042

	2021			
	Stage 1	Stage 2	Stage 3	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortised cost	630,229,933	80,153,588	130,326,893	840,710,413
Interest income on stage 3	(9,359,939)	(4,341,141)	(41,760,449)	(55,461,529)
Loss allowance	-	-	(3,590,504)	(3,590,504)
Carrying amount	620,869,993	75,812,448	84,975,939	781,658,380
Staff loans and advances	10,591,094	-	527,239	11,118,333
Loss allowance	(102,770)	-	(277,950)	(380,720)
Carrying amount	10,488,324	-	249,289	10,737,613

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Collateral security held and other enhancements.

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

64% (2021: 64%) of the total maximum exposure is derived from loans and advances to customers. Investment in fixed deposits represents 27% (2021: 35%) of the maximum exposure.

Loans and advances are secured by collateral mainly in the form of charges over land and buildings or personal/other guarantees. The market sale value of the collateral held as at 31 December 2022 is Ushs 2.56 trillion (2021: Ushs 1.82 trillion).

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment.

See accounting policy note 4 (e).

Significant increase in credit risk

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

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

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

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

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

Generating the term structure of PD

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

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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 return 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: base case scenario assigned a 50% probability of occurring, downside scenario assigned a 30% probability of occurring and optimistic scenario which is assigned a 20% probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. Different scenario weights can be set to reflect the Bank's view of the future.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.
The key drivers for credit risk are GDP and debt service ratio.

The economic scenarios used as at 31 December 2022 included the following key indicators for Uganda for four years up to 31 December 2025.

Scenario	2022	2023	2024	2025
Base	18.11%	20.05%	19.06%	19.03%
Upside	17.13%	19.07%	18.08%	18.05%
Downside	19.08%	21.02%	20.04%	20.01%
FLI overlay	103.60%	114.65%	109.02%	108.85%

b) Market risk

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

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

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

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

(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;

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(i) Interest rate risk (continued)

- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.
- The currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The base currency in which the Bank's business is transacted is Uganda Shillings.

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'LIBOR reform'). The Bank has significant exposure to LIBORs on its financial instruments that will be reformed as part of this market-wide initiative. In line with announcements from the Financial Conduct Authority (FCA), LIBOR settings shall cease from 1 January 2022 and shall be calculated using panel bank submissions until mid-2023. The Bank has identified and assessed all existing LIBOR exposures by currency and tenor and established whether these exposures have contractual provisions embedded therein which will enable smooth transition to alternative reference rates. The Bank has already reached out to the funders to communicate next steps and discuss transition options. The main risks to which the Bank is exposed as a result of LIBOR reform are operational including the renegotiation of loan contracts through bilateral negotiation with lenders, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

The Bank has floating rate liabilities indexed to US dollar Libor.

The table below shows the amounts of unreformed financial liabilities as at 31 December 2022.

	2022 Ushs'000	2021 Ushs'000
Borrowings	213,014,327	114,826,602
	213,014,327	114,826,602

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 2022. Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below:

	10% fall in interest rates		10% rise in interest rates	
	Effect of profit before tax Ushs'000	Effect on equity Ushs'000	Effect of profit before tax Ushs'000	Effect on equity Ushs'000
At 31 December 2022				
Profit before income tax	594,631	594,631	(594,631)	(594,631)
At 31 December 2021				
Profit before income tax	365,844	256,091	(365,844)	(256,091)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(i) Interest rate risk (continued)

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

	Up to 1yr Ushs'000	1 to 3yrs Ushs'000	3 to 5yrs Ushs'000	Over 5yrs Ushs'000	Total Ushs'000
31 December 2022					
Financial assets					
Deposits held with banks	126,273,264	-	-	-	126,273,264
Loans and advances	243,289,093	121,420,335	133,028,771	723,153,180	1,220,891,379
Staff loans and advances	69,001	697,016	181,806	14,835,208	15,783,031
Total financial assets	369,631,358	122,117,351	133,210,577	737,988,388	1,362,947,674
Financial liabilities					
Borrowings	24,022,039	44,688,878	44,688,878	99,614,532	213,014,327
Total financial liabilities	24,022,039	44,688,878	44,688,878	99,614,532	213,014,327
Interest sensitivity gap	345,609,319	77,428,473	88,521,699	638,373,856	1,149,933,347
31 December 2021					
Total financial assets	357,419,844	176,255,854	101,126,019	482,690,274	1,117,491,991
Total financial liabilities	25,413,130	44,425,676	25,547,762	19,440,034	114,826,602
Interest sensitivity gap	332,006,714	131,830,178	75,578,257	463,250,240	1,002,665,389

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NOTES TO THE FINANCIAL STATEMENTS
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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(ii) Currency risk

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

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign denominated balances as at 31 December 2022.

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 2022

	10% Depreciation		10% Appreciation	
	Effect on profit before tax Ushs'000	Effect on equity Ushs'000	Effect on profit before tax Ushs'000	Effect on equity Ushs'000
EUR	(3,568)	(3,568)	3,568	3,568
GBP	(253)	(253)	253	253
USD	(5,251,013)	(5,251,013)	5,251,013	5,251,013
Total	(5,254,834)	(5,254,834)	5,254,834	5,254,834

31 December 2021

	10% Depreciation		10% Appreciation	
	Effect on profit before tax Ushs'000	Effect on equity Ushs'000	Effect on profit before tax Ushs'000	Effect on equity Ushs'000
EUR	(5)	(5)	5	5
GBP	(152)	(152)	152	152
USD	(6,548,378)	(6,548,378)	6,548,378	6,548,378
Total	(6,548,535)	(6,548,535)	6,548,535	6,548,535

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(ii) Currency risk (continued)

The Bank's currency position is as follows:

	Uganda shillings Ushs'000	US Dollars Ushs'000	Euro Ushs'000	GBP Ushs'000	Total Ushs'000
31 December 2022					
Financial assets					
Cash and cash equivalents	78,640,207	15,429,874	55,543	2,532	94,128,156
Deposits held in banks	113,681,867	12,591,397	-	-	126,273,264
Staff loans and advances	9,444,717	-	-	-	9,444,717
Other assets (excluding non-financial assets)	19,243,453	994,828	-	-	20,238,281
Loans and advances	974,302,071	246,589,308	-	-	1,220,891,379
Total financial assets	**1,195,312,315**	**275,605,407**	**55,543**	**2,532**	**1,470,975,797**
Financial liabilities					
Amounts due to Bank of Uganda	9,519,197	-	-	-	9,519,197
Other liabilities	44,989,605	10,032,440	19,860	-	55,041,905
Borrowings	-	213,014,327	-	-	213,014,327
UNCDF Fund	5,730,332	-	-	-	5,730,332
European Grant	2,639,887	-	-		2,639,887
Total financial liabilities	**62,879,021**	**223,046,767**	**19,860**		**285,945,648**
Net currency position	**1,132,433,294**	**52,558,640**	**35,683**	**2,532**	**1,185,030,149**
31 December 2021					
Total financial assets	1,012,590,150	168,773,102	1,523	49	1,181,364,824
Total financial liabilities	37,717,664	122,600,747	5,645,511	-	165,963,922
Net currency position	**974,872,486**	**46,172,355**	**(5,643,988)**	**49**	**1,015,400,902**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

(iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks.
The Bank's equity shares are susceptible to market price risk arising from uncertainties about future values of the investment stock prices. The Bank manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Bank's senior management on a regular basis. The Bank's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to equity securities at fair value was Ushs 167 million. An increase and a decrease of 10% in the share prices could have the following impact on the statement of comprehensive income:

	Change Year-end share price	Effect on profit before tax 2022 Ushs'000	2021 Ushs'000
KENGEN	+10%	62	84
Uganda Clays Ltd	+10%	15,221	11,771
The New Vision Ltd	+10%	1,436	2,474
KENGEN	-10%	(62)	(84)
Uganda Clays Ltd	-10%	(15,221)	(11,771)
The New Vision Ltd	-10%	(1,436)	(2,474)

(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.

