dfcu
...with pleasure

2019 ANNUAL REPORT AND FINANCIAL STATEMENTS

BUILDING SUSTAINABLE PARTNERSHIPS

MAKING MORE POSSIBLE

dfcu Group 2019 Annual Report
and Financial Statements

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Our Mission

dfcu seeks to grow shareholder value while playing a key role in transforming the economy and enhancing the well-being of the society. Through our dynamic and responsive teams, we will provide innovative financial solutions and maintain the highest level of customer service and professional integrity.

Our Vision

To be the preferred financial institution, providing a broad range of quality products to our chosen customer segments.

List of Acronyms

ABC	-	Anti-bribery and Corruption
ADC	-	Agribusiness Development Centre
AGM	-	Annual General Meeting
ALCO	-	Asset and Liability Committee
AML	-	Anti-Money Laundering
ATM	-	Automated Teller Machine
BCP	-	Business Continuity Planning
BIS	-	Bank for International Settlement
BOU	-	Bank of Uganda
CAR	-	Capital Adequacy Ratios
CB	-	Corporate Banking
CDC	-	Common Wealth Development Corporation
CDO	-	Cotton Development Organisation
CSI	-	Corporate Social Investment
CSR	-	Corporate Social Responsibility
EAD	-	Exposure At Default
ECL	-	Expected Credit Loss
FIA	-	Financial Institutions Act (2004)
FVOCI	-	Fair Value Through Other Comprehensive Income
FVTPL	-	Fair Value Through Profit and Loss
ICPAU	-	Institute of Certified Public Accountants of Uganda
IEASBA	-	International Ethics Standards Board for Accountants
IFRS	-	International Financial Reporting Standards
IFU	-	Investment Fund for Developing Countries
ISA	-	International Standards on Auditing
IT	-	Information Technology
GDP	-	Gross Domestic Product
GOU	-	Government of Uganda
GRI	-	Global Reporting Initiative
KPIs	-	Key Performance Indicators
KYC	-	Know Your Customer
LGD	-	Loss Given Default
LOS	-	Loan Origination System
MNO	-	Mobile Network Operators
NPL	-	Non Performing Loans
NPS	-	Net Promoter Score
NSSF	-	National Social Security Fund
OECD	-	Organisation for Economic Co-operation and Development
OCI	-	Other Comprehensive Income
PAT	-	Profit After Tax
PBB	-	Personal and Business Banking
PD	-	Probability of Default
RoE	-	Return on Equity
RoU	-	Right of Use
SACCOs	-	Savings and Credit Cooperative Organisations
Shs M	-	Shillings in Millions
Shs Bn	-	Shillings in Billions
Shs Trn	-	Shillings in Trillions
SME	-	Small and Medium Enterprise
UGX	-	Uganda Shillings
ULS	-	Uganda Law Society
USE	-	Uganda Securities Exchange
USSD	-	Unstructured Supplementary Service Data
WiB	-	Women in Business

Financial Definitions

Profit for the year	Annual statement of comprehensive income profit attributable to ordinary shareholders, minorities and preference shareholders.
Earnings per share	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.
Cost to income ratio	Operating expenses as a percentage of income before tax excluding income from subsidiaries.
Dividend per share	Total ordinary dividends declared per share in respect of the year.
Core capital	Permanent shareholder equity in the form of issued and fully paid up shares plus all disclosed reserves, less goodwill or any other intangible assets.
Supplementary capital	General provisions which are held against future and current unidentified losses that are freely available to meet losses which subsequently materialize, and any other form of capital as may be determined from time to time by Bank of Uganda.
Total capital	The sum of core capital and supplementary capital.
Core capital ratio	Core capital divided by the total risk weighted assets.
Total capital ratio	Total capital divided by the total risk weighted assets.

Company Overview

2019 Performance Highlights

Overall interest expense reduced by 7% from UGX 104.7 billion to UGX 97.8 billion showing improved efficiency in the liability mix as a result of management's effort to shed off expensive funding and concentrate more on cheaper liabilities. Consequently, the net interest income increased by 3% from UGX 221.1 billion to UGX 227.4 billion.

Non-funded income in terms of fees and commissions grew by 28% from UGX 51.2 billion to 65.4 billion as we continue to harness the benefits of the investments in technology and growth in the customer base.

Operating expenses reduced by 4% from UGX 202.2 billion to UGX 193.1 billion showing improved operating efficiency. As a result, the cost to income ratio reduced from 66.2% in 2018 to 60.6% in 2019.

Net profit after tax increased by 21% to UGX 73.4 billion from UGX 60.9 billion. This was mainly driven by significant increase in efficiency and cost management. Loans and advances grew by 10% from UGX 1,398 billion to UGX 1,539 billion as a result of increased disbursements and focus on continuous monitoring of the asset quality for the entire portfolio. The increase in loans and advances was organic.

The asset base increased by 1% from UGX 2,916 billion to UGX 2,958 billion, upheld by strong growth in loans and advances.

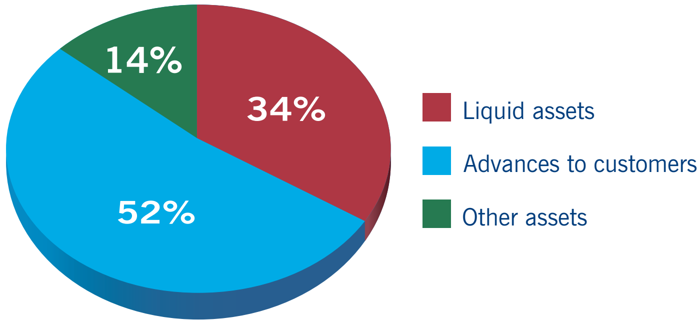
The Group's deposit base grew by 3% from UGX 1,979 billion to UGX 2,039 billion. The growth was because of both newly acquired and existing clients across the business segments. Management implemented a clear strategy of growing the liability base, as well as retention of the existing customer relations.

Shareholders' funds grew by 9% from UGX 521.5 billion to UGX 569.7 billion as result of increase in retained earnings.

Profit After Tax	Shhs 73.4bn	▲ 21%
Fees and Commission Income	Shs 65.4bn	▲ 28%
Operating Expenses	Shs 193bn	▼ 4%
Total Assets	Shs 2,958bn	▲ 1%
Loans and Advances	Shs 1,539bn	▲ 10%
Borrowings	Shs 284bn	▼ 23%
Customer Deposits	Shs 2,039bn	▲ 3%
Shareholders' Equity	Shs 569bn	▲ 9%
Dividend per share	Shs 40bn	▲ 21%

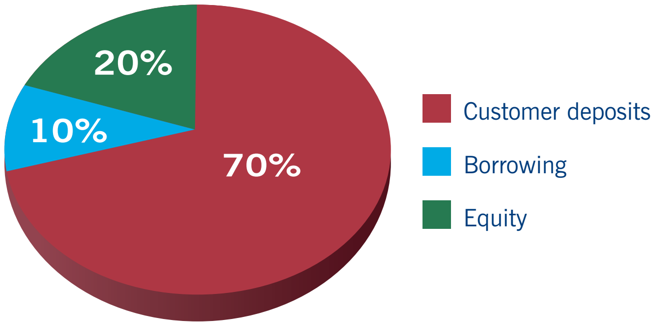
Asset Composition

	Amount (shs M)
Liquid assets	1,015,409
Advances to customers	1,539,323
Other assets	403,411
Total Assets	**2,958,143**



Funding Mix

	Amount (shs M)
Customer deposits	2,039,037
Borrowings	284,561
Equity	569,779



5-year Financial Performance Overview

	2019	2018	2017	2016	2015
Statement of comprehensive income (Shs' m)					
Interest income	**325,309**	325,923	347,001	217,155	182,974
Net interest income	**227,498**	221,172	215,451	133,241	108,232
Non-interest income	**65,449**	51,285	39,655	29,305	25,002
Credit impairment charge	**24,879**	18,836	48,652	17,830	11,690
Operating expenses	**193,154**	202,213	189,520	96,900	89,531
Profit before tax	**100,966**	84,469	147,816	58,363	46,922
Profit after tax	**73,402**	60,908	106,892	45,325	35,290
Statement of financial position (shs' m)					
Loans and advances	**1,539,323**	1,398,162	1,334,611	842,360	808,047
Total assets	**2,958,143**	2,915,582	3,057,476	1,757,725	1,651,629
Customer deposits	**2,039,037**	1,979,093	1,987,118	1,134,731	914,951
Borrowings	**284,561**	371,006	483,446	344,584	491,914
Shareholders' equity	**569,779**	521,536	532,338	249,652	215,131
Capital adequacy					
Core capital ratio	**19%**	19%	19%	20%	16%
Total capital ratio	**21%**	22%	23%	27%	23%
Risk weighed assets (shs' m)	**2,511,546**	2,167,607	1,975,505	1,059,182	1,010,866
Share statistics					
Number of shares in issue (in millions)	**748**	748	748	497	497
Earnings per share	**98.11**	81.41	189.33	91.16	70.98

Our Journey

Over the past 56 years, **dfcu** Limited has been a major contributor to the economic development of Uganda through provision of long term finance to industries and businesses. A number of our stakeholders may not be aware of the rich history of the company they own or do business with.

dfcu Limited 'The Company' comprises two separate entities; **dfcu** Limited, the holding company which is listed on the Uganda Securities Exchange and owns 100% of **dfcu** Bank and **dfcu** Bank the main operating entity that carries out banking operations and is regulated by Bank of Uganda. The entities have separate board of directors, highlighted in this report.

Development Finance Company of Uganda (dfcu Limited) was established by the Uganda Government and Commonwealth Development Corporation (CDC) to provide long term funding and equity investments to strategic economic ventures. International Finance Corporation (IFC) and the German Development Corporation (DEG) also invested resulting in the four shareholders having an equal stake of 25% each. Since its establishment, **dfcu** has provided funding to thousands of development projects in the private sector using its flagship products; including term loans, home loans, commercial mortgages and leasing. In addition, it invested in an ultra-modern head office building, the **dfcu** Tower, and also owns other real estate properties in Nakasero, Bugolobi, Namanve Industrial park and Mukono town.

Since its establishment in 1964, **dfcu** Limited has had major impact on the industrialization and economic development of Uganda and we are proud to highlight some of the key milestones;

1965 - **dfcu** Limited alongside Uganda Development Corporation and CDC invested in several strategic companies including Housing Finance Company, Nytil, Uganda Consolidated Properties, Uganda Cement Industries, Uganda Grain Milling, Uganda Distillers and Uganda Hotels.

1973 - Significantly scaled down the operations as a result of the economic war declared by the then President.

1982 - Resumed full scale operations when the company was recapitalized.

1995 - Pioneered the leasing business in Uganda as an alternative financing option for SME growth and expansion. Leasing is one of the flagship products offered by **dfcu** Bank.

1999 - Development Finance Company of Uganda rebranded as **dfcu** Limited.

2000 - Ventured into commercial banking by acquiring the defunct Gold Trust Bank license, recapitalized it and renamed it **dfcu** Bank. **dfcu** Bank is a fully owned subsidiary of **dfcu** Limited and is a leading financial institution in Uganda offering universal banking services.

2004 - **dfcu** Limited listed on Uganda Securities Exchange, enabling over 3,000 Ugandans to own part of a successful Company. Through this Initial Public Offering, IFC, DEG and the Ugandan Government divested from the Company and NORFUND came on board as a shareholder of reference.

2007 - Partnered with the International Finance Corporation (IFC) to establish the Women in Business program (WiB) to empower women entrepreneurs in Uganda. The WiB program continues to be a market leading initiative providing tailor made financial solutions to women. In the same year **dfcu** Bank became the first to appoint a Ugandan Bank Chief Executive Officer.

2008 - Rationalized the Group structure and consolidated all financial service offerings into **dfcu** Bank creating a "one –stop – shop" with a broad range of quality financial products.

2013 - Realigned the **dfcu** Limited shareholding bringing on board Rabobank as a strategic banking partner and also intensified focus on supporting Agribusiness.

2014 - Relocated to **dfcu** Towers our wholly owned customised, state-of-the-art Head Office so as to consolidate operations into one location. This has enhanced operational efficiency and brand equity.

2017 - In January 2017, **dfcu** Bank acquired some assets and assumed certain liabilities of Crane Bank which have been successfully integrated into our operations. This propelled **dfcu** Bank into the three leading banks on the market.

In May 2017, Rabobank, Norfinance A.S. and FMO consolidated their 58.70% stake in **dfcu** Limited into one major shareholder ARISE B.V. who have re-affirmed their long term commitment to strengthening and deepening of the financial services sector across Africa through a US$ 1 billion fund.

In September 2017, **dfcu** Limited floated a successful Rights Issue, whose purpose was to raise capital necessary for ensuring that the banking subsidiary, **dfcu** Bank is adequately capitalised to implement its aggressive growth strategy.

2019 - Welcomed a new strategic investor Danish Investment Fund for Development (IFU) which bought the Common Wealth Development Corporation (CDC) stake in **dfcu** limited and now owns 9.97% of the company.

What we do

dfcu Limited

dfcu Bank
- Corporate Banking
- Business Banking
- Personal Banking
- Global Financial Markets

Real Estate and Property Management
- **dfcu** Tower
- **dfcu** Financial Centre
- Plot 36, Jinja Road, Mukono
- Plot 7, Luthuli lane, Bugolobi
- Plot 1, MacKinnon Road, Nakasero

Investor Relationships
- Shareholder Engagement
- Regulatory Compliance

Looking Ahead

At the 2018 Annual General Meeting, the shareholders approved an amendment to the Company's Memorandum and Articles of Association that in part allows the Company to broaden its business activities. Besides owning 100% of the banking subsidiary, **dfcu** Bank and real estate properties, with guidance from the Board, the company will continue, if deemed appropriate, to make strategic investments in; Real estate, engage in non-bank financial services which due to regulatory restrictions cannot be carried out by the subsidiary and Invest in strategic high potential sectors e.g. Technology sector.

dfcu Bank, the main operating entity will continue to drive its aggressive growth while focusing on the **dfcu** vision which is; to be the preferred financial institution, providing a broad range of quality products to our chosen customer segments.

Mission

dfcu will seek to grow shareholder value while playing a key role in transforming the economy and enhancing the well-being of the society. Through our dynamic and responsive teams, we will provide innovative financial solutions and maintain the highest levels of customer service and professional integrity.

The company wishes to thank our strong shareholders, the board of directors of both **dfcu** Limited and **dfcu** Bank, regulators, customers, management and staff and we pledge to deliver a superior return on investment as we continue making more possible!

Our Business

Our Purpose

Our purpose is **'making more possible'**

Our Values

We are guided by our values:

Professionalism

Integrity

Customer Focus

Courage

Team Work

Our Strategic Aspirations

Our purpose, vision and values are aligned to strategic aspirations that drive our competitive advantage in a changing business environment.

Our execution priorities are:

Become a market leader

Transform from a niche player to a universal Bank

Become Bank 4.0

Superior financial performance

Our Business Areas

- Banking
- Personal & Business
- Corporate & Institutional
- Global Financial Markets
- Bancassurance
- Real Estate

Market Standing

Customer Reach

- **59** branches
- Over **1,500** active agents
- 450 ATM points (including Interswitch)

Innovation

- Omni Online Banking Platform (Internet, Mobile and App)
- Group Savings App
- Automated Loan Origination System

Financial Strength

- **3,000+** shareholders
- Deposit funding of **70%**
- Tier 1 capital ratio of **19%**

Talent

- **1,072** employees
- Gender diversity – **52%** female staff

Operating Environment

Macroeconomic environment The economy remains resilient. Globally, trade uncertainty persists.	• A strong balance sheet that is managed prudently to provide resilience and to support customers. • We also undertake regular stress tests to understand how our business performs and what actions to take in a variety of scenarios.
Regulation driving change The industry is undergoing a period of heightened regulatory change, with a focus on non-financial risk, including conduct.	• We are strengthening our risk management and compliance capabilities. • We are engaging with regulators proactively and in an open and transparent way.
Increased competition Existing and new competitors are using emerging technologies and will leverage data to meet evolving customer preferences.	• We are investing in customer-focused innovations that bring together technology and service to exceed customer expectations. • Simplifying our business and creating the capacity to invest for the future.
Importance of cybersecurity and data protection Cybersecurity and data privacy are increasingly important due to the digitisation of information, processes and transactions, and the increasing sophistication of cyber threats.	• We continue to invest in cybersecurity and data management. • We collaborate with a range of government, community and industry bodies to strengthen system-level resilience and to reduce the impact of fraud and scams.
Workforce requirements are changing Automation and digitisation are changing the capabilities and skillsets required. Competition for specialised talent is increasing.	• We are focused on re-skilling and supporting our people to be ready for the future skill-set required. • To retain and attract top talent, we continue to invest in our employee value proposition.

Business Areas

The four business areas are designed to support the relationship strategy for each specific customer segment. Our operating model ensures optimal delivery of relevant products and services for each segment; and increases time spent with customers.

Personal Banking

- Tailored financial solutions for individuals
- Savings, transactional, lending, bancassurance
- Multiple touch points: branch, digital, agent banking
- Financial literacy and inclusion

Business Banking

- Tailored financial solutions for medium and small businesses
- Day to day transaction banking support
- Trade finance expertise
- Relationship management

Corporate Banking

- Corporate and investment banking services to governments, parastatals, local and multinational corporates, other financial institutions
- Manages top tier relationships in key sectors
- Expertise in transactional banking, structured finance, credit facilities, syndications, agricultural lending

Global Financial Markets

- Liquidity management services
- Trading in foreign currencies and fixed income instruments
- Hedging solutions for forex clients

Personal Banking

Our Personal Banking customers have diverse needs and choose to do their banking across multiple channels. We know that our customers value being able to walk into a local branch for face-to-face service, especially when making large deposits and when making major financial decisions. That's why we are committed to keeping a well-balanced branch network spread across the country.

AGENT BANKING
Life Simplified
4th Largest
Agent Banking network

3rd Largest
Branch network

3rd Largest
ATM network

WU
Interswitch
MoneyGram.
VISA

coming soon
mastercard
WorldRemit
sendwave

dfcuBANK
Investment Club App

dfcu QuickBanking
Online Banking

Integration with Telcos

Based on customer feedback received, customers love the convenience of banking digitally, which is why we continue to innovate and invest in our market-leading online (QuickOnline) and mobile (QuickApp) banking channels. We also know that our customers want their banking to be accessible, and that is why we have rolled out the agent banking model to bring our services closer to our customers.

Business Development

Personal Banking remains a key business unit as we concentrate our efforts on dominating our chosen market segments. In 2019, we launched new services, solutions and functionalities for our customers, in addition to improving availability and accessibility.

During the year, we enhanced our online banking platform with new functionalities and this improved the customers' digital banking experience.

We expanded our Agent Banking channel to increase access to banking services. We partnered with Vivo Energy to provide Agent Banking services at Shell forecourts across the country. **dfcu** currently has close to one thousand five hundred (1,500) agents countrywide with 40 of these under the Vivo Energy franchise.

To support our financial inclusion agenda, we rolled out the **dfcu** Investment Club App for Investment Clubs and Savings groups to facilitate managing group savings, lending and collections; with effective reporting and general administration anytime, anywhere.

We also introduced an automated Loan Origination System (LOS) to improve efficiency and processing speed of personal loan customer applications.

2020 Priorities

Optimise Operational Efficiency

- Implement the sales-oriented branch model.
- Continue to deploy enhancements to alternative channels to spur customer usage.

Drive Income Growth

- Grow cheap and sticky deposits.
- Scale up sales through new customer acquisition and cross selling.
- Roll out new customer value propositions to the identified growth sectors and customer segments.

Enhance Customer Experience

- NPS above industry average and in the top 3 banks.
- Listening to our customers and addressing customer queries proactively.
- Free up time for front line staff by simplifying processes.

Business Banking

We support our customers to run and grow their businesses by providing market-leading solutions and services. Our strengths include transaction banking which leverages our real-time banking capabilities, tailored lending and trade finance solutions.

Business Development

Focus on Business Banking has led to continuous improvement in service delivery. We continued to tailor our solutions to meet our customers' needs across the various sectors and at different stages of their business lifecycle.

During the year, we enhanced the online banking platform (QuickConnect) and introduced new functionalities including bulk payments, straight through transfers to other banks, and negotiated forex rates.

Our business customers tell us they value receiving financial insights and expertise to help them run their businesses. To meet this need, we hired more business bankers and improved the quality of our customer interactions.

2020 Priorities

Optimise Operational Efficiency

- Simplify the credit process.

Drive Income Growth

- Free-up time to do more cross selling, customer acquisition and relationship management.

Enhance Customer Experience

- Leverage specialists across the Bank.
- Continue to roll out new digital solutions to simplify customer banking activities.

Corporate Banking

Our Corporate Banking (CB) business unit serves the large corporate, government and institutional client base with funding, working capital product offerings, cash management and transaction banking solutions.

To help our clients navigate the increasingly complex business environment, we have structured our teams around industry/ sector themes and product expertise. By re-orientating our business model around the key trends impacting the Ugandan economy, our people are better able to help clients realise new opportunities for their businesses.

Business Development

We continued to focus on customer centric value adding services and strengthened our position in sustainable financing for our clients. The performance was good across the key product lines and customer segments largely driven by the high activity levels.

The underlying customer momentum was further evidenced by the increased lending volumes compared to the previous year. Lending margins were largely stable despite noticeable aggressive pricing from some of our peers.

During the year we onboarded key relationships within the MNO and Fintech space, and this increased collaboration supported our transaction banking capabilities. We continued evolving the online banking platform (QuickConnect) and introduced new functionalities including bulk payments, straight through transfers to other banks, and negotiated forex rates.

2020 Priorities

Optimise Operational Efficiency

- Strengthen transaction banking capabilities.
- Drive transaction volumes through the online banking platform.

Drive Business Growth

- Focus on Trade Finance and FX business.
- Onboard new relationships.
- Resume action on oil and gas value chain activities to tap into opportunities if Final Investment Decision (FID) is signed.

Enhance Customer Experience

- Continue to scale up digital solutions to simplify customer banking activities.
- Realign teams to drive deeper customer relationship management.

Global Financial Markets

Global Financial Markets (GFM) serves customers through a team of product specialists, who work with relationship managers in Corporate, Personal and Business Banking to build a comprehensive understanding of each client's financial needs. Our expertise is in foreign exchange, fixed income money markets, derivatives and research.

In 2019, we consolidated some of the gains of 2018. Some of the highlights include:

- Delivered record earnings for the second year in a row.
- Hired new staff in the Fixed Income and Money Markets trading roles.
- Took all our staff through a series of trainings to strengthen core technical skills.
- Started on the upgrade of our front-end dealing system.

2020 Priorities

In 2020, the focus will be on the following:

- Ensuring that the business survives and thrives during the COVID-19 pandemic.
- Ensuring that we walk the journey with the customer through this pandemic.
- Complete the upgrade of our dealing system.
- Managing risk, especially interest rate risk in the banking and trading books.

The Funding Model

dfcu Group is funded through:
- Shareholders’ equity
- Customer deposits
- Borrowings from development partners

↓

Use

↓

Loans and advances | Investment in securities | Capital investments

↓

Result into

↓

Interest receipts and capital repayments

↓

Use

↓

- Repay borrowings in terms of interest and principle
- Cover operating costs
- Pay dividends
- Grow the balance sheet

Strategic Snapshot

dfcu Group's strategy is premised on the vision, "To be the preferred financial institution providing a broad range of quality products to our chosen customer segments;" with a mission, "To grow shareholder value while playing a key role in transforming the economy and enhancing the well-being of people."

Our purpose of "Making More Possible," for customers and stakeholders, is the basis for our strategy that focuses on four strategic aspirations which include (1) Being the Market Leader in Banking for Uganda, (2) Transforming from a Niche to a Universal Bank, (3) Bank 4.0 which entails being the next generation bank of Uganda and (4), Superior Financial performance. Below is a snapshot of the initiatives undertaken during the year against the strategic aspirations and the activities planned for the future.

Market Leader in Banking

Our strategic aspiration to be a market leader in banking for Uganda entails building value propositions for customers and stakeholders for mutual benefit that position the Bank as an industry leader in each of our chosen segments. The table below highlights some of our key strategic imperatives along with key performance indicators during the year in addition to highlighting some of the future actions that will be undertaken to further this aspiration.

Strategic Imperative	Key Performance Indicators (KPIs)	Future Actions
• Consolidate our position as a key player in the Agriculture sector.	• Maintained our market share of lending to the agriculture sector at 16% (2018: 16%).	• Support customers through the COVID-19 pandemic with application of the regulatory and internal measures put in place for depositors and borrowers. • Increase thought leadership and stakeholder engagement in our key segments.
• Consolidate our position as a key player in the SME market segment.	• Maintained our support to SMEs and SMEs form 64% of the total loan book (2018: 64%).	
• Consolidate our focus as a leading provider of development finance.	• Maintained our support for Customers through provision of development finance which constitutes 35% of the total loan book (2018: 35%).	
• Wealth creation.	• Wealth created in 2019 was 125,845Shs (2018: 165,157 Shs).	

Universal Bank

Transformation from a niche play to a universal Bank is our strategic aspiration that focuses on continuously embedding new ways of working and re-engineering our business processes to serve the masses, in order to grow a dynamic business. Some of the major imperatives along with key performance indicators and future actions to be undertaken towards driving this transformation are highlighted in the table below.

Strategic Imperative	Key Performance Indicators (KPIs)	Future Actions
• Driving Operational Excellence.	• Business process re-engineering with operating cost reduction by 4% or 9 Billion Shs from 202 Billion Shs in 2018 to 193 Billion Shs in 2019.	• Comprehensive customer journey review with development and refinement of the segment propositions and solutions. • Continue re-engineering the business processes for improved customer service delivery. • Continue building staff capacity considering the fast-changing operating environment.
• Mobilization of Cheaper and Stable Deposits.	• Improvement in the liabilities mix with a reduction in the total interest expenditure on deposits and funding liabilities by 7% or 7 Billion Shs from 105 Billion Shs in 2018 to 98 Billion Shs in 2019.	
• Growth in Retail Credit Assets for the Business and Personal Banking Segments.	• Realized a 24% or 58 Billion Shs growth in the Net Retail Credit Assets for the Business and Personal Banking Segments from 247 Billion Shs in 2018 to 305 Billion Shs in 2019.	
• Relationship and Portfolio Quality Management.	• Increased focus on relationship and portfolio quality management with a reduction in impairment costs by 36% or 8 Billion Shs from 23 Billion Shs in 2018 to 15 Billion Shs in 2019.	

Bank 4.0, the Next Generation Bank

Bank 4.0 encompasses our innovation and digital agenda driven by the strategic aspiration of being the next generation Bank of Uganda. This entails building a digitally driven organisation by redefining the operating model to deliver a seamless customer experience. Some of the initiatives undertaken towards driving this aspiration are summarized in the table below along with the future actions to be undertaken.

Strategic Imperative	Key Performance Indicators (KPIs)	Future Actions
• Deployment of Innovative Digital Solutions	• Deployed a state of the art Investment Club App that simplifies administration of collective savings. • Partnered with MTN to provide Mobile Money escrow services. • Started deployment of Intelligent ATMs that enable instant deposit taking and cash recycling.	• Enhance the proposition for credit via digital channels on mobile and online. • Continue growing the alternative channels network and enhancing ATM capabilities. • Increase options for payments on Cards and other digital platforms. • Further enhance our cyber security.
• Deployment of Innovative Digital Solutions	• Increased the Agent Banking network by over 1,000 agents. • Increased the percentage of transactions on alternative channels by 36% from 23% in 2018 to 59% in 2019 i.e. on Mobile, Online, Agents and ATMs compared to Branch.	
• Cyber Security, System Stability & Risk Management	• Maintained an average uptime of 98% on our banking systems. • Deployed an automated Anti-Money Laundering system.	

Superior Financial Performance

Delivering superior financial performance for our Stakeholders is our fourth and final strategic aspiration which entails harnessing increased value from capabilities of new and existing assets and resources to deliver results. This is evaluated against our financial goals on an ongoing basis as summarized in the table below;

Our Financial Goals	Target	2019	2018
Return on Equity	**18%**	14%	12%
Core Capital	**20%**	19%	18%
Total Capital	**22%**	21%	21%
Cost to Income Ratio	**62%**	61%	66%
Loans to Deposit Ratio	**62%**	75%	70%
Asset Quality (Non-Performing Assets Ratio)	**5%**	6%	6%

2020 Focus

In the current environment, and recognising the ongoing market challenges, we are focusing on sustaining our business while supporting our customers to survive and thrive.

Sustain Business

- Inclusive and sustainable growth for our customers.
- Implement the sales-oriented branch model.
- Simplify the product catalogue.
- Onboard new business relationships and partnerships.
- Continue to strengthen transaction banking capabilities.

Talented and Motivated Team

- Reinforce the new **dfcu** culture.
- Continue to enhance the employee value proposition.
- Enhance the employee work experience.
- Retain best talent by contributing to their learning and development.

Improve Customer Journey

- Scale up digital solutions to simplify customer banking activities.
- Realign teams to drive deeper customer relationship management.
- Listen to our customers and address customer queries proactively.
- Free up time for front line staff by simplifying processes.

Shareholder Value

- Sustainable growth and stable returns.
- Clear and robust governance.
- Risks and opportunities are prudently managed.

Selected Key Performance Indicators

	2019	2018	2019	2018	2017	2016	2015
	Target	Target	Actual	Actual	Actual	Actual	Actual
Return on equity	18%	21%	14%	12%	20%	11%	11%
Core capital	20%	18%	19%	18%	19%	20%	16%
Total capital	22%	19%	21%	21%	22%	27%	23%
Cost to income ratio	62%	56%	61%	66%	49%	54%	52%
Loans to deposit ratio	62%	59%	64%	70%	67%	65%	63%
Asset quality (non-performing assets ratio)	5%	5%	6%	4%	5%	7%	6%
Asset quality (portfolio at risk ratio)	15%	15%	14%	13%	14%	15%	14%

Business Highlights

Capabilities

To support the implementation of our strategy, we are investing in critical capabilities including: operational risk and compliance, driving efficiency of our operations and innovation.

Operational Risk and Compliance

To keep pace with greater business and regulatory demands, and to fix the root causes of past issues, we are investing in our operational risk and compliance capabilities. In 2019, a transaction monitoring system - Clari5, was implemented. Clari5 is a real-time solution that monitors suspicious patterns across transactions and accounts and generates real-time alerts for investigation by the Compliance team.

The system is crucial as transactions are reviewed in real time as opposed to when funds are at the integration stage of the money laundering cycle in case there is need to freeze proceeds on the account. The real time transaction review also enables adherence to regulatory reporting timelines for filing Suspicious Transaction Reports (STRs) with the Financial Intelligence Authority (FIA).

Driving Efficiency

We continue to focus on becoming more efficient and getting smarter about how we allocate resources and reduce our costs. As part of good business discipline, we regularly review our strategy, structure, operating model and priorities.

We are optimizing our distribution footprint and prioritizing investment in digital, agent banking and third-party offerings to meet changing customer needs.

Simplifying the Business

Consumer behaviour in the Ugandan market is changing rapidly, requiring **dfcu** to realign its products towards those channel(s) that best serve its segments.

To support customers' expectations, we have realigned the branch structure in line with our digital agenda. Standard and operational products are shifting to digital, ATM and Agent channels, whilst complex and advisory/sales products are being managed at the branch.

Loan Origination System

The Loan Origination System (LOS) was rolled out to specifically support the loan application processing needs of our customers.

The process of issuing a loan involves a series of steps right from acquiring a borrower, processing their information, vetting their credit standing, documentation and then finally either approval and disbursal of funds or disapproving the loan.

The LOS streamlines all these processes by offering a comprehensive solution to loan origination requirements while improving efficiency, mitigating risks and improving borrower relationships.

Innovation

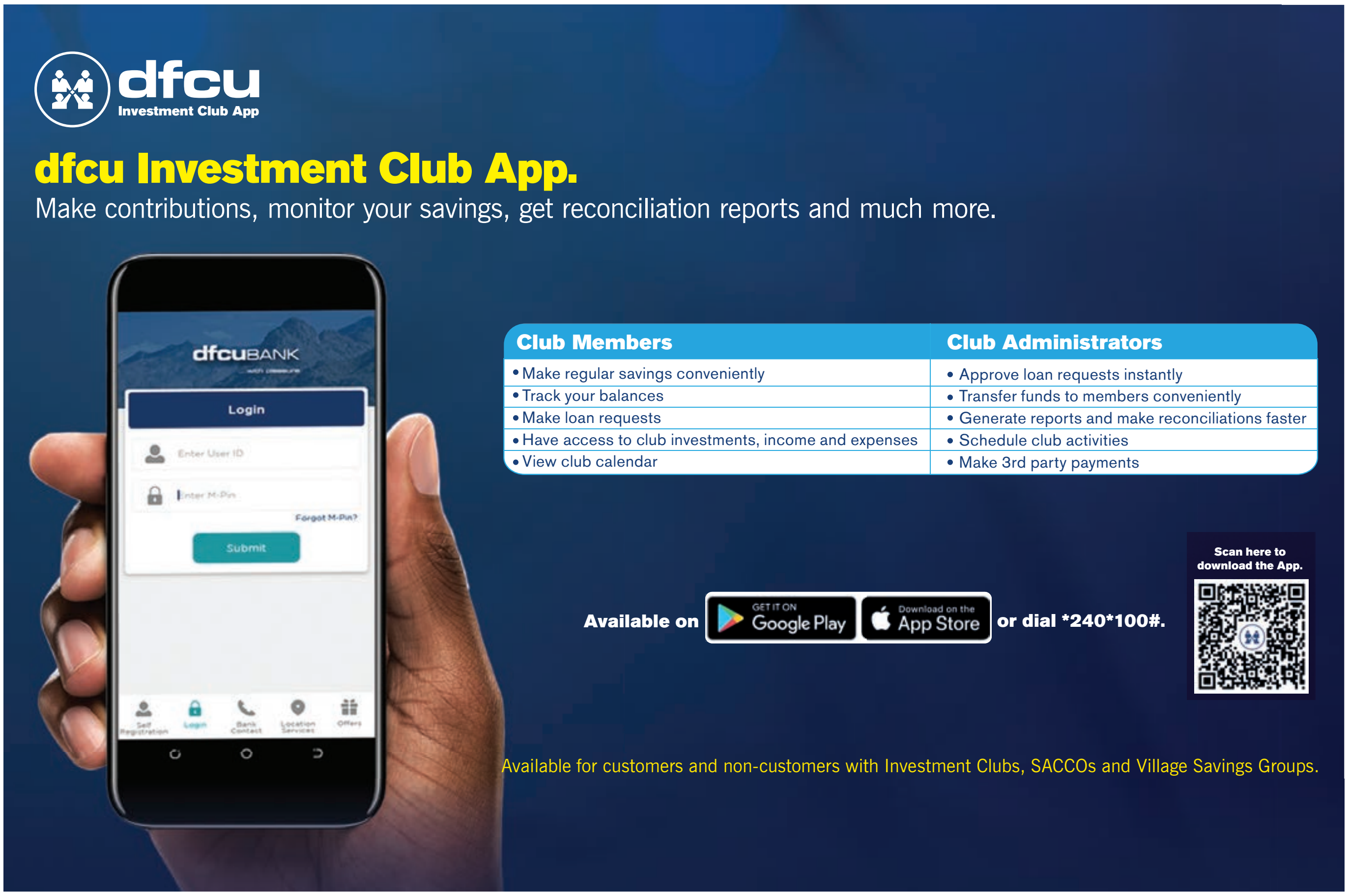
We are investing to stay at the leading edge of innovation, so that we can continue to offer compelling customer experiences and meet increasing competitive demands. This involves innovating in both customer facing applications and back office operations. We are also investing in technology to keep our systems safe, sound and secure, and to add real value and deliver better outcomes for customers.

To promote an entrepreneurial, continuous improvement mindset within the Bank, we have created an open innovation platform called 'The Innovation Hub'. Employees are encouraged to share ideas focused on improving products, processes, systems and services. We also promote innovation focused collaboration with our partners through the Innovation Hub.

