SERVICE AND INNOVATION

2012 Annual Report

dfcu
...with pleasure

our
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.

our
vision

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

our
values

1. Customer Focus
2. Excellence
3. Teamwork
4. Integrity
5. Corporate Social Responsibility and Sustainable Development

inside

Who We Are

dfcu Limited was established in 1964 as a development finance institution. Over the years **dfcu** has been associated with many success stories in Uganda's economy in various sectors – transport, education, floriculture, agriculture, manufacturing and agro-processing.

dfcu Limited

- Bought Uganda Leasing Company, renamed it **dfcu** Leasing (1999)
- Bought Gold Trust Bank, renamed it **dfcu** Bank, and started commercial banking (2000)
- **dfcu** Limited was listed on the Uganda Securities Exchange (2004)
- Merged its two businesses (Development Finance and **dfcu** Bank) to create a "one-stop-shop" under **dfcu** Bank (2008)

dfcu Bank channels

- Currently boasts of a network of 31 branches country-wide
- Is connected to Interswitch giving clients access to a network of over 100 ATMs countrywide
- Offers banking through the Internet and mobile phone channels

The Bank is structured into three core business units namely: Consumer Banking (CB), Development and Institutional Banking (DIB), and Treasury.

Consumer Banking

Our objective is to nurture and grow our customers by offering relevant products to support our customers' financial transformation.

We initiate individual customer relationships with the Bank. We also support our small scale enterprises through this department. Our objective is to grow our customers by offering relevant products to support our customers' financial transformation. Our product range is summarised into the following categories:

- Current accounts
- Savings and Investment products
- Personal and Business growth loan products
- Women in Business programmes that focus on empowering the woman
- Children's accounts
- Home Loans

Development and Institutional Banking

We are a partner in the development of the business sector in Uganda. Our focus is mainly on SMEs, but we continue to support corporates, especially those with a distribution network requirement, through strategically developed physical branches and electronic banking channels.

DIB offers products such as:

1. Term Finance
2. Lease Finance
3. Commercial Mortgages
4. Trade Finance
5. Trade loans
6. Corporate / working capital loans and overdrafts

The Bank offers capacity building to SMEs in form of training in order to facilitate a deeper understanding of the implication of their decisions on their businesses.

Treasury

We also manage liquidity and offer investment vehicles to our customers.

Our objective is to facilitate international trade through buying and selling of foreign currency, and issue of international trade instruments. We also manage liquidity and offer investment vehicles to our customers with excess cash to invest in instruments such as Government bills.

Board of Directors

Sam J. Kibuuka
Chairman **dfcu** Limited

Appointed to the Board of Directors in December 2003 then appointed chairman board of Directors in 2005.

He is an Executive Director of Victoria Motors.

Previous positions held: Finance Director - the General Machinery Group of Companies, General Manager – former Grindlays Bank International (Uganda), Audit Manager - Githongo and Company (Kenya), Special Assistant Policy Analysis – Ministry of Finance Planning and Economic Development and Principal Accountant – Total (U) Limited.

Bill Irwin
Non-Executive Director/ Chairman **dfcu** Bank

Appointed a director of **dfcu** Limited in March 2006. He is a qualified banker with over 30 years experience gained at Standard Chartered in Africa, Asia and the United States of America.

Previous positions held: Director – Standard Chartered in Lesotho, Botswana, Zimbabwe, Zambia, Tanzania and Uganda; General Manager (Business) – Standard Chartered South, Central and East Africa.

Since retirement he has represented investors on bank boards in Ghana, Botswana and Rwanda.

Elly Karuhanga
Non-Executive Director

Appointed a director in May 2005, Elly is an advocate of the Supreme Court of Uganda and a member of the World Trade Law Association.

Previous positions held: Member of Parliament (Uganda)-1989 to 2001, member of parliamentary committees on: Presidential, Foreign Affairs, Legal and Drafting – 1989 to 2001, Founder President and Chairman – Governing Council Uganda Center for Arbitration and Alternative Dispute Resolution 1998 to 2000.