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.

c) Liquidity risk (Continued)

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.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

	Up to 1 month	1-3months	3-6months	6- 12months	1-3yrs	3-5yrs	Over 5yrs	Contractual cashflows	Carrying Amount
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs'000
31 December 2022									
Financial assets									
Cash and cash equivalents	94,128,156	-	-	-	-	-	-	94,128,156	94,128,156
Deposits held in banks	18,030,670	100,000,000	4,177	8,238,417	-	-	-	126,273,264	126,273,264
Loans and advances	-	10,754,708	159,752,989	70,961,788	132,238,844	142,307,602	777,757,310	1,293,773,241	1,220,891,379
Staff loans and advances*	-	13,533	7,713	22,054	773,010	210,827	14,755,894	15,783,031	9,444,717
Total financial assets	**112,158,826**	**110,768,241**	**159,764,879**	**79,222,259**	**133,011,854**	**142,518,429**	**792,513,204**	**1,529,957,692**	**1,450,737,516**
Financial liabilities									
Amounts due to Bank of Uganda		-	77,778	150,000	9,291,419	-	-	9,519,197	9,519,197
Other liabilities	23,679,686	8,784,732	3,630,278	3,238,539	7,793,700	3,347,688	4,567,282	55,041,905	55,041,905
Borrowings	15,421,469	-	7,011,104	1,589,467	44,688,878	44,688,878	99,614,532	213,014,328	213,014,327
European Grant	-	-	-	-	-	-	2,639,887	2,639,887	2,639,887
UNCDF Fund	-	-	-	-	-	-	5,730,332	5,730,332	5,730,332
Total financial liabilities	**39,101,155**	**8,784,732**	**10,719,160**	**4,978,006**	**61,773,997**	**48,036,566**	**112,552,033**	**285,945,649**	**285,945,648**
Net liquidity gap	**73,057,671**	**101,983,509**	**149,045,719**	**74,244,253**	**71,237,857**	**94,481,863**	**679,961,171**	**1,244,012,043**	**1,164,791,868**
31 December 2021									
Total financial assets	82,975,100	118,924,797	63,315,589	142,718,744	176,255,854	101,126,019	482,689,540	1,168,005,643	1,162,857,415
Total financial liabilities	13,618,030	4,417,927	11,045,127	14,417,654	57,846,357	26,626,342	34,892,504	162,863,941	165,963,922
Net liquidity gap	**69,357,070**	**114,506,870**	**52,270,462**	**128,301,090**	**118,409,497**	**74,499,677**	**447,797,036**	**1,005,141,702**	**996,893,493**

* The carrying amount excludes the recognised discount on the staff loans

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 2022 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 38 of the financial statements.

Impairment of loans and advances

Assets accounted for at amortised cost are evaluated for impairment on the basis described in note 4 (d).

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

- Financial assets that are debt instruments and;
- Loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

Useful life of property and equipment (Note 4(h))
Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors.

Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Revaluation of buildings (Note 4(h))
The freehold land and buildings categories of property and equipment are measured at revalued amounts. The fair value is determined based on the cost of equivalent properties obtained by summing up all the components of the building structure and other improvements.

6. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Income tax (Note 4 c (i))

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in Other Comprehensive Income.

Deferred tax (Note 4 c (ii))

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Valuation of the investment property and property and equipment Note 4(j) and 4(h)
The Bank measures its investment property and property and equipment at fair value with the changes in the fair value recognised in profit or loss for investment property and other comprehensive income for property and equipment. These are valued with reference to market based evidence, using comparable prices adjusted for specific market factors such as location, condition of the asset.

During the year ended 31 December 2022, the Bank engaged an independent valuation specialist to determine the fair value of its investment property. Land and Buildings have not been revalued during the year. The carrying amounts of investment property and plant, property and equipment are disclosed in notes 22 and 23 to the financial statements.

Going concern
The directors have assessed the Bank's ability to continue as a going concern and are satisfied that the Bank has the resources to continue in business for the foreseeable future. This has been based on the fact that they are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

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.

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7. FAIR VALUE MEASUREMENT (CONTINUED)

Fair value hierarchy

31 December 2022	Date of valuation	Quoted prices in active markets (Level 1) Ushs '000	Significant observable inputs (Level 2) Ushs '000	Significant unobservable inputs (Level 3) Ushs '000
Assets measured at fair value				
Equity investments	31 Dec 2022	167,198	-	-
Financial asset	31 Dec 2022	-	-	598,786
Investment property	31 Dec 2022	-	-	31,171,000
Freehold land	31 Dec 2022	-	-	3,926,000
Buildings	31 Dec 2022	-	-	1,075,618
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	1,220,891,380	-
Staff loans and advances		-	9,444,717	-
Amounts due to Bank of Uganda		-	9,519,197	-
European Grant		-	2,639,887	-
UNCDF Fund		-	5,730,332	
Borrowings		-	213,014,327	-

31 December 2021	Date of valuation	Quoted prices in active markets (Level 1) Ushs '000	Significant observable inputs (Level 2) Ushs '000	Significant unobservable inputs (Level 3) Ushs '000
Assets measured at fair value				
Equity investments	31 Dec 2021	143,296	-	-
Investment property	31 Dec 2021	-	-	32,089,000
Freehold land	31 Dec 2021	-		3,926,000
Buildings	31 Dec 2021	-		1,102,646
Assets and liabilities not measured at fair value for which fair values have been disclosed				
Loans and advances		-	781,658,380	-
Staff loans and advances		-	5,823,741	-
Amounts due to Bank of Uganda		-	10,352,531	-
Kuwait Special Fund		-	5,645,511	-
UNCDF Fund			5,645,511	
Borrowings		-	114,826,602	

7. FAIR VALUE MEASUREMENT (CONTINUED)

Fair value hierarchy (continued)

There were no transfers between level 1 and level 2 during 2022 or 2021.

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 2022		31 December 2021	
	Carrying amount Ushs '000	Fair value Ushs '000	Carrying amount Ushs '000	Fair value Ushs '000
Financial assets				
Cash and cash equivalents	94,128,156	94,128,156	50,279,296	50,279,296
Deposits held in banks	126,273,264	126,273,264	325,095,998	325,095,998
Equity investments at fair value	167,199	167,199	143,297	143,297
Financial asset	598,786	598,786	-	-
Loans and advances	1,220,891,379	1,220,891,379	781,658,380	781,658,380
Staff loans and advances	9,444,717	9,444,717	5,823,741	5,823,741
Other assets	20,238,281	20,238,281	18,507,409	18,507,409
Total financial assets	1,471,741,782	1,471,741,782	1,181,508,121	1,181,508,121
Financial liabilities				
Amounts due to Bank of Uganda	9,519,197	9,519,197	10,352,531	10,352,531
Borrowings	213,014,327	213,014,327	114,826,602	114,826,602
European Union	2,639,887	2,639,887	5,645,511	5,645,511
UNCDF Fund	5,730,332	5,730,332	2,562,003	2,562,003
Other liabilities	55,041,905	55,041,905	32,577,275	32,577,275
Total financial liabilities	285,945,648	285,945,648	165,963,922	165,963,922

7. FAIR VALUE MEASUREMENT (CONTINUED)

The fair values of financial instruments not measured at fair value were determined as follows:

i. Loans and advances to customers and staff loans: The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.
ii. Borrowings and Kuwait Special Fund (KSF): The interest rate charged on borrowings held by the Bank is based on Weighted Average Cost of Capital (WACC) which indicates the return the Bank's stakeholders expect to receive, or other bases for determining market interest rates. The interest rates are variable and in line with market rates for similar facilities. The fair values of such interest-bearing borrowings not quoted in an active market are based on discounted cash flows using interest rates for similar facilities.
iii. Amounts due to Bank of Uganda: The estimated fair value of amounts due to Bank of Uganda represent the discounted amount of estimated future cash flows expected to be repaid. Expected cash flows are discounted at current market rates to determine fair value.