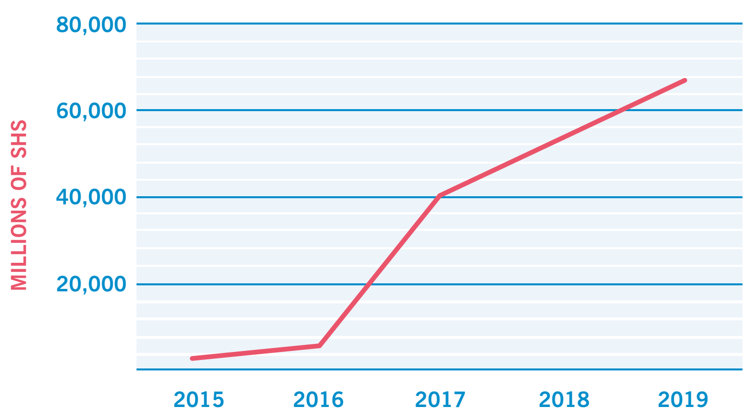
dfcu Investment Club App

The day to day management of Savings and Investment Groups can be a challenge since most of the activities tend to be manual. **dfcu** introduced the Investment Club App to simplify the day to day management of the group savings by providing a real time view of all financial activities. The App helps with tracking member contributions, managing group lending and collections; effective reporting and general administration anytime, anywhere.

dfcu has a history of promoting a savings and investment culture that dates as far back as 2007 with the introduction of the Savings and Investment Clubs proposition to foster group savings. Over 24,000 Clubs have been registered to date and the number is growing. This App is central to our ongoing financial inclusion drive by encouraging personal and group savings and investments in Uganda.



Cumulative Investment in IT and Technology



Customer Relationships

Focusing on Net Promoter Score (NPS)

Our NPS aspiration is to rank number one in the banking sector. NPS is a management tool that is used to gauge the loyalty of our customer relationships. The score is high if customers are happy to recommend the Bank to their friends and family. As it tracks both our promoters and detractors it provides a more accurate measure of overall sentiment than customer satisfaction.

In 2019, **we** undertook an independent market survey to establish our positioning across the market, understand current customer attitudes, identify gaps and areas for improvement and establish a strong service culture with standardised service across all its channels.

In comparison to three years ago, **our** NPS has improved by 75% and is above the industry average of 19.

Our customers were happy with:

- **Different languages we use and the simplicity with which we communicate to them**
- **Our warm, friendly and professional staff**
- **Our convenient banking hours**

Following the results from the survey, we undertook several initiatives in response to customer feedback as part of our effort to standardise and improve our customers experience.
We held a bank wide training session with all our customer experience champions as part of the strategy of embedding the service basics. To compliment this, we embarked on a project to standardise our branch network look and feel with several initiatives undertaken to free up our frontline staff so that they could have more time with our customers.

We also focused on improving our operational efficiency with key initiatives such as:

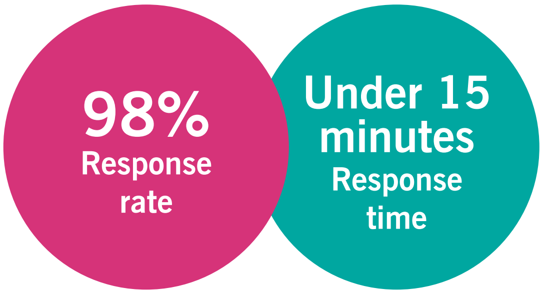
- As part of our onboarding process, our customers no longer have to wait a long period for a paper pin to activate their card. A soft pin is generated, and a customer can change it on their own.
- Our payments process is now faster following several automations that were undertaken to free our branches to engage with customers more.
- Added new functionality to our ATMs such as the cash depositing capability, and improved uptimes.
- Invested in a loan originating system which we have now rolled out to improve the efficiency and effort in our credit process.

Listening to Our Customers

Taking complaints seriously and dealing with them quickly, and in a fair and transparent way, is critical to earning our customers' trust. Our response time to customer queries is now under fifteen (15) minutes with a 98% response rate.

We have also continued to hold monthly customer centred forums in our branches during which customers are invited to tell the stories of their experience with us. Through these sessions, teams have owned the resolution of issues raised thereby supporting the Bank's retention efforts.

All the above initiatives were designed to make the Bank more customer-centric and position us to be the leading customer-oriented bank in the country.



Sustainable Partnerships

Given our strong heritage, and the role we play in the economy and the community, making a positive difference and meaningful contributions to society is critical. In line with our purpose of 'Making more Possible', one of our key focus areas is partnerships that promote the financial transformation and wellbeing of communities where we operate. We continued to support the entrepreneurial spirit of Ugandans, enhanced the stability of families and provided a sustainable approach to promoting the savings.

Our Women in Business Program Complements the Empowerment of Women Entrepreneurs

The **dfcu** Women in Business (WiB) program is about creating an enabling environment for women entrepreneurs to thrive in a highly competitive space where they ordinarily may be faced with numerous challenges. The programme provides financial management training, networking opportunities, business coaching, mentoring and access to business finance on preferential terms.

"Our approach is to offer solutions that adequately meet the unique financial needs of women in different categories including the young professional, entrepreneur/trader and agri-business. Through this segmentation it has made it possible for us to tailor make solutions suited for each."

One of the flagship activities under the WiB program is the **'Rising Women'** initiative. Now in its second year, the 'Rising Woman' initiative recognizes, celebrates and promotes a culture of mentorship among women in business in Uganda. The 2019 activities reached over 1,800 women who took part in different activities including; trainings, the Rising Woman Expo, Awards Gala and the study tour to Nairobi, Kenya.

"We acquired a pulping machine from the funds we won which in turn has increased the volume of coffee production. Through the profiling of our story in the local dailies, we were able to attract more funding which we used to scale up our coffee project. We have also expanded our market and become the lead suppliers of coffee to the big hotels in our region. We have since opened our coffee shop – Zesui dream coffee in Kampala. Our profits have tremendously grown, enabling us facilitate women and girl empowerment trainings." ***Kalaamugosi Women Empowerment Limited, a beneficiary of the Rising Woman Initiative.***

Building Strong Partnerships to Support Agricultural Transformation

"While it's one thing to have a bouquet of financial services available, it's another for the farmers to take them up. For farmers to benefit from financial institutions they need to be bankable. This simply means that the farmers can demonstrate their ability to manage and successfully repay any financing advanced to them".

Cognisant of this challenge, **dfcu** Bank in partnership with Rabobank Foundation set up the Agribusiness Development Centre (ADC). The ADC complements the efforts towards improving the skills set within the sector, by providing technical support to Farmer Based Organization's (FBOs) that have potential to contribute to the agricultural value chain. The training is intended to transform Farmer Based Organisations and Cooperatives and make them bankable to work as vehicles for delivery of financing to smallholder farmers in an economically viable model for the Bank.

To date, at least 7,500 farmers, of which 3,700 are women, have received training in three modules covering financial literacy, introduction of cooperatives, and governance. The ADC has also been able to incorporate smart solutions to reach more farmers using the USSD based financial literacy training application called SIMU+. Over 2,000 farmers have been trained using SIMU+. The training initiatives have been further supported by the development of an e-Learning platform which is ongoing and will be rolled during 2020.

The ADC in liaison with other partners, is leveraging technology for extension of financial products to farmers. Currently under pilot is the **Emata App** that digitises the dairy sector and gives farmers access to digital and affordable financial products. Three Dairy Cooperatives, with a membership of over 1000 farmers, have benefited from this initiative. The App builds a credit history through digitising milk delivery systems in Uganda. Based on this credit history, Emata can provide credit to farmers at interest rates that are low enough to finally allow farmers to use the benefit of credit to invest in the productivity of their farms.

dfcu is one of the leading implementers of the Agricultural Credit Facility (ACF) which has been specifically tailored by the Bank of Uganda to address the challenges associated with lending to Agriculture. Using our own resources, we are able to match the funding accessed under the ACF scheme to support several Agri-businesses to expand and modernize their operations.

As a key participant under the ACF scheme, we have provided facilities to several agricultural projects on terms tailored to meet their unique needs with tenures of up to 8 years and at fixed interest rates as low as 12% p.a. on Uganda Shillings loans. In June 2019, the Bank received recognition in seven categories at the 1st Annual ACF Awards emerging the overall winner in having the highest absorption rate in terms of value loans disbursed.

For the last six years, **dfcu** has partnered with other stakeholders on the Annual Best Farmers competition which is an opportunity to provide a platform where outstanding farmers are identified and supported with exposure visits to the Netherlands. Upon their return, the farmers in turn train other farmers on their farms which has proven to be a very effective and practical knowledge dissemination method as a supplement to the conventional extension. The event hasn't only identified and elevated such leaders for others to learn from but also generally improved public perception towards agriculture as a profitable and rewarding venture.

Supporting Sustainable Growth for SMEs

"We understand the challenges SMEs face, which partly inhibit their ability to innovate and stay ahead in the marketplace."

The sustainability of SMEs depends on their ability to mobilize capital, access markets, possess the requisite business and financial management skills. We have a very strong heritage as a provider of affordable financial solutions to viable private sector projects and businesses. For over 55 years, **dfcu** has transformed several private sector enterprises and is associated with many success stories across a wide range of sectors including agriculture, education, manufacturing, construction, health, real estate, transport, trade and commerce.

Our involvement in the Top 100 Medium Sized Company Survey (SME Top 100) also creates a platform to provide opportunities to create value and build sustainable businesses. Through this initiative, hundreds of businesses learn from each other; engage policymakers on their contribution to the economy, benchmark against other business operations and much more. Our belief is that this initiative is boosting the skillset of the selected companies, eventually translating to improved business practices and increased profitability for SMEs.

In July, **dfcu** Bank announced its continued sponsorship and support of the Uganda Top 100 mid-sized companies' survey 2019 initiative that has been running for the last 3 years. The purpose of the Top 100 Survey is to identify Uganda's fastest-growing medium-sized companies in order to showcase business excellence and highlight some of the country's most successful entrepreneurship stories.

Contributing to Financial Inclusion

We help people get access to finance; set up and grow their businesses; and give them the skills to manage their finances through financial education.

Our financial inclusion strategy focuses on three areas;

ACCESS

Help the unbanked and financially underserved groups to access and use basic financial services.

FINANCE

Offer tailored products and services to the underserved customer groups.

RESILIENCE

Programs and initiatives to improve financial knowledge and better financial decisions.

Deepening access to financial services

We want to give everyone access to financial services, regardless of factors such as income level, gender, educational attainment, geographic location or age.

Our flagship digital platform **QuickBanking** helps us achieve this ambition, allowing us to overcome some of the barriers to accessing financial products and services.

Our branches, ATMs and Agents are also an integral part of our strategy to foster access to basic financial services.

Through Agent Banking, we are extending financial services to the unbanked and under banked in easy to access locations across the country. Services include making cash deposits and withdrawals; balance enquiries; generating mini-statements; paying utility bills; school fees payments and also carrying out transfers.

"dfcu Agent Banking is driving financial inclusion by taking a broad range of financial services closer to our customers. It is adding a sizeable percentage of the population to the formal banking system while decreasing the cost to serve".

dfcu currently has one thousand five hundred (1,500) active agents countrywide, located in easy to access locations like: gas stations, supermarkets, hardware stores, pharmacies, neighbourhood stores etc. In rural and semi urban areas the **dfcu** agents are playing a key role in reducing the amount of time and distance customers have to cover to access banking services. During the year we partnered with Vivo Energy and Posta Uganda respectively, to provide Agent Banking services at Shell forecourts and Post office locations across the country.

In line with the digitization agenda, the agent banking services have been complemented with an instant account opening platform that enable customers to acquire **dfcu** Bank accounts in less than five minutes.

In November, we officially announced our partnership with Vivo Energy Uganda to provide Agent Banking services across the country. Through Agent banking, dfcu Bank is extending select financial services to the unbanked and under banked in easy to access locations across the country.

Tailored products for underserved groups

We offer specific banking products aimed at bringing the underserved customer groups into the banking system. Affordable savings products such as the Dembe and Group savings accounts are helping to inculcate a savings culture. Micro lending products as the Baraka loan are helping to small businesses to access short term financing without the need for collateral.

Promoting financial education

Our financial inclusion strategy goes beyond providing access to bank accounts and other basic financial services, as we want people to have the skills to manage their finances, so they can make the right choices about what products and services meet their needs.

Our financial education initiatives are online as well as face-to-face through workshops and trainings. During the year we continued to offer financial literacy programs to target groups including women, savings groups and small enterprises.

2019 Contribution to strategic partnerships and interventions

Category	Total Investment (Ushs)
Strategic Partnerships and Projects	1,309,888,002
Donations and Humanitarian Interventions	237,550,800
Total	**1,547,438,802**

Business Pictorial

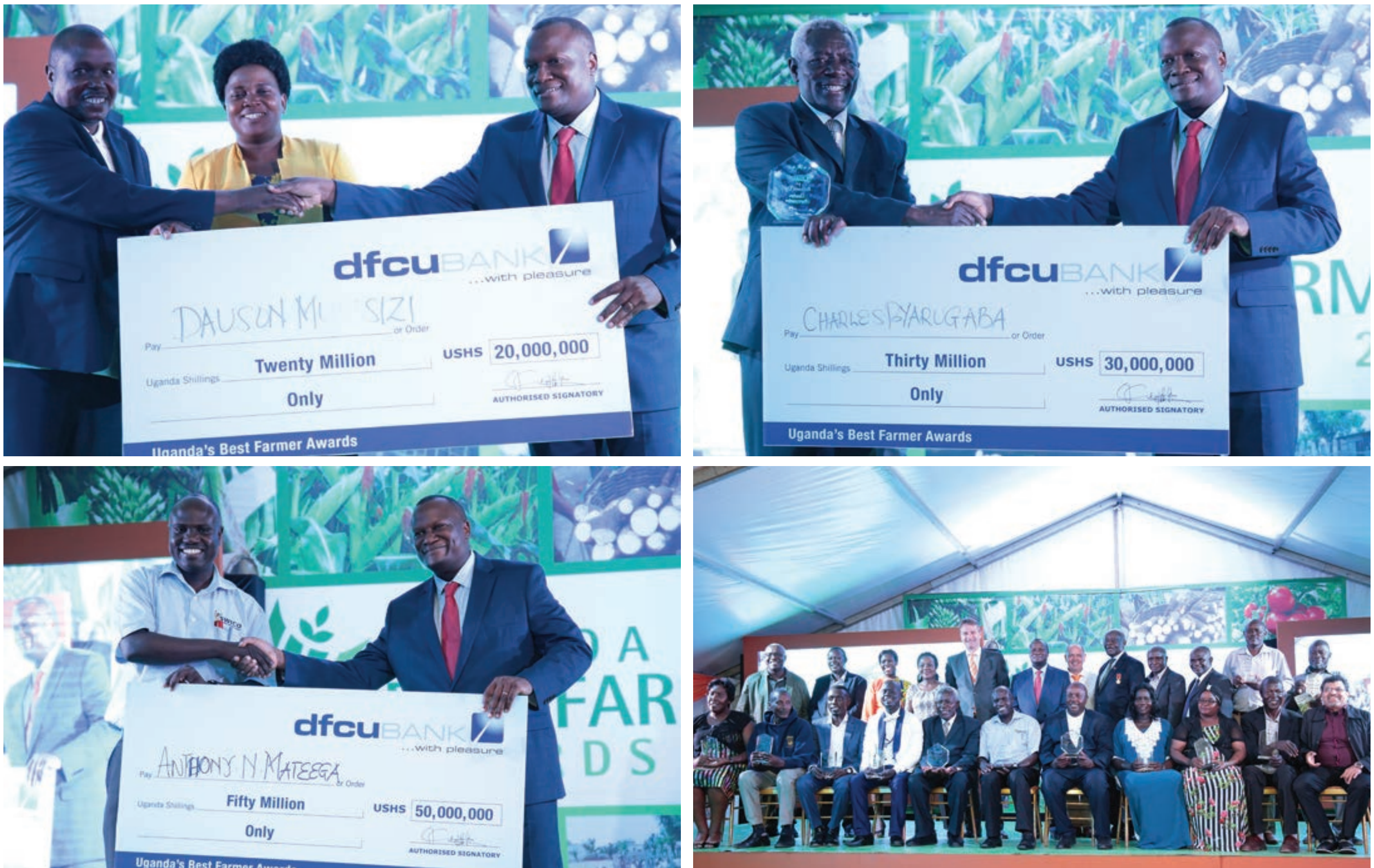
Belinda Namutebi (C) Council Member of **dfcu** Bank's Women Advisory Council flags off the 10 entrepreneurs who emerged winners in the second season of the Rising Woman Initiative. Held in partnership with Monitor Publications Limited's (MPL) flagship brand Daily Monitor and Uganda Investment Authority, the 6-month nationwide campaign under the theme 'Taking your Business ahead' attracted over 1,000 women participants.

dfcu Bank earns recognition for promotion of the Agricultural Credit Facility (ACF) from Bank of Uganda. The ACF was set up in 2009, as a risk-sharing mechanism between the Government and the Participating Financial Institutions (PFIs) with the key objective of facilitating the provision of medium and long-term financing for projects engaged in agriculture and agro-processing.

Royal Blues win 20th edition of Annual Bankers Sports Gala: The Royal Blues garnered 220 points to win the Uganda Institute of Banking and Financial Services 20th Annual Banker's Sports Gala at The Mandela National Stadium, Namboole. Collecting gold in athletics, earning second place in darts, third place in netball and basketball.

dfcu Bank introduces a group App to drive financial inclusion, ease savings and Investments – As part of our wider digital agenda, we rolled out the **dfcu** Investment Club App, to help Investment Clubs, SACCOs, Village Savings and Lending Associations(VSLAs), Rotating Savings and Credit Associations(ROSCAs) and companies operating as Investment Clubs or SACCOs with the processes of tracking contributions, managing group lending and collections; effective reporting and general administration anytime, anywhere.

Danish Fund, IFU acquires 9.97% stake in **dfcu** Limited.



For the 6th year, **dfcu** Bank in partnership with Vision Group, KLM Airlines, Koudjis and the Netherlands Embassy awarded Uganda's best farmers countrywide through the "Best Farmers" initiative. The initiative aims to highlight the contribution of agriculture to the development of the economy. The top 3 winners were awarded cash prizes while the top 10 won an all-expenses paid study trip to Netherlands.


dfcu
Agent Banking
KYEKYO
Enjoy FREE MTN MoMo float top-ups at any dfcu Agent
dfcu Agent
01
Visit a dfcu Agent outlet with your MTN Agent number.
02
Purchase float and a printed receipt will be issued.
03
You will receive an SMS instantly confirming details of the transaction.

Corporate Governance

Chairman's Statement

'Making more possible through building sustainable partnerships'

Overview

It is my pleasure to present **dfcu** Limited Group Annual Report and Financial Statements.

dfcu comprises two entities, **dfcu** Limited the holding company which is listed and regulated by the Uganda Securities Exchange and **dfcu** Bank that provides commercial banking services and is regulated by the Bank of Uganda. **dfcu** Limited which has 100% shareholding in **dfcu** Bank also has investments in real estate including, **dfcu** Towers Nakasero, Namanve Financial Centre and other properties on Mackinnon road, Nakasero, Bugolobi and Mukono. **dfcu** Limited also provides property management services. However, the main trading entity in the group is **dfcu** Bank which provides a full range of banking services and is one of the leading commercial banks in Uganda.

2019 was a good year for **dfcu.** During the year, the company continued to consolidate the gains made from our strategic investment in technology, processes and people. The company was able to focus on providing quality service to customers and delivering value to our shareholders through leveraging our digital channels, improving our customer value proposition, expanding our outreach through agent banking and through the strong management team and dedicated staff who continue to execute our strategy.

I am also proud to highlight some of the achievements the company made in 2019;

- Continued supporting the agricultural sector which is the backbone of the country's economy. As at end of 2019, our lending to the Agriculture sector was 16% of the total portfolio.
- Similarly, our support to Small and Medium Enterprises which is a key driver of economic development was at 64% of the total loan book. We supported these sectors through provision of short-term loans and advances and provision of development finance.
- Our belief in continuous investment in technology and business process re-engineering resulted in operating cost reduction of 5% in 2019. Details are set out in the financials.
- The strategic focus of reducing the cost of liabilities through improvement in the liabilities mix resulted in a reduction in the total interest expenditure on deposits and funding liabilities by 7% in 2019.
- We continued to innovate and improve on our product offering and service. In 2019, the company;
  a. Deployed a state of the art Investment Club App that simplifies administration of collective savings.
  b. Partnered with MTN to provide Mobile Money escrow services.
  c. Started deployment of Intelligent ATMs that enable instant deposit taking and cash recycling.
  d. Increased the Agent Banking network by over 1,500 agents.
  e. Increased the percentage of transactions on alternative channels by 36% from 23% in 2018 to 59% in 2019 i.e. on Mobile, Online, Agents and ATMs.
  f. Deployed an automated Anti-Money Laundering system.

- The real estate portfolio and property management business under **dfcu** Limited had an equally good year. The Company managed to achieve 100% occupancy in **dfcu** Towers and other properties. We also opened a state-of-the-art training centre at **dfcu** Financial Centre, Namanve. The training centre will enable the Bank train our Human Resources in a serene environment and is available for hire to companies for short term training programs.

Through these interventions, the company in 2019 was able to continue supporting its customers with innovative and affordable banking solutions, contributed significantly to the Ugandan economy and delivered superior financial performance.

A Good Financial Performance in an Improved Operating Environment

In 2019, the company posted a net Profit After Tax of UGX 73.4 Billion from UGX 60.9 billion in 2018, representing an increase of 21%. This significant growth in PAT was mainly driven by significant increase in efficiency and cost management.

Loans and advances grew by 10% from UGX 1,398 billion to UGX 1,539 billion as a result of increased disbursements and focus on continuous monitoring of the asset quality for the entire portfolio. The increase in loans and advances was organic meaning we did not go out to aggressively buy out loans from other financial institutions.

Overall interest expense reduced by 7% from UGX 104.7 billion to UGX 97.8 billion showing improved efficiency in the liability mix as a result of management's effort to shed off expensive funding and concentrate more on cheaper liabilities. Consequently, the net interest income increased by 3% from UGX 221.1 billion to UGX 227.4 billion.

Non-funded income in terms of fees and commissions grew by 28% from UGX 51.2 billion to 65.4 billion as we continue to harness the benefits of the investments in technology and growth in the customer base.

Operating expenses reduced by 4% from UGX 202.2 billion to UGX 193.1 billion showing improved operating efficiency. As a result, the cost to income ratio reduced from 66.2% in 2018 to 60.6% in 2019.

The asset base increased by 1% from UGX 2,916 billion to UGX 2,958 billion, upheld by strong growth in loans and advances.

The Group's deposit base grew by 3% from UGX 1,979 billion to UGX 2,039 billion. The growth was because of both newly acquired and existing clients across the business segments. Management implemented a clear strategy of growing the deposit base, as well as retention of the existing customer relations.
Shareholders' funds grew by 9% from UGX 521.5 billion to UGX 569.7 billion as result of increase in retained earnings.

Dividend Payment

Due to the uncertainty world-wide and domestic economies caused by the emergence of the global COVID-19 (Corona Virus) pandemic, Bank of Uganda, the regulator of our banking subsidiary in April 2020 directed all supervised financial institutions to defer payment of all discretionary payments including dividends. The dividends declared by the Bank form part of the dividend pool paid to **dfcu** Limited shareholders.

In the circumstances, the Board of Directors advises that no dividend for the year ended 31st December 2019 will be recommended for approval by shareholders at the 55th Annual General Meeting. Suffice to say the company has consistently paid a healthy dividend over the years and will continue to do so in future.

The Economic Environment

The domestic economy had largely started to recover supported by recovery in Private Sector Credit and was forecast to grow at 5.5-6% in 2019/2020 despite weakening global economic conditions driven in part by the United States – China trade and technological disputes and protracted BREXIT negotiations.

The other macroeconomic indicators, inflation and interest rates remained relatively stable in 2019. There was optimism that the economy would continue to grow at 6% per year in 2020/2021 however, this all changed following the outbreak of the COVID-19 pandemic in Wuhan, Hubei province, China in December 2019. In the near term, activity in the Ugandan economy is likely to decline considerably and Bank of Uganda has revised its growth rate to a range of 4.0-5.0 percent in FY2019/20.

Impact of COVID-19 on Business Operations

It is difficult to reliably quantify the full economic impact of the COVID-19 outbreak on our business. Many variables depend on what measures the government will take to manage the pandemic and how long the outbreak lasts. Our main concerns are around the fact that;

a **dfcu** is predominantly an SME bank and the current disruption to the global value chains due to factory shutdowns and delayed resumption of operations will affect a large number of our customers who rely on supplies, especially from China and Europe. This is likely to negatively impact our Business Banking and Corporate customers.

b. The Bank has a portfolio in the hospitality, services and tourism sectors. These sectors are being greatly affected due to declining demand, and expanding travel restrictions.

c. The agricultural sector including all the agricultural value chains, which form one of our key segments, are being affected by a sharp decline in commodity prices. This will potentially affect the ability of customers in this sector to service their loans.

d. The Bank also has a large portfolio of Personal Banking customers who are likely to scale down on domestic spending due to uncertainty surrounding the COVID-19 lockdown and future earnings. Household spending which is a driver of Private Sector growth is expected to slow down affecting growth in personal savings and personal loans.

e. A combination of the exchange rate depreciation and supply disruption will ultimately result in higher inflation in coming months leading to an increased cost of doing business, a possible raise in interest rates and its resultant effects.

It is envisaged that the COVID-19 pandemic will have a significant impact on the Ugandan economy and consequently on all aspects of socio-economic life. This will affect the operations of the banking sector in which we operate.

As a dynamic company, we are cognisant of the developing business risks associated with the impact of the COVID-19 pandemic. The business has positioned itself to mitigate and manage the risks with robust business continuity plans and also taken deliberate hygiene and social distancing protocols to safeguard the life of customers and staff. The Bank in a bid to ease the financial burden of our customers waived off charges on select services. Additionally, on a case by case basis, we are restructuring customer loans in line with Bank of Uganda guidelines.

The Banking and Regulatory Environment

The banking sector showed remarkable growth in 2019 mainly due to recovery in Private Sector Credit in 2019, supported by improved economic activity with year on year growth above 12 per cent.

Given the exposure of Ugandan businesses to the banking system, the COVID-19 pandemic is likely to reduce the demand for credit due to slackening economic activity which in turn will have a toll on Non-performing loans (NPLs).

Bank of Uganda has however, made assertive and well communicated policy actions to safeguard financial stability and limit harm to the economy by among others;

a. Requiring supervised financial institutions to put in place contingency plans to guarantee the safety of customers and staff.
b. Providing exceptional liquidity assistance for a period of up to one year to financial institutions that may require it and waive limitations on restructuring of credit facilities at financial institutions that may be at risk of going into distress due to the COVID-19 pandemic.
c. Engaging Mobile Network Operators (MNOs) and commercial banks to further reduce fees on mobile money transactions and other digital payment charges in order to limit the use of cash and bank branch visits.
e. Encouraging commercial banks, on a temporary and time-bound basis, extensions of loan maturities, especially for the sectors that will be hit hardest. These measures would lift confidence and support economic activity.

Corporate Governance and Board Changes

The Board is collectively responsible to the shareholders of the Company for its performance, strategic direction and provides the leadership necessary for the Company to meet its performance.

During the year the company welcomed a new strategic investor, Investment Fund for Developing Countries (IFU) a development Financial Institution owned by the Danish Government, which is now the second largest investor in the company holding 9.97% of the shares. This investment in our company is a clear testament of the strength and resilience of the **dfcu** brand. The Board would like to take this opportunity to thank Common Wealth Development Corporation (CDC) for investing in the company from inception to the time they handed over to IFU.

During the year **dfcu** had the following changes in the Board;

dfcu Limited

Dr. Winifred Tarinyeba Kiryabwire resigned from the Board of **dfcu** Limited on 27th March 2019.
The shareholders, directors, management and staff of **dfcu** Limited thank her for the contribution made towards the Company.

During the year, the shareholders of **dfcu** Limited appointed Mr. Friedrich Pelser and Ms. Barbra Teddy Arimi as Non-Executive Directors of the Company. They had been previously appointed by the Board of Directors of **dfcu** Limited to fill casual vacancies.

dfcu Bank

Mr. Ola Mørkved Rinnan, a Non-Executive Director resigned from the Board of **dfcu** Bank Limited with effect from 31st May 2019.

The shareholders, directors, management and staff of **dfcu** Bank Limited thank the above director for the contribution made towards the Company.

During the year the Board of Directors of **dfcu** Bank appointed Dr. Winifred Tarinyeba Kiryabwire, Ms. Grace Tibihikirra Makoko and Mr. Øivind Solvang to the Board.

Further details relating to the Board and the conduct of its affairs are set out in the Corporate Governance section of this report.

Making More Possible through Sustainable Partnerships

At **dfcu**, we build sustainable partnerships with our customers. Our main business areas; Personal, Business and Corporate Banking – are continuously innovating and improving our offerings and solutions to enable customers make conscious sustainable choices.

dfcu continues to provide financial literacy and advocates for increased financial inclusion through our tailored programs that target customer segments and the general public.

Since 2007, we have been providing assistance to women through the **dfcu** Women in Business (WiB) program. This program is about creating an enabling environment for women entrepreneurs to thrive in a highly competitive space where they ordinarily may be faced with numerous challenges.

Now in its second year, the 'Rising Woman' initiative recognizes, and promotes a culture of mentorship among women in business in Uganda. The 2019 activities reached over 1,800 women who took part in different activities including; trainings, the Rising Woman Expo, Awards Gala and the study tour to Nairobi, Kenya.

While it is one thing to have a bouquet of financial services available, it is another for farmers in Uganda to take them up. For farmers to benefit from financial institutions they need to be bankable - this simply means that the farmers can demonstrate their ability to manage and successfully repay any financing advanced to them. Through the Agribusiness Development Centre (ADC), we complement the efforts towards improving the skills set within the sector. To date, at least 7,500 farmers, of which 3,700 are women, have received training in three modules covering financial literacy, introduction to cooperatives, and governance.

dfcu is also one of the leading implementers of the Agricultural Credit Facility (ACF) which has been specifically tailored by the Bank of Uganda to address the challenges associated with lending to Agriculture.

For the last six years, we have supported the Annual Best Farmers competition, a platform where outstanding farmers are recognised and supported with exposure visits to the Netherlands. Upon their return, the farmers in turn train other farmers on their farms.

Our sponsorship of the Top 100 Medium Sized Company Survey (SME Top 100) creates a platform to provide opportunities for businesses to build sustainable businesses. Hundreds of businesses learn from each other; engage policymakers on their contribution to the economy and benchmark against other business operations.

dfcu Agent Banking is driving financial inclusion by taking our financial services closer to the customers. By partnering with community-based businesses such as gas stations, supermarkets, hardware stores, pharmacies and neighbourhood shops to provide agent banking services, we are reducing the amount of time and distance customers must cover to access our banking services and providing an additional source of income for our partner businesses.

Looking Forward

At the Annual General Meeting of 2018, the shareholders approved an amendment to the Company's Memorandum and Articles of Association that in part allows the Company to broaden its business activities. Besides owning 100% of the banking subsidiary, **dfcu** Bank and real estate properties in Nakasero, (**dfcu** Towers and Plot 1 Mackinnon road), Namanve, (**dfcu** Financial Centre), Bugolobi and Mukono, we shall with support from the Board;

1. Continue, if deemed appropriate, to make strategic investments in real estate;
2. Engage in non-bank financial services which due to regulatory restrictions cannot be carried out by the subsidiary;
3. Invest in other strategic high potential sectors.

The Bank has set a strong foundation from which we can meet our strategic aspirations of;

a. Becoming a market leader in Banking through building value propositions for Customers and Stakeholders for mutual benefit that position the Bank as an industry leader in each of our chosen segments.
b. Becoming a Universal Bank by Transforming from a niche player to a universal Bank that continuously embeds new ways of working and re-engineering our business processes to serve the masses in order to grow a dynamic business.
c. Becoming a Bank 4.0, the Next Generation Bank through building a digitally driven organization by redefining the operating model to deliver a seamless customer experience.
d. Delivering a Superior Financial Performance by harnessing increased value from capabilities of new and existing assets and resources to deliver outstanding results for our stakeholders.

However, the main focus for the business in the near term during and post COVID-19 lockdown is to ensure business continuity with minimal disruptions, review and evaluate business risks, cost structure, and strategy, offer support to our customers to revive their businesses and to continue delivering value to our shareholders and other stakeholders.

2020 will be another transformative year for **dfcu.** We continue to respond to the shifting market dynamics, while at the same time make progress on our core priority which is customer satisfaction.

Acknowledgment

I would like to take this opportunity to thank my fellow directors for their dedication and commitment over the past twelve months. I also express my appreciation to our shareholders for their commitment in 2019, and once again welcome IFU on board.

I value the confidence customers place in **dfcu** and commit that we will continue to put you first as we invest in our future mutual success.

Finally, none of the progress made in 2019 would have been possible without the dedicated efforts of our employees, and I want to extend my gratitude for their hard work as well.

Elly Karuhanga,
Chairman, Board of Directors

dfcu Limited Board of Directors and Management

Elly Karuhanga
Non-Executive Director/ Chairman

Appointed Chairman of **dfcu** Limited: September, 2013. Appointed to the Board: September, 2005.

Friedrich Pelser
Non-Executive Director

Appointed to the Board: October 2018.

Kironde Lule
Non-Executive Director

Appointed to the Board: September, 2012.

Barbra T. Arimi
Non-Executive Director

Appointed to the Board: June, 2019.

Michael Alan Turner
Non-Executive Director

Appointed to the Board: March, 2010.

Albert Jonkergouw
Non-Executive Director

Appointed to the Board: December, 2013.

George Ochom
General Manager

Appointed January, 2018.

dfcu Bank Board of Directors

Jimmy D. Mugerwa
Non-Executive Director/ Chairman

Appointed Chairman of **dfcu** Bank: September, 2014. Appointed to the Board: September, 2012.

Dr. Winifred T. Kiryabwire
Non-Executive Director

Appointed to the Board: April 2019.

Michael Alan Turner Non-Executive Director

Appointed to the Board: March, 2010.

Stephen Caley
Non-Executive Director

Appointed to the Board: June, 2016.

Albert Jonkergouw Non-Executive Director

Appointed to the Board: December, 2013.

Grace Makoko
Non-Executive Director

Appointed to the Board: July 2019.

Willem Cramer
Non-Executive Director

Appointed to the Board: June, 2016.

Øivind Solvang
Non-Executive Director

Appointed to the Board: September 2019.

Mathias Katamba,
Managing Director

Since December, 2018.

William Sekabembe
Executive Director

Since August, 2016.

Angelina Namakula-Ofwono
Company Secretary

Since October 2019.

dfcu Bank - Women Business Advisory Council

Dr. Gudula Naiga Basaza
Chairperson

Gudula is the Vice Chairperson of Private Sector Foundation Uganda (PSFU), a member of the Board of Trustees Kampala City Traders Association (KACITA) provident fund scheme, a delegate of the Eastern African Women Entrepreneurs Exchange Network (EAWEExN) and a member of the 4th Governing Council of the National Agricultural Research Organisation (NARO). She is a Rotarian and the Managing Director of Gudie Leisure Farm located in Najjera, Kira.

Rosemary Mutyabule
Enterprise Development Specialist

Rosemary is an Enterprise Development Specialist with over 18 years' experience in small enterprise promotion and private sector development. She has professional expertise in the delivery of business solutions to SMEs, mentoring, coaching and nurturing of businesses; training of businesses in entrepreneurship, provision of business advisory services to SMEs and policy advocacy among others.

Patricia Karugaba Kyazze
Managing Director, Nina Interiors

Patricia is the Managing Director at Nina Interiors Ltd. She has over 20 years' hands on experience in growing and managing a business as well as developing, overseeing and delivering company strategy.

Belinda Namutebi
Communications Professional

Belinda Namutebi is a communications professional with over 15 years experience. She is an innovator who is passionate about the power of brands to cause meaningful change; Belinda has a knack for understanding the needs of target audiences and developing innovative campaigns to address challenges and drive change. She is the Founder/ Director of Ondaba World Limited, which is at the forefront of promoting Uganda's local tourism through a social campaign called 'I'm So Uganda #Ondaba'.

dfcu Bank - Senior Management Team

Mathias Katamba
Chief Executive Officer

William Sekabembe
Chief Commercial Officer & Executive Director

Kate K. Kiiza
Chief Finance Officer

Agnes Mayanja
Chief Risk Officer

Angelina Namakula - Ofwono
Chief Legal Officer

Leonard Byambara
Head, Internal Audit who reports to the Board Audit Committee

Corporate Governance Statement

Introduction

The **dfcu** Board of Directors understands that sound corporate governance is critical to the sustainability of the Company. The Board ensures that the Company's operations are governed by clearly defined principles that support good corporate governance, transparency, full disclosure and accountability to all stakeholders through the existence of effective systems of self-regulation.

The Company promotes a high standard of performance from its Board and Management in their stewardship responsibility, undertaken on behalf of its shareholders and the millions of Ugandans who are directly or indirectly impacted by our actions.