Deepak Malik
Non-Executive Director

Appointed a director in June 2008, Deepak is the Regional Director of Africa for Norfund.

Previous positions held: Managing Director – Development Bank of Zambia, General Manager – Zambia Consolidated Copper Mines Ltd.

Deepak is a qualified Chartered Accountant.

Kironde Lule
Non-Executive Director

Appointed a director in 2011, Kironde has 30 years of experience in financial management and auditing.

He was a director in Africa Re (Nigeria), the Aga Khan Foundation (USA), ICF (Tanzania), Global Fund for Vaccines (USA), and Commissioner Internal Audit – Uganda Revenue Authority.

Kironde is a fellow of the Institute of Chartered Accountants in England & Wales and a member of the American Institute of Certified Public Accountants.

Michael Alan Turner
Non-Executive Director

Michael started his directorship in April 2003. He has worked for Actis in various capacities since 1988 in mainly Eastern, Central and Southern Africa.

Before Michael joined Actis, he spent three years in investment banking in London, for Lehman Brothers and Kleinwort Benson, having started his career with PricewaterhouseCoopers.

He is a fellow of the Institute of Chartered Accountants in England and Wales.

James Murray Grant
Non-Executive Director

James has been a partner at Actis since its inception in 2004.

His directorships include Banque Commerciale du Rwanda (BCR), Copperbelt Minerals Ltd (BVI), director – Mineral Deposits Ltd (Australia), and director – Vlisco BV (Netherlands). Murray is also a trustee and treasurer of AMREF.

Previously Murray worked for CDC and 3i.

Jimmy Mugerwa
Non-Executive Director

Jimmy was appointed a director in 2012. Currently he is the General Manager and Director of Tullow Uganda Operations Pty Ltd and Tullow Uganda Ltd and has over 20 years of experience.

Previously he was the Royal Dutch Shell General Manager (East Africa), Country Chair (Kenya), director, Senior Regional Advisor for Sub-Saharan Africa, and chairman of Kenya Oil Industry Committee.

John Blanthorne
Non-Executive Director,
dfcu Bank

John was appointed director of **dfcu** Bank Limited in 2010 having previously worked for HSBC Bank as Regional Head of Commercial Banking in the Middle East, CEO in New Zealand and Executive Director in South Korea.

Juma Kisaame
Managing Director,
dfcu Bank

Juma joined **dfcu** in 1992 as Head of Finance and held several positions such as Manager Finance and Administration (Non Performing Assets Recovery Trust), Commercial Manager (Leasing, General Manager), Mortgages and Executive Director.

In 2002, Juma joined Eurafrican Bank (Tanzania) as a Managing Director, a role he held until 2008 when he returned to dfcu Bank as the Managing Director.

Peter J Madeley
Executive Director,
dfcu Bank

Peter recently joined **dfcu** Bank. He comes with nearly 30 years of banking experience gained in the Middle East, Far East, Africa and the UK in the fields of Wholesale Banking, Credit Risk and Credit Risk Control.

Peter was previously a Regional Head of Credit Risk Control covering 13 countries across Africa.

Agnes Tibayeita Isharaza
Company Secretary

Agnes joined the **dfcu** Group Legal Department in June 2001 and is currently the Head Legal and Company Secretary. She is a qualified lawyer and advocate of the courts of judicature of Uganda.

Women Business Advisory Council

Dr. Winifred Tarinyeba – Kiryabwire
JSD (Chairperson)

Dr. Winifred is a Consultant on Capital Markets Regulation & Development, Private Sector & Enterprise Development, and Corporate Governance.

Previous positions held:
Consultant –World Bank, African Development Bank, Capital Markets Advisory Council of Rwanda, Uganda Human Rights Commission, International Law Institute and the European Union.