The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy are shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted average) 2022	2021
Loans and advances	DCF method	WACC	11.3%	11.6%
Borrowings and KSF	DCF method	WACC	3.2%	2.3%
Investment Property	Income capitalisation method	Capitalisation rate	8%	8%

7. FAIR VALUE MEASUREMENT (CONTINUED)

Maturity analysis of assets and liabilities

31 December 2022

	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	94,128,156	94,128,156	-	94,128,156
Deposits held in banks	126,273,264	126,273,264	-	126,273,264
Equity investments at fair value	167,199	167,199	-	167,199
Financial asset	598,786	-	598,786	598,786
Loans and advances to customers	1,220,891,379	241,469,485	979,421,894	1,220,891,379
Staff loans and advances	9,444,717	43,300	9,401,417	9,444,717
Property and equipment	8,321,071	-	8,321,071	8,321,071
Deferred income tax asset	8,745,880		8,745,880	8,745,880
Investment Property	31,171,000	-	31,171,000	31,171,000
Other assets	20,238,281	14,082,203	6,156,078	20,238,281
Intangible assets	138,797	-	138,797	138,797
Total assets	**1,520,118,530**	**476,163,607**	**1,043,954,923**	**1,520,118,530**
Liabilities				
Amounts due to Bank of Uganda	9,519,197	227,778	9,291,419	9,519,197
Borrowings	213,014,327	24,022,040	188,992,287	213,014,327
UNCDF Fund	5,730,332	-	5,730,332	5,730,332
European Union	2,639,887	-	2,639,887	2,639,887
Current income tax payable	5,420,622	5,420,622		5,420,622
Other liabilities	55,041,905	28,542,002	26,499,903	55,041,905
Total liabilities	**291,366,270**	**58,212,442**	**233,153,828**	**291,366,270**

UGANDA DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

7. FAIR VALUE MEASUREMENT (CONTINUED)

Maturity analysis of assets and liabilities (continued)

31 December 2021

	Statement of financial position amount	(Current) No more than 12 months after the reporting period	(Non-Current) More than 12 months after the reporting period	(Current + Non-Current) Total
Assets				
Cash and bank balances	50,279,296	50,279,296	-	50,279,296
Deposits held in banks	325,095,998	220,095,998	105,000,000	325,095,998
Equity investments at fair value	143,297	143,297	-	143,297
Loans and advances to customers	781,658,380	137,278,780	644,379,600	781,658,380
Staff loans and advances	5,823,741	45,799	5,777,942	5,823,741
Current income tax assets	1,299,589	1,299,589	-	1,299,589
Property and equipment	6,774,147	-	6,774,147	6,774,147
Investment Property	32,089,000		32,089,000	32,089,000
Other assets	18,507,409	13,231,381	5,276,028	18,507,409
Intangible assets	429,903	-	429,903	429,903
Total assets	**1,222,100,760**	**422,374,140**	**799,726,620**	**1,222,100,760**
Liabilities				
Amounts due to Bank of Uganda	10,352,531	2,600,000	7,752,531	10,352,531
Borrowings	114,826,602	25,413,130	89,413,472	114,826,602
UNCDF Fund	2,562,003	-	2,562,003	2,562,003
European Union	5,645,511	-	5,645,511	5,645,511
Deferred income tax liability	1,061,594	-	1,061,594	1,061,594
Other liabilities	32,577,275	17,006,434	15,570,841	32,577,275
Total liabilities	**167,025,516**	**45,019,564**	**122,005,952**	**167,025,516**

8. INTEREST AND SIMILAR INCOME

Interest income calculated using the effective interest method

	2022 Ushs'000	2021 Ushs'000
Interest on loans	98,707,380	62,597,708
Appraisal fees on loans	-	2,002,743
Penalty fee income on loans	(450,979)	8,814,137
Interest on deposits held in banks	24,078,090	38,670,168
Interest on staff loans	1,068,247	830,151
Gross interest	123,402,738	112,914,907
Total interest earned using effective interest rate method	123,402,738	112,914,907

Included within the various line items under interest income for the year ended 31 December 2022 is a total of Ushs 4.8 billion (2021: 3.6 billion) relating to impaired financial assets.

The interest income reported above relates to financial instruments held at amortised cost only.

9. INTEREST EXPENSE

Interest expense calculated using the effective interest method

	2022 Ushs'000	2021 Ushs'000
Interest expense	5,946,313	3,658,440

Included within interest expense for the year ended 31 December 2022 is interest and amortised commitment fees charged on BADEA Original, BADEA Private, IDB, AfDB, India Exim, Opec Fund for International Development and Islamic Corporation for Development lines of credit.

10. NET FOREIGN EXCHANGE GAIN/(LOSS)

	2022 Ushs'000	2021 Ushs'000
Net realized foreign exchange gains	36,738,128	10,632,257
Net unrealized foreign exchange losses	(29,928,687)	(11,196,401)
	6,809,441	(564,144)

The unrealised component of exchange losses arises from translation of foreign denominated transactions and revaluation of US Dollar denominated assets and liabilities to Uganda Shillings as at year end. Financial assets and liabilities denominated in foreign currencies are translated into Uganda Shillings using the rate ruling at the reporting date. The exchange rate for US Dollars to Uganda Shillings as at 31 December 2022 was 1 USD/Ushs 3,710 (2021: 1 USD/ Ushs 3,545).

11. OTHER INCOME

	2022 Ushs'000	2021 Ushs'000
Loss of disposal of assets	(12,862)	(5,110)
Rental income	18,819	17,551
Agency fees	143,719	40,511
Trade finance revenues	142,170	157,378
Other income*	5,503,665	1,016,906
	5,795,511	**1,227,236**

*Other income above includes loan recoveries and dividends

Contract balances

The table below provides information about receivables and contract liabilities from contracts with customers

	2022 Ushs'000	2021 Ushs'000
Receivables	63,699,259	50,969,976
Contract liabilities	15,290,089	10,507,180

The contact liabilities primarily relate to the non-refundable loan arrangement fees received from customers on disbursement of a loan. These are recognised as revenue over the period of the loan. The receivables relate to interest receivable on loans and advances as at 31 December 2022.

Performance Obligations

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

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

12. PERSONNEL EXPENSES

	2022	2021
	Ushs'000	Ushs'000
Salaries	18,631,609	13,732,029
Service gratuity	878,596	661,997
NSSF contributions	1,570,452	1,132,883
Staff provident fund contributions	989,144	782,380
Staff welfare	1,094,198	921,248
	23,163,999	17,230,537

The total number of employees as at 31 December 2022 was 117 (2021: 89).

13. OTHER OPERATING EXPENSES

	2022	2021
	Ushs'000	Ushs'000
Administration expenses	3,530,834	1,701,255
Rent, utilities, and maintenance costs	2,115,117	1,631,890
Expense relating to short term leases*	1,326,231	989,779
Directors' emoluments	514,550	513,350
Other professional fees	2,496,346	1,952,628
Business promotions and publicity	2,353,829	1,175,305
Travel and subsistence	1,460,970	383,768
Auditors' remuneration	162,043	183,372
Business advisory expenses	457,389	-
	14,417,309	8,531,347

* Expense relating to short term leases comprises the annual rental charge for premises with Pine Investments Limited.