This Corporate Governance statement sets out the governance framework adopted by **dfcu** and highlights the key activities during the 2019 financial year.

Codes and Regulations

dfcu has a corporate governance charter designed to foster a culture of compliance and best practice within the organization and its subsidiary. This charter is in line with international corporate governance standards (including the Commonwealth Association of Corporate Governance Principles, the OECD Principles as well as the Capital Markets (Corporate Governance) Guidelines, 2003, the Companies Act 2012, and the Financial Institutions Act, 2004, as amended among others).

dfcu is committed to complying with legislation, regulations and best practice codes with the ultimate objective of fostering transparency, disclosure, accountability and probity in its transactions. Monitoring of regulatory compliance is a routine board practice.

Shareholders' Responsibilities

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

Board of Directors

The Board is collectively responsible to the shareholders of the Company for its performance, strategic direction and provides the leadership necessary for the Company to meet its performance. The Implementation of the **dfcu** Board approved strategy is delegated to management.

The Board which is comprised of multi-skilled directors, is the ultimate decision-making body of the Company, except in those matters reserved for the shareholders under the Companies Act.

The Board is collectively responsible for the following, among others:

- protecting the interests of shareholders and other stakeholders of the Company, and to take these into account in directing the affairs of the Company;
- determining the aims of the Company by providing input into and approving business plans, strategy, structures, policies and investments;
- ensuring achievement of the Company's objectives;
- providing oversight to and supervise management of the Company, operations and ensure the establishment of effective internal control systems;
- ensuring that systems are established to ensure that the Company is managed with integrity and complies with all legal and regulatory requirements and that it conducts its business in accordance with high ethical standards;

The Board recognizes that having a diverse range of skills, backgrounds and experience among its directors is important for robust decision-making and the effective governance of dfcu Group. The skills on the Board include Financial Services; Risk Management; Investment Banking; Assets and Liabilities; Fund Management; Marketing; Business Sustainability; Legal; and Technology, to mention but a few.

Appointment of Directors

In selecting directors, the Company seeks individuals who are of high integrity and with passion for the sectors the Company is involved with. Attention is given to the need to attract suitably qualified individuals with an appropriate balance of skills and exposure (both local and international) in various areas including financial, operations, risk management, Information and Communication Technology and corporate governance, amongst others. More information about the directors' skills and experience may be accessed from the Company website: www.dfculimited.com and www.dfcugroup.com

The appointment of directors is governed by the Company's Memorandum and Articles of Association. Directors are appointed by shareholders in a General Meeting. The Board may fill vacancies on the Board pending the General Meeting. Such directors are required to retire and submit themselves for election at the next General Meeting. The General Meeting is availed with the required particulars about directors due for election to guide its decision. These particulars include the nominee director's qualifications amongst others. Nominee directors must declare any conflicts of interest for due consideration. The Board members' nominee identification and vetting process is conducted by the Board's Nominations and Governance Committee.

Nominee directors of the subsidiary, **dfcu** Bank, are appointed through a similar process as outlined above, but in addition, are required by law to be cleared by the Central Bank which conducts a rigorous vetting process including a "fit and proper test" prior to issuance of its no objection to the appointment.

As at 31st December 2019, the Board of Directors of **dfcu** Limited comprised six (6) non-executive directors including the Chairman.

On the other hand, as at 31st December 2019, **dfcu Bank** Limited, which is a fully owned subsidiary of **dfcu** Limited had ten (10) directors, eight (8) of whom are non-executive directors and two (2) are executive directors. One (1) non-executive director resigned in May 2019. Two (2) of the non-executive directors are female.

The Directors who served on the **dfcu** Limited Board during the year under review are listed on page 31 whilst those who served on the Board of **dfcu Bank** are listed on page 32.

Changes in the Board Membership:

We have welcomed new Directors and said farewell to long-serving Directors within **dfcu** over the year:

Director Resignations:

1. Dr. Winifred Tarinyeba Kiryabwire resigned from the Board of **dfcu** Limited on 27th March 2019.
   The shareholders, directors, management and staff of **dfcu** Limited thank the above director for the contribution made towards the Company.

2. Mr. Ola Mørkved Rinnan, a Non-Executive Director resigned from the Board of **dfcu** Bank Limited with effect from 31st May 2019.

The shareholders, directors, management and staff of **dfcu Bank** Limited thank the above director for the contribution made towards the Company.

Director Appointments:

1. On 13th June 2019, the Shareholders of **dfcu** Limited appointed Mr Friedrich Pelser and Ms. Barbra Teddy Arimi as Non-Executive Directors of the Company. They had been previously appointed by the Board of Directors **dfcu** Limited to fill casual vacancies.

2. The Board of Directors of **dfcu** Bank appointed Dr. Winifred Tarinyeba Kiryabwire on 12th April 2019, Ms. Grace Tibihikirra Makoko on 19th July 2019 and Mr. Øivind Solvang on 17th October 2019 to fill the vacancy following the resignation of Mr. Ola M. Rinnan.

Board Meetings

The Board has an annual programme of meetings to monitor and review the Company's strategy. The strategic priorities for 2020 are highlighted in the Chairman's Statement.

The Board meets routinely as provided for in the Company's Articles of Association. To facilitate efficient decision making, Senior Management and third-party professionals may be in attendance on a need basis. As a matter of course, all directors are required to declare any conflicts of interest prior to the commencement of each meeting for due consideration, if any.

The Board meetings are held on a quarterly basis. During the year of review, the Board of directors of **dfcu** Limited and its subsidiary **dfcu** Bank Limited held four ordinary meetings during the year. The Board meetings follow a pre-agreed calendar, but in addition ad hoc meetings may be convened as and when the need arises.

The Board comprised the following persons, whose attendance of meetings during the year 2019 was as follows:

(a) **dfcu** Limited

Name	20th March	12th June	21st September	27th November
Mr. Elly Karuhanga (Chairperson)	√	√	√	√
Mr. Friedrich Pelser	√	√	√	√
Mr. Michael Turner	√	√	√	A
Mr. Kironde Lule	√	√	√	√
Mr. Albert Jonkergouw	√	√	√	√
Dr. Winifred Tarinyeba Kiryabwire	√	N	N	N
Ms. Arimi Barbra Teddy	x	√	A	√

A - Absent with Apologies
N - Ceased to be a Board member
X - Was not yet appointed as a member of the Board of Directors

(b) **dfcu** Bank Limited

Name	21st March	12th June	11th Sept	27th Nov
Mr. Jimmy D. Mugerwa (Chairperson)	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Albert Jonkergouw	√	√	√	√
Mr. Willem Cramer	√	√	√	√
Mr. Ola Mørkved Rinnan	√	N	N	N
Mr. Stephen Caley	√	√	√	√
Mr. Øivind Solvang	X	X	X	√
Dr. Winifred Tarinyeba Kiryabwire	X	√	√	√
Ms. Grace Tibihikirra Makoko	X	X	√	√
Mr. Mathias Katamba	√	√	√	√
Mr. William Sekabembe	√	A	A	√

A - Absent with Apologies
N - Ceased to be a Board member
X - Was not yet appointed as a member of the Board of Directors

Board Committees

To give more detailed attention to key aspects of the Company business**,** the Board delegates some of its functions to Committees that subsequently avail feedback on the deliberations held. Each Board committee has terms of reference that define its roles and responsibilities. There is clear communication between the Board and the Committees.
The Directors' attendance of Board Committee Meetings for the year 2019 was as follows:

a) **dfcu** Limited

The Board of Directors of **dfcu** Limited delegated some of its roles to the Audit Committee, and all matters other than the ones attended to by the Audit Committee are discussed at the full Board.

1. The **dfcu** Limited Board Audit Committee comprised the following persons, whose attendance of meetings during the year 2019 was as follows:

Name	20th March	12th June	21st September	27th November
Mr. Kironde Lule (Chairperson)	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Friedrich Pelser	√	√	√	√

2. The **dfcu** Nominations and Governance Committee was constituted on 12th June 2019 and is comprised of the following persons, whose attendance of meetings during the year 2019 was as follows:

Name	20th March	12th June	27th September	27th November
Mr Friedrich Pelser (Chairperson)	x	x	√	√
Mr. Michael Turner	x	x	√	√
Mr. Kironde Lule	x	x	√	√
Mr. Albert Jonkergouw	x	x	√	√

A - Absent with apologies
N - Ceased to be a Board member
X -The Committee had not yet been constituted

b) **dfcu** Bank Limited

The **dfcu** Bank Limited Board has delegated its authority to six (6) Board Committees as shown below:

Nominations and Governance Committee

The Committee is, amongst other responsibilities, charged with identifying suitable candidates to fill board vacancies, review and determine board remuneration, ensure evaluation of the Board, and other Board matters. In 2019, the Committee was comprised of Mr. Michael Turner (Chairperson), Mr. Albert Jonkergouw and Mr. Jimmy Mugerwa.

The Board Nomination and Governance Committee's attendance for the year 2019 was as follows;

Name	20th March	3rd June	9th Sept	26th Nov
Mr. Michael Turner (Chairperson)	√	√	√	√
Mr. Jimmy D. Mugerwa	√	√	√	√
Mr. Albert Jonkergouw	√	√	√	√

1. Board Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibility for prudent risk management and effective corporate governance. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the effectiveness of internal audit activities, and the Bank's process for monitoring compliance with laws and regulations and its own code of business conduct.

The Committee members for the year 2019 were Mr. Stephen John Caley (Chairperson), Mr. Michael Turner, Mr. Ola Rinnan and Dr. Winifred Tarinyeba Kiryabwire.

The Board Audit Committee's attendance for the year 2019 was as follows;

Name	20th March	11th June	10th September	26th November
Mr. Stephen Caley (Chairperson)	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Ola M. Rinnan	√	N	N	N
Dr. Winifred Tarinyeba Kiryabwire	X	√	√	√

N - Ceased to be a Board member
X - Was not yet appointed as a member of the Board of Directors

2. Board Risk and Credit Committee

This Committee identifies, measures, monitors and control risks within the Bank ensuring that they support and inform the Bank's business strategy and that they are managed effectively. The Committee oversees management of all risks the Bank is exposed to.

The Committee members for the year 2019 were Mr. Willem Cramer (Chairperson), Mr. Albert Jonkergouw, Mr. Ola Rinnan, Mr. Stephen John Caley and Dr. Winifred Tarinyeba Kiryabwire.

The Board Risk and Credit Committee's attendance for the year 2019 was as follows:

Name	19th March	11th June	10th August	25th November
Mr. Willem Cramer (Chairperson)	√	√	√	√
Mr. Ola M. Rinnan	√	N	N	N
Mr. Stephen Caley	√	√	√	√
Mr. Albert Jonkergouw	√	S	S	S
Dr. Winifred Tarinyeba Kiryabwire	X	√	√	√

N - Ceased to be a Board member
S - Stepped Down from Committee
X - Was not yet appointed as a member of the Board of Directors

3. Board Remuneration Committee

This Committee's objective is to ensure that the Bank's remuneration practices attract, retain and motivate staff needed to run the business successfully, avoiding underpayment as well as overpayments, while linking reward with performance, in a manner that is transparent, avoids conflict of interest, and ensures a balance of power and authority.

The Committee's members for the year 2019 were, Mr. Michael Turner, Mr. Albert Jonkergouw and Dr. Winifred Tarinyeba Kiryabwire (Chairperson with effect from 12th June 2019).

The Board Remuneration Committee's attendance for the year 2019 was as follows;

Name	20th March	12th June	6th September	22nd November
Dr. Winifred Mary Tarinyeba Kiryabwire (Chairperson)	X	X	√	√
Mr. Albert Jonkergouw (Chairperson)	√	√	S	S
Mr. Michael Turner	√	√	√	√
Mr. Stephen Caley	X	X	√	√

S- Ceased being member of the Committee 12th June 2019
X- Was not yet appointed as a member of the Committee

4. Board Assets and Liabilities Committee

This Committee is responsible for establishing and reviewing the asset / liability management policy and for ensuring that the Bank's funds are managed in accordance with this policy.

The Committee members for the year 2019 were Ms. Grace Tibihikirra Makoko (Chairperson with effect from 26th November 2019), Mr. Willem Cramer, Mr. Albert Jonkergouw and Mr. Øivind Solvang.

The Board Assets and Liabilities Committee's attendance for the year 2019 was as follows;

Name	19th March	11th June	10th September	26th November
Ms. Grace Tibihikirra Makoko (Chairperson)	X	X	√	√
Mr. Willem Cramer (Chairperson)	√	√	√	√
Mr. Albert Jonkergouw	√	√	√	√
Mr. Øivind Solvang	x	x	x	√

X- Was not yet appointed as a member of the Board of Directors

5. Board Business Development Committee

The Committee is responsible for offering strategic oversight to the Bank's key projects and business development. The Committee had its inaugural meeting in September 2018.

The Committee members for the year 2019 were Mr. Albert Jonkergouw (Chairperson with effect from 12th June 2019), Mr. Willem Cramer, Ms. Grace Tibihikirra Makoko and Mr. Ola Rinnan.

The Board Business Development Committee's attendance for the year 2019 was as follows;

Name	19th March	12th June	10th September	26th November
Mr. Albert Jonkergouw (Chairperson)	A	√	√	√
Mr. Ola Rinnan	√	N	N	N
Mr. Willem Cramer	X	X	√	√
Ms. Grace Tibihikirra Makoko	X	X	√	√

N - Ceased to be a Board member
X - Was not yet appointed as a member of the Board of Directors or Committee
A - Absent with apology

Board Trainings:

The Boards participated in various trainings for purposes of keeping abreast with market trends. Some of the trainings undertaken by the Boards of **dfcu** Bank and **dfcu** Limited in 2019 included the Mini Leadership Accelerator program that covered the following topics: financial services, cyber security and future leadership and a workshop on "Recent Regulatory changes and Emerging Issues in the Uganda Banking Sector" as organized by the Bank of Uganda, among others.

Board Remuneration

Non-executive directors receive fixed fees for their services on the Board and its Committees. These fees comprise of an annual retainer and sitting allowance, which are approved by the shareholders at the Annual General Meeting.

For the year 2019, the directors received fees as follows:

(a) **dfcu Limited**
Annual Retainer:

Board Chairperson – USD 25,000
Board Non-Executive Directors – USD 12,500

Sitting Allowances (per meeting):

Chairperson – USD 950
Non-Executive Directors – USD 700

(b) **dfcu Bank Limited**
Annual Retainer:

Board Chairperson – USD 27,000
Board Non-Executive Directors – USD 13,500

Sitting Allowances (per meeting):

Chairperson – USD 1,050
Non-Executive Directors – USD 800

Note:
All fees are gross.
Incidental costs (transport, accommodation) are met by the Company.

The aggregate amount of emoluments received by directors is shown in the financial statements.

Company Secretary

The Company Secretary ensures that the Company complies with the statutory requirements and that the board procedures are followed and regularly reviewed.

The Company Secretary for **dfcu** Limited for the year ended 2019 was Ligomarc Advocates while the Company Secretary for the subsidiary **dfcu** Bank Limited was Mrs. Angelina Namakula-Ofwono (with effect from 1st October 2019).

Management of the Company

The Management structure of the Company and the subsidiary is clearly segregated and in each case has been structured in a manner that takes cognizance of the volume and complexity of the operations of the respective entities.

The day to day management of the operations of **dfcu** limited is conducted by a General Manager appointed by the Board.

The operations of **dfcu** Bank, the Company's subsidiary is overseen by a Managing Director/ Chief Executive Officer who is supported by an Executive Director in line with the regulatory requirements. As part of his oversight of the daily operations of the Company, the Managing Director/ Chief Executive Officer is assisted by an Executive Committee comprising of Senior Management, that are internally referred to as Chiefs, responsible for the critical functions of the Company.

Separation of the role of the Chairman and Executive Officers

dfcu Limited

There is a clear separation of the roles and responsibilities of the Chairman and the General Manager. The General Manager is responsible for effectively implementing the strategy of the Company, as approved by the Board and reports to the Board on a quarterly basis. The Chairman provides leadership to the Board in the execution of its mandate.

dfcu Bank

The Managing Director/ Chief Executive Officer is responsible for the day-to-day leadership of the Company's business affairs and ensures the execution of the long-term objectives and Board strategy. The Chairman's primary role is to guide and ensure that the Board is effective in implementing the Company's strategy.

The separation of powers is to promote accountability, facilitate division of responsibilities as well as ensure a balance of power and authority such that no one individual has unfettered powers of decision making.

Shareholder Engagements

The Company values the continuous support it receives from the shareholders and keeps shareholders abreast with Company matters through timely publication of events relating to the Company. Subsequent to publication of half and full year results, the Company circulates an investors note explaining group performance to all shareholders with known e-mail addresses. The same information together with the accounts is uploaded to the Company website: www.dfculimited.com. The Company also arranges conference calls with some major off-shore shareholders. Other investor queries are expeditiously handled through the office of the General Manager, Company Secretary and Registrar or can be sent to the e-mail address:
queries@dfcugroup.com

Brief Shareholder Analysis

Directors' interest in the shares of the Company as at 31st December 2019

Name	Number of shares held
Dr. Winifred Tarinyeba Kiryabwire	3,000

Distribution of dfcu Limited shareholders as at 31st December 2019

	Description	No. of Investors	No Of Shares Held	Percent Holding
1	Between 1 and 1,000 Shares	1,793	744,657	0.10%
2	Between 1,001 and 5,000 Shares	1,272	3,299,472	0.44%
3	Between 5,001 and 10,000 Shares	206	1,499,777	0.20%
4	Between 10,001 and 100,000 Shares	437	11,793,306	1.58%
5	Above 100,001 Shares	105	730,806,821	97.68%
		3,813	**748,144,033**	**100.00%**

List of the 20 Largest Shareholders of dfcu Limited as at 31st December 2019

During the year, CDC Group PLC, (a Development Finance Institution owned by the British Government, headquartered in London) ("CDC") sold all the 74,580,276 shares it held in dfcu to the Investment Fund for Developing Countries ("IFU"), a Development Finance Institution owned by the Danish Government. IFU is currently the second largest shareholder in the Company.

MEMBER NAME	SHARES	PERCENTAGE
ARISE B.V	439,176,097	58.70%
INVESTMENT FUND FOR DEVELOPING COUNTRIES	74,580,276	9.97%
NATIONAL SOCIAL SECURITY FUNDS	55,803,416	7.46%
KIMBERLITE FRONTIER AFRICA NASTER FUND,L.P.-RCKM	54,958,626	7.35%
SSB RUSSELL INVESTMENT COMPANY PLC FUND NAS5	14,428,700	1.93%
NATIONAL SOCIAL SECURITY FUND-PINEBRIDGE	10,440,437	1.40%
VANDERBILT UNIVERSITY VANDERBILT UNIVERSITY	7,359,482	0.98%
SSB-CONRAD N HILTON FOUNDATION -00FG	7,255,064	0.97%
JUBILEE INVESTMENT COMPANY LIMITED	5,695,259	0.76%
BANK OF UGANDA STAFF RETIREMENT BENEFIT SCHEME AIG	4,481,491	0.60%
BANK OF UGANDA STAFF RETIREMENT BENEFIT SCH-SIM	4,443,245	0.59%
THE PARLIAMENTARY PENSION SCHEME-STANLIB	2,924,455	0.39%
UGANDA REVENUE AUTHORITY STAFF RETIREMENT BENEFITS	2,850,292	0.38%
CERUDEB STAFF DEFINED CONTRIBUTORY SCHEME-AIG	2,806,087	0.38%
MR. SUDHIR RUPARELIA	2,165,575	0.29%
MR RAKESH GADANI	1,977,748	0.26%
UAP INSURANCE CO. LIMITED	1,636,146	0.22%
THE JUBILEE INSUARANCE COMPANY OF UGANDA	1,601,080	0.21%
HOUSING FINANCE BANK/ UAP INSURANCE- GEN LIFE FUND	1,557,256	0.21%
KEITH MUHAKANIZI	1,488,972	0.20%
	697,629,704	**93.25%**
Other 3,793 Shareholders	**50,514,329**	**6.75%**
3,813	**748,144,033**	**100.00%**

Reports

Risk Management

Introduction

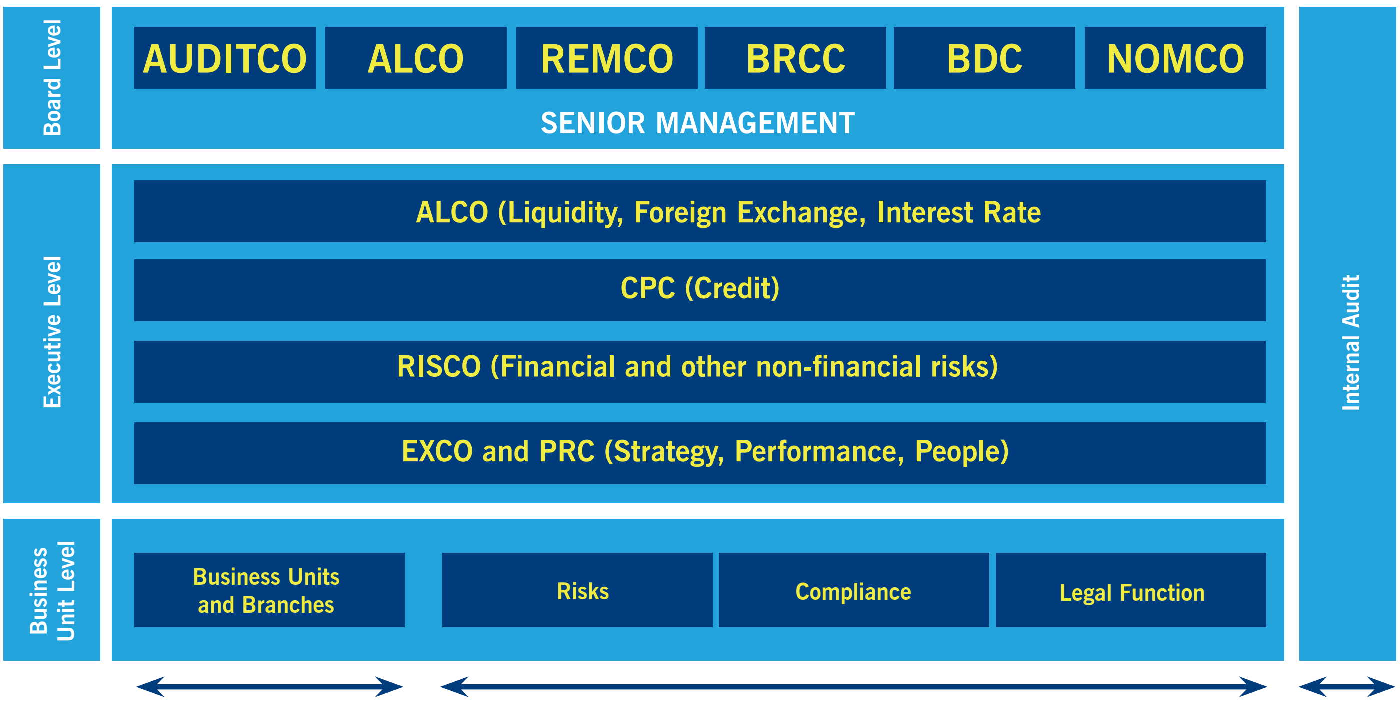
dfcu Group engages in activities which involve risk taking, every day, throughout its business. This section introduces these risks, and outlines for our stakeholders key governance arrangements for managing them. These include roles and responsibilities, frameworks, policies and standards, assurance and lessons learned processes. The Group's approach to fostering a strong risk culture is also described.

An emphasis on strong risk management plays a key role in positioning the **dfcu** Group to prepare for, and respond to, developments in the wider competitive, economic and regulatory environment. Risk appetite is set in line with overall strategy and approved by the Board. Current and emerging risks, that could materially affect the delivery of the strategy, are identified and managed through the risk management framework.

dfcu has a strong, disciplined risk culture where managing risk is a responsibility shared by all of the Bank's employees. The Group has adopted a proactive risk management culture to guide its operations. The Board and senior management lead by setting the risk management tone for the Group.

Governance Structure

The Group has a strong risk governance framework, which pursues the effective control of the risk profile within the risk appetite defined by the board.
This governance framework is underpinned by the distribution of roles among the three lines of defense, a robust structure of committees dealing with a strong relationship between the Group.
The governance structure sets out an integrated and coherent list of sound practices that establish supervisory expectations for the role and responsibilities of the board as well as the stature, resources, authority and independence of the risk management and internal audit functions, including board reporting.
Below is the illustration of the **dfcu**'s governance structure;



The Board has ultimate responsibility for the effective management of risk and approves **dfcu**'s risk appetite. Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework resides with the Chief Risk Officer.
Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making.
All employees have a role to play in risk management. These roles are defined using the three lines of defense model, which takes into account the Group's business and functional structures as described. We use a defined executive risk governance structure to help ensure appropriate oversight and accountability of risk, which facilitates reporting and escalation to the Board.

Having determined and communicated the appropriate level of risk for the business, the Board establishes and maintains a risk management system to identify, assess, manage and monitor risks which could threaten the existence of the company or have a significant impact on the achievement of its strategic objectives.

This risk management system includes an internally-published risk management policy which helps to reinforce the tone set from the top on risk. It promotes and instils an appropriate risk culture in the organization where employees are expected to be risk aware, control minded and 'do the right thing'. The policy provides a formal structure for risk management embedded in the fabric of the business.

The Board of Directors, as the top of the Bank's risk management governance structure, provides oversight, either directly or through its committees, to satisfy itself that decision making is aligned with the Bank's strategies and risk appetite. The Board receives regular updates on the key risks of the Bank – including a quarterly comprehensive summary of the Bank's risk profile and performance of the portfolio against defined limits – and approves key risk policies, product papers, frameworks, and limits.

The Board Risk and Credit Committee (BRCC) assists the Board in fulfilling its responsibilities for identifying and monitoring key financial and non-financial risks. The Committee also assists the Board by providing oversight to the risk management and anti-money laundering and sanctions functions. This includes periodical review and approval of the Bank's key risk management policies and limits and confirmation of management's adherence to the Bank's Risk Appetite Framework.

The Board Asset and Liability Committee (ALCO) is responsible for directing and are fully aware of the framework for the Bank's Balance sheet structure through setting policies and guidelines on the Bank's tolerance for risk and expectations from investment. The management of the balance sheet structure is the core of asset / liability management for the bank and is aimed at achieving satisfactory and consistent profits within acceptable levels of risk.

The Board Audit Committee (BAC) provides oversight on the effectiveness of the Bank's system of internal controls. The Committee oversees the integrity of the Bank's consolidated financial statements and related results. This includes oversight of the external auditor's qualifications, independence and performance. This Committee assists the Board in fulfilling its oversight responsibilities for setting standards of conduct and ethical behaviour, and the oversight of conduct and conduct risk management. The Committee also oversees the Bank's compliance with legal and regulatory requirements, and oversees the Finance, Compliance and Audit functions at the Bank.

The Remuneration Committee (REMCO) of the Board: in conjunction with the Risk Committee of the Board, satisfies itself that adequate procedures are in place to identify, assess and manage the risks associated with the Bank's remuneration programs and that such procedures are consistent with the Bank's risk management programs. The Committee has further responsibilities relating to leadership, succession planning and total rewards.

The Board Nomination and Governance Committee (NOMCO) assists the Board in recommending suitable and qualified candidates for new directors. It also ensures that the Board composition is right and has an appropriate mix of skills and abilities and that the Bank's governance is effective and in line with the local regulatory requirements. The committee has further responsibilities relating to the annual evaluation and performance of the Board and succession arrangements for Board of directors including both executive and non-executive directors.

The Board Business Development Committee (BDC) assists the Board in fulfilling its oversight responsibilities with respect to business development of the Group. BDC reviews proposals and oversees the development of new products and new lines of business. The Committee also supports Management by advising on projected market developments and related customer needs in relation to the Bank's products / service portfolio and channel approach.

Senior management is responsible for risk management under the oversight of the Board. This is done through policies/ procedures, together with an effective structure to support the execution and implementation of those policies.

Overall the **dfcu** Group governance structure is designed to protect against the erosion of prudent risk management culture and practices even in the face of challenging business and economic environments.

At dfcu we follow the three lines of defense control model

All colleagues are responsible for understanding and managing risks within the context of their individual roles and responsibilities, as set out in the 'Three Lines of Defense'.
The business is viewed as the first line of responsibility. The First Line comprises all employees engaged in the revenue generating and client facing areas of the Group and all associated support functions, including Finance, Treasury, Human Capital, Operations and Business Technology functions. **Employees in the First Line are responsible for:**

1. Identifying all the risks and developing appropriate policies, standards and controls to govern their activities
2. Operating within any and all limits which the Risk and Compliance functions establish in connection with the Risk Appetite of the Group
3. Escalating risk events to senior managers in Risk and Compliance.

Risk management serves as a second line and ensures control effectiveness. In this way, the business remains at all levels responsible for the risks taken. The role of the Second Line is to establish the limits, rules and constraints under which First Line activities shall be performed, consistent with the Risk appetite of the Group, and to monitor the performance of the First Line against these limits and constraints.

This ensures that the Group's culture of risk awareness is widely held and respected across the whole organization.

The third line of defense is Internal Audit, which validates the overall effectiveness of the framework. They provide independent assurance to the Board and Executive Management over the effectiveness of governance, risk management and control over current, systemic and evolving risks.

Enterprise-wide risk management tools

The Group uses a range of tools to identify, monitor and manage risk. The key enterprise-wide risk management tools are summarised below.

Risk appetite

Risk Appetite is the desired level of risk exposure which **dfcu** Group is willing to take. The Group has defined the acceptable levels and types of risk according to its risk capacity in order to achieve business objectives in the Risk Appetite Statement (RAS). It articulates Risk appetite frameworks to help management understand a company's risk profile, find an optimal balance between risk and return, and nurture a healthy risk culture in the organization. It explains the risk tolerance of the company both qualitatively and quantitatively. Qualitative measures specify major business strategies and business goals that set up the direction of the business and outline favorable risks. Quantitative measures provide concrete levels of risk tolerance and risk limits, critical in implementing effective risk management.
The Group implements risk appetite in terms of various limits, thresholds risk adjusted performance measures on a number of indicators to determine its risk profile.
The board establishes the group's parameters for risk appetite by:

- Providing strategic leadership and guidance;
- Reviewing and approving annual budgets and forecasts, under both normal and stressed conditions, for the group; and
- Regularly reviewing and monitoring the group's risk performance through quarterly board reports.

The board delegates the determination of risk appetite to the Board Risk and Credit Committee and ensures that risk appetite is in line with group strategy and the group's desired balance between risk and reward.

Risk map

The **dfcu** risk map provides a point-in-time view of the risk profiles of the Group It assesses the potential for these risks to have a material impact on the Group's financial results, reputation and the sustainability of its business. Risk staff assign 'current' and 'projected' risk ratings, supported by commentary. Risks that have an 'amber' or 'red' risk rating require monitoring and mitigating action plans to be either in place or initiated to manage the risk down to acceptable levels.

Stress testing

dfcu operates a comprehensive stress testing programme that supports our risk management framework. It includes execution of stress tests mandated by our internal policies and regulators.

The primary objective of stress testing is to assess the impact of "exceptional but plausible" bank specific or macro-economic variables on crucial elements of business sustenance such as liquidity, profitability and capital adequacy, to ensure that The Group can withstand such shocks and mitigating management action is taken, preventing business failure.
The stress testing activity goes through the following process:

- Identification of stress components involving the different types of material risks and stress factors;
- Identification of methodology for application of stress;
- Estimation of the impact of stressed conditions on the profitability, asset quality and capital adequacy;
- Identification of remedial plans/ actions; and
- Reporting of the stress test results and identified remedial plans to the Board and regulator.
- As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests.

Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the bank is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or, if they were to crystallise, should be absorbed through capital. This in turn informs decisions about preferred capital levels.

Our stress testing is supported by dedicated teams and infrastructure, and is
overseen at the most senior levels of the Group

Principal Risk management

Credit Risk

Credit risk is the risk that the value and/or the earnings of The Group decline due to uncertainty in a counterparty's ability or willingness to repay a loan or meet the terms of a contractual obligation. The primary responsibility for intake, managing and monitoring credit risk lies with the business as the first line of defense. The second line of defense has an ongoing responsibility to monitor the boundaries and determine whether the type and level of credit risk exposures are within the limits of the business lines' approved risk appetite.

Credit risk management approach

Credit risk management within the Group is governed by various credit risk policies and standards. **Dfcu** Group employs a customized lending approach to counterparties on an individual basis. The Credit risk management process has the following steps; Deal sourcing, Credit Origination, Credit Analysis, Credit Evaluation and Approval, Credit Documentation and Disbursement, Credit Support and Monitoring and Credit remediation and recoveries. The Group has an independent Credit risk management team that drives consistency in credit principles, policies, decision standards and processes. The Group's risk management approach applies to all counterparties including individual borrowers, institutional borrowers, financial counter parties and sovereigns.

Credit risk measurement

The following aspects guide the group's measurement of Credit risk;

- **Client credit due diligence**:

  The Group maintains underwriting standards aimed at mitigating credit losses at counterparty and portfolio level. All new credit requests and proposed changes to the terms for existing credit facilities must be processed through the appropriate approval authority.

- **Credit Risk grading:**

  The Group uses an internally developed credit risk grading model to measure counter party credit risk. The Group has an inventory of 32 other models used for the measurement and management of credit risk and these vary from purely statistical to expert-based, employing both quantitative and qualitative risk drivers.

- **Expected Credit losses:**

  The Group recognizes provisions for expected credit losses in accordance with IFRS9 impairment standards. The standards are applied to the following financial instruments; Loans and advances, Letters of credit, Guarantees and Government securities. The Group measures and monitors changes in credit quality of financial instruments (improvements or deteriorations) and considers these changes in determining the timeframe of consideration for expected credit losses.
  The Group uses staging through a 3-bucket approach to monitor changes in credit quality;
  Stage 1 assets are performing;
  Stage 2 assets are underperforming (there has been a significant increase in their credit risk since the time they were originally recognized) and
  Stage 3 assets are non-performing and therefore impaired.

Credit risk Management

- **Credit concentration risk:**
  Credit concentration risk is the risk of loss arising from large exposures, relative to the Group's total risk exposure, to a single counterparty or to counterparties that are positively and highly correlated. Positively correlated counterparties are counterparties whose credit quality moves in the same direction under similar circumstances. We therefore aim to keep the credit risk portfolio sufficiently diversified by setting maximum risk thresholds for Single counterparty and groups of related counterparties (counterparty concentration), Sectors, Countries (geographic concentration) and products. In line with regulatory requirements, The Group monitors and consolidates related party exposures through client groups. This allows for global oversight of exposures to a single group and contributes towards management of concentration.

- **Credit risk mitigation**

  Credit risk mitigation techniques are used to reduce the credit risk associated with The Group's credit exposures through provision of a fallback position in the event of insufficient cashflows to meet obligations. Such techniques relate mainly to collateral management and guarantees. Credit risk mitigation techniques themselves entail risks and must therefore meet certain requirements so that they can be used effectively and in line with the Group's risk appetite. The Group has underwriting criteria governing the use and management of credit risk mitigation techniques. To be effective, the techniques must give the Group the right to appropriate and liquidate collateral on time and without impediment so that losses on the exposure at default are minimized. We endeavor to secure client exposures.

- **Model Risk governance**

  The Group adopts a structured approach towards management of Model Risk as stipulated by the Model risk governance framework. The framework includes Policies, Standards, the operating structure, a model Inventory, Terms of reference and model documentation templates. The framework is designed to manage the risks that may arise from fundamental errors in the design of the model, manipulation of model inputs as well as misuse of model outcomes. The Group currently has an inventory of 44 models, including 32 credit risk models.

Market Risk

Market risk is the risk of change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as , bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in these variables.

Market risk exposures primarily come from the Group's investment and funding activities, with exposures managed through the Group's asset-liability management processes. Exposures also come from the Group's trading activities; with policies, processes and controls designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility. These activities are primarily customer focused. In its trading activities, the Group buys and sells currencies and bonds for its customers. The key exposures arising from these activities are:

Interest Rate Risk

The Group actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Exposures are managed to control the risk of changes in interest rates to income. Interest rate exposures in individual currencies are also controlled by gap limits. Interest rate risk exposure is generally based on the earlier of contractual re-pricing or maturity of the Group's assets and liabilities.

Foreign Currency Risk

This arises from foreign currency operations and is typically mitigated by financing foreign currency assets with borrowings in the same currencies.