Dr. Winifred is the Ag. Head of Department, Public & Comparative Law, Faculty of Law, Makerere University and is a member – Institute of Corporate Governance of Uganda, Fellow – Cambridge Commonwealth Trust Society, member – East Africa Law Society and member – Uganda Law Society

Gudula Naiga Basaza –
PhD - University of Ghent
(Vice - Chairperson)

Gudula is the chairperson of Uganda Women Entrepreneurs limited (UWEAL) and a UWEAL delegate of the Eastern African Women Entrepreneurs Exchange Network (EAWEExN).

She is also an executive member of the Forum for African Women Educationalists (FAWE) and the chairperson of Holy Family Company limited (HOFA), a group of Catholic women in business.

She is the proposed Vice Chancellor of St. Joseph International University.

Audrey Kahara-Kawuki –
MA. Business Administration, Bsc. Agriculture - Makerere University

Audrey is a professional trainer in the areas of Sustainable Agricultural Practices, Post-Harvest Handling, Loan Management, Entrepreneurship Development, Business Planning, Marketing and Human Resource Management.
Previously she lectured at MA & BA levels – Makerere University Business School, where she started the Entrepreneurship Centre in 1998.

Josephine Ahikire –
Associate Professor, School of Women and Gender Studies, Makerere University

Josephine is the Coordinator of the EDULINK Programme on Gender, Migration, AND Intercultural relations funded by the European Union (EU) and a member of Advisory Board, Social Science Research Council (SSRC) Africa Research Competition New York, USA.

She is a board member of Uganda NGO Forum, Forum for Women Educationalists Uganda (FAWE) and Akina Mama wa Afrika (AMwA).

Rosemary Iwanu Mutyabule –
M.A Business Administration, B. Economics & Social Administration

Rosemary is an Enterprise Development Specialist with versatile experience in small enterprise promotion and private sector development.
She currently works at Enterprise Uganda as a senior manager and previously worked at the Uganda Investment Authority.

At 50% a large portion of our workforce is made up of women, and yet, surprisingly, they are still underrepresented. To this end, the Board of Directors set up a Women Business Advisory Council meant to assist both the Board and Management in reaching out to its customers and stakeholders, thereby making **dfcu** the first institution in Uganda to initiate and launch its own Women Business Advisory Council.

Having regard to the importance that **dfcu** attaches to the accentuation of activities that will broaden the utilization and heighten the effectiveness of the Women in Business (WiB) programme, the Advisory Council comprises only ladies.

Council Composition

- The Council is comprised of six members with a wide scope of expertise
.
- The Head of the **dfcu** Women in Business Program and the **dfcu** Managing Director are ex-official members. Other **dfcu** Management members are co-opted as and when required;
- The **dfcu** Board Secretary is the Secretary to the Council.

Purpose

- Give advice and support to the Board of Directors in strategy formulation focusing on the business generally but with a specific focus on gender related issues;
- Support the Bank's advocacy and public relations initiatives through supporting its products and services, **WiB** programme and Corporate Social Responsibility activities among others;
- Create a platform that brings together key stakeholders in the financial sector to address the challenges faced by women and entrepreneurs.
- Serve as a platform for the advancement of women to executive and leadership positions in **dfcu**;
- Build the capacity and develop the skills of women to make informed choices for **dfcu** and achieve success for the Group;
- Consider and make decisions on matters referred to them by the Board.

“With the Women Business Advisory Council, **dfcu** aims to reflect the constantly increasing importance of women in financial and purchasing decisions.The Women's Council plays a significant role in addressing the specific needs of both the female customers and female employees more effectively. We aim to benefit from the valuable consulting expertise of female entrepreneurs whilst playing our part to augment and strengthen the role of women in the Ugandan economy.”