14. PROFIT BEFORE TAX

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

	2022	2021
	Ushs'000	Ushs'000
Depreciation	1,011,949	665,028
Amortization of intangible assets	320,240	303,178
Directors' emoluments	514,550	513,350
Auditors' remuneration	162,043	183,372
Net foreign exchange (gain)/loss	(6,809,441)	564,144
Fair value loss on investment property	918,000	2,062,000

15. EARNINGS PER SHARE

	2022	2021
Net profit attributable to ordinary equity holders of the Bank (Ushs)	42,565,130,000	39,772,225,000
Weighted average number of ordinary shares in issue during the year	878,359,004	100,000,000
Basic and diluted earnings per share (Ushs)	**48.46**	**397.72**

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

	2022	2021
	Ushs'000	Ushs'000
Current income tax:		
Corporation tax	32,408,651	20,418,507
Deferred income tax credit (Note 31)	(9,807,474)	(1,685,533)
	22,601,177	18,732,974

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

	Effective tax rate	2022	2021
		Ushs'000	Ushs'000
Profit before income tax		65,166,306	57,553,354
Tax calculated at the statutory rate	30%	19,549,892	17,266,006
Tax effect of:			
Expenses not deductible for tax purposes	0.39%	257,170	1,459,905
(Over)/Under provision in prior year current tax	0.01%	-	7,063
Movement on indexation on revalued assets not recognised	3.72%	2,422,675	-
Under provisional penalty	0.57%	371,440	-
	34.68%	22,601,177	18,732,974

16. TAXATION (CONTINUED)

a) Current income tax payable/(recoverable)

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

	2022	2021
	Ushs'000	Ushs'000
At 1 January	(1,299,589)	724,052
Charge for the year	32,408,651	20,418,507
Tax paid	(25,688,440)	(22,442,148)
At 31 December	5,420,622	(1,299,589)

17. CASH AND CASH EQUIVALENTS

	2022	2021
	Ushs'000	Ushs'000
Short term deposits with financial institutions	94,187,261	50,300,366
ECL allowance -17(a)	(59,105)	(21,070)
	94,128,156	50,279,296

a) MOVEMENT IN ECL ALLOWANCE

At 1 January	21,070	106,358
Movement in ECL allowance	38,035	(85,288)
	59,105	21,070

For the purposes of the statement of cash flows, cash and cash equivalents comprise of the following.

	2022	2021
	Ushs'000	Ushs'000
Short term deposits with financial institutions (Note 17)	94,128,156	50,279,296
Deposits held in banks (Note 18)	126,273,264	325,095,998
	220,401,420	375,375,294

18. DEPOSITS HELD IN BANKS

Time deposits	126,549,791	325,330,355
ECL allowance – 18(a)	(276,527)	(234,357)
	126,273,264	325,095,998

The average effective interest rate was 9.3% for Uganda Shillings denominated investments (2021: 8.8%) and 3.1 % for USD denominated investments (2021: 2.0%).

The maturity analysis of the deposits held in banks is analysed as follows.

	2022	2021
	Ushs’000	Ushs’000
Amounts due before three months	118,030,670	32,695,804
Amounts due after three months	8,242,594	292,400,194
	126,273,264	325,095,998

18. DEPOSITS HELD IN BANKS (CONTINUED)

a) MOVEMENT IN ECL ALLOWANCE

	2022	2021
	Ushs'000	Ushs'000
At 1 January	234,357	260,778
Movement in ECL allowance	42,170	(26,421)
	276,527	234,357

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Ordinary Shares	Original Cost Ushs'000	Fair value 2022 Ushs'000	Fair value 2021 Ushs'000
KENGEN	6,431	1,948	623	843
Uganda Clays Limited	10,147,335	538,036	152,210	117,709
The New Vision Limited	92,674	18,535	14,366	24,745
	10,246,440	558,519	167,199	143,297

Movement in number of shares

	Sector/Industry	At 1 January 2022 Opening Balance	Purchases /(Sales)	At 31 December 2022 Closing Balance
KENGEN	Electric power	6,431	-	6,431
Uganda Clays Limited	Construction	10,147,335	-	10,147,335
The New Vision Limited	Publishing, Printing and Broadcasting	92,674	-	92,674
		10,246,440	-	10,246,440

		At 1 January 2021 Opening Balance	Purchases /(Sales)	At 31 December 2021 Closing Balance
KENGEN	Electric power	6,431	-	6,431
Uganda Clays Limited	Construction	10,147,335	-	10,147,335
The New Vision Limited	Publishing, Printing, Broadcasting	92,674	-	92,674
		10,246,440	-	10,246,440

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Movement in fair value during the year ended 31 December 2022

	2022 % in class	2021 % in class	202 2% held	202 1 % held	Opening Balance Ushs'000	Fair value gain/(loss) Ushs'000	Closing Balance Ushs'000
KENGEN	0.4%	1%	0.1%	0.1%	843	(220)	623
Uganda Clays Limited	91%	73%	1.1%	1.1%	117,709	34,501	152,210
The New Vision Limited	8.6%	26%	0.1%	0.1%	24,745	(10,379)	14,366
					143,297	23,902	167,199

Movement in fair value during the year ended 31 December 2021

	2021 % in class	2020 % in class	2021 % held	2020 % held	Opening Balance Ushs'000	Fair value Loss Ushs'000	Closing Balance Ushs'000
KENGEN	1%	1%	0.1%	0.1%	1,006	(162)	843
Uganda Clays Limited	82%	73%	1.1%	1.1%	81,179	36,530	117,709
The New Vision Limited	17%	26%	0.1%	0.1%	29,100	(4,355)	24,745
					111,285	32,013	143,297

Price per share

Movement in price per share	2022 Ushs Closing	2021 Ushs Closing
KENGEN	96.97	131.15
Uganda Clays Limited	15.00	11.60
The New Vision Limited	155.00	267.00

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

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20. LOANS AND ADVANCES

(a) Products

	2022 Ushs'000	2021 Ushs'000
Long term loans	693,665,938	481,968,509
Medium term loans	209,870,369	137,774,554
Trade finance loans	179,184,392	106,902,768
Working capital loans	193,451,065	114,064,582
Special programs	22,357,290	-
Gross advances	**1,298,529,054**	**840,710,413**
Less:		
Interest income on stage 3 loans	(4,859,395)	(3,590,504)
Expected credit loss allowance 20(d)	(72,778,280)	(55,461,529)
	1,220,891,379	781,658,380

All loans and advances above are held at amortised cost.

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

	2022 Ushs'000	2021 Ushs'000
Less than one year	243,289,093	137,278,780
1- 5 years	254,449,106	171,722,634
Over 5 years	723,153,180	472,656,966
	1,220,891,379	781,658,380

(c) Gross loans to customers by sector composition:

SECTOR	EXPOSURE 2022 Ushs'000	2022 Percentage	2021 Ushs'000	2021 Percentage
Agro-Processing	348,661,999	27%	234,700,163	28%
Education Services	20,781,173	2%	17,849,589	2%
Health Care Services	47,312,397	4%	17,531,054	2%
Infrastructure	156,433,610	12%	61,212,238	7%
Manufacturing	322,750,875	25%	201,513,423	24%
Minerals, Oil & Gas	22,434,779	2%	12,619,868	2%
Primary Agriculture	226,537,643	17%	173,894,484	21%
Tourism & Hospitality	92,721,927	7%	54,398,529	6%
Others - Building, Construction and Real Estate	60,894,651	4%	66,991,065	8%
Grand total	1,298,529,054	100%	840,710,413	100%

The weighted effective interest rate on loans at 31 December 2022 was 7.6% (2021: 7.7%) for USD and 11.30% (2021: 11.6%) for Ushs.

20. LOANS AND ADVANCES (CONTINUED)

(d) Movement in provision for impaired loans and advances

	2022 Ushs'000	2021 Ushs'000
At 01 January	55,461,529	34,118,014
Additional provisions raised during the year	17,316,751	21,343,515
	72,778,280	55,461,529

(e) Net impairment loss on financial instruments

	2022 Ushs'000	2021 Ushs'000
Additional provisions during the year	26,504,543	21,343,515
Provisions on off balance sheet items (Note 32)	7,691,252	1,416,341
Provisions for low credit risk financial assets	65,881	(111,710)
Direct write off	-	703,898
(Recoveries)/Provision for staff loans (Note 21(c))	(732)	254,084
Modification gain	(9,173,469)	-
Profit and loss effect	25,087,475	23,606,128

(f) Impairment and provisioning policies

The Bank recognizes the allowance for expected credit losses on all loans and advances.