Credit Spread Risk This arises from investment portfolios that the Group holds to meet liquidity and statutory reserve requirements and for investment purposes. Debt investments primarily consist of government bonds. The majority of these securities are fair valued using prices obtained from external sources.

In 2019, the Group maintained its trading book market risk and banking book interest rate risk within the approved risk appetite and tolerance levels in the context of market volatility and rate changes.

Liquidity Risk

The risk that the Group is unable to meet its unable to meet its financial obligations in a timely manner at reasonable prices

Financial obligations include liabilities to depositors, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable the core businesses to continue to generate revenue, even under adverse circumstances.

The key elements of the liquidity risk framework are:

- Measurement and modelling – the Group measures and forecasts cash inflows and outflows, including off-balance sheet cash flows by currency on a daily basis; and runs regular stress tests to assess the sufficiency of their stock of liquid asset resources under stressed conditions.
- Contingency planning – the Group maintains a liquidity contingency plan that specifies an approach for analysing and responding to actual and potential liquidity events. The plan outlines the governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event.
- Funding diversification – the Group actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, and term. Funding source concentrations are regularly monitored and analysed against established limits. The principal sources of funding are capital, core deposits from retail and commercial clients through the branch network, and wholesale funding.
- Core liquidity – the Group maintains a pool of highly liquid, unencumbered assets that can be readily sold, or pledged to secure borrowings, under stressed market conditions or due to company specific events.

Management of Liquidity risk

The Group manages liquidity in accordance with applicable local regulations as well as following international best practices. As part of a consistent liquidity management process, the Group challenges itself to maintain a sufficient large liquidity buffer, regularly monitors and manages it's short- and long-term cash flows, preserves to maintain a diversified funding base, undertakes monthly liquidity stress testing and scenario analysis, and maintains a robust contingency funding plan. Independent oversight for liquidity risk is the responsibility of the Risk function which is charged with the formal review of all liquidity risk parameters, procedures, reporting sources and compliance to limits and guidelines.

Operational Risk

The Group's operational risk management mandate is obtained from the Risk Management Framework and the detail from the Operational Risk Policy. Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Management of Operational risk

In measuring and managing operational risk, **dfcu** Group operates within the parameters of the Operational Risk Policy and follows the 'three lines of defence model'.

The bank's operational risk policy is based on the principle that the primary responsibility for managing operational risk lies with the first line and that this must be integrated into the strategic and day-to-day decision-making processes.

We manage operational risk with a purpose of identifying, assessing, measuring, mitigating and monitoring the various types of operational risk. The operational risk measurement supports those responsible for operational risk prioritisation and deployment of people and resources.

In **dfcu** the departments involved in the primary processes of the Group form the 'first line of defence'. They are fully responsible for day-to-day risk taking and acceptance and for integrated risk management and mitigation within the approved risk appetite. The Risk Management, Legal and Compliance Departments together constitute the 'second line of defence' and do monitor all the types of operational risk and the way in which 'the first line of defence' manages these risks. In addition, and independently from the first line, they report on the risk profile and appetite breaches to senior management and the Executive Board.

Internal Audit forms the 'third line of defence'

Compliance, Legal and Risk report quarterly to the Management Risk and Compliance Committee on changes in operational risks. Risk Forums have been established within the group's entities. Their responsibilities include monitoring all operational risks at entity level including but not limited to; fraud risk, business continuity, cyber risk, information risk alongside the legal and reputational impact.

An operational risk profile is monitored periodically in relation to the operational risk appetite established in the policy, using various parameters, at the level of the Group as a whole and at the level of specific units and processes. Reports on compliance with risk-appetite limits form part of the day-to-day responsibilities of management at all levels.

Qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures. These tools include:

- a loss database of operational risk events categorized according to the Basel II business lines and operational risk event types;
- a risk and control self-assessment process to analyze business activities and identify operational risks that could affect the achievement of business objectives. An effective risk and control self-assessment process is a key component of developing a risk profile and understanding the residual risk; and
- key risk indicators which are used to manage operational risk on an ongoing basis. Key risk indicators contribute to an assessment of the operational risk profile. The main purpose is to assist management by providing an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.

In the reporting year, operational risk governance continued to mature through improvements in implementing the group's operational risk management framework.

Business Continuity Management

Business continuity management is an integral component of the Group's risk management framework. The various business units are continually exposed to deployment of updated methodologies as well as testing and training to ensure increased capability to deal with interruptions to business. This is achieved through active assessment of the changing business environment, reference to and incorporation of updated and emerging best practice standards worldwide, pre-planned simulation and desktop assessments and interrogation of identified risks and threats to the operational continuity of the Group.

Contingency and recovery plans for core services, key systems and priority business processes have been developed and are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant. The Group's business continuity strategy is structured to ensure strong central monitoring and reporting and decentralized execution, and is supported by a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

In executing the above, the group also maintains a Business Continuity Policy. This policy incorporates:

- Business impact analyses
- Recovery strategies
- Periodic testing
- Communication, training and awareness programs
- Crisis management programs, etc.

Cyber Risk

Cyber risk is the risk of damage, including disruption, disturbance, shutdown of operations, theft of property, collection of intelligence, or damage to reputation or the confidence of the public as a result of a cyber event. The sophistication and severity of cyber-attacks on the global financial sector have grown in recent years. The technological developments and the expansion of digital services, on one hand, and the advanced tools available to attackers, on the other hand, have led to higher exposure to cyber risks.
Increased automation of services and products under an environment where cyber threats are on the rise will continue to define the Group's priority in risk management. The Group constantly tests and will continue to test its IT operational resilience against the best practices in data security, cyber risks and effective third-party risk management.

dfcu has s a multi-layered defense approach and continues to invest in systems and make enhancements that proactively detect and prevent system breaches amidst increasing innovations to avail more digital channels to our customers.
As part of this ongoing focus, several enhancements were made during the year ranging from improved protection of IT systems to mandatory awareness training for all employees. **dfcu** participates in industrywide initiatives to monitor and anticipate developments, identify vulnerabilities and share best practice. However, ongoing vigilance will be essential as the threat continues to evolve.

Cyber risk is a priority area for the Board and is regularly reported at Board level to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity programme.

Compliance risk

Compliance is an independent key risk management function that the Board and Management has prioritized in lieu of the group being subject to extensive dynamic supervisory and regulatory regimes. Strategically, the compliance framework is directly supervised at the Executive Level by the Chief Executive Officer and the function for its independence has a reporting requirement to the Board. The Bank's compliance risk framework is implemented through a centralised compliance risk management structure. This is a specialised unit that grants oversight on all compliance related matters providing leadership and guidance on compliance with all relevant laws, coordinating the combating of money laundering, sanctions and terrorist financing activities, coordinating internal policy compliance and any other emerging legislative developments. Core to the compliance functions is also the provision of requisite training and awareness on regulatory developments.

Money laundering control and Anti - Terrorism Financing

Legislation on money laundering and terrorism financing is becoming more stringent with regulators focusing on how supervised entities are managing the associated risks.
The group is committed to building and maintaining robust defences to combat money laundering, terrorist financing, sanctions compliance breaches, bribery, and other forms of corruption. Over time, we have implemented compliance risk management activities, which include adherence to anti-money laundering and sanctions policies and the application of core controls such as client due-diligence screening and monitoring, led by a dedicated Anti-Money Laundering & Due Diligence team.
We continue to play an active role in shaping the legislative environment around money laundering, sanctions and terrorism financing in close collaboration with Bank of Uganda through the Uganda Bankers Association and the Financial Intelligence Authority.

Reputational Risk

Reputational risk issues can develop from either strategic choices or conduct issues and may even arise from customer activity.

dfcu Group continues to remain alert to the reputational risk it is exposed to – both in its day-today business and as a result of legacy issues. The Group is committed to operating at the highest standards possible that we set for ourselves. Any lapse in standards of integrity, compliance customer service or operating efficiency represents a potential reputational risk.

Reputational risk is measured by reference to our reputation as indicated by our dealings with all relevant stakeholders including media, regulators, customers and employees; and by reference to identified metrics, incident assessments, regulatory feedback and judgement and assessment by the risk management team.

Reputational risk is monitored through our reputational risk assessments and metrics, the results of the second line of defense that is integrated into the Group's broader risk management framework.

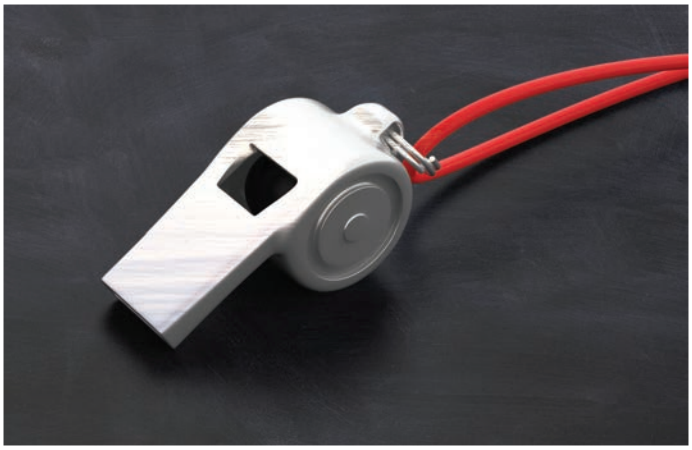
Safeguarding the Group's reputation is of paramount importance to its continued success and is the responsibility of every member of staff. The Group always strives to minimize reputational damage. The shared values provide guidance on acceptable behaviour for all staff members and provides structure and guidance for non-quantifiable decision making, thereby assisting in the management of the Group's reputation.

Anti-Bribery & Corruption (ABC)

dfcu Group is committed to ensuring it acts responsibly and ethically, both when
pursuing its own business opportunities and when awarding business. Consequently, it has embedded appropriate policies, mandatory procedures and controls to ensure its employees, and any other party it does business with, understand these obligations and abide by them, whenever they act for, or on behalf of, The Group

The requirements of **dfcu**'s ABC Policy apply to all **dfcu** employees and non-employees, in every part of the business. All employees are required to complete ABC training on an annual basis, with targeted training appropriate for certain roles. **Dfcu** considers ABC risk in its business processes where there could be a risk of offering an improper advantage or being perceived to do so. This includes, but is not limited to, corporate donations, charitable donations, political activities and commercial sponsorships. To mitigate against bribery and corruption risks, **dfcu**'s ABC policy and supporting mandatory procedures require employees to assess bribery and corruption risk and conduct the appropriate level of ABC due diligence and escalations on business activities. Where appropriate, there is a requirement for ABC contract clauses in written agreements. In adopting this approach, **dfcu** aims to protect the interests of its customers, shareholders and employees.

Whistleblowing



When things go wrong, we want a culture where our people feel able to speak up. Individuals are encouraged to raise concerns about wrongdoing or unethical conduct through the given escalation channels. However, we understand that there are circumstances where people need to raise concerns more discreetly.

The Whistleblowing channel is a platform that enables our employees to raise concerns in confidence. **dfcu** Group does not condone or tolerate any acts of retaliation against those who raise concerns. Within the framework, we have multiple channels to raise issues, including toll-free telephone hotlines, online portals and email. We also monitor an external email address for any concerns (**dfcu@tip-offs.com).** We use independent third-party suppliers to manage our 24/7 reporting hotlines and will continue to. extend this coverage during 2020.

Whistleblowing concerns are investigated thoroughly and independently. Remedial action, taken where appropriate, includes disciplinary action, dismissal, and adjustments to performance ratings. The Board Audit Committee has overall responsibility for the oversight of the Group's whistleblowing arrangements and receives regular updates.

Strategic Risk

Strategic risk is the risk that failed business decisions, or lack thereof, may pose to a company.
It is the current and prospective impact on the Group's earnings and capital arising from poor business decisions, improper implementation of goals or lack of response to industry economic or technological changes.
The ultimate responsibility for the oversight of strategic risks lies with the Board of Directors. On an annual basis, the Group uses a robust strategic planning and approval process to formulate its strategic plans.

On an ongoing basis, Heads of Business Lines and Supporting, Control and Risk Management Functions identify, manage, and assess the internal and external risks which could impede the achievement, or progress of strategic plans. The executive management team meets regularly to evaluate the effectiveness of the Group's strategic plan, and where necessary make amendments.

Sustainability Report

Report Scope

This report covers the economic, social and environmental performance of **dfcu** Group for the year ended 31 December 2019. In reporting both financial and non-financial matters, we have acted in compliance with the provisions stipulated by the Central Bank of Uganda, International Financial Reporting Standards, the Companies Act Cap 110 and the Listing Rules of Uganda Securities Exchange (USE). The report also adopts the Global Reporting Initiative (GRI) Guidelines, version G4 and the GRI's G4 Financial Services Sector Supplement for sustainability reporting.

Inclusivity

In preparing this report, we took into account key aspirations and concerns discovered through our structured stakeholder engagements, in our day-to-day interactions and from the community at large. It reviews **dfcu** Group's direct impact on sustainability, as well as Corporate Social Responsibility (CSR) initiatives undertaken, which are designed to foster greater prosperity in the communities where we operate and to promote a healthier natural environment.

Report content and Materiality

In drawing up content for this report, we have taken into account the topics that can have a material impact on our business, including risks, opportunities, regulations and sector trends. As a Group involved in the banking business, we recognise that we have a direct economic, social and environmental impact, but also a significant indirect impact through our lending and investment activities. **dfcu** Groups non-financial data reporting protocol describes key performance indicators related to our material topics.

We report data on these and other relevant key performance indicators in the value creation model section below. We continuously listen to our stakeholders and adapt our strategy and reporting to meet their evolving expectations. As part of our materiality analysis in 2019, we consulted key stakeholder groups - retail customers, business clients, investors, financial regulators, employees and senior management – in a qualitative and quantitative engagement process. The results of our materiality analysis were used to define the content of this report.

Reporting Cycle

dfcu Group's sustainability impacts have been published in our Annual Report since 2014. The Annual Report is published within the time frames stipulated by the Group's Articles of Association, the Companies Act Cap 110, and the Listing Rules of Uganda Securities Exchange.

Report Quality

We take every effort to ensure that our corporate reporting meets widely accepted quality criteria, including:

- **Completeness:** We include key material sustainability impacts within and under the direct control of Statutory regulations, impacts outside the organization that are indirectly influenced through our engagement with stakeholders; and broader sustainability initiatives undertaken through the CSR programs and other groups.
- **Comparability:** We provide results from both current and previous reporting periods.

- **Accuracy and consistency:** Our information-gathering process includes verification by internal authorities and external assurance providers.
- **Clarity:** We provide both quantitative and qualitative information accompanied by tables and graphs where appropriate.
- **Balance:** We report all relevant information; nothing is withheld.
- **Credibility and Reliability:** We seek external confirmation from reputed assurance providers.

Precautionary Approach

dfcu Group manages the social and environmental impacts in its products and services through the Credit Bureau department and also channelling new product developments through the Products and Pricing Committee. The Group also manages the social and environmental impacts in the supply chain through the supplier selection and evaluation process. The process includes a technical review which encompasses social and environmental aspects.

Assurance

We value the accuracy and reliability of all information and data in this report, both financial and non-financial. Therefore assurance for the non-financial information in this report is drawn from published material from our regulators. KPMG audited the financial statements of **dfcu** Group for the year 2019.

Environmental, Social and Governance (ESG) Sustainability

i. Policies, Codes and laws

dfcu Group strives to conduct its business in a responsible and sustainable manner both directly in its own business activities and indirectly through the financing it provides. The Group has developed an Environmental, Social and Governance Framework that forms part of its guiding principles. The dfcu ESG Framework provides an ESG Strategy articulating the Group's position on Environmental, Social and Governance issues, policies and Procedures. It guides the identification, assessment, management and monitoring of ESG risks within all relevant activities of **dfcu.**

The Group adheres to applicable laws and regulations in Uganda and is further committed to adopting the United Nations Environment Programme (UNEP-FI) Finance Initiative codes, standards and guidelines and industrial best practice. dfcu Group recognizes that the significant milestones of the Paris Agreement on Climate Change and the ratification of the Sustainable Development Goals (SDGs) mean that every country and business sector have a role to play in the transition to a low-carbon economy. Therefore, dfcu Group is committed to working towards contributing to these goals through its core business activities (indirect footprint) and operations (direct footprint).

ii. Objectives of the ESG Framework

The specific objectives of the ESG Framework are to:

- Establish the relevant business areas to which the ESG policy is applicable
- Establish clear policies and procedures for identification, assessment, approval, monitoring and reporting of ESG risks within all such relevant business areas
- Specify appropriate roles and responsibilities for managing and monitoring ESG risks
- Ensure that ESG issues in relevant business areas are promptly identified and a management system is in place to assess and review such risks as well as advise client facing business units on how to work with clients to potentially mitigate the risks and identify opportunities
- Determine the training and capacity building requirements to successfully implement the provisions of the ESG Framework
- Provide practical resource materials for implementing the ESG Framework

iii. dfcu ESG Strategy

At **dfcu** Group, we believe that finance should not only deliver a return to our shareholders but should also be socially relevant and environmentally responsible. This means that we take a "do no harm" approach in our financing decisions, but beyond that, where possible, we will also prioritize opportunities to create local benefits and stimulate communities. Consequently, we will take steps to ensure that our financing decisions take relevant ESG considerations into account.

Further, we understand that navigating ESG issues is a complex and evolving agenda and that clients will have different levels of experience and capacity needs. We are strongly supportive of building capacity in clients who demonstrate a strong commitment to managing ESG issues from the outset. In doing so, dfcu Group is better positioned to partner with clients and create a more resilient credit portfolio and value for all stakeholders.

The Group is committed to supporting specific and dedicated environmentally-friendly financial investments and strategies including;

- Green investments relating to environmental goods and services that prevent or reduce any form of environmental degradation and conserve and maintain natural resources.

- Investments relating to social good such as education, health care, infrastructure, waste management, housing, gender equality and financial inclusion and employment creation. The bank further supports strategies to reduce poverty, women and youth empowerment, development of rural areas, and small to medium enterprises.

- Public policies that support the green transformation of the economy (such as feed-in-tariffs for renewable energies) and clean water.

- Financial system components that protect the environment by utilising financial instruments such as green credit, green bonds, green stock indices, carbon finance, energy efficiency and related products.

The Health and Safety Policy

dfcu Group is committed to preventing the safety risk of its operations to both workers and its customers. During the year, there were NIL fatal accidents (2018: NIL) to both **dfcu** workers and customers visiting **dfcu** premises. dfcu ensures that customers engage in activities that do not jeopardize the Health and Safety of their employees, taking into account the industrial sectors concerned. Businesses are encouraged to adopt appropriate Health & Safety measures and to comply with the national Employment laws.

Engaging with Our Stakeholders

We consider a ‘stakeholder’ to be any person, group or entity that is affected by, or that we expect to be affect by **dfcu** Group’s activities or their engagement with our organization. We build and maintain strategic relationships with a broad range of stakeholders, to enable proactive engagement, manage social expectations, minimise reputational risk and influence the business environment. We employ a range of channels and mechanisms to gather stakeholder feedback. The frequency of engagement varies according to the stakeholder group and the particular issue.

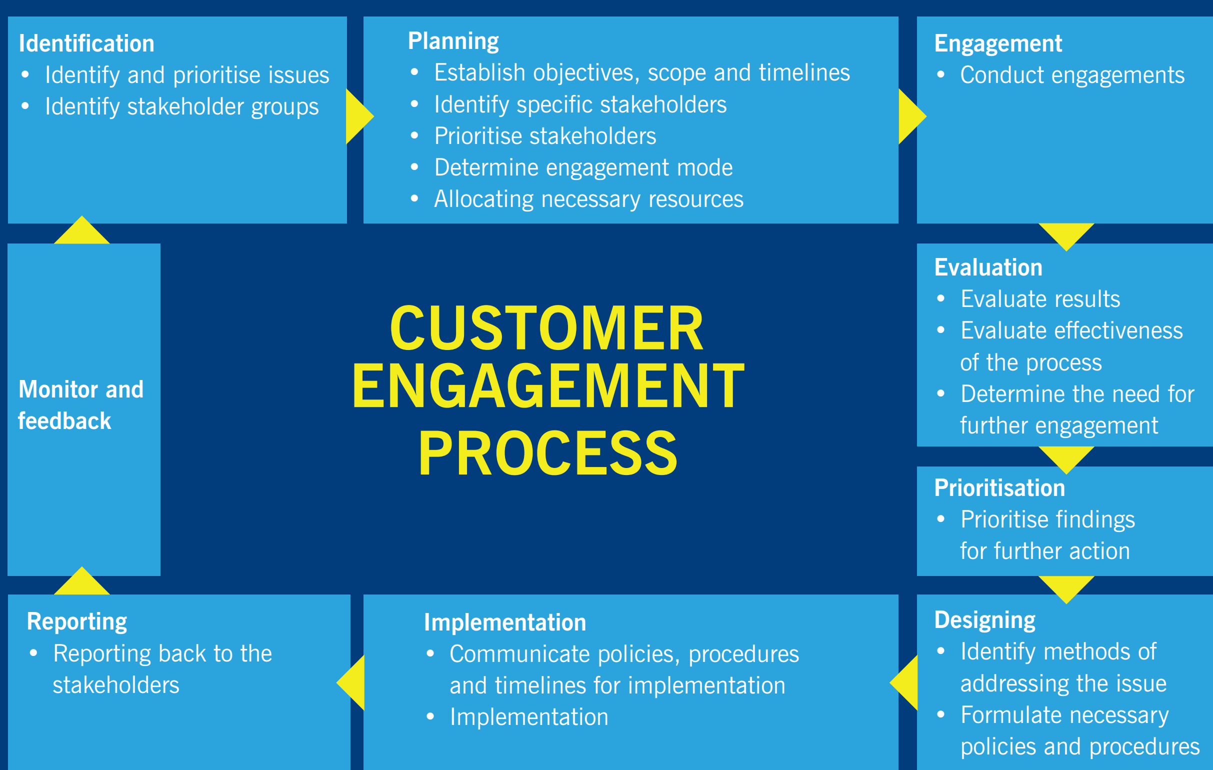
The governance structure of **dfcu** Group demands active engagement with stakeholders to achieve our strategy. A constructive dialogue with stakeholders helps us understand their expectations so we can better manage risk, innovation and process improvements. Maintaining an on-going conversation also helps us to identify current and emerging issues, recognize opportunities to develop new products and services and improve performance while ensuring that our responses are in the best interest of our stakeholders.

Most of **dfcu** Group’s engagement efforts are conducted in the normal course of business, in day to day interactions with customers, suppliers and other stakeholders. We also carry out more structured engagements as discussed below.

The Stakeholder Engagement Process

This process is designed to promote inclusiveness and ensure that any critical concerns are brought swiftly to the attention of the Board of Directors and senior management, prompting effective action. **dfcu** Group did not encounter any critical stakeholder concerns during 2019 and 2018.

dfcu Group’s stakeholder engagement process is explained in the following diagram:



How We Connect with Stakeholder Groups

Dialogue with **dfcu** Group's stakeholders is our primary method of understanding important current and emerging issues. For each of our stakeholder groups, we ensure appropriate engagement mechanisms are in place (as demonstrated above), so we can better understand their key issues. We identify the groups listed below as our key stakeholders, all of whom have an expressed interest in our economic, social and environmental performance;

1. Investors, including shareholders, funders and analysts

Mode of engagement	Frequency of engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Annual reports	Annually	**Key topics discussed:** • Interim and annual results • Plans to improve key performance indicators • Business expansion plans • Liquidity management • Proposals for further enhance services offered by the Group • Sustainable growth. **Concerns raised:** • Quality of assets • Sensitivity analysis	Concerns of existing and prospective shareholders are addressed (provided they are not related to commercial secrets) during the engagement process. Transparency, accountability and regular communications are among our top priorities.
Annual General Meeting	Annually		
Interim financial statements	Semi-annually		
Press conferences and media releases	As required		
Investor presentations	Annually		
Announcements made on the Uganda Securities Exchange	As required		
One-on-one discussions	As required		
Company website: www.dfculimited.com	Continuous		

2. Customers

Mode of engagement	Frequency of engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Customer satisfaction survey	Annually	**Key topics discussed:** • Innovation in products and services • Interest rate trends, securities, terms and conditions • Fees and charges • Branch openings/relocations • Services available through mobile platforms and online banking **Concerns raised:** • Customer service lapses • Amicable resolution of disputes.	• Opinions and multiple expectations of customers gathered through various forms of engagement are considered in developing new products and services. • There is a fully fledged customer service department dedicated to handling all customer issues. • dfcu Group conducts customer surveys to obtain feedback on satisfaction levels and areas of potential improvement in existing services. • Other measures to enhance customer satisfaction include improved information security, responsible marketing communications, innovative and environmentally friendly products and assisting in customers' business development processes.
Relationship managers' engagements with corporate customers	As required		
Customer service department	Continuous		
Customer workshops	As required		
Media advertisements	As required		
One-on-one discussions	As required		
Company website: www.dfculimited.com	Continuous		

3. Employees

Mode of engagement	Frequency of engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Special events such as staff parties, sports events etc	Annually	**Key topics discussed:** • Aligning values with corporate structure • Compliance with Ugandan regulations • Future plans • Whistle-blowing mechanism **Concerns raised:** • Remuneration, including compensation based on performance • Staff welfare measures	• **dfcu** Group conducts training and awareness sessions and sends instructions via circulars to increase employee awareness of the latest developments in the industry. • The performance driven culture of **dfcu** Group employees based on their achievement of defined targets.
Regional review meetings	Monthly		
Internal newsletter	Monthly		
Operation updates to staff via email	As required		
Negotiations with employees and their associations	As required		
Intranet site (fortress)	Continuous		

4. Government Institutions, including Legislators and Regulators

Mode of engagement	Frequency of engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Directives and circulars	As required	**Key topics discussed:** • Central Bank of Uganda regulations pertaining to licensed commercial banks • Compliance with codes of best practices of corporate governance • Compliance with anti-money laundering (AML) and Know your customer (KYC) requirements • Other government regulations, including tax rules	**dfcu** Group has an on-going dialogue with regulators. We have put in place systems and procedures to assure regulatory compliance, strengthening our relationship with other public and professional institutions.
Filing of returns	Within statutory deadlines		
Consultations	As required		
Press releases	As required		
Meetings	As required		
On-site reviews	As required		

5. Suppliers and Other Business Partners

Mode of engagement	Frequency of engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Supplier relationship management	As required	**Key topics discussed:** • Responsible procurement opportunities offered by **dfcu** Group **Concerns raised:** • Contractual performance	**dfcu** Group maintains a list of pre-qualified suppliers. We encourage an ongoing dialogue to ensure that value is created for both our suppliers and our own business. Reliability and mutual trust are key to building strong relationships.
Onsite visits and meetings	As required		

6. Society and Environment

Mode of engagement	Frequency of engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Widespread network of delivery channels	Continuous	**Key topics discussed:** • Corporate responsibility initiatives • Providing access to fair and affordable banking • Community investment • Recognition of excellence by various external parties **Concerns raised:** • Staff recruitment • Financial inclusion	We contribute to local economic development through the full range of banking activities, from deposit taking and investments to personal lending and commercial finance, delivered via the **dfcu** Bank's nationwide branches, Agencies, Mobile App, Click Banking and ATM network. Committed to being transparent in our activities, we keep the public informed of our sustainable performance and other relevant developments. We also support local communities and some of the neediest members of society through sponsorships and CSR initiatives.
Public events	As required		
Call center	Continuous		
Press conferences and media releases	As required		
Corporate Social Responsibility activities	As required		
Company website: *www.dfculimited.com*	Continuous		

Economic Sustainability

At **dfcu** Group, we always strive to repay the trust shareholders have placed in us by returning maximum value. At the same time, in our quest for sustainable growth, we work with a variety of stakeholders - including customers, employees and suppliers – to help them achieve their aspirations. We conduct the Group's business in a transparent and in an ethical manner, managing risks and pursuing opportunities while adhering to the principles of good governance.

The Board of Directors guides **dfcu** Group's approach to economic sustainability with a comprehensive corporate plan. This plan reflects the inputs of all key strategic business units – Personal and Business Banking (PBB), Development and Institutional Banking (DIB) and Treasury – as well as other support service units. The needs of each business unit are addressed in the annual budget, which is prepared according to a rolling five year plan. Our detailed budgeting includes specific goals for each unit with resources allocated according to the Group's overall strategic objectives.

The sections of this Annual Report devoted to 'Corporate Governance' and 'Risk Management' discuss in detail how we govern our business and manage risk, respectively.

dfcu Group put in place various mechanisms to monitor progress towards goals set out in the Strategic Plan and Budget;

- Detailed management accounts, including key performance data, are submitted to the Board of Directors on a monthly basis with explanations of material variances. **dfcu** Group prepares interim and annual financial statements according to the requirements of the International Financial Reporting Standards (IFRS).
- There are quarterly board meetings at which the heads of the Group's main strategic business units discuss recommended action plans to improve performance.
- The Board has established sub-committees which support them in their efforts and to ensure good governance. These committees are in turn backed by several other management committees headed by the Managing Director. The proceedings of these Board Committees are duly communicated to the Board. The composition of all Board Committees, their mandates and how each committee functions are disclosed in the section of Corporate Governance.
- An effective internal audit function covers entire scope of operations.
- Annual external audits of financial statements are conducted by reputable firms of chartered accountants. Other statutory audits are undertaken by Bank of Uganda.

Our Economic Impact:

dfcu Group recognises the role played by the private sector in the development of Uganda. As a business, we were able to contribute to the investments required to stimulate economic development and mitigate risks posed by global challenges. The value added statement below shows the economic foot print of our operations in Uganda in 2019. It shows our impact on the economic conditions of our stakeholders and throughout the society.

The most fundamental contribution of **dfcu** Group to the society in which we operate is by maintaining a robust business. This allows us to pay dividends to our shareholders, salaries to our employees and tax to the Government of Uganda. As a buyer of goods and services, we play a role in supporting local businesses which provide employment and drives socioeconomic development in local communities. In addition, our corporate social responsibility activities make a measurable difference to recipients and communities that **dfcu** Group depends on to remain sustainable.

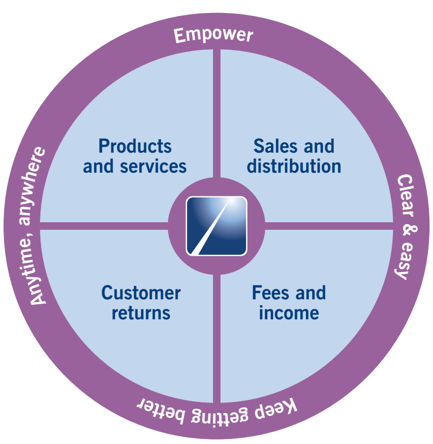
Value Creation Model:

Value added is calculated on the Group's revenue performance minus payments such as cost of materials, depreciation and amortization. The resulting amount is distributed to the stakeholders who include employees, shareholders, community investments and government. Below is dfcu Group's value creation model;

Inputs

Financial Resources	People	Knowledge & Expertise	Network & Connections
• **Shs 569 bn** in shareholders' equity • **Shs 2,039 bn** in customer deposits • **Shs 284** bn in borrowed funds	• **1,072** employees • **Shs 1,045 mn** spent on staff training and development	**Shs 14.2 bn** invested in new technologies.	• **63 branches** across the country • **Over 100 ATMs** • **Mobile Banking** with an App and USSD code • **Over 2500 Agent**s country wide • **Internet banking** for corporates and retail • **24/7** call centre

Business Model



Outputs

Financial Resources	People	Knowledge & Expertise	Network & Connections	Cleaner, Greener Environment
• **Shs 24 bn** paid to shareholders in dividends • **10%** increase in advances to customers	• **Shs 58.7 bn** paid in employee benefits expenses	• Investment clubs initiatives (battle for cash challenge) • Best farmer program in partnership with New Vision, Dutch Embassy, KLM and Koudijs • Sponsorship of Top 100 medium sized company survey • 2,000 women received business training through WIB initiatives	• **Over Shs 150 bn** paid to suppliers • **Shs 25.2bn** paid to government in taxes.	Environmental and social governance assessments embedded in the credit appraisal process

Outcome

Return on Equity	Employee turnover rate	Number of customers reached	Economic value shared between suppliers, employees, shareholders
14%	6%	1,000,000	Shs 125,845 m

The total wealth created by the Group in 2019 was Shs 125,845 million (2017: 165,157 million) as shown in the statement below.

Value added statement:	2019	% of wealth created	2018	% of wealth created
	Shs. M		Shs. M	
Interest income	325,309		325,923	
Fees and commission income	65,449		51,285	
Net trading and other income	16,408		19,219	
Net income from other financial instruments at FVTPL	9,644		13,842	
Interest expense	(97,811)		(104,751)	
Operating expenses	(193,154)		(140,361)	
Wealth created	**125,845**		**165,157**	
Distribution of wealth				
Employees	59,422	47%	61,852	37%
Government	25,242	20%	16,488	10%
Dividends to shareholders	24,694	20%	51,054	31%
Corporate social responsibility	356	1%	480	1%
Retentions to support future business growth	16,131		35,283	
Wealth distributed	**125,845**		**165,157**	

The value added statement above shows that **dfcu** Group is a positive contributor to the society of Uganda. Of the total wealth created in 2019, the following is the total flow of capital among some key stakeholders;

- Shs 59,422 million was distributed to the employees as remuneration benefits (2018: Shs 61,852 million)
- Shs 25,242 million was distributed to the Government of Uganda in form of taxes (2018: 16,488 million)
- Shs 24,694 million was paid to the shareholders as dividends (2018: 51,054 million).

Business Continuity Management

Continuity of critical business operations is vital to **dfcu** Group's success and continued growth. Our Business Continuity Management Steering Committee, which includes several representatives of corporate and senior management, provides overall guidance to the Business Continuity Planning (BCP) Committee, which is comprised of senior officers representing key business and service units of the Group.

The BCP Committee developed a formal Business Continuity Plan in line with the requirements and guidelines of Bank of Uganda (BOU), which has been formally approved by the Board. The Business Continuity Plan addresses operational risks and strives to minimize any threats posed by shortcomings or failures of internal processes and systems, as well as external events, including natural disasters.

As **dfcu** Group relies heavily on information technology, we have put in place disaster recovery sites at remote locations and periodic role swap exercises are carried out to test the Group's ability to withstand any disaster situation. These exercises are aimed at identifying issues in switching machines and minimizing the down time and loss of data.

Procurement

dfcu Group subscribes to principles of openness, integrity and fairness in its drive to implement international procurement best practices. We endeavour to give as many suppliers as possible an opportunity to tender. The Group is committed to excellent corporate governance and to a very high standard of ethics. In general, **dfcu** Group supports the purchase of goods and services on the local market. Whereas the Group applies standard procurement terms and conditions to all procurements, the Group strongly encourages protection of the environment and considers suppliers' commitment to environmental issues. Our influence on the local economy goes beyond direct jobs and payment of wages and taxes. **dfcu** Group also proactively supports local suppliers in the economy. By supporting local business in the supply chain, we play a role in attracting additional investment to the local economy. The proportion of local spending is also an important factor in contributing to the local economy and maintaining community relations. Our procurement policy gives priority to local suppliers, while at the same time ensuring alignment to the Group's standards for solution quality, sustainability and commercial viability.

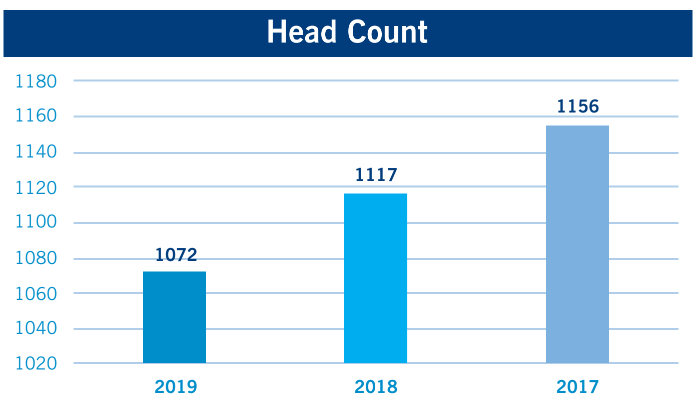
Summary of procurement spend:

		2019	2018
Total procurement spend	Shs M	**149,111**	153,326
Amount spent on local suppliers	Shs M	**128,105**	133,619
Amount spent on foreign suppliers	Shs M	**21,006**	19,709
Percentage spent on local suppliers		**86%**	87%

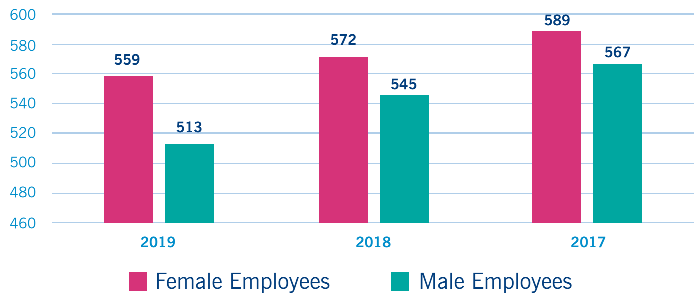
Our People

To deliver our strategy we must have an energised and accountable team that cares deeply about our customers and is committed to our purpose and values.