Senior Management Team

Juma Kisaame
Managing Director

Peter J. Madeley
Executive Director &
Chief of Business

Walusimbi - Kaweesa
Chief Operating Officer

Sophie Nkuutu
Chief Financial Officer

James Mugabi
Head of Strategy &
Innovation

Isa Nsereko
Head of Human Resources

Agnes Mayanja
Head of Risk & Compliance

George Ochom
Head of Treasury

William Sekabembe
Head of Consumer Banking

Agnes Tibayeita Isharaza
Head of Legal

Thomas Banza
Head of Credit

Chris Sserunkuma
Head of Internal Audit

Bringing you better service through innovation

At **dfcu** Bank we not only safeguard and grow financial assets, but we also nurture relationships in order to achieve our goals of financial prosperity as well as surpass shareholders' financial expectations. We achieve this through our unique approach to service, and innovative ways of improving the banking experience.

Everything we do is geared towards strengthening that connection. From the security guard who greets you at the entrance right to the Branch Manager, you will notice the difference we bring to service.

The banking industry is about service, but what makes you choose one bank over another? It all comes down to the relationship and quality of service you receive. That is why we go the extra mile to provide you the services you deserve.

Moreover, we have taken to innovation to improve our services for our customers. We believe that they should access banking services anywhere, anytime, so we introduced **dfcu** Mobile, the groundbreaking technology that enables our customers to do their banking using their mobile phone.

Besides innovation in the traditional sense, we have stayed true to the core of our exceptional service delivery – managing relationships – by embarking on a partnership with Bank of China. This has facilitated our customers' transactions with China, directly connecting them to the global economy.

> "Banking to us is beyond a service; it is a highly valuable relationship between customer and banker."

What service means to us

Exceptional service means unpacking our values and products in a way that makes sense to a customer in an important sphere of their lives. We believe that this can only be achieved through a relationship.

In addition, we place high value on customer focus – as well as teamwork, integrity, excellence, corporate social responsibility and sustainable development. These values not only resonate with us, but are also deeply felt by our customers.

"I've been with **dfcu** for the last ten years and chose it because of its good customer care. It stood head and shoulders over other banks then and still does today. I am very pleased that after ten years, **dfcu** still listens to me," said Jane Frances Nakato, a long time **dfcu** customer and director of KinderKare Schools.

Training the right people

In order to ensure exceptional service, we start with hiring the right people who believe and breathe our corporate values. Great care is taken in selecting all members of staff, from support to top-level management. This is followed by adequate training to equip them with the right skills.

This is just one of the initiatives we have in place to appreciate the phenomenal service of our personnel. We pay special attention to ensure that our service is uniform nationwide and that our customers can expect the same attention from branch to branch.

For instance, we frequently train our staff on customer relations; this imparts valuable interpersonal skills that come in handy when handling customers.

The rewards of good service

Outstanding service personnel are bestowed with service awards in recognition in a bid to encourage other staff members to up their level of service.

Innovative service: dfcu goes Mobile

Due to our devotion to service, it was necessary to find innovative ways of improving our service. This desire gave birth to **dfcu** Mobile, a convenient service that transformed banking payment systems using mobile phone technology. Literally, it provides one with banking services at one's fingertips anytime, anywhere.

dfcu Mobile Banking was launched in the third quarter of the year. It echoes the **dfcu** promise on service delivery because it greatly enhances the customer's banking experience. Through **dfcu** mobile, customers are able to make account inquiries, transfer funds and school fees, pay water and electricity bills, buy pre-paid airtime and make tax payments. **dfcu** Mobile has enabled customers to perform banking activities without physically visiting the bank, therefore making their lives a lot easier.

This confirms the notion that service delivery and innovation are complementary of each other. When we seek to serve our customers we automatically think about new and better ways to do it. **dfcu** Mobile Banking is all about convenience and speedy service.

This kind of interaction between the bank and customers has led to valuable feedback that has shaped much of the services that the bank offers.

From these customer needs, we are encouraged to work round the clock to ensure we always get back to them with well thought out solutions tailored towards specific needs.