Measurement of Expected Credit Losses

The Bank at each reporting date, measures the loss allowance for all loans and advances at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

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

(g) Impairment and provisioning policies

The expected credit losses shall be determined as follows:

ECL = PD x LGD x EAD x df.

Expected Credit Losses (ECL; The weighted average of credit losses with the respective risks of a default occurring as the weights.

Probability of Default (PD); This relates an estimate of the likelihood of default over a given time horizon.

Loss Given Default (LGD); This relates to an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

20. LOANS AND ADVANCES (CONTINUED)

Exposure at Default (EAD); This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Discount Rate (df); This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition.

Further details on how the above parameters are determined are well stipulated in the Bank's loss provisioning process.
Loans and advances are categorized into the following grades:

Status	Days in arrears	Loan category
Stage 1	0-29	Performing
Stage 2	30- 89	Performing with significant increase in credit risk
Stage 3	Over 90	Non-performing

Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and are generally updated every three years except when a loan is individually assessed as impaired. As an internal requirement, the forced sale value of the collateral security is over and above the amounts of loans and advances disbursed. The forced sale value of the collateral held by the Bank for stage 3 facilities was Ushs 232 billion as at 31 December 2022 (2021: Ushs 133 billion).

21. STAFF LOANS AND ADVANCES

(a) Staff loans and advances

	2022 Ushs'000	2021 Ushs'000
Staff loans	15,783,030	11,118,333
Provision for impairment	(379,988)	(380,720)
Discount on staff loans marked to market	(5,958,325)	(4,913,872)
	9,444,717	5,823,741

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

	2022 Ushs'000	2021 Ushs'000
Within three months	12,311	8,633
Between three and six months	7,545	-
Over six months	9,424,861	5,815,108
	9,444,717	5,823,741

Staff loans and advances include staff advances, staff personal loans, staff car loans and staff housing loans. Staff advances and some staff personal loans are unsecured and guaranteed by future staff salaries from the Bank. The weighted effective interest rate on loans at 31 December 2022 was 8% (2021: 8%).

21. STAFF LOANS AND ADVANCES (CONTINUED)

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

	2022	2021
	Ushs'000	Ushs'000
At 1 January	380,720	126,636
Additional provisions raised during the year	(732)	254,084
As at 31 December	**379,988**	**380,720**

22. INVESTMENT PROPERTY

	2022	2021
	Ushs'000	Ushs'000
At 1 January	32,089,000	34,151,000
Fair value loss on investment property	(918,000)	(2,062,000)
At 31 December	**31,171,000**	**32,089,000**

The value of the Bank's investment property, commercial towers, on Plot 22 Hannington Road, Kampala at 31 December 2022 has been arrived at on the basis of a valuation carried out as at 31 December 2022 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 2022, the following amounts were recognised in the Bank's profit or loss:

	2022	2021
Other income	Ushs'000	Ushs'000
Rental Income	18,819	17,551
Fair value loss on investment property	(918,000)	(2,062,000)
	(899,181)	**(2,044,449)**

	2022	2021
Other operating costs	Ushs'000	Ushs'000
Property rates	11,819	6,394
Maintenance costs	268,391	338,092
	280,210	**344,486**

Details of the Company's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	2022		2021	
	Level 3	Total	Level 3	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Commercial properties in Kampala, Uganda	31,171,000	31,171,000	32,089,000	32,089,000

23. PROPERTY AND EQUIPMENT

	Freehold Land Ushs'000	Buildings Ushs'000	Furniture and fittings Ushs'000	Motor Vehicles Ushs'000	Computers Ushs'000	Total Ushs'000
COST/VALUATION						
At 1 January 2021	2,155,000	1,703,234	726,619	1,046,325	1,362,796	6,993,974
Additions	-	-	14,870	-	917,045	931,915
Disposals	-	-	-	-	(6,055)	(6,055)
Revaluation gains/(losses)	1,771,000	(411,222)	-	-	-	1,359,778
At 31 December 2021	**3,926,000**	**1,292,012**	**741,489**	**1,046,325**	**2,273,786**	**9,279,612**
At 1 January 2022	**3,926,000**	**1,292,012**	**741,489**	**1,046,325**	**2,273,786**	**9,279,612**
Additions	-	-	504,699	889,585	1,171,200	2,565,484
Disposals	-	-	-	-	(15,275)	(15,275)
At 31 December 2022	**3,926,000**	**1,292,012**	**1,246,188**	**1,935,910**	**3,429,711**	**11,829,821**
DEPRECIATION						
At 1 January 2021	-	162,314	408,400	566,402	704,266	1,841,382
Charge for the year	-	27,040	69,115	190,106	378,767	665,028
Eliminated on disposal	-	-	-	-	(945)	(945)
At 31 December 2021	**-**	**189,354**	**477,515**	**756,508**	**1,082,088**	**2,505,465**
At 1 January 2022	**-**	**189,354**	**477,515**	**756,508**	**1,082,088**	**2,505,465**
Charge for the year	-	27,040	97,281	367,423	520,205	1,011,949
Eliminated on disposal	-	-	-	-	(8,664)	(8,664)
At 31 December 2022	**-**	**216,394**	**574,796**	**1,123,931**	**1,593,629**	**3,508,750**
NET CARRYING AMOUNT						
At 31 December 2022	**3,926,000**	**1,075,618**	**671,392**	**811,979**	**1,836,082**	**8,321,071**
At 31 December 2021	**3,926,000**	**1,102,658**	**263,974**	**289,817**	**1,191,698**	**6,774,147**

23. PROPERTY AND EQUIPMENT (CONTINUED)

The valuation of the Bank's Land and Buildings was based on the open market value of the assets as at 31 December 2022. The revaluation is carried out every after 3 years and was last done for the year ended 31 December 2022 by independent professional valuers that are not related to the Bank. The revaluation surplus on land and buildings was recognised in other comprehensive income and credited to asset revaluation reserve in equity and is not available for distribution to the shareholders. 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 734 million. This is disclosed below;

	Freehold Land Shs'000	Buildings Shs'000
Cost	1,270,000	950,000
Accumulated depreciation	-	(216,394)
Net book amount	1,270,000	733,606

24. INTANGIBLE ASSETS

Cost	2022 Ushs'000	2021 Ushs'000
At 1 January	2,945,182	2,695,824
Additions	29,134	249,358
At 31 December	2,974,316	2,945,182
Amortization		
At 1 January	2,515,279	2,212,101
Charge for the year	320,240	303,178
At 31 December	2,835,519	2,515,279
Net carrying amount		
At 31 December	138,797	429,903

Intangible assets comprise the initial cost of the core banking system Rubikon and other software.

25. OTHER ASSETS

	2022 Ushs'000	2021 Ushs'000
Prepayments	2,003,744	1,368,502
Security deposits*	197,753	362,156
Other debtors**	12,078,459	11,862,879
Discount on staff loans marked to market	5,958,325	4,913,872
	20,238,281	18,507,409

25. OTHER ASSETS (CONTINUED)

*Security deposits include a deposit to registrar of the high court in respect to UDBL vs KAI Limited case amounting to Ushs 14 million. The amount is refundable on condition that UDBL wins the case against Afro Kai Ltd.

**Other debtors include investment interest receivable, Msingi guarantee interest receivable and withholding tax receivable.

The fair value of other assets approximates the carrying amount.