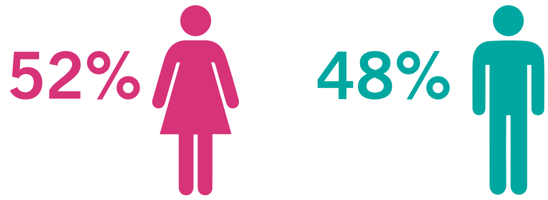
	2019	2018	2017
Staff Head count	**1072**	1117	1156
Female Employee	**556**	572	589
Male Employees	**513**	545	567
Employee Turn over	**4.1%**	4.0%	5.2%



Gender Composition



Consistently Maintained Gender Diversity



Employee Engagement

In 2019, we carried out an Employee Engagement Survey to gauge the staff satisfaction levels within the Bank. With a response rate of 86%. the results highlighted an overall engagement score of 85%
The survey also showed an overall Employee Net Promoter Score of +14. This implied that the Bank had more promoters than detractors who would recommend dfcu Bank as a great place to work.

The overall Bank score against global bench mark indicated that 98% of the staff have a clear understanding of the strategic objectives of the Bank, 95% take pride in the brand image and 76% of employees agree that they have opportunities to grow and advance their careers.

Our turnover rate was 4.1% in 2019 lower than the average sector rate of 10% making us rank favourably as an employer of choice.

Diversity

The Bank had a total Headcount of 1072 staff in 2019, of which majority are female (52%). Out of 243 staff holding managerial positions, female employees held 49% of them in 2019. The Bank provides equal opportunities to all Ugandans and hire is based on merit.

Women hold 50% of executive management positions

The wellbeing of our employees

At **dfcu** Bank, we believe that employee health, wellbeing and improved quality of life impact on their productivity. We strive to create an environment that proactively engages and encourages our employees to adopt a lifelong commitment to making healthy choices which address their physical, mental & social wellness.

When reviewing our people strategies, we believe and consider performance, engagement and organisational health.

We have partnered with Jubilee Insurance Company Uganda Limited for access to the best health care in Uganda and the region, even in the management of acute cases in other locations of speciality. The Bank pays up to 100% of the medical care cost. Through Jubilee Insurance, employees are able to access over 100 service providers spread out in different areas in the country, making accessibility to health solutions convenient for our employees.
The Bank has partnered with various gym facilities to enable staff work out and keep physically fit and healthy.

The Bank has focused on providing support through the comprehensive wellness program not only focused on health but financial wellness as well.

Sports Gala and Corporate League

The Bank also sponsors our employees to participate in sports activities like the monthly Corporate Leagues & Bankers' Gala to enhance fitness, continuous community presence and brand loyalty. The Bank also sponsors the team to participate in country marathons like the MTN, NSSF, Kabaka's Birthday run and Cancer Marathons. In 2019, the Bank was recognized with the following awards:

- Overall champions – Bankers' Gala 2019
- Third Place (Bronze) in the Corporate Category - NSSF 7-Hills Run 2019.

People & Culture

Our people are our greatest asset. Our aim is to build a high-performance culture, by living the PICCT values to promote customer service excellence among all employees. The Bank refined its values in line with Vision, Mission & Strategy to enhance Culture and drive Performance.

The refined values were launched in 2019 to summarise our behaviours as employees who practice:

- **Professionalism** - We aim for excellence in everything we do.
- **Integrity** - We are honest, Consistent and uncompromising.
- **Customer Focus** - We are approachable and ready to listen to our clients.
- **Courage** - We openly share our views.
- **Team Work** - We support each other in the interest of the Organisation.

We strive to create a great place to work where our people feel deeply connected with our purpose and our clients, are empowered and recognised for delivering against our strategic objectives and given opportunities to reach their full potential. How our people think and feel about work directly correlates with our client satisfaction levels and our ability to deliver our strategy.

We will continue to invest in our people, our key asset, to ensure they have the required competencies to meet their individual objectives and exceed our customers' expectations

Performance measurement

In order to monitor an employee's contribution, **dfcu** Group developed a performance measurement tool which has a cycle that involves goal setting, performance monitoring conversations and performance reviews for the teams and all individuals. It's an inclusive, two-way process that creates feedback and considers future capability requirements of the Bank, and personal development needs and aspirations. The performance measurement is done twice a year.

Staff feedback

dfcu Group has regular online surveys through which staff views, ideas and value adding input is sought. This is done to track and evaluate progress made in identified employee work related challenges and risks. In addition, each department is allocation a human resource business partner to help coordinate the challenges identified by employees in that particular department.

Talent management and succession planning

dfcu Group's people management philosophy is to progressively build its own talent pool to effectively support its growth. Branch successor pools including; Branch Managers, Credit Managers, Credit Administrators and Branch Operation Managers are updated and approved by management. Development interventions for the identified staff are incorporated in the training budget and plan.

GRI Indicators' Report

Below are the indicators from the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines;

Performance Indicators	Topic	Disclosure pages	Description
1.1 and 1.2	Vision, Mission and Ownership	iii	Vision and Mission statement

Profile:

Performance Indicators	Topic	Disclosure pages	Description
2.1	Name of reporting organization	1	dfcu Group Limited
2.2	Major products or services, including brands if applicable	7	Financial products and services
2.3	Operational structure of the organisation		Corporate governance, Board of Directors
2.4	Description of major divisions, operating companies, subsidiaries and joint ventures	7	Business updates
2.5	Countries in which the organization is located	156	Contact and general information
2.6	Nature of ownership	42	List of shareholders
2.7	Nature of markets served	106	Sectors financed
2.8	Scale of the reporting organization: Number of employees, products produced/services offered	7	Our employees, products and services offered.

Governance structure and management systems

Performance Indicators	Topic	Disclosure pages	Description
3.1 – 3.6	Governance structure of the organization, including major committees under the board of directors that are responsible for strategy and oversight	26	Corporate governance

Economic performance indicators

Performance Indicators	Topic	Disclosure pages	Description
EC1	Net sales and increase in retained earnings	72	Statement of comprehensive income, statement of changes in equity, financial overview
EC3	Geographic breakdown of markets	156	Branch network
EC3	Cost of all goods and services purchased, total employee remuneration	58	Value added statement
EC8	Total taxes of all types paid	58	Value added statement

Social Labour performance indicators

Performance Indicators	Topic	Disclosure pages	Description
LA1	Breakdown of workforce	60	Staff highlights
LA3	Retention rates	60	Staff highlights
LA4	Policies/procedures on negotiations with employees over changes in operations	60	Employee engagement
LA5	Health and safety committees	60	Occupational health and safety
LA6	Occupational accidents and diseases	60	Occupational health and safety
LA8	Policies and Programmes on HIV/AIDS	60	Staff welfare issues
LA9	Average hours of training per employee	60	Staff highlights

dfcu Limited

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

MAIN CORRESPONDENT BANKS

Citibank N.A New York
International Services
Citibank N.A New York
399 Park Avenue, New York, NY
10043 U.S.A

Citibank N.A London
International Services
Citibank N.A London
Citigroup Centre, Canada square,
Canary Wharf, London E14 5LB

First Rand Bank
6th Floor, 1 Merchant Place,
Corner Fredman & Rivonia Road
Sandton, South Africa

Bank of China
Zhongyin Tower,
Yincheng Zhong Road
Shangai, China

Kenya Commercial Bank (KCB)
Kencom House, Moi Avenue,
Nairobi, Kenya

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

GROUP'S SOLICITORS

Kenneth Akampurira
Advocate & Commissioner for Oaths
Plot 1 Lourdel Road, Ground Floor Lourdel Towers,
P.O. Box 2658
Kampala, Uganda

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Solicitors & Advocates
Ground Floor Esami House 52 Bombo Rd
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Kampala, Uganda

Kabayiza, Kavuma, Mugerwa & Ali Advocates
Plot 11, Bandali Close – Bugolobi
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AF Mpanga
4th Floor, **dfcu** Towers
Plot 26 Kyadondo Road, Nakasero
P.O. Box 1520
Kampala, Uganda.

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

KSMO Advocates
5th Floor Crested Towers,
17 Hannington Road
P.O. Box 23064
Kampala, Uganda.

Sebalu & Lule Advocates & Legal Consultants
S&L Chambers
Plot 14 Mackinnon Road, Nakasero
P.O. Box 2255
Kampala, Uganda

Directors' Report

The directors submit their report together with the audited consolidated and separate financial statements of dfcu Limited ("the Company") and its subsidiary, dfcu Bank Limited (together "the Group") for the year ended 31 December 2019, which disclose the state of affairs of the Group and of the Company. The Group's parent company is dfcu Limited ("the Company"), which owns 100% of the ordinary shares of dfcu Bank Limited.

Principal Activities

The Group is engaged in the business of commercial banking and the provision of related services and real estate. The Bank (subsidiary) is licensed under the Financial Institutions Act, 2004 (as amended 2016).

The Group's balance sheet closed at Ushs 2.958 trillion in 2019 (2018: Ushs 2.915 trillion), net loans and advances increased to Ushs 1.539 trillion (2018: 1.398 trillion) and customer deposits remained relatively stable at Ushs 2.039 trillion (2018: Ushs 1.979 trillion).

Future Outlook

The Group's focus in the next three years is to;

- Continue to optimise benefits from the acquisition of some of the assets and the assumption of some of the liabilities of Crane Bank Limited (In Receivership) in 2017;
- Complete the business process re-engineering;
- Aggressively pursue the Group strategy to digitise our operations to the benefit of our customers;
- Diversify the deposit mix with the focus on growing cheap liabilities;
- Grow and diversify quality loan portfolio; and
- Complete the cultural change program to enhance staff productivity and brand equity.

Results and Dividend

The Group's profit for the year was Ushs 73.4 billion (2018: Ushs 60.9 billion). The directors have proposed dividends for the year ended 31 December 2019 of Ushs 29.9 billion (2018: Ushs 24.7 billion) or Ushs 40.00 per share (2018: Ushs 33.01 per share).

The COVID19 pandemic disclosed as a subsequent event in Note 49, creates a lot of uncertainty in the economic development of the country that will affect the performance of businesses, industry and banks alike. Based on this it is prudent for the board not to recommend payment of a dividend at this point in time. As soon as conditions have normalised the board will reassess the payment of dividends.

Directors

During the financial year and up to the date of this report, other than as disclosed in Note 46 to the consolidated and separate financial statements, no director has received or become entitled to receive any benefit other than directors' fees and amounts received under employment contracts for executive directors. The aggregate amount of emoluments for directors' services rendered in the financial year is disclosed in Note 46 of the consolidated and separate financial statements.

Neither at the end of the financial year nor at any time during the year did there exist any arrangement to which the Group is a party whereby directors might acquire benefits by means of the acquisition of shares in or debentures of the Group.

The directors who held office during the year and to the date of this report are set out on page 31.

Company Registrar

The registrar of the Company is Deloitte (Uganda) Limited located at the address below:

Plot 1 Lumumba Avenue
3rd Floor Rwenzori House
P. O. Box 10314
Kampala
Uganda

Auditor

The Group's external auditor KPMG, will not seek re-appointment at the annual general meeting in accordance with Section 159(2) of the Companies Act of Uganda, having completed the fourth year of continuous service as stipulated under Section 62(1) of the Financial Institutions Act 2004 (as amended 2016).

Issue of Consolidated and Separate Financial Statements

The consolidated and separate financial statements were authorised for issue in accordance with a resolution of the directors dated 29 March, 2020.

By order of the Board

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

COMPANY SECRETARY

Date: 30 March 2020

Statement Of Directors' Responsibilities

The Group's directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view of the consolidated and separate financial position of dfcu Limited, comprising the consolidated and separate statement of financial position as at 31 December 2019, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the Companies Act of Uganda and Financial Institutions Act 2004 (as amended 2016).

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate 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 ability of the Group to continue as going concern and have no reason to believe that the business will not be a going concern for at least the next twelve months from the date of this statement.

The auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the International Financial Reporting Standards, the Financial Institutions Act 2004 (as amended 2016) and Companies Act of Uganda.

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements of dfcu Limited, as identified in the first paragraph, were approved by the Board of Directors on 29 March, 2020.

....
Elly Karuhanga
Chairman

....
Barbra Teddy Arimi
Director

....
Secretary

Date: 30 March 2020

Independent Auditor’s Report

To the members of dfcu Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of **dfcu** Limited (the “Group and Company”) set out on pages 72 to 159, which comprise the consolidated and company statements of financial position as at 31 December 2019, and the consolidated and company statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of **dfcu** Limited as at 31 December 2019, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act of Uganda and the Financial Institutions Act, 2004 (as amended 2016).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Uganda and, we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Key audit matters

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

Impairment of loans and advances to customers in the consolidated financial statements	
Refer to Notes 5(I), 7, 6B and 22 of the consolidated financial statements	
Key audit matter	**How the matter was addressed in our audit**
Impairment of loans and advances to customers is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. **Judgement and estimate** The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's implementation of IFRS 9 are: **Economic scenarios** IFRS 9 requires the Group to measure Expected Credit Loss (ECL) on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them and the associated impact on ECL. **Significant Increase in Credit Risk ('SICR')** For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed. **Model estimations** Inherently, judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL). Due to the size of loans and advances (52% of total assets), and the significant judgements involved in determination of ECL, we have determined this area to be a key audit matter.	**Our audit procedures in this area included, among others:** • Involving our own internal data and analytics specialists in evaluating the appropriateness of the Group's IFRS 9 impairment methodologies and independently assessing the accuracy of probability of default, loss given default and exposure at default computations and assumptions. • Involving our own internal financial risk management specialists in: assessing the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them; assessing the economic variables used which included agreeing them to independent external sources; and assessing the overall reasonableness of the economic forecasts applied by the Group; and reviewing management considerations of the ECL impact of economic uncertainty in the market. • Selecting a sample of facilities from the Group's loan book and carrying out tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS; • Testing of a sample of key data inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts and PD assumptions applied; • Evaluating the appropriateness of the Group's IFRS 9 methodologies including the SICR criteria used; and • Testing the impairment calculations to check if the correct parameters – Probability of Default (PDs, Loss Given Default (LGDs), and Exposure at Default (EADs) are determined by considering local economic/portfolio factors.

Recoverability of deferred tax assets in the consolidated and separate financial statements	
Refer to Notes 5L(ii) and 30 of the financial statements	
Key audit matter	**How the matter was addressed in our audit**
The company recognised deferred tax asset of Ushs 1,484 million relating to tax losses which was included in the consolidated deferred tax asset at 31 December 2019, and as of that date, the company also had unrecognised deferred tax asset of Ushs 1,939 million. The Company has had a history of losses and as such, the assessment of the recoverability of the deferred tax asset is particularly sensitive to expectations about the future profitability of this business. This in turn depends on the achievement of underlying business plans. Significant judgement is required over the assessment of the recoverability of deferred tax assets arising from past losses because the realisation of tax benefits is often dependent on future taxable profits and there are inherent uncertainties involved in forecasting such profits. The ultimate recoverability of the tax losses depends upon both continued improvement in the profitability of the company business, and the period over which the losses will be available for recovery. We have considered this to be a key audit matter due to the significant judgement involved in determination of whether to recognise and/or to derecognise deferred tax asset related to tax losses.	**Our audit procedures in this area included, amongst others;** • Evaluating the progress made by management in improving the profitability of the business to date, which includes the remediation of the causes of past losses through, amongst other things, diversification of the investments and reduction in operational costs initiatives; • Assessing the credibility of the business plans used in the deferred tax asset recoverability assessment. These were based on a four year forecast and were assessed for reasonableness based on our understanding of the business and the industry; and • Using our internal tax specialists to assess the extent to which tax losses can be carried forward and utilised against future taxable benefits. • Evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions and judgements.

Other information

The directors are responsible for the other information. The other information comprises the Group Information, the Director's Report, Statement of Directors' Responsibility and Supplementary Information but does not include the consolidated and separate financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report and the Annual Report 2019, which is expected to be made available to us after that date. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 5, the directors are responsible for the preparation of the consolidated and separate financial statements that give a true and view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda and the Financial Institutions Act, 2004 (as amended 2016), and for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company'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 Group and/or Company to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 our 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 Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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 we identify during our audit.

We also provide directors with a statement that we 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 our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

As required by the Companies Act of Uganda we report to you, based on our audit, that:

i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii. In our opinion, proper books of account have been kept by the Group, so far as appears from our examination of those books; and

iii. The Group's and company's statements of financial position and comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is
CPA Stephen Ineget - P0401.

KPMG
Certified Public Accountants
3rd Floor, Rwenzori courts
Plot 2 & 4A, Nakasero Road
P O Box 3509
Kampala, Uganda

Date: 30 March 2020

Consolidated statement of comprehensive income for the year ended 31 December 2019

	Note	2019	2018
		Ushs M	Ushs M
Interest and similar income	9	**325,309**	325,923
Interest and similar expenses	10	**(97,811)**	(104,751)
Net interest income		**227,498**	221,172
Fees and commission income	13	**65,449**	51,285
Net trading and other income	11	**16,408**	19,219
Net income from other financial instruments at FVTPL	12	**9,644**	13,842
Total operating income		**318,999**	305,518
Operating expenses	14	**(193,154)**	(202,213)
Other (losses)/gains on financial asset	26	**(10,105)**	4,174
Impairment losses on financial instruments	22	**(14,774)**	(23,010)
Profit before tax		**100,966**	84,469
Income tax expense	19(a)	**(27,564)**	(23,561)
Profit after tax for the year		**73,402**	60,908
Other comprehensive income *Items that are or may be reclassified subsequently to profit or loss*			
Other comprehensive income:			
FVOCI financial assets net of tax	41	**(452)**	(169)
Fair value reserve	41	**(13)**	36
Total other comprehensive income		**(465)**	(133)
Total comprehensive income for the year		**72,937**	60,775
Attributable to:			
Equity holders of the Company		**72,937**	60,775
Non-controlling interest		**-**	-
		72,937	60,775
Earnings per share:			
Basic earnings per share	18	**98.11**	81.41
Diluted earnings per share	18	**98.11**	81.41

The Group has, as permitted by IFRS 16, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 17 basis. Refer to the accounting policy elections, IFRS 16 transition and restatement for more detail.

The accounting policies and notes on pages 80 to 159 form an integral part of these consolidated and separate financial statements.

Company statement of comprehensive income for the year ended 31 December 2019

	Note	2019	2018
		Ushs M	Ushs M
Interest income	9	232	785
Interest expense	10	(2,687)	(2,329)
Net interest income		**(2,455)**	**(1,544)**
Fees and commissions	13	614	249
Dividend income	11(b)	24,694	51,054
Other income	11(a)	5,908	5,630
Operating income		**28,761**	**55,389**
Operating expenses	14	(4,691)	(4,266)
Profit before tax		**24,070**	**51,123**
Tax charge	19(a)	(783)	(896)
Profit for the year		**23,287**	**50,227**
Other comprehensive income			
Profit for the year		**23,287**	**50,227**
Other comprehensive income		-	-
Total comprehensive income for the year		**23,287**	**50,227**

The accounting policies and notes on pages 80 to 159 form an integral part of these consolidated and separate financial statements.

Consolidated statement of financial position as at 31 December 2019

	Note	2019	2018
		Ushs M	Ushs M
Assets			
Cash and balances with Bank of Uganda	20	**394,892**	356,041
Government securities:			
• Trading asset	25	**22,630**	41,116
• Investment securities	24	**486,771**	515,412
Deposits and balances due from banks	21	**111,116**	191,086
Loans and advances to customers	22	**1,539,323**	1,398,162
Equity Investments at fair value through profit and loss	23	**9,763**	11,411
Other assets	26	**189,700**	220,745
Deferred income tax asset	30	**2,870**	2,198
Current income tax recoverable	19 (d)	**-**	3
Property and equipment	28	**152,999**	125,998
Investment property	27	**10,342**	10,758
Intangible assets	29	**37,737**	42,652
Total Assets		**2,958,143**	2,915,582
Liabilities			
Customer deposits	32	**2,039,037**	1,979,093
Deposits due to other banks	33	**10,002**	-
Other liabilities	34	**61,983**	43,947
Current income tax payable	19(d)	**2,783**	-
Borrowed funds	37	**273,354**	369,566
Special funds	36	**1,205**	1,440
Total liabilities		**2,388,364**	2,394,046
Share capital	38	**14,963**	14,963
Share premium	38	**185,683**	185,683
Retained earnings	40	**313,639**	276,192
Other reserves		**12,113**	12,113
Regulatory credit risk reserve	39	**14,055**	8,024
FVOCI Reserve	41	**(598)**	(133)
Proposed dividends	17	**29,924**	24,694
Total equity		**569,779**	521,536
Total equity and liabilities		**2,958,143**	2,915,582

The consolidated and separate financial statements on pages 72 to 159 were approved for issue by the Board of Directors on 29 March 2020 and signed on its behalf by:

....	....	....
Elly Karuhanga	**Barbra Teddy Arimi**	**Secretary**
Chairman	*Director*	

The accounting policies and notes on pages 80 to 159 form an integral part of these consolidated and separate financial statements.

Company statement of financial position as at 31 December 2019

	Note	2019	2018
		Ushs M	Ushs M
Assets			
Other assets	26	**17**	16
Investment in subsidiaries	31	**203,293**	203,293
Amounts due from Group companies	46 (b)	**1,714**	780
Current Income tax recoverable	19 (d)	**1,519**	1,519
Deferred income tax asset	30	**-**	550
Investment property	27	**46,337**	48,091
Total assets		**252,880**	254,249
Liabilities and equity			
Liabilities			
Other liabilities	34	**8,567**	5,280
Amounts due to Group companies	46 (a)	**14,252**	17,313
Borrowed funds	37	**4,446**	4,867
Deferred income tax liability	30	**233**	-
Total liabilities		**27,498**	27,460
Equity			
Share capital	38	**14,963**	14,963
Share premium	38	**185,683**	185,683
Accumulated losses	40	**(17,301)**	(10,664)
Proposed dividends	17	**29,924**	24,694
Other reserves		**12,113**	12,113
Total equity		**225,382**	226,789
Total equity and liabilities		**252,880**	254,249

The consolidated and separate financial statements on pages 72 to 159 were approved for issue by the Board of Directors on 29 March 2020 and signed on its behalf by:

....	....	....
Elly Karuhanga	**Barbra Teddy Arimi**	**Secretary**
Chairman	*Director*	

The accounting policies and notes on pages 80 to 159 form an integral part of these consolidated and separate financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2019

	Note	Share capital	Share premium	Retained earnings	Other reserves	Regulatory reserve	FVOCI Revaluation reserve	Proposed dividends	Attributable to equity holders of the parent	Total
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
As at 1 January 2018		14,963	185,683	236,889	12,113	11,113	-	51,054	511,815	511,815
Profit for the year		-	-	60,908	-	-	-	-	60,908	60,908
Transfers from the regulatory reserve	39	-	-	3,089	-	(3,089)	-	-	-	-
FVOCI Revaluation		-	-	-	-	-	(169)	-	(169)	(169)
Loss allowance FV OCI		-	-	-	-	-	36	-	36	36
Transactions with shareholders										
Dividends paid		-	-	-	-	-	-	(51,054)	(51,054)	(51,054)
Dividends proposed	17	-	-	(24,694)	-	-	-	24,694	-	-
At 31 December 2018		14,963	185,683	276,192	12,113	8,024	(133)	24,694	521,536	521,536
At 1 January 2019		**14,963**	**185,683**	**276,192**	**12,113**	**8,024**	**(133)**	**24,694**	**521,536**	**521,536**
Profit for the year		**-**	**-**	**73,402**	**-**	**-**	**-**	**-**	**73,402**	**73,402**
Transfers from the regulatory reserve	39	**-**	**-**	**(6,031)**	**-**	**6,031**	**-**	**-**	**-**	**-**
Loss allowance FV OCI		**-**	**-**	**-**	**-**	**-**	**(13)**	**-**	**(13)**	**(13)**
FVOCI Revaluation		**-**	**-**	**-**	**-**	**-**	**(452)**	**-**	**(452)**	**(452)**
Transactions with shareholders										
Dividends paid		**-**	**-**	**-**	**-**	**-**	**-**	**(24,694)**	**(24,694)**	**(24,694)**
Dividends proposed	17	**-**	**-**	**(29,924)**	**-**	**-**	**-**	**29,924**	**-**	**-**
At 31 December 2019		**14,963**	**185,683**	**313,639**	**12,113**	**14,055**	**(598)**	**29,924**	**569,779**	**569,779**

The accounting policies and notes on pages 80 to 159 form an integral part of these consolidated and separate financial statements.

Company statement of changes in equity for the year ended 31 December 2019

	Note	Share capital	Share premium	Accumulated losses	Proposed dividends	Other reserves	Total
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January 2018		14,963	185,683	(36,197)	51,054	12,113	227,616
Profit for the year		-	-	50,227	-	-	50,227
Transactions with shareholders							
Proposed dividends	17	-	-	(24,694)	24,694	-	-
Dividends paid		-	-	-	(51,054)	-	(51,054)
At 31 December 2018		14,963	185,683	(10,664)	24,694	12,113	226,789
At 1 January 2019		**14,963**	**185,683**	**(10,664)**	**24,694**	**12,113**	**226,789**
Profit for the year		**-**	**-**	**23,287**	**-**	**-**	**23,287**
Transactions with shareholders							
Proposed dividends	17	**-**	**-**	**(29,924)**	**29,924**	**-**	**-**
Dividends paid		**-**	**-**	**-**	**(24,694)**	**-**	**(24,694)**
At 31 December 2019		**14,963**	**185,683**	**(17,301)**	**29,924**	**12,113**	**225,382**

The accounting policies and notes on pages 80 to 159 form an integral part of these consolidated and separate financial statement.

Consolidated statement of cash flows for the year ended 31 December 2019

	Note	2019	2018
		Ushs M	Ushs M
Operating activities			
Interest receipts		**325,309**	325,923
Interest payments		**(97,811)**	(104,751)
Fee and commission receipts		**65,449**	51,285
Net foreign exchange and other income received		**16,408**	19,219
Recoveries from other assets measured at FVTPL	12	**9,644**	13,842
Recoveries on loans previously written off	22	**1,081**	962
Interest paid on the lease liability	43	**(3,292)**	-
Cash payments to employees and suppliers		**(208,533)**	(215,178)
Income tax paid	19 (d)	**(25,242)**	(16,488)
Cash from operating activities before changes in operating assets and liabilities		**83,013**	74,814
Changes in operating assets and liabilities			
Decrease/(increase) in government and other securities		**47,126**	115,064
Increase in Bank of Uganda cash reserve requirement		**(3,820)**	(3,310)
Decrease/(Increase) in investments in shares		**1,647**	2,335
Increase in loans and advances to customers		**(141,161)**	(63,552)
Decrease/(Increase) in other assets		**31,045**	18,800
(Decrease)/Increase in customer deposits		**59,944**	(8,025)
(Decrease)/Increase in other liabilities		**18,046**	(8,906)
Decrease in balances due to other banks		**10,002**	(255)
Net cash flows from operating activities		**105,842**	126,965
Investing activities			
Purchase of property and equipment	28	**(15,571)**	(6,233)
Purchase of intangible assets	29	**(8,314)**	(5,476)
Proceeds from sale of property and equipment		**386**	344
Net cash flows used in investing activities		**(23,499)**	(11,365)
Financing activities			
New borrowings received		**65,819**	64,758
Borrowings paid		**(162,266)**	(177,198)
Principle paid on the lease liability	43	**(6,141)**	-
Dividends paid to shareholders		**(24,694)**	(51,054)
Net cash flows (used in)/ generated from financing activities		**(127,282)**	(163,494)
Net decrease in cash and cash equivalents		**(44,939)**	(47,894)
Cash and cash equivalents at start of year		**392,647**	440,541
Cash and cash equivalents at end of year	44	**347,708**	392,647

The accounting policies and notes on pages 80 to 159 form an integral part of these consolidated and separate financial statements.

Company statement of cash flows for the year ended 31 December 2019

	Note	2019	2018
		Ushs M	Ushs M
Operating activities			
Interest receipts		**232**	785
Interest payments		**(2,687)**	(2,329)
Dividend income		**24,694**	51,054
Fees and commissions		**614**	249
Net foreign exchange and other income received		**5,908**	5,630
Cash payments to employees and suppliers		**(2,063)**	(2,085)
Cash from operating activities before changes in operating assets and liabilities		**26,698**	53,304
Changes in operating assets and liabilities			
Decrease)/Increase in amounts due to group companies		**(3,060)**	(8)
(Increase)/decrease in other assets		**(1)**	(4)
(Decrease)/Increase in other liabilities		**3,289**	(1,681)
Net cash flows from operating activities		**26,926**	51,611
Investing activities			
Purchase of investment property	27	**(877)**	(2,495)
Net cash flows used in investing activities		**(877)**	(2,495)
Financing activities			
Net increase/ (decrease) in borrowings		**(421)**	1,172
Dividends paid to shareholders		**(24,694)**	(51,054)
Net cash flows from financing activities		**(25,115)**	(49,882)
Net increase/(decrease) in cash and cash equivalents		**934**	(766)
Cash and cash equivalents at start of year		**780**	1,546
Cash and cash equivalents at end of year	44	**1,714**	780

The accounting policies and notes on pages 80 to 159 form an integral part of these consolidated and separate financial statements.

Notes to the consolidated and separate financial statements

1. General information

dfcu Limited ('the Company') is incorporated in Uganda under the Companies Act of Uganda (Cap 110) as a public limited liability company and is domiciled in Uganda. Some of the company's shares are listed on the Uganda Securities Exchange (USE). It is domiciled in Uganda and the address of its registered office is:

Plot 26 Kyadondo Road
P.O. Box 2767
Kampala, Uganda.

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

2. Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS). They were authorised for issue by the Group's board of directors on 29 March 2020. This is the first set of financial statements in which the Group and Company has applied IFRS 16 Leases. The related changes to significant accounting policies are described in Note 4. Details of the Group's accounting policies are included in Note 5(O).

The consolidated and separate financial statements are presented in Uganda Shillings (Ushs), which is the Group's functional currency. All amounts have been rounded to the nearest million (Ushs M), unless otherwise indicated.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies included in Note 4 and 5.

The preparation of the consolidated and separate financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated and separate financial statements, are disclosed in the following notes;

3. Use of judgements and estimates

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of the Group'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.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

Note 5: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes.

Note 5(I): impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

Assumptions and estimation uncertainties (continued)

Note 6E: measurement of the fair value of financial instruments with significant unobservable inputs.

Note 5(L): recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

4. Changes in significant accounting policies

The Group initially applied the following standards and amendments to standards from 1 January 2019;

IFRS 16 Leases.

A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Group's financial statements.

Leases:

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

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 5.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

As a lessee

The Group previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

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

However, for leases of branches and office premises the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at their carrying amount as at 1 January 2019, discounted using the lessee's incremental borrowing rate at the date of initial application.

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

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- 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;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

As a lessor

The Group does not lease out any property and equipment.

Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities in the financial statements. The impact on transition is summarised below.

	1 January 2019
	Ushs M
Right of Use Asset (ROU)	**36,300**
Prepaid rent	**(6,914)**
Lease liability	**(29,386)**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 12%.

5. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated and seperate financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

A. Consolidation

The consolidated financial statements comprise the financial statements of dfcu Limited and its subsidiary, dfcu Bank Limited as at 31 December 2019.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. When group acquires or disposes any interest in an existing subsidiary and there is no change in control, all transactions with non-controlling interests are recorded in equity.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Separate financial statements

In the separate financial statements, investments in subsidiaries and associates are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. Dividend income is recognised when the right to receive payment is established.

B. Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Specific borrowings are funds borrowed specifically for the purpose of obtaining a qualifying asset. For specific borrowings, the actual costs incurred are capitalised. If the entity temporarily reinvests some funds, investment income earned should be deducted from the borrowing costs eligible for capitalisation. All borrowings that are not specific represent general borrowings. Costs eligible for capitalisation are calculated by applying a capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period. The amount of borrowing costs eligible for capitalisation is always limited to the amount of actual borrowing costs incurred during the period. Where the parent company finances the construction of a qualifying asset using an intra-group loan, the capitalisation rate is adjusted to reflect how the qualifying asset was financed from the perspective of the group as a whole.

C. Operating income

i. Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2019).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, 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.

For information on when financial assets are credit-impaired, see Note 5(I)(vii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost

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

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

a) Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate. The Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

b) Interest income and expense

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI includes: financial liabilities measured at amortised cost;

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

Interest income and expense on other financial assets and financial liabilities carried at FVTPL were presented in net income from other financial instruments at FVTPL.

D. Fees and commission

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

Other fee and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated and separate financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

Other income

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

E. Net trading income

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

F. Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and, from 1 January 2019, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

G. Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

From 1 January 2019, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

H. Foreign currency translation

Items included in the consolidated and separate financial statements are measured using the currency of the primary economic environment in which the entity operates (`the functional currency'). The consolidated and separate financial statements are presented in Uganda Shillings which is the Group's functional currency. Foreign currency transactions are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

I. Financial assets and liabilities

i. Recognition and initial measurement

The Group 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 Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus or reduced by transaction costs that are directly attributable to its acquisition or issue respectively, for an item not at fair value through profit or loss. The fair value of a financial instrument at initial recognition is generally its transaction price.

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 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 Group 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 Group 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.

Business model assessment

- The Group 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 Group'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 Group'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.

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 RE 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 Group 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 Group considers:

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

The Group holds a portfolio of long-term fixed-rate loans for which the Group 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 Group 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.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgement in assessing whether the non-recourse loans meet the SPPI criterion. The Group 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 Group'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 Group will benefit from any upside from the underlying assets.

Contractually linked instruments

The Group has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;

- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and

- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

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

Financial liabilities

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

iii. Derecognition

Financial assets

The Group 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 Group 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.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in (O). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group 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 Group 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 Group 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 Group 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 Group 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. Before 1 January 2019, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

Financial liabilities

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

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group 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 Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group 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 Group 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.

Financial assets

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

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

_v._ Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group 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 group of similar transactions such as in the Group's trading activity.

_vi._ 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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group 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 Group 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 Group 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 Group 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 Group 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 Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii. Impairment

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

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

No impairment loss is recognised on equity investments.

The Group 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.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group 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 Group 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 Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

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 Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as ‘Stage 3 financial assets’). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group 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.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

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

- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the EGL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

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 Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

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

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

Non-integral financial guarantee contracts

The Group 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 Group 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 group.

If the Group 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 Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

Objective evidence of impairment

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

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

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;

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

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

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Group considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

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

In making an assessment of whether an investment in sovereign debt was impaired, the Group considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfil the required criteria.

Individual or collective assessment

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

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

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

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

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

Measurement of impairment

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

Reversal of impairment

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

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

Presentation

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

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

Write-off

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

viii. Designation at fair value through profit or loss

Financial assets

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

Before 1 January 2019, the Group also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 7 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

Ugandan Financial Institutions Act 2004 requirements

In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Group is also required by the Financial Institutions Act, 2004 to estimate losses on loans and advances as follows:

i) A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Financial Institutions Credit Classification Regulations, 2005, as follows:

   a) substandard assets with arrears period between 90 and 179 days – 20%;
   b) doubtful assets with arrears period between 180 days and 364 days – 50%;
   c) loss assets with arrears period over 365 days – 100%.

In addition to the arrears period, companies must follow subjective criteria in arriving at the classification attributable to the assets.

ii) A general provision of at least 1% of their total outstanding credit facilities net of specific provisions.

Where provisions for impairment of loans and advances determined in accordance with the Financial Institutions Act, 2004 exceed amounts determined in accordance with IFRS, the excess is taken to a regulatory reserve as an appropriation of retained earnings. Otherwise, the regulatory reserve is reduced to the extent that the provision for impairment determined in accordance with IFRS exceeds that determined in accordance with the Financial Institutions Act, 2004 and the amount taken back to retained earnings.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

ix. Staff loans

In the normal course of business, the Group advances loans to employees at below market rate. These loans are measured initially at fair value. The favourable loan term offered to employees are dependent on the continued employment and therefore relate to services to be rendered in future periods.

The interest benefit is forfeited if the employee leaves the Group. The benefit is a long term benefit to the employees and the discount arising from the difference between the nominal value and the market value is treated as a prepayment and expensed in profit or loss in the period in which the services are rendered.