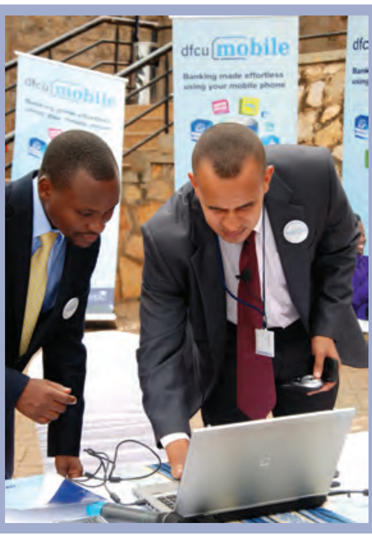
A partnership with Bank of China

It is upon this background of meeting customers' specific needs that we sought to forge a relationship with Bank of China. Many customers consulted and requested us to facilitate their trade transactions between Uganda and China. They wanted to be certain of our reliable banking support, while they focused on the core of their businesses.

This, supported by many other positives, greatly informed our decision to seek and seal the partnership with Bank of China, which was unveiled to our customers, the media and the public during the final quarter of the year.

The two banks are now able to facilitate trade and capital flows between the two countries. This partnership is connecting our customers to the global economy, given China's expanding connections with the world economy.

Bank of China **dfcu** partnership launch



Official launch of **dfcu** mobile

Proud winner of a trip to Turkey

We believe that Bank of China is the right partner, particularly given its global footprint in over 35 countries. This enables the bank to provide universal banking services, one of the advantages that our customers will tap into as they grow their business network.

Women in Business go to Turkey

In line with the objective of opening international doors for our customers to the world's fast growing business destinations, a group of lucky women who use the **dfcu** Women in Business product portfolio won an all expenses paid business trip to Turkey.

dfcu WiB is a programme that endeavours to create a business-enabling environment for women entrepreneurs, with a special focus on Small and Medium Enterprises (SMEs).

The trip included a series of business meetings organised by the Uganda Turkey Business Council. The women also visited agriculture, textile, electrical, furniture, and hardware plants as part of a greater goal to expand their business networks beyond the boundaries of Uganda.

These engagements have compelled many of our customers to think globally while operating locally, which has led to a ripple effect in the entire economy. Many women have emerged out of the old stereotype that "business is a man's domain".

The **dfcu** Women in Business Programme facilitates regular business management refresher training for our clients. The attendees were mentored in basic business practices including the need to offer fringe benefits to customers, ensuring that the location ambiance resonated with the business and the power of building a niche.

These sentiments were echoed by our customers and so aptly put by Sophie Agweng, an agri-businesswoman: "I am so grateful to **dfcu** WiB for the Turkey trip because not only did I enjoy myself, but I learnt a lot too. Two key lessons are honesty and hard work."

Good service is good business

We are in the business of service thus it only makes sense that good service is good business. You are either a private entity or business enterprise, so when you are content with our service, it enriches your business. That's why we will continue to find innovative ways to serve our customers.

Highlights in Brief

During the previous year the bank engaged in numerous ventures from brand building and market defining innovations such as the launch of **dfcu** Mobile Banking and the sealing of the **h**-Bank of China partnership, Annual General Meeting, Youth Fund Business training sessions, to corporate social reach-outs including the relief aid to both the Nodding disease affected areas in Northern Uganda and Reach One Touch One Ministries. However, it was not all work, we also engaged in a lot of fun activities such as the annual inter-department gala and the cultural day when Uganda celebrated 50 years of independence. Below is a sneak-peek into these and a lot more.

1: One of the **dfcu** shareholders stresses a point during the 2012 Annual General Meeting

2: Some of the youth during a business mentorship session, as part of the ongoing Youth Fund Business Workshops

3: Staff commemorate 50 years of Uganda's independence

4: The inter-departmental sports gala brings out the fun as well as the competitive side in most of the participants

5: Staff take part in the HIV/AIDS awareness walk on the World AIDS day as part of the larger **dfcu** HIV/AIDS awareness week

The **dfcu** Foundation

supports various Corporate Social Responsibility (**CSR**) ventures covering its entire CSR outreach scope: emergency intervention, maternal and child healthcare, environmental management and community development.

In November, bank staff actively participated in the **dfcu CSR** Day. In the various departments, units and branches, staff members selected an activity under community development or maternal health to undertake.