26. AMOUNTS DUE TO BANK OF UGANDA

	2022 Ushs'000	2021 Ushs'000
At 1 January	10,352,531	16,321,890
Drawn down during the year	-	942,802
Repayments during the year	(833,334)	(6,912,161)
	(833,334)	(5,969,359)
At 31 December	9,519,197	10,352,531

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

	2022 Ushs'000	2021 Ushs'000
Arab Bank for Economic Development in Africa (BADEA Loan 0632)	12,450,255	12,449,660
Arab Bank for Economic Development in Africa (BADEA Private sector)	12,858,285	14,841,406
Islamic Development Bank (IDB)	5,094,139	6,643,792
African Development Bank (AfDB Public window)	45,962,086	50,447,457
African Development Bank (AfDB Private window)	13,308,249	16,441,141
India Exim Bank	12,084,576	14,003,146
Opec Fund for International Development	74,684,363	-
International Islamic Trade Finance Corporation	36,572,374	-
	213,014,327	114,826,602

27. BORROWINGS (CONTINUED)

The movements in borrowings were as follows:

	2022 Ushs'000	2021 Ushs'000
Balance as at 1 January	114,826,602	124,682,155
Drawdowns during the year	120,928,360	5,686,546
Interest charge	5,946,313	3,658,440
Repayments during the year	(30,533,304)	(15,697,892)
Foreign exchange losses/(gains)	1,846,356	(3,502,647)
	213,014,327	114,826,602

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 18 December 2009, with the Government of Uganda as the Guarantor of the loan.

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

As at 31 December 2022, USD 4,336,535 (2021: USD 4,336,535) had been disbursed from the loan account.

ii) BADEA Loan Private sector

This represents a US Dollars 6,000,000 loan from the Arab Bank for Economic Development in Africa (BADEA) to Uganda Development Bank with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between BADEA and Republic of Uganda dated 13 February 2017. The loan is to be used solely for financing expenditures and permanent working capital of UDBL's eligible clients in the Republic of Uganda. The loan is repayable in 16 semi-annual instalments after a 2 year grace period. The loan is unsecured.

Interest is payable on the interest payment date, to BADEA on the amount disbursed and outstanding from time to time during each interest period, at a rate of 6 months USD LIBOR or its successor rate, plus 425 basis points. The average rate in the year is 4.47%.

As at 31 December 2022, the entire loan amount had been disbursed from the loan account.

iii) Islamic Development Bank (IDB)

This represents an asset line of financing equivalent US Dollars 10,000,000 loan from the Islamic Development Bank to Uganda Development Bank Limited with Government of the Republic of Uganda being the guarantor under the terms and conditions specified in the Guarantee Agreement concluded between Islamic Development Bank and Republic of Uganda dated 18 May 2017.

For each transaction, the sale price shall be determined on the basis of the capital cost plus a mark-up of the US dollar swap rate prevailing at the time corresponding to the capital amortization period plus 135 basis points (One Hundred Thirty-Five basis points) per annum. The average US dollar swap rate is 2.33%.

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27. BORROWINGS (CONTINUED)

iii) Islamic Development Bank (IDB) (continued)

The sale price shall be paid to the Bank within a period of up to eight (8) years including a gestation period not exceeding two (2) years calculated from the date of first disbursement for that transaction. The loan is unsecured.

The Bank had utilized USD 2,900,000 by 31 December 2022 (2021: USD 2,900,000).

iv) African Development Bank (AfDB Public window) USD 15M Line of Credit

This represents a US dollar 15,000,000 line of Credit from African Development Bank extended to Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the Ministry of Finance. The agreement for the line of Credit was signed on 22 May 2021.

Interest is payable on the amount disbursed and outstanding from time to time during each interest period, at the LIBOR rate two (2) business days prior to the commencement of the relevant Interest period plus a rate of eighty (80) basis points per annum.

UDBL is required to repay the Line of Credit in full over a period of eight (8) years after the expiration of the two-year grace period by means of sixteen (16) equal and consecutive semi-annual instalments payable on each Payment Date. The first of such instalments are payable on the first payment date which immediately follows the expiration of the grace period. It should be noted that UDBL cannot re-borrow from AfDB amounts repaid under the loan agreement. The loan is unsecured. The average rate in the year is 1.38%.

As at 31 December 2022, the entire amount had been drawn down from the account .

v) African Development Bank (AfDB Private window) USD 5M Line of Credit

This represents a US dollars 5,000,000 line of Credit from African Development Bank extended to Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the Ministry of Finance. The agreement for the line of Credit was signed on 7June 2021.

Interest is payable on the amount disbursed and outstanding from time to time during each interest period, at the LIBOR rate two (2) business days prior to the commencement of the relevant interest period plus a rate of five hundred (500) basis points per annum.

UDBL is required to repay the Line of Credit in full over a period of eight (8) years after the expiration of the two-year grace period by means of sixteen (16) equal and consecutive semi-annual instalments payable on each payment date. The first of such instalments are payable on the first payment date which immediately follows the expiration of the grace period.

It should be noted that UDBL cannot re-borrow from AfDB amounts repaid under the loan agreement. The loan is unsecured. The average rate in the year is 5.81%.

As at 31 December 2022, the entire amount had been drawn down from the account.

vi) India Exim USD 5M Line of Credit

This represents a USD 5 million line of Credit from Exim Bank to finance import of goods and services from India from time to time. As per Agreement between UDBL and EXIM, signed on 08 October 2018, the Ministry of Finance, Government of Republic of Uganda fully guaranteed the line of Credit.

Interest on the line of credit is accrued on the outstanding principal amount at an interest rate determined as the sum of the applicable Margin and LIBOR. The average rate in the year is 3.21%.

27. BORROWINGS (CONTINUED)

As at 31 December 2022, the entire amount had been drawn down from the account.

vii) International Islamic Trade Finance Corporation (ITFC) USD 10M Trade Finance Line of Credit

This represents a US dollar 10,000,000 Trade Finance line of Credit from the International Islamic Trade Finance Corporation extended to Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the Ministry of Finance, Planning, and Economic Development. The agreement for the line of Credit was signed on 27 April 2022.

Interest is payable on the amount disbursed and outstanding from time to time during each interest period, at a fixed rate of 4.9%. The revolving facility is available for 12 months with interest repayments on a quarterly basis. It should be noted that UDBL can re-borrow from ITFC amounts repaid under the loan agreement during the availability period. The loan is secured by sovereign guarantee.

As of 31 December 2022, the entire amount had been drawn down from the account.

viii) The OPEC Fund for International Development (OFID) USD 20M Line of Credit

This represents a US dollar 20,000,000 line of Credit from the OPEC Fund for International Development extended to Uganda Development Bank and fully guaranteed by the Republic of Uganda, represented by the Ministry of Finance, Planning, and Economic Development. The agreement for the line of Credit was signed on 18 November 2021.

Interest is payable on the amount disbursed and outstanding from time to time during each interest period, at a fixed rate of 5.0%.

UDBL is required to repay the Line of Credit in full over a period of eight (8) years after the expiration of the two-year grace period. Repayment shall commence immediately following the end of the grace period and shall be effected in sixteen (16) semi-annual instalments. It should be noted that UDBL cannot re-borrow from OFID amounts repaid under the loan agreement. The loan is secured by a sovereign guarantee.

As of 31 December 2022, the entire amount had been drawn down from the account.

Below is a table showing the total commitment per loan versus amount drawn down to date;

Loan	Total commitment (USD)	Amount drawn down (USD)
BADEA Loan	4,500,000	4,336,525
BADEA Loan Trade Finance	6,000,000	6,000,000
Islamic Development Bank	10,000,000	2,900,000
African Development Bank	15,000,000	15,000,000
African Development Bank (AfDB private window)	5,000,000	5,000,000
India Exim	5,000,000	5,000,000
OPEC Fund for International Development	20,000,000	20,000,000
International Islamic Trade Finance Corporation	10,000,000	10,000,000

The fair values of the borrowings above approximate the carrying amounts.