J. Property and equipment

i. Recognition and measurement

Equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the asset revaluation reserve in equity through other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition 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 derecognised.

ii. Subsequent cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

Buildings	40 years
Furniture, fittings and equipment	6 – 7 years
Computer equipment	3 – 5 years
Motor vehicles	4 years
Work-in-progress	Not depreciated
Right-of-use asset	Lease terms

Leasehold improvements are amortised over the shorter of the estimated useful life of the improvements, and the remaining lease term.

Management and directors review the residual value and useful life of an asset at the year end and any change considered to be appropriate in accounting estimate is prospectively recorded through profit or loss.

K. Intangible assets

i. Recognition and measurement

a. Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it recognised in profit or loss as incurred. Subsequent to initial recognition development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

b. Other intangible assets

Goodwill: that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

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

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate: that the product is technically feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it 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 any accumulated impairment losses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

iii. Amortisation

Intangible assets with finite lives are amortised over their useful economic lives using the straight line method and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is 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 is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

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

iv. Derecognition

An item of intangible assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 profit or loss when the asset is derecognised.

L. Income tax

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 OCI.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

ii. Deferred tax

Deferred tax is recognised 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 recognised 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. Future taxable profits are determined based on business plans for the Group and the reversal of temporary differences. 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 realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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 Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

iii. Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

M. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk changes in fair value, and are used by the Group in management is its short-term commitments. Cash and cash equivalents excludes the cash reserves requirement held with the central Bank.

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

N. Employee benefits

(i) Retirement benefit obligations

The Group makes contributions to a defined contribution benefit scheme for its eligible employees. A defined contribution benefit scheme is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (fund). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Group and employees. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The Group's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(iii) Other entitlements

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services; they exclude termination benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under a short-term cash bonus only if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and if the obligation can be measured reliably.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

O. Leases

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

Policy applicable from 1 January 2019

At inception of a contract, the Group 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 Group uses the definition of a lease in IFRS 16.

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

Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

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

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

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The Group did not have leases of low-value assets during the year. Expenses relating to short-term leases are disclosed in note 43.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

— fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

— the arrangement had conveyed a right to use the asset.

As a lessee

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

P. Offsetting

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

Q. Dividends

Dividends on ordinary shares are recognised as a liability and charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

R. Earnings per share

The Group 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 Group 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 which comprise share options granted to employees

S. Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset} at a fixed price on a future date (reverse repo or stock borrowing}, the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's consolidated and separate financial statements.

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

Loans and advances to banks were classified as loans and receivables. Loans and advances to customers included:

- those classified as loans and receivables;
- those designated as at FVTPL; and
- finance lease receivables.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Group chose to designate the loans and advances as measured at FVTPL as described in (J)(viii), they were measured at fair value with face value changes recognised immediately in profit or loss.

Loans and advances also included finance lease receivables in which the Group was the lessor.

When the Group purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement was accounted for as a loan or advance, and the underlying asset was not recognised in the Group's consolidated and separate financial statements.

T. Financial guarantees and loan commitments

Loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- from 1 January 2019: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- before 1 January 2019: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- from 1 January 2019: the Group recognises a loss allowance;
- before 1 January 2019: the Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off statement of financial position transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on the information available up to the date the consolidated and separate financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

U. Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

V. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

W. Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's consolidated and separate financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at FVTPL.

From 1 January 2019, when the Group designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in fair value of the related instruments.

Deposits and Borrowings are the Group's sources of debt funding.

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

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

X. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

i. Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

ii. Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

iii. Group levies

A provision for Group levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

Y. Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- 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;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

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

i. Held-to-maturity

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at FVTPL or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

ii. Fair value through profit or loss

The Group designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss as described in (J)(viii).

iii. Available-for-sale

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

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

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

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

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

Z. Share capital and reserves

i. Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

ii. Retained earnings / accumulated losses

Retained earnings relates to accumulated prior year earnings/ losses adjusted for profit or loss for the year, proposed dividend and transfers to and from the regulatory credit risk reserves.

AA. Comparatives

Where necessary the comparative figures have been adjusted to conform to changes in presentation in the current year.

BB. Investment property

Property held for long term rental yields and not occupied by the Group is classified as investment property. A portion of the property at Plot 26 Kyadondo is occupied by the Company's subsidiary, dfcu Bank Limited, and is classified as property, plant and equipment in the consolidated and separate financial statements. The remaining portion is held for long term rental yields and is accounted for as investment property.

An investment property is defined under IAS 40, Investment property, as a property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Investment property is measured at cost less accumulated depreciation.

CC. Government grants

The Group recognises unconditional government grants in profit or loss as other income when the grant becomes receivable. Other government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

6. Financial risk management

The Group's financial assets are classified as amortised cost, fair value through profit and loss, and fair value through other comprehensive income and all financial liabilities are measured at amortised cost. The carrying amounts for each class of financial assets and financial liabilities are included in the table below

	2019	2018
	Ushs M	Ushs M
Financial assets		
Amortised cost		
Cash and balances with Bank of Uganda	**394,892**	356,041
Loans and advances to other banks	**111,116**	191,086
Loans and advances to customers	**1,539,323**	1,398,162
Trading assets	**22,630**	41,116
Investment securities: Measured at amortised cost	**363,517**	483,393
Other assets: Measured at amortised cost excluding prepayments	**7,455**	14,871
	2,438,933	2,484,669
FVOCI		
Investment securities: Measured at fair value	**123,254**	32,019
	123,254	32,019
FVTPL		
Equity Investments	**9,763**	11,411
Other assets: Measured at fair value	**166,283**	192,466
	176,046	203,877
	2,738,233	2,720,565
Financial liabilities		
Measured at amortised cost:		
Customer deposits	**2,039,037**	1,979,093
Balances due to other banks	**10,002**	-
Borrowed funds	**273,354**	369,566
Special Funds	**1,205**	1,440
Other financial liabilities	**61,223**	43,414
	2,384,821	2,393,513

6A Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-statement of financial position loans and advances; the Group also enters into guarantees and other commitments such as letters of credit, and performance and other bonds.

The Group also trades in financial instruments. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

The fair value gains or losses arising from trading in financial instruments are recognised in profit or loss under net trading and other income. Foreign exchange and interest rate exposures and associated derivatives are normally economically hedged by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

6B Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Group by failing to pay amounts in full when due. Impairment allowances are provided for losses that have been incurred at the reporting date. Credit risk is the most important risk for the Group's business. Therefore, management carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. Credit risk management and control is centralised in the credit risk management team, which reports regularly to management and the Board.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a portion is personal lending where no such facilities can be obtained.

Credit related commitments:

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. The Group's policy is to hold cash cover for most of the commitments and hence the credit risk arising from such commitments is less than for direct borrowing. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than for direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group makes such commitments at market rates. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk before collateral held

	2019	2018
	Ushs M	Ushs M
Balances with Bank of Uganda (note 20)	259,842	217,219
Loans and advances to banks (note 21)	111,116	191,086
Loans and advances to customers (note 22)	1,539,323	1,398,162
Government securities (notes 24 and 25)	509,401	556,528
Equity investments at fair value through profit and loss (note 23)	9,763	11,411
Other assets excluding prepayments (note 26)	173,738	207,337
Credit risk exposures on off-statement of financial position items (note 42)		
- Acceptances and letters of credit	-	-
- Guarantee and performance bonds	541,845	294,830
- Commitments to lend	51,377	48,289
	3,196,405	2,924,862

6B Credit risk (continued)

The above represents the worst case scenario of the Group's credit risk exposure as at 31 December 2019 and 2018, without taking account collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 54% of the total maximum exposure is derived from loans and advances to banks and customers (2018: 54%), whilst 19% represents investments in government securities (2018: 23%).

Loans and advances to major corporate borrowers and to individuals borrowing more than Ushs 30 million are secured by collateral in the form of charges over land and buildings and / or plant and machinery or corporate guarantees.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and debt securities based on the following:

- The Group exercises stringent controls over the granting of new loans;
- 86% of the loans and advances portfolio are neither past due nor impaired;
- 96% of the loans and advances portfolio are backed by collateral; and
- 99% of investments in debt securities are government securities and only 1% in a high quality corporate bond.

Loans and advances are summarised as follows:	2019	2018
	Ushs M	Ushs M
Neither past due nor impaired	1,342,743	1,242,674
Past due but not impaired	133,952	107,689
Impaired	89,117	80,828
Gross	1,565,812	1,431,191
Less: Allowance for impairment (note 22)	(26,489)	(33,029)
Net carrying amount	1,539,323	1,398,162

No other assets are either past due or impaired.

Loans and advances neither past due nor impaired

The credit quality of loans and advances that were neither past due nor impaired can be analysed by reference to the internal rating system adopted by the Group:

	2019	2018
	Ushs M	**Ushs M**
Standard	**1,342,743**	1,242,674

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2019	2018
	Ushs M	**Ushs M**
Past due up to 30 days	**91,744**	73,654
Past due 31 – 60 days	**28,223**	28,105
Past due 61 – 89 days	**13,985**	5,930
	133,952	107,689

6B Credit risk (continued)

Loans and advances individually impaired

The general credit worthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that borrowers provide it. The Group may take collateral in the form of a first charge over real estate, machinery and equipment, automobiles and other liens and guarantees.

Because of the Group's focus on customers' credit worthiness, the Group does not routinely update the valuation of collateral held against all loans to customers. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely. For impaired loans, the Group obtains appraisals of collateral because the current value of the collateral is an input to the impairment measurement.

At 31 December 2019, the gross carrying amount of impaired loans and advances to customers amounted to Ushs 89,117 million (2018: Ushs 80,828 million) and the value of identifiable collateral held against those loans and advances amounted to Ushs 31,582 million (2018: Ushs 67,068 million).

Below is a summary of the impaired loans with the respective value of security;

	Loans		Overdrafts	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Loans and advances	**88,630**	76,369	**487**	4,459
Fair value of collateral	**31,582**	53,672	**-**	13,396

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Loans and advances to customers at amortised cost

	2019 Ushs M				
	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-6 Low-fair risk	1,077,648	20,649	-	-	1,098,297
Grades 7-9 Higher risk	322,165	56,233	-	-	378,398
Grade 10: Sub standard	-	-	43,551	-	43,551
Grade 11: Doubtful	-	-	27,361	-	27,361
Grade 12: Loss	-	-	18,205	-	18,205
	1,399,813	**76,882**	**89,117**	**-**	**1,565,812**
Loss allowance	(7,488)	(3,675)	(15,326)	-	(26,489)
Carrying amount	**1,392,325**	**73,207**	**73,791**	**-**	**1,539,323**

6B Credit risk (continued)

	2018 Ushs M				
	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-6 Low-fair risk	1,292,198	58,165	-	-	1,350,363
Grades 7-9 Higher risk	-	-	-	-	-
Grade 10: Sub standard	-	-	26,373	-	26,373
Grade 11: Doubtful	-	-	48,399	-	48,399
Grade 12: Loss	-	-	6,056	-	6,056
	1,292,198	**58,165**	**80,828**	**-**	**1,431,191**
Loss allowance	(10,900)	(2,843)	(19,286)	-	(33,029)
Carrying amount	**1,281,298**	**55,322**	**61,542**	**-**	**1,398,162**

Balances with Bank of Uganda

	2019 Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fare risk	259,918	-	-	259,918
Loss Allowance	(76)	-	-	(76)
Carrying amount	259,842	-	-	259,842

	2018 Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fare risk	217,706	-	-	217,706
Loss Allowance	(487)	-	-	(487)
Carrying amount	217,219	-	-	217,219

Loans and advances to other banks

	2019 Ushs M				
	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-6 Low-fair risk	111,122	-	-	-	111,122
Grades 7-9 Higher risk	-	-	-	-	-
Grade 10: Sub standard	-	-	-	-	-
Grade 11: Doubtful	-	-	-	-	-
Grade 12: Loss	-	-	-	-	-
	111,122	**-**	**-**	**-**	**111,122**
Loss allowance	(6)	-	-	-	(6)
Carrying amount	**111,116**	**-**	**-**	**-**	**111,116**
	2018 Ushs M				
	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-6 Low-fair risk	191,130	-	177	-	191,307
Grades 7-9 Higher risk	-	-	-	-	-
Grade 10: Sub standard	-	-	-	-	-
Grade 11: Doubtful	-	-	-	-	-
Grade 12: Loss	-	-	-	-	-
	191,130	**-**	**177**	**-**	**191,307**
Loss allowance	(44)	-	(177)	-	(221)
Carrying amount	**191,086**	**-**	**-**	**-**	**191,086**

Other Assets: Receivables excluding prepayments

	2019 Ushs M		
	Lifetime ECL not credit impaired	Credit impaired	Total
Grades 1-6 Low-fair risk	173,825	-	173,825
Grades 7-9 Higher risk	-	-	-
Grade 10-12: Credit Impaired	-	-	-
	173,825	**-**	**173,825**
Loss allowance	(87)	-	(87)
Carrying amount	**173,738**	**-**	**173,738**

	2018 Ushs M		
	Lifetime ECL not credit impaired	Credit impaired	Total
Grades 1-6 Low-fair risk	207,453	-	207,453
Grades 7-9 Higher risk	-	-	-
Grade 10-12: Credit Impaired	-	-	-
	207,453	**-**	**207,453**
Loss allowance	(116)	-	(116)
Carrying amount	**207,337**	**-**	**207,337**

Investment securities at amortised cost

	2019 Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fare risk	363,601	-	-	363,601
Loss Allowance	(84)	-	-	(84)
Carrying amount	**363,517**	**-**	**-**	**363,517**

	2018 Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fare risk	484,389	-	-	484,389
Loss Allowance	(996)	-	-	(996)
Carrying amount	**483,393**	**-**	**-**	**483,393**

Investment securities measured at FVOCI

The expected credit loss relating to investment securities measured at FVOCI amounted to Ushs 23 million (2018: UShs 52 million) and is recorded in the OCI. (See note 24)

Cash and cash equivalents

The Group held cash and cash equivalents of Ushs 347,708 million at 31 December 2019 (2018: Ushs 392,647 million). The cash and cash equivalents are held with central bank of Uganda and financial institution counterparties that are rated at least AA-to AA+, based on Moody's ratings.

Collateral held and other credit enhancements

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

	Note	31-Dec-19	31-Dec-18	Principal type of collateral held
		Ushs M	Ushs M	
Balances with Bank of Uganda	20	**259,842**	217,219	-
Loans and advances to banks	21	**111,116**	191,086	-
Loans and advances to retail customers:	22			
Mortgage lending		**65,552**	238,314	Residential property
Personal loans		**131,626**	100,812	-
Loans and advances to corporate customers:	22			
Finance leases		**51,001**	36,075	Property and equipment
Others		**1,291,144**	1,022,961	Commercial property, floating charges over corporate assets
Equity Investments at fair value through profit and loss	23	**9,763**	11,411	-
Trading assets	25	**22,630**	41,116	-
Investment debt securities	24	**486,771**	515,412	-
Other assets excluding prepayments	26	**173,738**	207,337	-

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Group's focus on corporate customers' creditworthiness, the Group does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Group obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 December 2019, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to Ushs 1,342,238 million (2018: Ushs 1,059,036 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Ushs 31,582 million (2018: Ushs 47,441 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Other types of collateral and credit enhancements

In addition to the collateral included in the tables above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

ii. Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment
See accounting policy in Note 5.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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 Group's historical experience and expert credit assessment and including forward-looking information.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files-e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes, data from credit reference agencies, press articles, changes in external credit ratings, actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	Internally collected data on customer behavior- e.g. utilisation of credit card facilities Affordability metrics External data from credit reference agencies, including industry-standard credit scores	Payment record - this includes overdue status as well as a range of variables about payment ratios Utilisation of the granted limit Requests for and granting of forbearance Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

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

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

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if;

- Quantitative; the counterparty is past due for more than 30 days
- Qualitative; the account has been restructured for financial distress reasons
- Qualitative; Poor outlook for the specific sector or industry and any other relevant available information such as Credit Bureau data

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behavior 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 Group 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 Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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 Group.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; 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.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward-looking information

The Group 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 Group formulates three economic scenarios: a base case, which is the median scenario reflecting a most-likely outcome, and two less likely scenarios, one upside and one downside. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting.

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Group's senior management.

The Group 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 driver for credit risk for the portfolio, retail unsecured and corporate models is the consumer price index.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 6(g)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading, 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- loan amount
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
		Moody's Rating	S&P Rating
	Exposure Ushs	PD	LGD
Government securities – Amortised cost	363 bn	2.8% - 21.4%	6%
Government securities - FVOCI	123 bn	2.8% - 21.4%	6%

i. Impaired financial assets – Comparative information under IAS 39

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Loans and investment debt securities that were past due but not impaired

Loans and investment debt securities that were 'past due but not impaired' are those for which contractual interest or principal payments were past due but the Group believed that impairment was not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at FVTPL.

ii. Concentrations of credit risk

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances and credit commitments is shown below.

	2019		2018	
	Loans and advances	Credit Commitments	Loans and advances	Credit Commitments
As at 31 December				
Agriculture	22%	9%	21%	4%
Manufacturing	7%	19%	9%	6%
Trade and commerce	17%	20%	17%	13%
Transport and communications	3%	1%	3%	0%
Mining and quarrying	0%	0%	0%	0%
Building and construction	18%	22%	18%	0%
Leisure, hotels and accommodation	3%	0%	5%	0%
Home loans	4%	0%	3%	0%
Non-bank financial institutions	0%	0%	0%	0%
Private individual	9%	0%	8%	3%
Real estate	9%	2%	8%	1%
Schools	5%	4%	5%	4%
Other	3%	23%	3%	69%
	100%	100%	100%	100%

As at 31 December 2019 and 2018, the Group had no exposures to a single borrower or group of related borrowers exceeding 25% of the core capital of the Group.

6C Liquidity risk

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

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

ALM policies are approved by the Group's Assets and Liabilities Board Committee (ALCO) and the Board of Directors. The purpose of ALCO is to stipulate and monitor the business philosophy of the Group as to the cost, structure and mix of assets and liabilities to maximise profitability within acceptable set risk limits.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers and short-term funding. For this purpose, 'net liquid assets' includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market divided by any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows.

	2019	2018
At 31 December	27.0%	22.0%
Average for the period	29.0%	22.6%
Maximum for the period	33.0%	24.2%
Minimum for the period	24.0%	18.9%

The table below summarises the net position as at 31 December 2019 and 31 December 2018 based on contractual maturity.

Net position as at 31 December 2019				
Months	**Up to 1 month**	**1-3 months**	**3-12 months**	**>1 Year**
Long / (short) Gap	(680,957)	79,448	29,507	922,657
Long / (short) Cumulative Gap	(680,957)	(601,509)	(572,002)	350,655
Cumulative Gap / Total Assets	(23%)	(20%)	(19%)	12%

Net position as at 31 December 2018				
Months	**Up to 1 month**	**1-3 months**	**3-12 months**	**>1 Year**
Long / (short) Gap	(410,067)	(22,908)	21,905	728,083
Long / (short) Cumulative Gap	(410,067)	(432,975)	(411,070)	317,013
Cumulative Gap / Total Assets	(14%)	(15%)	(14%)	11%

6C Liquidity risk (continued)

The following are the remaining contractual maturities financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

		Contractual Cash flows				
2019	Carrying Amount	Gross nominal inflow/(outflow)	Up to 1 month	1-3 months	3 – 12 months	Over 1 year
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Financial liability by type						
Customer deposits	**2,039,037**	2,061,551	1,454,118	213,821	328,712	64,900
Balances due to other banks	**10,002**	10,002	10,002	-	-	-
Other liabilities excluding deferred income	**32,632**	32,632	648	9,518	22,048	418
Lease liability	**28,591**	33,545	742	1,697	7,693	23,413
Borrowed funds	**273,354**	276,839	2,102	563	4,582	269,592
Special funds	**1,205**	1,205	1,205	-	-	-
Total liabilities	**2 ,384,821**	**2,415,774**	**1,468,817**	**225,599**	**363,035**	**358,323**
Financial assets by type						
Cash and balances with Bank of Uganda	**394,892**	394,892	394,892	-	-	-
Loans and advances to other banks	**111,116**	111,116	111,116	-	-	-
Loans and advances to customers	**1,539,323**	2,135,123	189,632	194,871	301,254	1,449,366
Government and other securities	**509,401**	555,221	48,521	32,571	98,254	375,875
Equity Investments at fair value through profit and loss	**9,763**	9,763	9,763	-	-	-
Other assets excluding prepayments	**173,738**	173,738	1,187	1,279	23,311	147,961
Total assets	**2,738,233**	**3,379,853**	**755,111**	**228,721**	**422,819**	**1,973,202**
Liquidity Gap	**353,412**	**964,079**	**(713,706)**	**3,122**	**59,784**	**1,614,879**

6C Liquidity risk (continued)

		Contractual Cash flows				
2018	**Carrying Amount**	**Gross nominal inflow/(outflow)**	**Up to 1 month**	**1-3 months**	**3 – 12 months**	**Over 1 year**
		Ushs M	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
Financial liability by type						
Customer deposits	**1,979,093**	1,993,580	1,349,472	215,556	416,636	11,916
Other liabilities excluding deferred income	**43,414**	43,414	14,534	1,953	20,106	6,821
Borrowed funds	**369,566**	408,245	1,070	20,118	61,873	325,184
Special funds	**1,440**	1,440	1,440	-	-	-
Total liabilities	**2,393,513**	**2,446,679**	**1,366,516**	**237,627**	**498,615**	**343,921**
Financial assets by type						
Cash and balances with Bank of Uganda	**356,041**	356,041	356,041	-	-	-
Loans and advances to other banks	**191,086**	191,086	191,086	-	-	-
Loans and advances to customers	**1,398,162**	2,023,564	204,042	181,994	291,818	1,345,710
Government and other securities	**556,528**	557,524	57,083	36,996	101,895	361,550
Equity Investments at fair value through profit and loss	**11,411**	11,411	11,411	-	-	-
Other assets excluding prepayments	**207,337**	207,337	5,192	3,895	36,757	161,493
Total assets	**2,720,565**	**3,346,963**	**824,855**	**222,885**	**430,470**	**1,868,753**
Liquidity Gap	**327,052**	**900,284**	**(541,774)**	**(14,742)**	**(68,145)**	**1,524,832**

6C Liquidity risk (continued)

The table below analyses assets and liabilities into relevant maturity groupings based on the carrying amount as at 31 December. All figures are in millions of Uganda Shillings.

As at 31 December 2019	Up to 1 month	1-3 months	3 – 12 months	Over 1 year	Non -liquid items	Non -financial items	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets							
Cash and balances with Bank of Uganda	394,892	-	-	-	-	-	394,892
Deposits and balances due from other banks	111,116	-	-	-	-	-	111,116
Loans and advances to customers	245,374	210,606	354,394	728,949	-	-	1,539,323
Government and other securities	62,386	91,433	75,838	279,744	-	-	509,401
Investment in shares	9,763	-	-	-	-	-	9,763
Other assets	9,907	2,466	24,711	134,657	6,152	11,807	189,700
Deferred income tax asset	-	-	-	-	-	2,870	2,870
Property and equipment	-	-	-	-	-	152,999	152,999
Investment property	-	-	-	-	-	10,342	10,342
Intangible assets	-	-	-	-	-	37,737	37,737
Total assets	**833,438**	**304,505**	**454,943**	**1,143,350**	**6,152**	**215,755**	**2,958,143**
Liabilities							
Customer deposits	1,496,432	213,821	328,712	72	-	-	2,039,037
Deposits due to other banks	10,002	-	-	-	-	-	10,002
Other liabilities excluding lease liability	2,418	9,518	17,511	3,185	-	760	33,392
Lease liability	742	1,697	12,176	13,976	-	-	28,591
Borrowed funds	2,954	21	67,037	203,342	-	-	273,354
Special funds	1,205	-	-	-	-	-	1,205
Current income tax payable	-	-	-	-	-	2,783	2,783
Total liabilities	**1,513,753**	**225,057**	**425,436**	**220,575**	**-**	**3,543**	**2,388,364**
Net liquidity gap	**(680,315)**	**79,448**	**29,507**	**922,775**	**6,152**	**212,212**	**569,779**
Net off-statement of financial position items	(46,185)	(50,025)	(227,778)	(269,234)	-	-	(593,222)
Overall liquidity position	**(726,500)**	**29,423**	**(198,271)**	**653,541**	**6,152**	**212,212**	**(23,443)**

6C Liquidity risk (continued)

As at 31 December 2018	Up to 1 month	1-3 months	3 – 12 months	Over 1 year	Non -liquid items	Non -financial items	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets							
Cash and balances with Bank of Uganda	356,041	-	-	-	-	-	356,041
Deposits and balances due from other banks	191,086	-	-	-	-	-	191,086
Loans and advances to customers	414,656	178,280	368,296	436,930	-	-	1,398,162
Government and other securities	56,087	36,996	101,895	361,550	-	-	556,528
Investment in shares	11,411	-	-	-	-	-	11,411
Other assets	2,625	3,895	36,757	154,134	9,926	13,408	220,745
Current income tax recoverable	-	-	-	-	-	3	3
Deferred income tax asset	-	-	-	-	-	2,198	2,198
Property and equipment	-	-	-	-	-	125,998	125,998
Investment property	-	-	-	-	-	10,758	10,758
Intangible assets	-	-	-	-	-	42,652	42,652
Total assets	**1,031,906**	**219,171**	**506,948**	**952,614**	**9,926**	**195,017**	**2,915,582**
Liabilities							
Customer deposits	1,331,367	214,193	403,943	29,590	-	-	1,979,093
Other liabilities	14,648	1,953	20,526	6,287	-	533	43,947
Borrowed funds	94,518	25,933	60,574	188,541	-	-	369,566
Special funds	1,440	-	-	-	-	-	1,440
Total liabilities	**1,441,973**	**242,079**	**485,043**	**224,418**	**-**	**533**	**2,394,046**
Net liquidity gap	**(410,067)**	**(22,908)**	**21,905**	**728,196**	**9,926**	**194,484**	**521,536**
Net off-statement of financial position items	(107,475)	(71,335)	(104,822)	(59,487)	-	-	(343,119)
Overall liquidity position	**(517,542)**	**(94,243)**	**(82,917)**	**668,709**	**9,926**	**194,484**	**178,417**

6D Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates, interest rates and equity prices will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risks rests with the ALCO. The Treasury Department is responsible for the detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

Currency Risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, counter party limits and stop loss limits, which are monitored daily by treasury with senior management oversight. The Group's ALCO reviews on a monthly basis the net foreign exchange position of the Group. As at 31 December 2019, the Group had a net foreign exchange position of Ushs 16,712 million (2018: Ushs 17,583 million).

The Group's profit before income tax/ equity would decrease/ increase by Ushs 3,343 million (2018: Ushs 3,517 million) were the Ushs: US$ foreign exchange rate to change by 20% (2018: 20%). This variation in profitability is measured by reference to foreign currency exposures existing at year end. Movements in the foreign exchange rates for GBP and EURO would not have a material impact on the Group's results

The table below summarises the Group's exposure to foreign currency risk as at 31 December 2019. Included in the table are the Group's assets and liabilities categorised by currency. All figures are in millions of Uganda Shillings.

As at 31 December 2019	USD	GBP	EURO	USHS	Non-financial items	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets						
Cash and balances with Bank of Uganda	63,266	2,191	6,340	323,095	-	394,892
Loans and advances to other banks	86,576	1,769	6,618	16,153	-	111,116
Loans and advances to customers	647,838	21	51	891,413	-	1,539,323
Other assets	617	50	693	182,188	6,152	189,700
Equity investments	-	-	-	9,763	-	9,763
Government and other securities	-	-	-	509,401	-	509,401
Property and equipment	-	-	-	-	152,999	152,999
Investment property	-	-	-	-	10,342	10,342
Intangible assets	-	-	-	-	37,737	37,737
Deferred income tax asset	-	-	-	-	2,870	2,870
Total assets	**798,297**	**4,031**	**13,702**	**1,932,013**	**210,100**	**2,958,143**
Liabilities						
Customer deposits	593,086	3,837	10,929	1,431,185	-	2,039,037
Balances due to other banks	-	-	-	10,002	-	10,002
Other liabilities	4,595	46	1,262	55,320	760	61,983
Borrowed funds	183,904	-	-	89,450	-	273,354
Special funds	-	-	-	1,205	-	1,205
Current income tax payable	-	-	-	-	2,783	2,783
Total liabilities	**781,585**	**3,883**	**12,191**	**1,587,162**	**3,543**	**2,388,364**
Net on-statement of financial position items	**16,712**	**148**	**1,511**	**344,851**	**206,557**	**569,779**
Net off-statement of financial position items	(328,879)	-	-	(264,343)	-	(593,222)
Overall open position	**(312,167)**	**148**	**1,511**	**80,508**	**206,557**	**(23,443)**

As at 31 December 2018	USD	GBP	EURO	USHS	Non-financial items	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets						
Cash and balances with Bank of Uganda	89,922	4,710	9,677	251,732	-	356,041
Loans and advances to other banks	164,406	123	10,090	16,467	-	191,086
Loans and advances to customers	544,886	21	51	853,204	-	1,398,162
Other assets	631	-	-	206,706	13,408	220,745
Equity investments	-	-	-	11,411	-	11,411
Government and other securities	-	-	-	556,528	-	556,528
Current income tax recoverable	-	-	-	-	3	3
Property and equipment	-	-	-	-	125,998	125,998
Investment property	-	-	-	-	10,758	10,758
Intangible assets	-	-	-	-	42,652	42,652
Deferred income tax asset	-	-	-	-	2,198	2,198
Total assets	**799,845**	**4,854**	**19,818**	**1,896,048**	**195,017**	**2,915,582**
Liabilities						
Customer deposits	562,710	5,307	15,922	1,395,154	-	1,979,093
Other liabilities	10,491	747	3,776	28,400	533	43,947
Borrowed funds	209,061	-	-	160,505	-	369,566
Special funds	-	-	-	1,440	-	1,440
Total liabilities	**782,262**	**6,054**	**19,698**	**1,585,499**	**533**	**2,394,046**
Net on-statement of financial position items	**17,583**	**(1,200)**	**120**	**310,549**	**194,484**	**521,536**
Net off-statement of financial position items	(157,341)	-	-	(185,778)	-	(343,119)
Overall open position	**(139,758)**	**(1,200)**	**120**	**124,771**	**194,484**	**178,417**

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored monthly.

The Group faces fair value interest rate risk on its fixed interest financial assets that are measured at fair value. In addition, the Group faces cash flow interest rate risk on its variable rate financial instruments measured at amortised cost. Financial instruments with fair value interest rate risk comprise solely the held-for-trading portfolio of Government securities. Financial instruments with cash flow interest rate risk comprise deposits and balances due from other banks, loans and advances receivable/payable, customer deposits and amounts due to other group companies.

The table below summarises the Group's fair value and cash flow interest rate risks at 31 December 2019 assuming a market interest rate decrease of 3% from the rates ruling at year-end (2018: 3%). This would have an impact on the profit before income tax of the Group as follows:

	2019	2018
	Ushs M	Ushs M
Fair value interest rate risk	**1,067**	65
Cash flow interest rate risk	**34,484**	2,089
	35,551	2,154

The tables below summarise the Group's exposure to interest rate risk as at 31 December 2019 and 31 December 2018. Included in the table is the Group's interest bearing assets and liabilities at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear any interest rate risk on off-statement of financial position items like commitments to lend, guarantees and letters of credit. All figures are in millions of Uganda Shillings.

As at 31 December 2019	Up to 1 month	1 – 3 months	3 – 12 months	Over 1 year	Non-interest bearing	Non-financial items	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets							
Cash and balances with Bank of Uganda	-	-	-	-	394,892	-	394,892
Deposits and balances due from other banks	15,127	-	-	-	95,989	-	111,116
Loans and advances to customers	245,374	210,606	354,394	755,438	(26,489)	-	1,539,323
Government and other securities	62,386	91,433	75,838	279,744	-	-	509,401
Investment in shares	-	-	-	-	9,763	-	9,763
Other assets	-	-	-	-	183,548	6,152	189,700
Deferred income tax asset	-	-	-	-	-	2,870	2,870
Property and equipment	-	-	-	-	-	152,999	152,999
Investment property	-	-	-	-	-	10,342	10,342
Intangible assets	-	-	-	-	-	37,737	37,737
Total interest bearing assets	**322,887**	**302,039**	**430,232**	**1,035,182**	**657,703**	**210,100**	**2,958,143**

Interest bearing liabilities							
Customer deposits	662,936	213,821	328,712	72	833,496	-	2,039,037
Balances due to other banks	10,002	-	-	-	-	-	10,002
Other liabilities	-	-	-	28,591	32,632	760	61,983
Borrowed funds	2,954	21	67,037	144,601	58,741	-	273,354
Special funds	-	-	-	-	1,205	-	1,205
Current income tax payable	-	-	-	-	-	2,783	2,783
Total interest bearing liabilities	**675,892**	**213,842**	**395,749**	**173,264**	**926,074**	**3,543**	**2,388,364**
Interest re-pricing gap	**(353,005)**	**88,197**	**34,483**	**861,918**	**(268,371)**	**206,557**	**569,779**

As at 31 December 2018	Up to 1 month	1 – 3 months	3 – 12 months	Over 1 year	Non-interest bearing	Non-financial items	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets							
Cash and balances with Bank of Uganda	-	-	-	-	356,041	-	356,041
Deposits and balances due from other banks	37,672	-	-	-	153,414	-	191,086
Loans and advances to customers	414,656	178,280	266,401	571,854	(33,029)	-	1,398,162
Government and other securities	56,090	36,996	101,895	361,547	-	-	556,528
Investment in shares	-	-	-	-	11,411	-	11,411
Other assets	-	-	-	-	207,337	13,408	220,745
Current income tax recoverable	-	-	-	-	-	3	3
Deferred income tax asset	-	-	-	-	-	2,198	2,198
Property and equipment	-	-	-	-	-	125,998	125,998
Investment property	-	-	-	-	-	10,758	10,758
Intangible assets	-	-	-	-	-	42,652	42,652
Total interest bearing assets	**508,418**	**215,276**	**368,296**	**933,401**	**695,174**	**195,017**	**2,915,582**
Interest bearing liabilities							
Customer deposits	601,719	214,193	403,944	29,590	729,647	-	1,979,093
Other liabilities	-	-	-	-	43,414	533	43,947
Borrowed funds	389	25,933	60,574	193,649	89,021	-	369,566
Special funds	-	-	-	-	1,440	-	1,440
Total interest bearing liabilities	**602,108**	**240,126**	**464,518**	**223,239**	**863,522**	**533**	**2,394,046**
Interest re-pricing gap	**(93,690)**	**(24,850)**	**(96,222)**	**710,162**	**(168,348)**	**194,484**	**521,536**

6E Fair values of financial assets and liabilities

i) Financial instruments measured at fair value

a) Valuation models

The Group 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 that are not observable 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.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums 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.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market and retained interests in securitisations (as discussed below). Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

For measuring derivatives that might change classification from being an asset to a liability or vice versa - e.g. interest rate swaps - fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVAJ when market participants would take this into consideration in pricing the derivatives.