Under humanitarian/relief intervention, a team of 30 **dfcu** staff attended the Reach One Touch One Ministries (**ROTOM**) fellowship in September in Mukono. **ROTOM** is an international charity organisation with a vision of enabling elderly disadvantaged people to live dignified and fulfilled lives.

In all the **CSR** engagements the bank staff, under the **dfcu** Foundation, reached out to various communities, which feeds well into the bank brand and reputation growth goals as we are identified as an institution that seeks to grow with corresponding growth in the people's wellbeing.

Business Operations and Results Overview 2012

Highlights of 2012 performance:

Total assets grew by 5% to UGX 1001B (2011=UGX 954B)

Lending assets grew by 12% to UGX 555B (2011=UGX 496B

Shareholders' funds grew by 19% to UGX 136B (2011=UGX 114B)

Profit after tax = UGX 31B

Amid a challenging operating environment, the Group delivered a stable performance with a profit after tax of UGX 30.61Billion.

This was supported by a continued disciplined approach to the execution of the Group's strategic priorities and prudent management within the existing market conditions.

Income growth was impacted by a slow credit growth environment exacerbated by a deteriorating asset book across the entire sector, and strong competition, particularly in deposit markets which resulted in a 49% increase in interest expense.

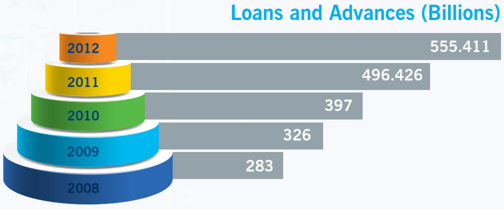
To boost efficiency and service delivery, we launched our Mobile platform in August, the Pinnacle offering was revitalized to suit the needs of the affluent segment and six Pinnacle Centres were created in our branches at Jinja Road, Lugogo, Acacia, Makerere, Nsambya and William Street. Furthermore, we launched **dfcu** at your Workplace; a banking solution that enables one to do all their banking at their workplace hence eliminating the hassle of travelling to a branch.

In line with our on-going expansion strategy, we opened a branch in Agago and Naalya respectively bringing our total to 31 branches.

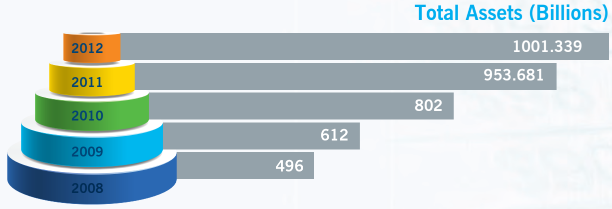
Against the backdrop of expected macroeconomic stability in 2013, the Group's aim is to continue to operate in a disciplined manner while harnessing business opportunities that unfold.

Our priority is to meet our customers' expectations consistently and provide acceptable returns to the shareholders. In this regard, our focus will be on driving productivity initiatives which will deliver sustainable growth and improvements in business performance.

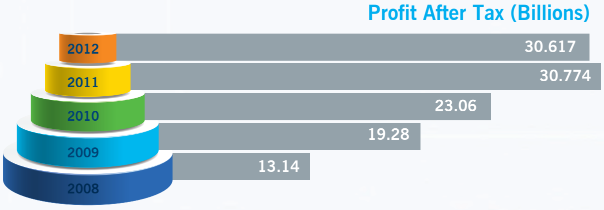
Loans and Advances (Billions)



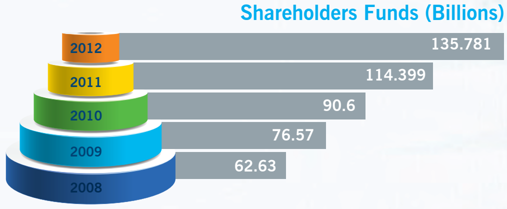
Total Assets (Billions)