28. KUWAIT SPECIAL FUND

	2022 Ushs'000	2021 Ushs'000
Equity		
Balance as at 1 January 2022	31,222,552	31,222,552
FX (gain)/loss	-	-
Balance as at 31 December	**31,222,552**	**31,222,552**

This represented a grant of US Dollars 7 million from Kuwait to the Government of Uganda that was used in the creation of a Trust Fund in Uganda Development Bank Limited ("the Bank"). The Bank was required to establish in its books a special account to which the grant as well as income accruing as a result of the investment and utilisation of the grant was to be credited.

The purpose of the fund was to finance farming and lending to small and micro business activities for the production of food and provision of related support services, including, without being limited to, food processing, storage and marketing. For the period to 13 October 2021, the Bank treated the grant as a liability as it represented funds managed in trust on behalf of the Government of Uganda.

Effective 14 October 2021, Kuwait approved the transfer of the Kuwait Special Fund account from the Bank's liabilities' to equity as the amounts are not payable/refundable.

The weighted effective interest rate on loans disbursed as at 31 December 2022 was 10% (2021: 10%). The fair value of the Kuwait special fund approximates the carrying amount.

29. UNCDF FUND (UN CAPITAL DEVELOPMENT FUND)

	2022 Ushs'000	2021 Ushs'000
Balance as at 1 January	2,562,003	2,490,371
Drawn down during the year	2,908,389	-
Agency costs	(143,720)	(13,837)
Interest on loans disbursed out of the fund	403,660	85,469
Balance as at 31 December 2022	**5,730,332**	**2,562,003**

UDBL signed a Memorandum of Understanding with UNCDF which defines the conditions for the establishment, financing and management of disbursements to UDBL for the Support to Agricultural Revitalization and Transformation (START) facility through concessional loans, including, inter alia, conditions pertaining to financial control, reporting and auditing arrangements. The maximum contribution of UNCDF to START concessional loan is up to EUR 2,000,000 (Two million Euros) for a period of four years. The annual drawdowns are EUR 500,000 (Five hundred thousand Euros) per year based on the successful projects financed.

The beneficiaries of loans from the line of credit should be small and medium enterprises (SMEs) i.e. enterprises that employ between 5 to 100 employees with total assets between Ush 10 million but not exceeding 360 million. Loans from the line of credit to beneficiaries must not exceed EUR 100,000.

29. UNCDF FUND (UN CAPITAL DEVELOPMENT FUND) (CONTINUED)

As per MOU, UDBL may charge 1 % p.a. as agency fees on the outstanding loan book in addition to 3.8% p.a. as administrative fees on the outstanding loan book. The fees are computed and charged monthly. The facilities from the line of credit are charged interest at a minimum rate of 10% p.a. and a maximum of 12% p.a.

UDBL is then required to capitalise amounts of interest over and above the agency and administrative fees.

As at 31 December 2022, Ushs 5,398,760 had been disbursed from the fund (2021: Ushs 2,469,829,420)

The fair value of the UNCDF fund approximates the carrying amount.

30. EUROPEAN UNION (EU) GRANT

	2022 Ushs'000	2021 Ushs'000
Balance as at 1 January	5,645,511	7,125,873
Drawn down during the year	-	-
Disbursements from grant	(1,879,125)	(1,240,250)
Expenses relating to the grant	(1,126,499)	(252,931)
Exchange losses on conversion of grant to Ush	-	12,819
Balance as at 31 December	2,639,887	5,645,511

Uganda Development Bank Limited (UDBL) in partnership with European Union (EU) has allocated funds in form of a grant attached to a loan (also known as 'facility') to enable the sector soar through the hardship of COVID-19. The facility seeks to stimulate businesses operating in the tourism sector, which has been heavily impacted by COVID-19 by providing a grant and soft loan with flexible terms aligned to the current needs of the sector. A total approximate pool of Ushs 61.8 billion (Ushs 40 billion Uganda Development Bank loan plus Ushs 21.8 billion EU Grant) has been set aside for this intervention. The EU grant is subject to the signing of an agreement between EU and UDBL.

The facility will have the following components and additional benefits:

i) A non-repayable grant attached to the loan based on the number of staff maintained in the company during the two years' period that will benefit from this intervention in comparison with the number of staff in the company before COVID-19 pandemic (28 February 2022).
ii) Concessional loan interest rates not exceeding 12%; however, the effective cost of the facility to the borrower shall not exceed 8%.
iii) Extended working capital loan tenor of up to 5 years inclusive of a 2 years' grace period
a. Business advisory services as a non-monetary intervention.

The beneficiaries of the grant include business entities under Uganda Hotel Owners Association (UHOA) and Association of Uganda Tour Operators (AUTO).
The grant shall be accounted for as a liability in accordance with IAS 20.

As at 31 December 2022, EUR 1,602,400 equivalent to Ushs 7.13 billion (2021: EUR 1,602,400) had been received from European Union.

31. DEFERRED INCOME TAX (ASSET)/LIABILITY

Deferred income tax is calculated in full, on all temporary differences under the liability method using a principal tax rate of 30% (2021: 30%). The movement in the deferred income tax liability is detailed below:

	2022 Ushs'000	2021 Ushs'000
At the start of the year	1,061,594	2,747,128
Deferred tax credit to profit or loss	(9,807,474)	(1,685,534)
At the end of the year	(8,745,880)	1,061,594

Year ended 31 December 2022

	At 1 January 2022 Ushs'000	Charge/(credit) to profit or loss Ushs'000	At 31 December 2022 Ushs'000
Deferred income tax liabilities/(assets)			
Accelerated depreciation	242,195	20,582	262,777
Provisions and unrealized losses	2,455,988	(12,168,310)	(9,712,322)
Tax loss on rental income	(11,315)	(82,420)	(93,735)
Capital gains/revaluation	(1,625,274)	2,422,674	797,400
Net deferred income tax liability	**1,061,594**	**(9,807,474)**	**(8,745,880)**

Year ended 31 December 2021

	*At 1 January 2021 Ushs'000	Charge/(credit) to profit or loss Ushs'000	At 31 December 2021 Ushs'000
Deferred income tax liabilities/ (assets)			
Accelerated depreciation	234,839	7,356	242,195
Provisions and unrealized losses	5,497,134	(3,041,146)	2,455,988
Tax loss on rental income	-	(11,315)	(11,315)
Capital gains/revaluations	(2,984,845)	1,359,571	(1,625,274)
Net deferred income tax liability	**2,747,128**	**(1,685,534)**	**1,061,594**

32. OTHER LIABILITIES

	2022 Ushs'000	2021 Ushs'000
Accrual and other liabilities	6,094,599	4,788,575
Deferred arrangement fees	15,290,089	10,507,180
Expected credit loss provision on off balance sheet items	10,791,232	3,099,980
Legal provisions	2,910,901	2,707,488
Staff gratuity	296,787	178,076
Other creditors*	19,658,297	11,295,976
	55,041,905	32,577,275

32. OTHER LIABILITIES (CONTINUED)

*The other creditors balance includes suspense account, loan payment account, client deposits pending, other taxes payable for the year ended 31 December 2022.

*The accrual and other liabilities balance includes trade creditors and accruals for the year ended 31 December 2022.

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% (2021: 25%) of their total annual gross salary.

Movement in Provisions during the year;

Description	1 January 2022	Movement	31 December 2022
	Ushs'000	Ushs'000	Ushs'000
Staff gratuity	178,076	118,711	296,787
Leave provision	204,667	6,966	211,633
Total	382,743	125,677	508,420

33. SHARE CAPITAL

	2022	2021
	Ushs'000	Ushs'000
Authorized:		
At 1 January	100,000,000	100,000,000
400 million Ordinary Shares of Ushs 1,000 each	400,000,000	400,000,000
Additional 1.5 billion Ordinary Shares of Ushs 1,000 each	1,500,000,000	1,500,000,000
At 31 December	2,000,000,000	2,000,000,000
Issued and fully paid up:		
At 1 January	100,000,000	100,000,000
Transfers from GoU Contributions during the year	778,359,004	-
At 31 December	878,359,004	100,000,000

The Bank's authorised share capital is Ushs 2 trillion (2021: Ushs 2 trillion) divided into 2 billion shares of Ushs 1,000 each. As at 31 December 2022, the Bank had issued 878 million shares (2021: 100 million). All issued shares are fully paid up.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and other general meetings of the company.