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. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

Measurement on the basis of net exposures to risks

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. These adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, it takes into account any existing arrangements that mitigate the credit risk exposure - e.g. master netting agreements with the counterparty.

ii) Valuation framework

The Group has an established control framework for the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving both Product Control and Group Market Risk;
- quarterly calibration and back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Group Market Risk personnel.

iii) Financial instruments measured at fair value - Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

The following are the financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

2019	Hierarchy			Total
	Level 1	Level 2	Level 3	
	Ushs M	Ushs M	Ushs M	Ushs M
Treasury bills and bonds	-	22,630	-	22,630
Securities at fair value through OCI	-	123,254	-	123,254
Other assets at fair value through profit and loss	-	-	166,283	166,283
Equity investments at fair value through profit and loss	9,763	-	-	9,763

2018	Hierarchy			Total
	Level 1	Level 2	Level 3	
	Ushs M	Ushs M	Ushs M	Ushs M
Trading assets – government securities	-	41,116	-	41,116
Government securities at fair value through OCI	-	32,019	-	32,019
Other assets at fair value through profit and loss	-	-	192,466	192,466
Equity investments at fair value through profit and loss	11,411	-	-	11,411

During the year ended 31 December 2019, there were no transfers into or out of Level 2 and level 1 fair value measurements.

iv) Level 3 fair value measurements

The following table shows the reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy;

	2019	2018
	Ushs M	Ushs M
At 1 January 2019	192,466	215,992
Recoveries during the year	(16,078)	(27,700)
Fair value (loss)/gain	(10,105)	4,174
At 31 December 2019	**166,283**	192,466

v) Unobservable inputs used in measuring fair value

The following table sets out information about significant un-observable inputs used at 31 December 2019 and 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy;

Type of financial instrument	Fair value (Ushs M)		Valuation technique	Significant unobservable input	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable input
	2019	**2018**				
Other Financial Asset at FVTPL	166,283	192,466	Discounted cash flows	Expected net cash flows derived from the entity	Investment based	A significant increase in expected net cash flows would result in a higher fair value

Estimated cash flows are derived from the entity's business plan and historical comparison between plans and actual results.

vi) Financial instruments not measured at fair value

The tables below sets out the fair values of financial assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

2019	Level 1	Level 2	Level 3	Fair value	Carrying amount
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cash and balances with Bank of Uganda	-	394,892	-	**394,892**	**394,892**
Loans and advances to other banks	-	111,116	-	**111,116**	**111,091**
Loans and advances to customers	-	-	1,539,323	**1,539,323**	**1,539,323**
Investment securities at amortised cost	-	351,252	-	**351,252**	**363,517**
Other assets excluding prepayments	-	-	7,455	**7,455**	**7,455**
Customer deposits	-	(2,039,037)	-	**(2,039,037)**	**(2,039,037)**
Other liabilities excluding deferred income	-		(61,223)	**(61,223)**	**(61,223)**
Borrowed funds	-	(273,354)	-	**(273,354)**	**(273,354)**
Special funds	-	(1,205)	-	**(1,205)**	**(1,205)**

2018	Level 1	Level 2	Level 3	Fair value	Carrying amount
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cash and balances with Bank of Uganda	-	356,041	-	356,041	356,041
Loans and advances to other banks	-	191,086	-	191,086	191,086
Loans and advances to customers	-	-	1,398,162	1,398,162	1,398,162
Investment securities at amortised cost	-	458,747	-	458,747	483,393
Other assets excluding prepayments	-	-	14,871	14,871	14,871
Customer deposits	-	(1,979,093)	-	(1,979,093)	(1,979,093)
Other liabilities excluding deferred income	-		(43,414)	(43,414)	(43,414)
Borrowed funds	-	(369,566)	-	(369,566)	(369,566)
Special funds	-	(1,440)	-	(1,440)	(1,440)

The fair values of the Group's other financial assets and liabilities that are measured at amortised cost approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates.

6F Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial positions, are:

- To comply with the capital requirements set by the Financial Institutions Act 2004;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as adapted and implemented by Bank of Uganda for supervisory purposes under the Financial Institutions Act, 2004 (FIA). The required information on capital adequacy is filed with Bank of Uganda on a quarterly basis.

As of 31 December 2019, the Financial Institutions Capital Adequacy Requirements Regulations 2019 requires each bank to:

a) have a minimum paid up capital unimpaired by losses of Ushs 25 billion;

b) maintain core capital of not less than 10% of the total risk adjusted assets plus risk adjusted off statement of financial position items; and

c) maintain total capital of not less than 12% of the total risk adjusted assets plus risk adjusted off statement of financial position items.

The Group's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings less goodwill and similar intangible assets, investments in unconsolidated subsidiaries and future income tax benefits.
- Tier 2 capital (supplementary capital): revaluation reserves, general provisions for losses not exceeding 1.25% of risk weighted assets, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with - each asset and counterparty. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses. The table below summarises the composition of regulatory capital and the ratios of the Group:

	2019	2018
	Ushs M	Ushs M
Before dividend declaration		
Tier 1 capital	**514,978**	450,194
Tier 1 + Tier 2 capital	**559,790**	501,605
After dividend declaration		
Tier 1 capital	**485,054**	425,500
Tier 1 + Tier 2 capital	**529,866**	476,911
Risk weighted assets		
On-statement of financial position items	**1,939,234**	1,843,702
Off-statement of financial position items	**567,534**	318,975
Counterparty and market risk	**4,778**	4,930
Total risk weighted assets	**2,511,546**	2,167,607

Tier 1 capital comprises of the following;

	2019	2018
Share capital	**14,963**	14,963
Share premium	**185,683**	185,683
Retained earnings	**313,639**	276,192
Other reserves	**12,113**	12,113
FVOCI Reserve	**(598)**	(133)
Unrealised foreign exchange gains	**(139)**	(950)
Outstanding liability on the BOU loan	**-**	(17,518)
Intangible assets	**(37,737)**	(42,652)
Deferred income tax asset	**(2,870)**	(2,198)
Tier 1 capital	**485,054**	425,500
Tier 1 capital	**485,054**	425,500
General Provisions	**15,484**	14,291
Subordinated debt	**29,328**	37,120
Total capital	**529,866**	476,911

The analysis of the subordinated debt recognised as Tier 2 capital for regulatory capital adequacy purposes of the Group in accordance with Bank of Uganda (BOU) prudential regulations is summarised below.

	2019	2018
	Ushs M	**Ushs M**
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG)	**29,328**	37,120
	29,328	37,120

Risk weighted assets comprise of the following:	Statement of financial position/ Nominal amount		Risk weight	Risk weighted amount	
	2019	2018		2019	2018
	Ushs M	Ushs M	%	Ushs M	Ushs M
On-statement of financial position items					
Cash and balances with Bank of Uganda	**394,892**	356,041	**0%**	**-**	-
Due from commercial banks in Uganda	**15,121**	37,873	**20%**	**3,024**	7,575
Due from banks outside Uganda;					
Rated AAA to AA-	**-**	-	**20%**	**-**	-
Rated A+ to A-	**95,713**	152,278	**50%**	**47,856**	76,139
Rated A- and non-rated	**282**	935	**100%**	**282**	935
Government and other securities	**509,401**	556,528	**0%**	**-**	-
Equity investments at fair value through profit and loss	**9,763**	11,411	**100%**	**9,763**	11,411
Other assets	**189,700**	220,745	**100%**	**189,700**	220,745
Loans and advances to customers (Regulatory)	**1,525,268**	1,390,138	**100%**	**1,525,268**	1,390,138
Current income tax recoverable	**-**	3	**100%**	**-**	3
Deferred income tax asset	**2,870**	2,198	**0%**	**-**	-
Property, plant and equipment	**152,999**	125,998	**100%**	**152,999**	125,998
Investment property	**10,342**	10,758	**100%**	**10,342**	10,758
Intangible assets	**37,737**	42,652	**0%**	**-**	-
Total	**2,944,088**	2,907,558		**1,939,234**	1,843,702
Off-statement of financial position items					
Letters of credit secured by cash collateral	**-**	-	**0%**	**-**	-
Guarantees and acceptances	**541,845**	294,830	**100%**	**541,845**	294,830
Undrawn facilities	**51,377**	48,289	**50%**	**25,689**	24,145
Total	**593,222**	343,119		**567,534**	318,975
Total				**2,506,768**	2,162,677
Counterparty risk				**-**	-
Market risk				**4,778**	4,930
Total risk weighted assets				**2,511,546**	2,167,607
				2019	2018
Tier 1 (FIA minimum – 10%)				**20.50%**	20.77%
Tier 1 + Tier 2 (FIA minimum – 12%)				**22.29%**	23.14%
FIA ratio (after dividend declaration)					
Tier 1 (FIA minimum – 10%)				**19.31%**	19.63%
Tier 1 + Tier 2 (FIA minimum – 12%)				**21.10%**	22.00%

6G Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Recognising that operational risk cannot be entirely eliminated, the Group implemented risk mitigation controls including fraud prevention, contingency planning, information security and incident management and continues to enhance the same. Where appropriate, this strategy is further supported by risk transfer mechanisms such as insurance.

Over the past year, the Group has continued to invest heavily in technology/systems to create more digital channels, increase operational efficiency in a bid to leverage on IT to drive its strategy.

The Group underwent two major IT related projects and a major data migration during the year 2019. These included;

i) Investment Club App:

The Group launched a new investment club app that has given investment clubs access to their banking details and enable them to perform bank transactions using their mobile phones.

ii) Paperless Pin:

The Group introduced a paperless pin for ATM pins for customers to be able to generate their own pins to be used for the ATM transactions.

As technology continues to evolve, the threat of cyber-attacks is becoming more sophisticated and greater numbers of third-parties seek to access the Group's customers' data and remove it from the safety of the Group's systems and firewalls.

A failure to ensure this information is kept safe and used in a way that regulators and customers expect, may significantly impact relationships with these stakeholders and the broader community.

The Group has put in place measures to address the operational risks as highlighted below;

- The Group has and continues to invest significantly in data, analytics and cyber-security capabilities to better meet evolving customer needs and expectations, and to reduce the potential for data breaches.

- The Group actively engages with regulators to ensure that there is appropriate mutual understanding of the technology space and that evolution in regulation appropriately balances the value of giving customers control of their data, with the Group's duty to protect customers' privacy and security.

- The Group continuously invests in IT system security and identifies and accesses management controls to secure the confidentiality, integrity and availability of the Group's data.

- The employees undergo mandatory training modules to ensure they understand the importance of data security and their obligations in relation to the data they have access to.

- As the second line of defense, the Group's risk department was boosted with officers with IT security skills to monitor the activities of the first line of defense by performing risk assurance reviews, monitoring all user activity on key systems in order to timely detect any irregularity and advise adequate response.

7. Classification of financial assets and financial liabilities

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

31 December 2019	Note	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cash and balances with Bank of Uganda	20	-	-	-	-	394,892	**394,892**
Loans and advances to other banks	21	-	-	-	-	111,116	**111,116**
Loans and advances to customers	22	-	-	-	-	1,539,323	**1,539,323**
Trading assets	25	22,630	-	-	-	-	**22,630**
Investment securities:	24						
Measured at fair value		-	-	123,254	-	-	**123,254**
Measured at amortised cost		-	-	-	-	363,517	**363,517**
Equity Investments	23	9,763	-	-	-	-	**9,763**
Other assets:	26						
Measured at fair value		-	166,283	-	-	-	**166,283**
Measured at amortised cost (excluding prepayments)		-	-	-	-	7,455	**7,455**
Total financial assets		**32,393**	**166,283**	**123,254**	**-**	**2,416,303**	**2,738,233**
Customer deposits	32	-	-	-	-	2,039,037	**2,039,037**
Balances due to other banks	33	-	-	-	-	10,002	**10,002**
Other liabilities (excluding deferred income)	34	-	-	-	-	61,223	**61,223**
Borrowed funds	37	-	-	-	-	273,354	**273,354**
Special funds	36	-	-	-	-	1,205	**1,205**
Total financial liabilities		-	-	-	-	**2,384,821**	**2,384,821**

31 December 2018	Note	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cash and balances with Bank of Uganda	20	-	-	-	-	356,041	356,041
Loans and advances to other banks	21	-	-	-	-	191,086	191,086
Loans and advances to customers	22	-	-	-	-	1,398,162	1,398,162
Trading assets	25	41,116	-	-	-	-	41,116
Investment securities:	24						
Measured at fair value		-	-	32,019	-	-	32,019
Measured at amortised cost		-	-	-	-	483,393	483,393
Equity Investments	23	11,411	-	-	-	-	11,411
Other assets:	26						
Measured at fair value		-	192,466	-	-	-	192,466
Measured at amortised cost (excluding prepayments)		-	-	-	-	14,871	14,871
Total financial assets		**52,527**	**192,466**	**32,019**		**2,443,553**	**2,720,565**
Customer deposits	32	-	-	-	-	1,979,093	1,979,093
Other liabilities (excluding deferred income)	34	-	-	-	-	43,414	43,414
Borrowed funds	37	-	-	-	-	369,566	369,566
Special funds	36	-	-	-	-	1,440	1,440
Total financial liabilities		-	-	-	-	2,393,513	2,393,513

The Group's accounting policies on the classification of financial instruments under IFRS 9. The application of these policies resulted in the reclassifications set out in the table above and explained below.

a) Certain loans and advances to customers held by the Group's investment banking business are classified under IFRS 9 as mandatorily measured at FVTPL because they are held within a business model in which they are managed and their performance is evaluated on a fair value basis. Before the adoption of IFRS 9, these loans and advances to customers were designated as at FVTPL because the Group manages them on a fair value basis in accordance with a documented investment strategy. Internal reporting and performance measurement of these loans and advances are on a fair value basis.

b) Before the adoption of IFRS 9, certain trading assets and investment securities were reclassified out of the FVTPL and available-for-sale categories to loans and advances at their then fair values. On the adoption of IFRS 9, the carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

c) Before the adoption of IFRS 9, certain investment securities were designated as at FVTPL because the Group holds related derivatives at FVTPL and this designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under IFRS 9, these assets meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these securities are not SPPI on the principal outstanding.

d) The reclassified assets include certain asset-backed securities whose exposure to credit risk is higher than the exposure to credit risk of the underlying pool of financial assets. Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

e) Certain debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

f) Certain non-trading debt securities are held by the Group Central Treasury in separate portfolios and are managed with an objective of realising cash flows through sale. The Group primarily focuses on fair value information and uses that information to assess the securities' performance and to make decisions. In addition, certain asset-backed securities have contractual cash flows that are not SPPI. These assets are therefore measured at FVTPL under IFRS 9.

g) Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable. IFRS 9 has removed this cost exception.

h) Under IAS 39, debt securities issued were designated as at FVTPL when the Group held related derivatives at FVTPL, and the designation therefore eliminated or significantly reduced an accounting mismatch that would otherwise have arisen. At the date of initial application of IFRS 9, the Group revoked its previous designation made under IAS 39 for some of these securities. This designation has been revoked in these cases because some of the related derivative positions have been closed and there is no longer a significant accounting mismatch arising from the securities.

Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated and separate financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of consolidated and separate financial statements and reported amounts of revenues and expenses during the reported period. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgements about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

The Group makes estimates and assumptions that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to note 25 for more information.

(b) Income taxes

The Group is subject to various government taxes under the Ugandan tax laws. Significant estimates and judgements are required in determining the provision for taxes on certain transactions. For these transactions, the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact profit or loss. Refer to note 19 for more information.

(c) Fair value of financial instruments

Where the fair value of the financial assets and financial liabilities recorded in the statement of financial position cannot be determined from active markets, they are determined using valuation techniques including discounted cash flows models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to note 6E for more information.

(d) Going concern

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

8. Segment information

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating as follows:

- dfcu Limited, which is the holding company that is listed on the Uganda Stock Exchange.
- dfcu Bank Limited; this is the commercial banking segment which provides innovative products and superior service levels catering for customer needs in the areas of savings and investment products, personal and current accounts, personal credit, corporate credit, trade finance, foreign exchange trading, money market transfers, etc. It also consists of a development finance segment which provides medium and long term finance to private sectors in Uganda. The sectors include agro processing, education, health, manufacturing, transport, hospitality industry, tourism and construction.

During the year 16.07% (2018: 15.97%) of the Group's revenue was earned from Government securities. No other single external customer contributes revenue amounting up to 10% of the Group's revenue.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which is measured the same as the operating profit or loss in the consolidated financial statements.

The segment results for the year ended 31 December 2019 were as follows:

	dfcu Limited	dfcu Bank	Intra-segment items	Group
	Ushs M	Ushs M	Ushs M	Ushs M
Fees and commission income and other operating income	6,522	89,774	(4,795)	**91,501**
Income from transactions with operating segments of the same entity	24,694	-	(24,694)	**-**
Interest income	232	327,629	(2,552)	**325,309**
Interest expense	(2,687)	(97,676)	2,552	**(97,811)**
Other operating expenses	(4,691)	(218,137)	4,795	**(218,033)**
Profit before income tax	24,070	101,590	(24,694)	**100,966**
Income tax credit/ (expense)	(783)	(26,780)	-	**(27,564)**
Profit for the year	**23,287**	**74,810**	**(24,694)**	**73,402**

The segment results for the year ended 31 December 2018 were as follows:

	dfcu Limited	dfcu Bank	Intra-segment items	Group
	Ushs M	Ushs M	Ushs M	Ushs M
Fees and commission income and other operating income	5,879	82,748	(4,281)	**84,346**
Income from transactions with operating segments of the same entity	51,054	-	(51,054)	**-**
Interest income	785	327,834	(2,696)	**325,923**
Interest expense	(2,329)	(105,118)	2,696	**(104,751)**
Other operating expenses	(4,266)	(221,063)	4,280	**(221,049)**
Profit before income tax	51,123	84,401	(51,055)	**84,469**
Income tax credit/ (expense)	(896)	(22,665)	-	**(23,561)**
Profit for the year	**50,227**	**61,736**	**(51,055)**	**60,908**

At 31 December 2019				
Total assets	252,880	2,971,987	(266,724)	2,958,143
Total liabilities	27,498	2,423,541	(62,675)	2,388,364
Capital expenditure	877	22,978	-	23,855

At 31 December 2018				
Total assets	254,249	2,888,274	(226,941)	2,915,582
Total liabilities	27,460	2,389,479	(22,893)	2,394,046
Capital expenditure	2,494	50,451	-	52,945

The Group's operations are all attributed to Uganda, the Company's country of domicile.

The table below indicates the Group's interest income for each group of similar products:

	dfcu Limited	dfcu Bank	Group
	Ushs M	Ushs M	Ushs M
Year ended 31 December 2019	232	327,629	325,309
Year ended 31 December 2018	785	327,834	325,923

9. Interest and similar income

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Loans and advances	244,853	248,977	-	-
Placements and investments with other banks	6,886	2,057	232	785
Government and other securities	66,931	65,530	-	-
Total interest income calculated using the effective interest method	318,670	316,564	232	785
Other interest income – interest income of finance leases	6,639	9,359	-	-
Total interest income	325,309	325,923	232	785

10. Interest and similar expenses

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Borrowed funds	21,805	26,736	2,687	2,329
Customer deposits	76,006	78,015	-	-
	97,811	104,751	2,687	2,329

11. (a) Net trading and other income

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Unrealised foreign exchange gain/(loss)	**139**	950	(48)	15
Fixed trading income	**14,530**	16,787	-	-
Rental income	**1,622**	1,386	5,956	5,519
Other	**117**	96	-	96
	16,408	19,219	5,908	5,630

11. (b) Dividend income

	Company	
	2019	**2018**
	Ushs M	**Ushs M**
Other assets measured at FVTPL	24,694	51,054

Dividend income relate to dividends the Company received from its subsidiary, dfcu Bank Limited

12. Net income from other financial instruments at FVTPL

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Other assets measured at FVTPL	**9,644**	**13,842**	-	-

13. Fee and commission income

In the table below, fee and commission income from contracts worth customers in the scope of IFRS 15 is disaggregated by major types of services.

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Major service lines				
Domestic commissions	**52,513**	41,416	614	249
Foreign commissions	**5,048**	5,762	-	-
Total fee and commission from contracts with customers	**57,561**	47,178	614	249
Financial Guarantee contracts and loan commitments	**7,888**	4,107	-	-
Total fee and commission income	**65,449**	51,285	614	249

Fee and commission income includes fees and commissions from ledger fees, money transfers, low balance fees, statement fees, unpaid cheques charges, URA licensing, ATM commissions, letters of credit fees, letters of guarantee, telegraphic transfer fees, and other fees and commissions.

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

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 2019	Revenue recognition under IFRS 15
Category A	These are transactional fees based on revenue that mainly comprise of but not limited to commissions on cheques cashed, statement charges, auxiliary charges, management fees, payments and collection related fees.	- Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides account transaction services - Transaction price – monthly fees in line with the contractual agreement. - Allocation of price to PO – single performance obligation, no allocation necessary. - PO satisfied – Revenue is currently recognised at the end of the month, for the services provided during that month (operational efficiency). No change in current accounting
Category B	Annual Review Charge - It's an annual fee charged basing on the loans held in the year. This revenue is recognised annually on usually DIB loans.	- Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides loan review services. - Transaction price – commission received as per agreement with the insurer. - Allocation of price to PO – single performance obligation - PO satisfied – at a point in time in the year when the loan review has been performed. - Revenue should be spread over the period as services are provided before the next payment. This fee is not material therefore no change No change to current revenue recognition.
Category C	These are fees charged on card related transaction. These comprise of ATM commissions, Express Money commission, Visa Commissions, MoneyGram commissions and issuance fee of debit cards. It's a standard fee	- Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides card services at specific points of time and over time. - Transaction price – fee charged in terms of the arrangement with customer at point of transaction. - Allocation of price to PO – single performance obligation for each of the services, no allocation necessary. - PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed. No change in current accounting

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms 2019	Revenue recognition under IFRS 15
Category D	Guarantees and commitment fees This is a transactional based fee on guarantees issued. Timing of revenue for guarantees- Quarterly fee collection/ recognition or upfront fees depending on contract with client. Most CB customers pay quarterly while DIB customers are largely upfront fees for entire tenor of facility. Term / tenor of Guarantees range from 1-5 years	- Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides guarantees, custody fees and commitment fees - Transaction price – fee charged in terms of the arrangement with customer - Allocation of price to PO – Each service is a single performance obligation, no allocation necessary. PO satisfied - Commitment fees- Revenue currently recognised upfront - Performance guarantees- Revenue currently recognised upfront - Commitment and Guarantee fees -The performance obligation is satisfied over the term of the guarantee, thus revenue should be deferred over the term of the guarantee - Where drawdown of the facility is not probable, fees should be deferred over the term of the agreement, on a straight-line basis and recognised in NIR. Where drawdown is probable, fees should be deferred and as part of the EIR and recognised in NII The Group recognises the fee and commissions upfront because the difference as a result of deferring is immaterial.
Category E	These are fees charged on electronic banking transactions like Money Transfers, Foreign bills, Fx sundries, Telex Transfers	- Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides a service (as noted alongside, for electronic banking transactions). - Transaction price – transaction based fees. - Allocation of price to PO – single performance obligation (for each of the service fees listed), no allocation necessary. - PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed. No change in current accounting

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms 2019	Revenue recognition under IFRS 15
Category F	It's a transactional based fee on Incoming TTs and LCs depending on the transaction amount with a capped maximum amount Letters of credit are usually less than one year	- Enforceable arrangement with customer exists. - Performance obligation (PO) – Group to provide a service, provide inter account transfers that are done by customers and LCs - Transaction price – fee is charged per transaction and LCs depending on the transaction amount with a capped maximum amount - Allocation of price to PO – single performance obligation, no allocation necessary. PO satisfied; - TT's- Revenue recognised at a point in time, when service has been provided - Letters of credit-The performance obligation is satisfied over the term of the LC, thus revenue should be deferred over the term of the loan - Fees are currently recognised upfront. Business to monitor and reassess accounting treatment when amounts become material - Where drawdown of the facility is not probable, fees should be deferred over the term of the agreement, on a straight-line basis and recognised in NIR. Where drawdown is probable, fees should be deferred and as part of the EIR and recognised in NII The Group recognises the fee and commissions upfront because the difference as a result of deferring is immaterial.
Category G	Sundries (BOU Chqs, S/O, URA, Mgt fees) KCCA Commission URA Licencing	- Enforceable arrangement with customer exists. - Performance obligation (PO) – Group to provide a service (as noted alongside, for electronic banking transactions). - Transaction price – transaction based fees. - Allocation of price to PO – single performance obligation (for each of the service fees listed), no allocation necessary. - PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed. No change in current accounting

14. Operating expenses

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Employee benefits expenses (note 15)	**59,422**	61,852	**718**	529
Depreciation of property and equipment (note 28)	**21,748**	20,766	**-**	-
Depreciation of the investment property (note 27)	**416**	1,086	**2,631**	2,181
Amortisation of intangible assets (note 29)	**13,891**	13,190	**-**	-
Auditor's remuneration	**910**	938	**99**	117
Operating lease expenses	**12,857**	16,375	**-**	-
Professional and consultancy fees	**7,159**	13,286	**179**	284
Communication costs	**26,050**	25,841	**27**	31
Transport and travel costs	**2,773**	2,012	**27**	39
Advertising and publicity costs	**3,560**	4,550	**26**	28
Amortisation of deferred consideration	**17,518**	17,518	**-**	-
Other administrative expenses	**26,850**	24,799	**984**	1,057
	193,154	202,213	**4,691**	4,266

15. Employee benefits expenses

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
The following are included in employee benefits expenses:				
Wages and salaries	**52,014**	54,554	**616**	450
Retirement benefit costs	**2,250**	2,051	**40**	34
National Social Security Fund contributions	**5,158**	5,247	**62**	45
	59,422	61,852	**718**	529

The average number of employees of the group during the year was 1,078 (2018: 1,105)

16. Profit before tax

The following items have been charged in arriving at the profit before tax:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Employee benefits expenses (note 15)	**59,422**	61,852	**718**	529
Depreciation of property and equipment (note 27 and 28)	**22,164**	21,852	**2,631**	2,181
Amortisation of intangible assets (note 29)	**13,891**	13,190	**-**	-
Directors remuneration (note 46)	**1,454**	1,463	**461**	379

17. Dividends

	2019		2018	
	Per share	Total	Per share	Total
	Ushs	Ushs M	Ushs	Ushs M
Proposed dividends	**40.00**	**29,924**	33.01	24,694

At the annual general meeting of dfcu Limited expected to be held in June 2020, the Board has proposed a dividend of Ushs 40.00 per share payable after deduction of withholding tax where applicable (2018: Ushs 33.01 per share).

The emergence of a global pandemic COVID -19 (corona virus) as disclosed in the subsequent events Note 49 to the Financial statements, has created a lot of uncertainty in the economic development of the country that will affect the performance of businesses, industry and banks alike. The impact of this pandemic cannot be reliably determined at the date of this report. Subsequent payment of the dividend will depend on the assessment of the full impact of this global pandemic to business operations.

Payment of dividends is subject to withholding tax at rates depending on the tax residence of the shareholder.

18. Earnings per share - Group

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Net profit attributable to equity holders of the Company (Ushs M)	**73,402**	60,908
Weighted average number of ordinary shares in issue	**748,144,033**	748,144,033
Basic earnings per share (Ushs)	**98.11**	81.41
Diluted earnings per share (Ushs)	**98.11**	81.41

Profit Attributable to ordinary shareholders

	2019	2018
Net profit attributable to equity holders of the Company (Ushs M)	**73,402**	60,908
Total profit attributable to ordinary shareholders	**73,402**	60,908

There were no potentially dilutive shares outstanding at 31 December 2019 and 2018.

19. Income tax

a) Income tax expense

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Current income tax	**28,028**	15,019	-	-
Deferred income tax charge/(credit) (note 30)	**(464)**	8,542	783	896
Income tax expense/(credit)	**27,564**	23,561	783	896

b) Amount recognised in OCI – Group

	2019 Ushs M		
	Before tax	Tax(expense) /benefit	Net of tax
Movement in Liability credit reserve	**(660)**	**208**	**(452)**
Movement in debt instrument at FVOCI	**(13)**	**-**	**(13)**
	(673)	**208**	**(465)**

b) Amount recognised in OCI – Group

	2018 Ushs M		
	Before tax	Tax(expense) /benefit	Net of tax
Movement in Liability credit reserve	(242)	73	(169)
Movement in debt instrument at FVOCI	52	(16)	36
	(190)	57	(133)

c) Reconciliation of effective tax rate

The tax on the Group's and company's profit before income tax differs from the theoretical amount that would arise using the basic tax rate of 30% as follows:

Group	2019		2018	
	Effective tax rate %	Ushs M	Effective tax rate %	Ushs M
Profit before income tax		**100,966**		84,469
Tax calculated at a tax rate of 30% (2018: 30%)	**30.0**	**30,290**	30.0	25,341
Prior year over provision of corporation tax	**-**	**-**	(0.37)	(310)
Tax effect of:				
- Expenses not deductible for tax purposes	**2.76**	**2,788**	2.74	2,313
- Income taxed at other rates	**(5.46)**	**(5,514)**	(4.48)	(3,783)
Income tax expense	**27.30**	**27,564**	27.89	23,561

Interest income on government securities of Ushs 66,931 million (2018: Ushs 65,530 million) is subject to withholding tax, which is a final tax of 20% (2018: 20%) after making appropriate deductions.

Company	2019		2018	
	Effective tax rate %	Ushs M	Effective tax rate %	Ushs M
Profit before income tax		**24,070**		51,123
Tax calculated at a tax rate of 30% (2018: 30%)	**30.00**	**7,221**	30.00	15,337
Tax effect of:				
- Expenses not deductible for tax purposes	**4.92**	**1,184**	2.35	1,201
- Income taxed at other rates	**(31.67)**	**(7,622)**	(30.60)	(15,642)
Income tax expense/(credit)	**3.25**	**783**	1.75	896

Further information on deferred income tax is presented in note 30.

d) Current income tax payable/ (recoverable)

The movements in current tax payable during the year are as follows:

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	**(3)**	1,466	**(1,519)**	(1,519)
Current income tax charge for the year	**28,028**	15,019	**-**	-
Income tax paid during year	**(25,242)**	(16,488)	**-**	-
At 31 December	**2,783**	(3)	**(1,519)**	(1,519)

20. Cash at hand and balances with Bank of Uganda - Group

	2019	2018
	Ushs M	Ushs M
Cash in hand	**135,050**	138,822
Balances with Bank of Uganda	**259,918**	217,706
Expected Credit loss adjustment	**(76)**	(487)
	394,892	356,041

21. Deposits and balances due from banks - Group

	2019	2018
	Ushs M	Ushs M
Deposits with other banks	**95,995**	153,434
Placements with other banks	**15,127**	37,873
Expected Credit loss adjustment	**(6)**	(221)
	111,116	191,086

Loans and advances to other banks are short-term deposits made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate on loans and advances to other banks was 8% (2018: 11%).

22. Loans and advances to customers - Group

	2019	2018
	Ushs M	Ushs M
Loans and advances to customers at amortised cost	**1,520,006**	1,395,115
Finance leases	**45,806**	36,076
Less impairment loss allowance	**(26,489)**	(33,029)
	1,539,323	1,398,162

	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
	2019	2019	2019	2018	2018	2018
Retail customers:	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Mortgage lending	**65,748**	**(1,197)**	**64,551**	241,061	(2,747)	238,314
Personal loans	**136,379**	**(8,729)**	**127,650**	103,266	(8,454)	94,812
Corporate customers:						
Commercial loans and mortgages	**198,472**	**(3,701)**	**194,771**	205,857	(4,814)	201,043
Term loans	**545,581**	**(6,820)**	**538,761**	520,097	(6,510)	513,587
Trade loans	**277,106**	**(2,591)**	**274,515**	268,094	(3,025)	265,069
Others	**342,526**	**(3,451)**	**339,075**	92,816	(7,479)	85,337
	1,565,812	**(26,489)**	**1,539,323**	1,431,191	(33,029)	1,398,162

The weighted average effective interest rate on loans and advances was 15.49% (2018: 14.96%)

Movements in allowance for impairment of loans and advances

	Stage 1	Stage 2	Stage 3	Total
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January 2018	-	-	68,150	68,150
IFRS 9 Adoption	29,992	10,540	-	40,532
Transfer of collective assessment on adoption of IFRS 9.	-	-	(12,854)	(12,854)
Increase in allowances for impairment	-	-	28,855	28,855
Recoveries and allowances no longer required	-	-	(9,057)	(9,057)
Debts written off during the year	(19,091)	(7,696)	(55,810)	(82,597)
At 31 December 2018	10,901	2,844	19,284	33,029

The charge to statement of comprehensive income is analysed by asset class as follows;

Charge to statement of comprehensive income (2018)				
Increase in allowances for impairment on loans and advances	-	-	**33,029**	**33,029**
Recoveries and allowances no longer required on loans and advances	-	-	**(9,057)**	**(9,057)**
Increases in allowances no longer required on other assets at FVTPL	-	-	**145**	**145**
Increases in allowances no longer required on investment securities	-	-	**175**	**175**
Recoveries of amounts previously written off	-	-	**(1,282)**	**(1,282)**
Net charge to profit or loss	-	-	**23,010**	**23,010**

	Stage 1	Stage 2	Stage 3	Total
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January 2019	10,901	2,844	19,284	33,029
Increase in allowances for impairment	-	831	35,763	36,594
Recoveries and allowances no longer required	(3,413)	-	(7,221)	(10,634)
Debts written off during the year	-	-	(32,500)	(32,500)
At 31 December 2019	7,488	3,675	15,326	26,489

Charge to statement of comprehensive income (2019)				
Increase in allowances for impairment	-	831	25,658	26,489
Recoveries and allowances no longer required	(4,114)	-	(7,221)	(10,634)
Recoveries of amounts previously written off	-	-	(1,081)	(1,081)
Net charge to profit or loss	(4,114)	831	17,356	14,774

The charge to statement of comprehensive income is analysed by asset class as follows;

Charge to statement of comprehensive income (2019)				
	Stage 1	Stage 2	Stage 3	Total
	Ushs M	Ushs M	Ushs M	Ushs M
Increase in allowances for impairment on loans and advances	-	831	25,658	26,489
Recoveries and allowances no longer required on loans and advances	(3,413)	-	(7,221)	(10,634)
Recoveries and allowances no longer required on other assets at FVTPL	(654)	-	-	(654)
Recoveries and allowances no longer required on investment securities	(47)	-	-	(47)
Recoveries of amounts previously written off	-	-	(380)	(380)
Net charge to profit or loss	(4,114)	831	18,057	14,774

Loans and advances to customers include finance lease receivables, which may be analysed as follows:

	2019	2018
	Ushs M	Ushs M
Gross investment in finance leases:		
Not later than 1 year	27,220	14,083
Later than 1 year and not later than 5 years	24,587	31,622
Later than 5 years	638	370
	52,445	46,075
Unearned future finance income on finance leases	(6,639)	(9,999)
Net investment in finance leases	45,806	36,076

The net investment in finance leases may be analysed as follows:

	2019	2018
	Ushs M	Ushs M
Not later than 1 year	23,774	11,026
Later than 1 year and not later than 5 years	21,475	24,759
Later than 5 years	557	291
	45,806	36,076

Included in the allowance for impairment of loans and advances as at 31 December 2019 is Ushs 2,552 million (2018: Ushs 2,144 million) attributable to impairment of finance lease receivables.

The carrying value of loans and advances to customers is approximately equal to its fair value.

23. Equity investments at fair value through profit and loss - Group

	2019	2018
	Ushs M	Ushs M
New Vision Limited	122	122
Bank of Baroda (U) Limited	7,500	8,750
National Insurance Corporation	984	1,387
Kenya Commercial Bank Limited	19	14
Crane Financial Services	1,138	1,138
	9,763	11,411

24. Investments in securities – Group

	2019	2018
Investment securities	**Ushs M**	**Ushs M**
Investment securities measured at amortised cost	**363,382**	484,082
Investment securities measured at FVOCI - debt instruments	**123,254**	32,019
Other bonds	**219**	307
Expected credit loss adjustment	**(84)**	(996)
	486,771	515,412

Also included in investment securities that are designated as at FVTPL are the Group's equity investments in certain entities. Other bonds include corporate bonds amounting to Ushs 219 million (2018: Ushs 307 million) issued by Stanbic Bank Uganda Limited.

25. Trading assets - Group

			Trading assets		Trading liabilities	
			2019	**2018**	**2019**	**2018**
			Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Non-derivatives			**22,630**	41,116	-	-
Derivatives			**-**	-	-	-
			22,630	41,116	-	-
Trading assets						
	Pledged trading asset	**Non-pledged trading assets**	**Total trading assets**	**Pledged trading asset**	**Non-pledged trading assets**	**Total trading assets**
	2019	**2019**	**2019**	**2018**	**2018**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
Government bonds	-	2,740	2,740	-	7,337	7,337
Treasury bills	-	19,890	19,890	-	33,779	33,779
	-	**22,630**	**22,630**	**-**	**41,116**	**41,116**

Treasury bills are debt securities issued by the Government of Uganda, and administered by the Bank of Uganda, for a term of three months, six months, nine months or a year. Treasury bonds are debt securities issued by the Government of Uganda and administered by the Bank of Uganda, for terms of two years, three years, five years, ten years and fifteen years. The weighted average effective interest rate on government securities was 14.4%. (2018: 10.9%)

26. Other assets

	Group		Company	
	2019	**2018**	**2019**	**2018**
Other assets at amortised cost	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
Prepaid expenses	**15,962**	13,408	**-**	-
Sundry receivables	**6,152**	9,926	**-**	-
Other assets	**1,390**	5,061	**17**	16
Expected credit loss adjustment	**(87)**	(116)	**-**	-
	23,417	28,279	**17**	16
Other assets at FVTPL				
Other financial assets at fair value through profit and loss	**166,283**	192,466	**-**	-
Total Other assets	**189,700**	220,745	**17**	16

Other financial assets at fair value through profit and loss relate to the fair valuation of written off and non-performing loans and advances acquired from Crane Bank Limited. The carrying value of other assets is approximately equal to its fair value.