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34. GOVERNMENT OF UGANDA CAPITAL CONTRIBUTIONS

	2022	2021
	Ushs'000	Ushs'000
At 1 January	797,983,313	693,873,246
Contributions during the year*	131,111,886	104,110,067
Transfers to share capital	(778,359,004)	-
At 31 December	150,736,195	797,983,313

35. ASSET REVALUATION RESERVE

	2022	2021
	UShs '000	UShs '000
As 1 January	2,563,242	1,203,464
Gain on revaluation	-	1,359,778
As at 31 December	2,563,242	2,563,242

A revaluation of the freehold land and Buildings asset categories is performed every after 3 years. The last revaluation was done for the year ended 31 December 2021. The revaluation was carried out by a professional valuer by the names of Reitis Valuers and Surveyors (Chartered Surveyors), independent professional valuers that are not related to the Bank.

The freehold land and buildings were revalued on the basis of depreciated replacement cost reflecting prevailing market conditions at the time of valuation.

36. EQUITY INVESTMENT

	2022	2021
	UShs '000	UShs '000
Investment in unquoted equity investments	598,786	-
As at 31 December	598,786	-

As at 31 December 2022, Uganda Development Bank Limited (UDBL) had disbursed Ushs 598,785,660 to Chromatic Paints Ltd. This investment has been classified as a non-current asset.

37. COMMITMENTS

Loan Commitments

To meet the financial needs of the customers, the Bank enters into various irrevocable commitments. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

	2022	2021
	Ushs'000	Ushs'000
Loans approved but not disbursed at year end	894,097,444	511,726,231

38. 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 2. At year end, the Bank had several unresolved legal claims. The Bank's legal advisors' opinion is that it is possible, but not probable, that the court rulings may be in favour of Plaintiffs. Accordingly, no provision for any claims has been made in these financial statements. The possible outflow which could result from such litigation, based on the current status of the legal proceedings, is estimated to be no more than 6.5 billion (2021: Ushs 6.8 billion), while the timing of the outflow is uncertain.

39. ASSETS PLEDGED AS SECURITY

As at 31 December 2022, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

40. RELATED PARTY TRANSACTIONS

The Bank is controlled by the Government of Uganda which owns 100% of the share capital of the Bank. The main transaction between the Bank and the Government of Uganda relates to capital contributions.

In the normal course of business, the Bank carries out various transactions with related parties. The relevant transactions with related parties are shown below:

	2022	2021
	Ushs'000	Ushs'000
GoU capital contributions (note 34)	131,111,886	104,110,067
Staff loans: interest earned	1,039,800	830,150
Staff loans: repayments	3,213,353	2,477,613
Staff loans: disbursements	6,813,465	3,753,466
Outstanding balances		
Staff loans (note 21)	9,444,717	5,823,741

Key management compensation		
Salaries	2,597,953	2,294,685
NSSF Company contributions	259,795	229,469
Service gratuity	714,437	631,039
	3,572,185	**3,155,193**
Directors' remuneration	**513,950**	**513,350**

41. 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:

	2022	2021
	Ushs '000	Ushs '000
Issued capital	878,359,004	100,000,000
Asset revaluation reserve	2,563,242	2,563,242
GOU capital contribution	150,736,195	797,983,313
Kuwait Special Fund	31,222,552	31,222,552
Retained earnings	165,871,267	123,306,137
	1,228,752,260	1,055,075,244

During the year, the Bank got additional capital contributions from Government of Uganda of Ushs 131 billion (2021: Ushs 104 billion) and Ushs 778 billion was transferred from Government of Uganda contributions to Share Capital.

Effective 14 October 2021, Kuwait approved the transfer of the Kuwait Special Fund account from the Bank's liabilities' section to the equity section.

42. NET CASHFLOWS GENERATED FROM OPERATING ACTIVITIES

	2022	Restated 2021
OPERATING ACTIVITIES	Ushs '000	Ushs '000
Profit before taxation	65,166,307	57,553,354
Adjustments for:		
Unrealised foreign exchange loss/(gain)	1,495,072	(3,190,091)
Depreciation	1,011,949	665,028
Amortisation of intangible assets	320,240	303,178
Loss on disposal of fixed assets	6,611	5,110
Impairment loss on financial assets	25,087,475	23,606,128
Fair value loss on Investment properties	918,000	2,062,000
Fair value (gain) on equity investments	(23,902)	(32,013)
Interest expense on borrowings	5,946,313	3,658,440
Operating profit before changes in operating assets and liabilities	**99,928,065**	**84,631,134**

43. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Borrowings Ushs'000	Amounts due to Bank of Uganda Ushs'000	Contribution from GoU Ushs'000	Total Ushs'000
31 December 2022				
Balance as at 1 January 2022	114,826,602	10,352,531	797,983,313	923,162,446
Changes in financing cash flows				
Proceeds from Debt	120,928,360	-	-	120,928,360
Repayments of Debt	(30,533,304)	(833,334)	-	(31,366,638)
Capital contributions	-	-	131,111,886	131,111,886
Transfers to share capital	-	-	(778,359,004)	(778,359,004)
Total changes from financing cash flows	205,221,658	9,519,197	150,736,195	365,477,050
Other changes				
Interest expense	5,946,313	-	-	5,946,313
Foreign exchange gains	1,846,356	-	-	1,846,356
Total liability related other changes	7,792,669	-	-	7,792,669
Balance as at 31 December 2022	213,014,327	9,519,197	150,736,195	373,269,719

	Borrowings	Amounts due to Bank of Uganda	Contribution from GoU	Total
31 December 2021				
Balance as at I January 2021	124,682,155	16,321,890	693,873,246	834,877,291
Changes in financing cash flows				
Proceeds from Debt	5,686,546	942,803	104,110,067	110,739,416
Repayments of Debt	(15,697,892)	(6,912,162)	-	(22,610,054)
Total changes from financing cash flows	114,670,809	10,352,531	797,983,313	923,006,653
Other changes				
Interest expense	3,658,440	-	-	3,658,440
Foreign exchange gains	(3,502,647)	-	-	(3,502,647)
Total liability related other changes	155,793	-	-	155,793
Balance as at 31 December 2021	114,826,602	10,352,531	797,983,313	923,162,446

44. RETAINED EARNINGS

	2022 Ushs '000	2021 Ushs '000
At 1 January	123,306,137	84,485,757
Total comprehensive income for the year	42,565,130	38,820,380
At 31 December	165,871,267	123,306,137

45. LEASES

The Bank entered into a commercial lease for premises with Pine Investments Limited which expired on 31 January 2021. The contract was renewed for a further 3 years and will expire on 31 December 2023 with a renewable option. There are no restrictions placed upon the lessee by entering into this lease.
The Bank intends to exit these premises by 31 December 2023 to occupy its own premises at UDB-MTN towers.
The lease payments associated with the short-term lease are as follows:

	2022 Ushs '000	2021 Ushs '000
Within one year	1,326,231	989,779
	1,326,231	989,779

46. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period that require adjustment in the financial statements.

47. RESTATEMENT OF THE STATEMENT OF CASHFLOW

The Company corrected an error relating to the recognition of deposits with financial institutions (amounting to Ushs 325 billion for the year ended 31 December 2021) as cash and cash equivalents under the statement of cashflows as shown below:

	2021 previously reported Ushs '000'	Restatement Ushs '000'	2021 Restated Ushs '000'
Cashflows from investing activities	54,333,118	(55,514,391)	(1,181,273)
Cash and cash equivalents at 31 December	50,279,296	325,095,998	375,375,294

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