The table below summarises the movement in other financial assets at fair value through profit and loss;

	2019	2018
	Ushs M	Ushs M
At 1 January 2019	**192,466**	215,992
Recoveries during the year	**(16,078)**	(27,700)
Fair value (loss)/gain	**(10,105)**	4,174
At 31 December 2019	**166,283**	192,466

27. Investment property

Investment property comprises land and buildings at Plot 26 Kyadondo Road, Kampala. This property is held for its rental and capital appreciation. The investment property has been stated on the historical cost basis.

During 2019, the Company resolved to make available for rent to third parties, that part of the property that is not utilised by dfcu Group Limited. Consequently, that part of the property is held for rental purposes and has been reclassified to investment property in the consolidated financial statements as shown below. In the stand alone financial statements of the Company, the entire property is held for rental purposes and is therefore retained as investment property in those financial statements.

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	**10,758**	11,144	**48,091**	47,777
Additions at cost	**-**	-	**877**	2,495
Transfer from property and equipment	**-**	700	**-**	-
Accumulated depreciation	**(416)**	(1,086)	**(2,631)**	(2,181)
At 31 December	**10,342**	10,758	**46,337**	48,091
Amount allocated to investment property	**10,342**	10,758		
Amount allocated to property and equipment	**35,995**	37,333		
Total property and equipment	**46,337**	48,091		

28. Property and Equipment - Group

	Freehold land and building	Operating lease prepayment	Motor vehicle	Furniture & equipment	Computer equipment	Right of Use asset	Work in progress	Total
Cost:	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January 2018	66,883	12,804	2,373	75,314	26,013	-	7,456	190,843
Adjustments to align the fixed assets	(402)	1,782	473	36,403	2,981	-	1	41,238
Additions	13	-	161	1,049	2,588	-	2,422	6,233
Transfer to Investment property	(700)	-	-	-	-	-	-	(700)
Disposals	-	-	(267)	(156)	(402)	-	-	(825)
As at 31 December 2018	65,794	14,586	2,740	112,610	31,180	-	9,879	236,789
Depreciation:								
At 1 January 2018	2,486	283	732	32,747	11,953	-	-	48,201
Adjustments to align the fixed assets	(504)	1,693	853	32,853	7,529	-	-	42,424
Charge for the year	838	354	474	13,544	5,556	-	-	20,766
Disposals	-	-	(144)	(100)	(356)	-	-	(600)
As at 31 December 2018	2,820	2,330	1,915	79,044	24,682	-	-	110,791
Net carrying amount	62,974	12,256	825	33,566	6,498	-	9,879	125,998
At 1 January 2019	**65,794**	**14,586**	**2,740**	**112,610**	**31,180**	**-**	**9,879**	**236,789**
Reclassification to right of use asset (RoU)	**-**	**(14,586)**	**-**	**-**	**-**	**14,586**	**-**	**-**
Recognition of RoU on initial application of IFRS 16	**-**	**-**	**-**	**-**	**-**	**36,300**	**-**	**36,300**
Adjusted balance at 1 January 2019	**65,794**	**-**	**2,740**	**112,610**	**31,180**	**50,886**	**9,879**	**273,089**
Adjustments to align the fixed assets	**-**	**-**	**-**	**(25)**	**19**	**-**	**-**	**(6)**
Additions	**-**	**-**	**-**	**2,812**	**220**	**1,188**	**11,351**	**15,571**
Transfers from work in progress	**-**	**-**	**1,031**	**953**	**2,533**	**-**	**(4,517)**	**-**
Write offs	**-**	**-**	**-**	**(411)**	**(3,970)**	**-**	**(528)**	**(4,909)**
Disposals	**-**	**-**	**(1,318)**	**(38)**	**(263)**	**-**	**-**	**(1,619)**
As at 31 December 2019	**65,794**	**-**	**2,453**	**115,901**	**29,719**	**52,074**	**16,185**	**282,126**
Depreciation:								
At 1 January 2019	**2,820**	**2,330**	**1,915**	**79,044**	**24,682**	**-**	**-**	**110,791**
Reclassification to right of use asset	**-**	**(2,330)**	**-**	**-**	**-**	**2,330**	**-**	**-**
Adjustments to align the fixed assets	**-**	**-**	**-**	**(2)**	**663**	**-**	**-**	**661**
Charge for the year	**1,644**	**-**	**438**	**12,554**	**2,530**	**4,582**	**-**	**21,748**
Write offs	**-**	**-**	**-**	**(255)**	**(2,396)**	**-**	**-**	**(2,651**
Disposals	**-**	**-**	**(1,126)**	**(33)**	**(263)**	**-**	**-**	**(1,422)**
As at 31 December 2019	**4,464**	**-**	**1,227**	**91,308**	**25,216**	**6,912**	**-**	**129,127**
Net carrying amount	**61,330**	**-**	**1,226**	**24,593**	**4,503**	**45,162**	**16,185**	**152,999**

Work-In-Progress (WIP) relates to ongoing works in respect of various projects the Group is undertaking. There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (2018: nil). Adjustments to align the fixed assets relates to alignment of the prior year numbers to the verified asset register. The prior year verification exercise was completed during the year.

Operating leases relate to the carrying value of the leases that were acquired from Crane Bank Limited (in receivership) in January 2017. These have been reclassified to Right of use asset in accordance with IFRS 16, Leases.

29. Intangible assets

	Goodwill	Computer software	Other intangible assets	Work-In-Progress	Total
	Ushs M	Ushs M	Ushs M		Ushs M
Cost					
At 1 January 2018	463	33,277	36,921	2,948	73,609
Additions	-	29	-	5,447	5,476
Transfers from WIP	-	5,556	-	(5,556)	-
At 31 December 2018	463	38,862	36,921	2,839	79,085
Amortisation					
At 1 January 2018	-	14,239	8,995	-	23,234
Adjustment to align the assets	-	9	-	-	9
Charge for the year	-	4,435	8,755	-	13,190
At 31 December 2018	-	18,683	17,750	-	36,433
Net carrying amount	463	20,179	19,171	2,839	42,652
Cost					
At 1 January 2019	**463**	**38,862**	**36,921**	**2,839**	**79,085**
Additions	**-**	**841**	**-**	**7,473**	**8,314**
Transfers from WIP	**-**	**2,328**	**-**	**(2,328)**	**-**
At 31 December 2019	**463**	**42,031**	**36,921**	**7,984**	**87,399**
Amortisation					
At 1 January 2019	**-**	**18,683**	**17,750**	**-**	**36,433**
Adjustment to align the assets	**-**	**(662)**	**-**	**-**	**(661)**
Charge for the year	**-**	**6,258**	**7,633**	**-**	**13,891**
At 31 December 2019	**-**	**24,279**	**25,383**	**-**	**49,662**
Net carrying amount	**463**	**17,752**	**11,538**	**7,984**	**37,737**

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment of goodwill identified in 2019 (2018: nil).

Computer software comprises of software for the Group's core banking systems.

Other intangible assets comprises of fair valuations of customer relationships acquired from Bank of Uganda relating to Global Trust Bank and Crane Bank Limited and fair valuations of customer deposits and ground rent.

Work In-Progress (WIP) relates to ongoing works in respect of the software upgrade.

30. Deferred income tax

Deferred tax is calculated on all temporary differences under the liability method using the principal tax rate of 30%), except for interest receivable on treasury bills and bonds where the enacted rate is 15% (2018: 15%). Deferred tax assets and liabilities and the deferred tax credit as at 31 December 2019 are attributed to the following items:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	**(2,198)**	(2,111)	**(550)**	(1,446)
Charge/(credit) to income statement	**(464)**	8,542	**783**	896
Charge to OCI	**(208)**	(57)	**-**	-
Charge to retained earnings	**-**	(8,572)	**-**	-
Deferred tax (asset)/liability	**(2,870)**	(2,198)	**233**	(550)

	Group				
2019	**At 1 January 2019**	**(Credit)/ Charge to P&L**	**(Credit)/ Charge to OCI**	**Credit)/ Charge to Retained earnings**	**At 31 December 2019**
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Property and equipment	**4,811**	**(1,535)**	**-**	**-**	**3,276**
Tax losses carried forward	**(4,052)**	**2,568**	**-**	**-**	**(1,484)**
Deferred fees and commissions income	**(1,842)**	**(411)**	**-**	**-**	**(2,253)**
Fair value of treasury bills and bonds	**524**	**(529)**	**-**	**-**	**(5)**
Fair value of customer relationships	**2,922**	**(1,563)**	**-**	**-**	**1,359**
Unrealised foreign exchange loss	**-**	**(14)**	**-**	**-**	**(14)**
FVOCI Fair value loss	**(73)**	**-**	**(208)**	**-**	**(281)**
Allowance for impairment of loans and advances	**(4,488)**	**1,020**	**-**	**-**	**(3,468)**
Net deferred tax liability/(asset)	**(2,198)**	**(464)**	**(208)**	**-**	**(2,870)**

	Company		
2019	**At 1 January 2019**	**(Credit)/ Charge to SOCI**	**At 31 December 2019**
	Ushs M	Ushs M	Ushs M
Property and equipment	1,608	124	1,732
Tax losses carried forward	(2,158)	673	(1,485)
Unrealised foreign exchange loss	-	(14)	(14)
Net deferred tax asset	(550)	783	233

Unrecognised deferred tax asset - Company

In accordance with policy L(ii), the deferred tax asset arising from accumulated tax losses carried forward are recognised only to the extent that realisation of the tax benefit is probable. The deferred tax asset has been recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

The table below show a reconciliation of the total accumulated tax losses against which further taxable profits will be offset

	2019	2018
	Ushs M	**Ushs M**
Recognised deferred tax on carried forward tax losses	**1,485**	2,158
Unrecognised deferred tax on carried forward tax losses	**1,938**	970
Deferred tax asset	**3,423**	3,128

The Income Tax Act does not limit the years over which cumulative tax losses can be carried. The table below shows the aging of the carried forward tax losses.

Year	Ushs M
2015	346
2016	408
2017	730
2018	970
2019	969
Total	**3,423**

	Group				
2018	**At 1 January 2018**	**(Credit)/ Charge to P&L**	**(Credit)/ Charge to OCI**	**Credit)/ Charge to Retained earnings**	**At 31 December 2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
Property and equipment	4,997	(186)	-	-	4,811
Tax losses carried forward	(2,614)	(1,438)	-	-	(4,052)
Deferred fees and commissions income	(1,879)	37	-	-	(1,842)
Fair value of treasury bills and bonds	(2,272)	2,796	-	-	524
Fair value of customer relationships	3,622	(700)	-	-	2,922
Unrealised foreign exchange loss	(109)	109	-	-	-
FVOCI Fair value loss	-	-	(73)	-	(73)
Allowance for impairment of loans and advances	(3,856)	7,924	16	(8,572)	(4,488)
Net deferred tax asset	(2,111)	8,542	(57)	(8,572)	(2,198)

	Company		
2018	**At 1 January 2018**	**(Credit)/ Charge to SOCI**	**At 31 December 2018**
	Ushs M	**Ushs M**	**Ushs M**
Property and equipment	1,277	331	1,608
Tax losses carried forward	(2,614)	456	(2,158)
Unrealised foreign exchange loss	(109)	109	-
Net deferred tax asset	(1,446)	896	(550)

31. Investment in subsidiaries

	Shareholding	Company	
		2019	2018
		Ushs M	Ushs M
dfcu Bank Limited	100%		
As at 1 January and 31 December		**203,293**	203,293

dfcu Bank Limited is incorporated in Uganda under the Companies Act of Uganda as a limited liability company and licensed by Bank of Uganda to operate as a commercial bank. It is domiciled in Uganda and the address of its registered office is:

Plot 26 Kyadondo Road
P.O. Box 70
Kampala, Uganda.

The Group is engaged in the business of banking and the provision of related services and is licensed under the Financial Institutions Act.

32. Customer deposits - Group

	2019	2018
	Ushs M	Ushs M
Demand deposits	809,816	729,752
Savings deposits	527,246	477,232
Fixed deposits	701,975	772,109
	2,039,037	1,979,093

The carrying value of customer deposits is approximately equal to its fair value.

33. Deposits due to other banks - Group

	2019	2018
	Ushs M	Ushs M
Balances due to other banks within 90 days	10,002	-

Balances due to other banks are short-term deposits made by other banks for varying periods of between one day and three months and earn interest at the respective short-term deposit rates. The carrying value of deposits due to other banks is approximately equal to its fair value.

34. Other liabilities

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Bills payable	**571**	447	**-**	-
Unclaimed balances	**789**	933	**-**	81
Other liabilities	**17,425**	25,111	**1,889**	4,549
Managed funds (Note 35)	**197**	197	**197**	197
Deferred grant income	**118**	113	**-**	-
Deferred rental income	**642**	420	**6,423**	420
IFRS 16 lease liability	**28,591**	-	**-**	-
Accrued expenses and payables	**13,650**	16,726	**58**	33
	61,983	43,947	**8,567**	5,280

Deferred grant income

The Group's subsidiary, **dfcu** Bank Limited was awarded a government grant from Royal Danish Embassy amounting to Ushs 628,875,000 in cash or in kind as its cost-share portion towards the setting up a mobile savings/lending account and installation of instant account opening software Project, according to the commitment in the Project budget and work plan for a period of 24 months or such other longer period as may be agreed in writing by both parties.

The Group received Ushs 400,000,000 million in 2017 as the first disbursement and is conditional on implementing the Project in accordance with the agreed work plan and within the timelines and budget outlined in the project summary. The deferred income and related expenditure is recognised in the profit and loss on a systematic basis in the periods in which the expenses are recognised. As at 31 December 2019, the grant had not been fully utilized and there was no utilisation during the year. The Movement in the year relates to write back of expenses previously incurred but were not meeting the criteria for utilisation.

Other liabilities

Other liabilities are non-interest bearing and normally settled within 30-90 days. The Group gives no collateral in respect to these payables. Other liabilities include the expected credit loss on contingent liabilities and commitments amounting to Ushs 118 million (2018: Ushs 144 million). The carrying value of other liabilities is approximately equal to its fair value.

35. Managed funds - Group

dfcu Limited manages a number of funds on behalf of the Government of Uganda ("GoU") under which GoU provides financing for on-lending to specified third party beneficiaries under the terms and conditions of each fund. The related loans and advances are not maintained on the statement of financial position of **dfcu** Limited to reflect the fact that the Group has neither rights to future economic benefits beyond management fees nor obligations to transfer economic benefits under the management agreements of the funds. These funds are due on demand. During the year, the Group had the GoU/CDO Fund, Commercial Flower Fund (CFF) and Gomba Daals Fund (GDF) under management. The un-disbursed balances on these funds are as follows:

(a) CDO/ GOU Fund

During 2004, **dfcu** Limited entered into a tripartite agreement with the Government of Uganda and Cotton Development Organisation (CDO) to set up a revolving fund of Ushs 2.5 billion in cash, Ushs 720 million worth of tractors and US$ 300,000 to finance leases for cotton farmers in Uganda. Under the terms of the agreement, **dfcu** Limited provides leasing administration and management services only and receives fees in this respect of up to 4% of each lease facility. Interest on the facilities is chargeable to a maximum of 10% and is credited to the fund. No time limit was set for the fund under the terms of the agreement.

(b) Gomba Daals Fund

During 2007, **dfcu** Limited entered into a tripartite agreement with the Government of Uganda and Gomba Daals Spices (U) Limited to set up a revolving fund of Ushs 221 million. Under the terms of the agreement, **dfcu** Limited provides leasing administration and management services only and receives fees in this respect of up to 2% of the lease facility. Interest on the facility is charged at 4% and is credited to the fund. No time limit was set for the fund under the terms of the agreement.

36. Special funds - Group

Special funds represent liabilities created under the terms of borrowing agreements with Kreditanstalt Fur Wiederaufbau (KFW). These agreements require the Group to remit repayments of principal and interest due on loans issued out of the proceeds of these borrowings into a special fund controlled by the Government of Uganda to support the financing of SME and microfinance businesses.

	2019	2018
	Ushs M	Ushs M
At 31 December	**1,205**	1,440

The carrying value of special funds is approximately equal to its fair value.

37. Borrowed funds

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Uganda Government (KFW V loan)	**11,878**	11,878	**-**	-
Bank of Uganda (ACF loan)	**24,080**	20,532	**-**	-
Bank of Uganda (Other borrowings)	**-**	62,482	**-**	-
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	**64,659**	65,349	**-**	-
Abi-Finance	**14,918**	14,718	**-**	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	**43,254**	39,049	**-**	-
European Investment Bank – PEFF	**49,343**	67,683	**-**	-
European Investment Bank – Microfinance	**1,844**	5,024	**-**	-
East African Development Bank	**14,861**	18,316	**-**	263
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Senior loan	**6,956**	22,274	**-**	-
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG)	**36,660**	37,120	**-**	-
UN Habitat	**455**	537	**-**	-
Jubilee Insurance	**4,446**	4,604	**4,446**	4,604
	273,354	369,566	**4,446**	4,867

The maturity analysis for borrowed funds has been disclosed in Note 5C.

Included in borrowings is a subordinated debt from Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) whose tenure is 7 years and is due to mature in 2024. The interest rate on this debt is variable at an aggregate interest rate of 6.6% per annum plus the USD swap rate prevailing at the interest determination date. The other subordinated debt is from CDC Group Plc (CDC) whose tenure is 7 years and was due to mature in 2020, however an early repayment was made in 2019. The interest rate on this debt is variable at Libor 6 months plus 4.5%. The debts are subordinated to ordinary liabilities of the Group and recognized by the Group as Tier 2 Capital.

The terms and conditions relating to borrowings are tabulated below:

Group	Tenure (years)	Interest rate	Fixed / variable	Currency
Uganda Government (KFW V loan)	6	0.00%	Fixed	Ushs
Bank of Uganda (ACF loan)	8	0.00%	Fixed	Ushs
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	7	5.50%	Variable	USD
Abi-Finance Limited	7	12.50%	Fixed	Ushs
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	7	5.50%	Variable	Ushs
European Investment Bank-PEFF USD	10	4.70%	Fixed	USD
European Investment Bank-PEFF UGX	10	9.28%	Fixed	Ushs
European Investment Bank-Microfinance	7	10.26%	Fixed	Ushs
East African Development Bank	7	12.00%	Fixed	Ushs
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Subordinated debt	7	8.57%	Variable	USD
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Senior loan	5	4.64%	Variable	USD
UN Habitat	15	2.00%	Fixed	Ushs

Company	Tenure (years)	Interest rate	Fixed / variable	Currency
East African Development Bank	7	19.50%	Fixed	Ushs
Jubilee Insurance	5	6.38%	Fixed	USD

All the borrowed funds are unsecured.

The carrying value of borrowed funds is approximately equal to its fair value.

38. Share capital and share premium

Group	Number of issued ordinary shares	Share Capital	Share premium	Total
		Ushs M	Ushs M	Ushs M
At 1 January and 31 December 2019 and 2018	**748,144,033**	**14,963**	**185,683**	**200,646**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group. All ordinary shares rank equally with regard to the Group's residual assets.

Share premium

	2019	2018
	Ushs M	Ushs M
** 1 May 2000	2,878	2,878
*** 28 February 2017	182,805	182,805
Total	**185,683**	**185,683**

** Share premium relates to shares issued by the Group on 1 May 2000 amounting to 198,880,729 with a par value of Ushs 20 per share at approximately Ushs 95 per share which resulted into a share premium of Shs 2,878 million.

*** Share premium relates to additional capital additional capital from its shareholders through a rights issue done in 2017. The capital was converted into 250.9 million ordinary shares giving rise to additional ordinary share capital of Ushs 5.5 billion and share premium of Ushs 182.8 billion.

39. Regulatory reserve - Group

	2019	2018
	Ushs M	Ushs M
At 1 January	**8,024**	11,113
Transfer (to)/from retained earnings during the year	**6,031**	(3,089)
At 31 December	**14,055**	8,024
The regulatory Credit risk reserve is analysed as follows;		
Provision for impairment of loans and advances as per FIA 2004:		
Specific provisions	**25,060**	26,762
General provisions	**15,484**	14,291
	40,544	41,053
Provision for impairment of loans and advances as per IFRS		
Identified impairment (note 23)	**(15,326)**	(19,284)
Unidentified impairment (note 23)	**-**	-
Stage 1	**(7,488)**	(10,901)
Stage 2	**(3,675)**	(2,844)
At 31 December	**14,055**	8,024

The regulatory credit risk reserve represents amounts by which allowances for impairment of loans and advances determined in accordance with the Financial Institutions Act, 2004 exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated from retained earnings in accordance with accounting policy 4E (v). The reserve is not distributable.

40. Retained Earnings/ accumulated losses

Retained earnings / accumulated losses comprises prior year brought forward earning plus current year profit less any dividends paid and proposed and transfers to credit risk reserve. As at 31 December 2019, retained earnings amounted to Ushs 313,639 million (2018: Ushs 276,192 million) for the group and accumulated losses of Ushs 17,301 million (2018: Ushs 10,664 million) for the company. The movement in retained earnings / accumulated losses is shown in the statement of changes in equity.

41. Fair Value reserve - Group

The fair value reserve comprises;

The cumulative net change in the fair value of equity securities and the cumulative net change in the fair value of debt securities are measured at FVOCI until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

Movement in FVOCI financial assets	**2019**	**2018**
	Ushs M	**Ushs M**
At 1 January	**(169)**	-
Net movement on revaluation of FVOCI financial assets	**(660)**	(242)
Deferred tax impact of FVOCI transactions	**208**	73
At 31 December	**(621)**	(169)
ECL on FVOCI financial assets		
At 1 January net of deferred tax	**36**	-
Increase/(decrease) in ECL	**(13)**	52
Deferred tax impact of FVOCI transactions	**-**	(16)
At 31 December	**23**	36
Total fair value reserve	**(598)**	(133)

42. Off-consolidated statement of financial position financial instruments, contingent liabilities and commitments - Group

In common with other banks, the subsidiary of the Company, **dfcu** Bank Limited (the Bank), conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	2019	**2018**
	Ushs M	**Ushs M**
Contingent liabilities		
Acceptances and letters of credit	**-**	-
Guarantee and performance bonds	**541,845**	294,830
	541,845	294,830
Commitments		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**51,377**	48,289
	593,222	343,119

43. Leases - Group

The Group leases a number of branch and office premises. The leases typically run for a period of 7 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every 3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment (see Note 27).

Branch and office premises	2019 (Shs M)
Balance at 1 January 2019	48,556
Additions	1,188
Depreciation charge for the year	(4,582)
Balance as at 31 December 2019	**45,164**

Asset category	Carrying amount 1 January 2019 (Shs M)	Carrying amount 31 December 2019 (Shs M)
Branches	48,271	44,926
ATMs	285	238
Balance as at 31 December 2019	**48,556**	**45,164**

ii. Lease Liability

The lease liability arises out of the payment obligations from leased branch and office premises and this is presented within the other liabilities (see note 34)

Branch and office premises	2019 (Shs M)
Balance at 1 January 2019	29,386
New leases	5,346
Interest expense	3,292
Payments	(9,433)
Balance as at 31 December 2019	**28,591**

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

	2018
	(Ushs M)
Maturity analysis – Contractual undiscounted cash flows	
Not later than one year	10,132
Between 1 year and 2 years	9,988
Between 2 years and 5 years	9,062
Over 5 years	9,337
	38,519

iii. Amounts recognized in profit or loss

	2019
2019 – Leases under IFRS 16	**(Ushs M)**
Interest on lease liabilities	3,292
Depreciation on Right of Use asset	4,582
Expenses relating to short term leases	877
	8,751
	2018
2018 – Operating leases under IAS 17	**(Ushs M)**
Lease expense	16,375

iv. Amounts recognized in the statement of cashflows

	2019
	Ushs M
Principle paid on the lease liability	**6,141**
Interest paid on the lease liability	**3,292**
Total cash outflow for leases	**9,433**

v. Extension options

Some leases of office premises contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

vi. Discount rate

In determination of the implicit rate of the lease (Discount rate), the Group has evaluated its ability to raise funds with a similar term structure and determined the weighted average cost of the fixed deposits as the discount rate. The weighted average rate as at 1 January 2019 was 12%

44. Other contingent liabilities - Group

The Group is a defendant in various legal actions in the normal course of business. The total estimated contingent liability arising from these cases is Ushs 81 billion (2018: Ushs 102 billion). Through legal advice management has determined that total expected losses to the Group are Ushs 2.9 billion (2018: Ushs 4.7 billion) for which a provision has been made in the consolidated financial statements. In the opinion of directors and after taking appropriate legal advice, no significant additional losses are expected to arise from these cases.

45. Cash and cash equivalents

Analysis of cash and cash equivalents as shown in the consolidated statement of cash flows.

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Cash in hand (note 22)	**135,050**	138,822	**-**	-
Balances with Bank of Uganda (note 22)	**259,842**	217,219	**-**	-
Less: Cash reserve requirement	**(158,300)**	(154,480)	**-**	-
Amounts due from related companies (note 46(b))	**-**	-	**1,714**	780
Deposits and balances due from banks (note 23)	**111,116**	191,086	**-**	-
	347,708	392,647	**1,714**	780

For purposes of the statement of cash flows, cash equivalents include short- term liquid investments which are readily convertible into known amounts of cash and with less than 90 days to maturity from the date of acquisition. Amounts due from related parties relate to cash deposits held in dfcu Group Limited which are due on demand.

Bank of Uganda requires banks to maintain a prescribed minimum cash balance. This balance is available to finance the Group's day-to-day activities; however, there are restrictions as to its use and sanctions for non-compliance. The amount is determined as a percentage of the average outstanding customer deposits held by dfcu Bank Limited over a cash reserve cycle period of fourteen days.

The table below shows a reconciliation of movements of liabilities to cash flows arising from financing activities.

2019

Group	Liabilities	Equity			Total
	Borrowed funds	Share capital	Share premium	Proposed dividends	
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Balance as at 1 January 2019	369,566	14,963	185,683	24,694	**594,906**
Changes from financing cash flows					
Dividends paid		-	-	(24,694)	**(24,694)**
New borrowings	65,819	-	-	-	**65,819**
Interest expense	21,805	-	-	-	**21,805**
Interest and principle paid	(183,836)	-	-	-	**(183,836)**
Total changes from financing cash flows	**273,354**	**14,963**	**185,683**	**-**	**474,000**
Other changes (equity - related)					
Proposed Dividends 2019	-	-	-	29,924	**29,924**
Total changes from other changes (equity - related)	**-**	**-**	**-**	**29,924**	**29,924**
Balance as at 31 December 2019	**273,354**	**14,963**	**185,683**	**29,924**	**503,924**

Company	Liabilities	Equity			Total
	Borrowed funds	Share capital	Share premium	Proposed dividends	
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Balance as at 1 January 2019	4,867	14,963	185,683	24,694	**230,207**
Changes from financing cash flows					
Dividends paid	-	-	-	(24,694)	**(24,694)**
Interest expense	2,687	-	-		**2,687**
Interest and principle paid	(3,108)	-	-		**(3,108)**
Total changes from financing cash flows	**4,446**	**14,963**	**185,683**		**205,092**
Other changes (equity - related)					
Proposed Dividends 2019	-	-	-	29,924	**29,924**
Total changes from other changes (equity - related)	**-**	**-**	**-**	**29,924**	**29,924**
Balance as at 31 December 2019	**4,446**	**14,963**	**185,683**	**29,924**	**235,016**

2018

Group	Liabilities	Equity			Total
	Borrowed funds	Share capital	Share premium	Proposed dividends	
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Balance as at 1 January 2018	481,738	14,963	185,683	51,054	**733,438**
Changes from financing cash flows					
Dividends paid		-	-	(51,054)	**(51,054)**
New borrowings	65,819	-	-	-	**65,819**
Interest expense	20,810	-	-	-	**20,810**
Interest and principle paid	(198,801)	-	-	-	**(198,801)**
Total changes from financing cash flows	**369,566**	**14,963**	**185,683**	**-**	**570,212**
Other changes (equity - related)					
Proposed Dividends 2018	-	-	-	24,694	**24,694**
Total changes from other changes (equity - related)	**-**	**-**	**-**	**24,694**	**24,694**
Balance as at 31 December 2018	**369,566**	**14,963**	**185,683**	**24,694**	**594,906**

Company	Liabilities	Equity			Total
	Borrowed funds	Share capital	Share premium	Proposed dividends	
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Balance as at 1 January 2018	3,695	14,963	185,683	51,054	**255,395**
Changes from financing cash flows					
Dividends paid	-	-	-	(51,054)	**(51,054)**
Borrowings acquired	2,000	-	-	-	**2,000**
Borrowed funds paid	(947)	-	-	-	**(947)**
Interest expense	2,329	-	-	-	**2,329**
Interest paid	(2,210)	-	-	-	**(2,210)**
Total changes from financing cash flows	**4,867**	**14,963**	**185,683**	**-**	**205,513**
Other changes (equity - related)					
Proposed Dividends 2018	-	-	-	24,694	**24,694**
Total changes from other changes (equity - related)	**-**	**-**	**-**	**24,694**	**24,694**
Balance as at 31 December 2018	**4,867**	**14,963**	**185,683**	**24,694**	**230,207**

46. Related party disclosures

There are other companies that are related to dfcu Limited through common shareholdings or common directorships. Transactions and balances with related parties are shown below:

a) Amounts due to related companies

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Jubilee Insurance Company Limited – Fixed and Demand deposits, borrowings	**16,288**	9,696	**4,446**	4,604
dfcu Bank Limited – Overdraft and term finance	**-**	-	**14,252**	17,313
Umeme Limited – Demand deposits	**1,334**	245	**-**	-
National Social Security Fund – Demand deposits	**152**	20,361	**-**	-

Amounts due to dfcu Bank Limited relate to an overdraft which earns interest at the prevailing market rates. Amounts due to other related companies include borrowings and deposits held with dfcu Limited and dfcu Bank Limited which both accrue interest at the prevailing market rates. The loans to related companies are neither past due nor impaired and bear an average interest rate of 17% per annum.

b) Amounts due from related companies

	2019	2018
	Ushs M	Ushs M
dfcu Bank Limited	**1,714**	**780**
Umeme Limited	**36,650**	**61,345**

These include deposits held in **dfcu** Bank Limited which are due on demand and earn interest at the prevailing market rates. Amount due from Umeme Limited relates to an overdraft which earns interest at the prevailing market rates.

Interest expense incurred		
Interest expense incurred	**232**	785

Advances to customers include loans to directors and loans to employees as follows:

- At 31 December 2019, advances to employees amounted to Ushs 24,762 million (2018: Ushs 24,109 million).
- At 31 December 2019, there were no advances to directors and companies controlled by directors or closely connected persons (2018: Ushs Nil).

	2019	2018
	Ushs M	Ushs M
Interest income earned on advances to employees and directors / companies connected to directors	**2,505**	2,174

c) Deposits by directors - Group

	2019	2018
	Ushs M	Ushs M
At 1 January	**25**	69
Net increase/(decrease)	**111**	(44)
At 31 December	**136**	25
The interest expense there on is Ushs 0.5 million (2018: Ushs 0.5 million).		

d) Key management compensation

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Salaries and other short-term employment benefits	3,615	5,614	352	326
Post-employment benefits	514	698	59	33
	4,129	6,312	411	359

e) Directors' remuneration

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Fees for services as directors	1,454	1,418	461	379
Other emoluments: short-term benefits (included in key management compensation)	-	-	-	-
	1,454	1,418	461	379

47. Retirement benefit obligations

The Group participates in a defined contribution retirement benefit scheme and substantially all of the Group's employees are eligible to participate in this scheme. The Group is required to make annual contributions to the scheme at a rate of 7.5% of basic pay. Employees contribute 7.5% of their basic salary. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under this scheme. During the year ended 31 December 2019, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Ushs 2,250 million (2018: Ushs 2,051 million).

The Group also makes contributions to the statutory retirement benefit scheme, the National Social Security Fund. Contributions are determined by local statute and are shared between the employer and employee. For the year ended 31 December 2019 the Group contributed Ushs 5,158 million (2018: Ushs 5,247 million), which has been charged to profit or loss.

48. Capital Commitments

Capital commitments mainly relate to software upgrades and the ongoing construction of Namanve Financial Centre. Capital commitments as at 31 December were;

	Group		Company	
	2019	2018	2019	2018
	Ushs M	Ushs M	Ushs M	Ushs M
Authorised but not contracted	-	-	-	-
Authorised and contracted	24,169	12,718	83	226
	24,169	12,718	83	226

49. Subsequent events

On 31st December 2019, the People's Republic of China notified the World Health Organization (WHO) of an outbreak of a pneumonia causing illness that was later confirmed to be due to the novel corona virus (COVID-19). On 11th March 2020, WHO declared this outbreak a pandemic. The outbreak has spread to all continents and over 160 countries are affected. As of 21st March 2020, over 40 countries in Africa have reported cases of Covid 19 including Uganda. The Ugandan government has since taken stringent steps to help contain and delay the spread of the virus. The measures so far include;

a) Closure of all schools and tertiary institutions.
b) Banning of all public gatherings including funerals, wedding ceremonies and religious gatherings.
c) Closure of all borders for passengers in and out of the country.
d) Encouraging minimal movement within the country.

These measures are getting adapted as the situation unfolds.

The group recognizes the significance of maintaining business continuity and has set up a contingency pandemic plan in order to prepare and provide solutions on how to maintain business operations with minimal disruptions. The pandemic planning has not been taken as a Business Technology issue only but as a significant risk to the entire business. As a result, the planning activities involve both Board and Senior Management from all key business units and support departments.

The Board of Directors is responsible for overseeing the development and approval of the Pandemic and Business Continuity Plan, while Senior management is responsible for developing and translating the pandemic plan into specific policies, processes, and procedures. The Senior management will also communicate the plan throughout the institution to ensure consistent understanding of the key elements of the Plan such that employees understand their roles and responsibilities in responding to the pandemic event.

The economic impacts of these events include:

i. Disruption to business operations, in particular, in 'significantly impacted countries' that have high and/or rapidly increasing infection rates;

ii. Significant disruption to businesses in 'highly exposed sectors' globally, in particular, trade and transportation, travel and tourism, hospitality/entertainment/sport, manufacturing, construction and retail; and

iii. A significant increase in economic uncertainty, evidenced by more volatile asset prices and currency exchange rates, and a significant decline in long-term interest rates in developed economies.

Examples of the events or conditions that may be material non-adjustable subsequent events and warrant disclosure in the financial statements could include:

a) Significant business interruption arising from supply chain disruption, closure of manufacturing or commercial facilities, travel restrictions and logistics disruption, unavailability of personnel etc.;

b) Significant decline in sales, earnings and / or operating cash flows;

c) Losses in contracted business or losses / exposures arising from counterparties asserting force-majeure;

d) Debt restructuring or entering into significant commitments including new loan facilities;

e) Breach of a significant loan covenant or a debt default after the reporting date;

f) Abnormally large changes in equity or debt securities prices, foreign exchange rates or interest rates after the reporting date that will significantly impact the measurement of assets and liabilities in future periods; and

g) Restructuring and redundancy plans.

Covid 19 also has an indirect impact on the key inputs used in the ECL calculations especially around macro-economic variables such as GDP, CBR, inflation, consumer price index and foreign exchange. The potential impact of this cannot be reliably estimated and as such financial statements are not adjusted to reflect this impact.

Management continues to be vigilant in ensuring business continuity while maintaining the health and safety of its employees.

50. Presentation currency

These consolidated and separate financial statements are presented in Uganda shillings rounded off to the nearest millions (Ushs M).

Bigger and Stronger with 59 branches and over 100 ATMs

Our Branches in Kampala

- 6th Street, Industrial Area
- Acacia Avenue
- Banda
- Bugolobi, Bandali Rise
- Bwaise, Sir Apollo Kaggwa Road
- Entebbe Road, Freedom City
- Impala, Kimathi Avenue
- Jinja Road, Crown House
- Kampala Road
- Kawempe, Bombo Road
- Kikuubo, Sisa Arcade
- Kireka Trading Centre
- Kisekka Market
- Kyadondo Road
- Lugogo, Shoprite Mall
- Luwum Street
- Makerere University
- Market Street, Aponye Mall
- Naalya, Quality Shopping Village
- Nakivubo, Gagawala Shauliyako
- Nateete Trading Centre
- Ndeeba, Masaka Road
- Nsambya, Ggaba Road
- Ntinda, Capital Shoppers City
- Ntinda Trading Centre
- Owino, Kafumbe Mukasa Road
- Sun City, Kampala Road
- William Street
- Wilson Lane

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dfcu
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