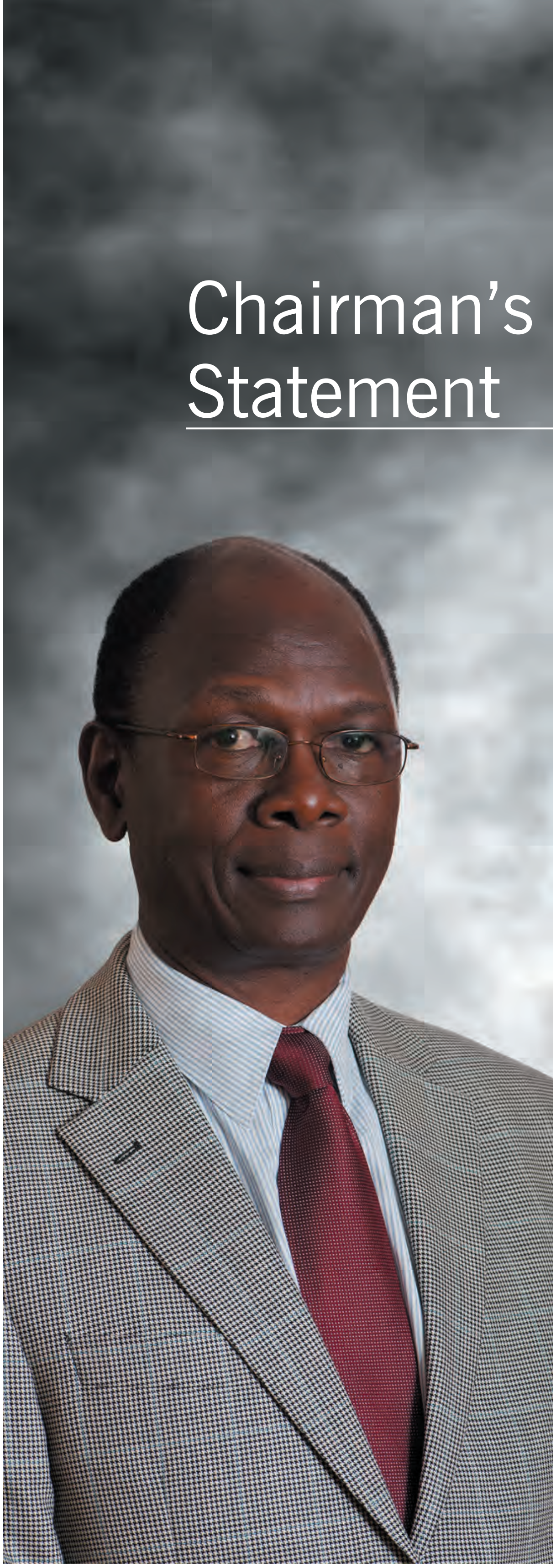
Profit After Tax (Billions)



Shareholders Funds (Billions)



Chairman's Statement



Sam J. Kibuuka
Chairman Board of Directors

Introduction

In the face of a challenging economic environment, **dfcu** Group has delivered another set of positive figures for the year. The results are attributable to the Group's strong position and the continued focus on providing solid returns and dividends to our shareholders. The Group's strategy and mindset of serving our customers remains paramount. We continue to be proactive and innovative; at the same time sensitive to changes in the external environment, while competing vigorously in the key market segments that we serve.

Steering Through a Challenging Business Environment

Despite the onset of the global financial crisis, Uganda maintained annual GDP growth within the economy's long-term potential growth rate of 6-7 per cent. However in the financial year 2011/12, Gross Domestic Product (GDP) growth dropped to 3.4 per cent per annum, far below the projected growth of 5.0 per cent. The decline was partly due to the tight fiscal and monetary stances that were adapted by the Central Bank to curb inflation, which also acted to suppress consumer purchasing power particularly in the more demand-driven industry and service sectors of the economy. However, GDP growth is expected to slightly improve to around 4.3 per cent in 2012/13.

The Central Bank's monetary policy tightening resulted in a tight liquidity squeeze in the banking system and therefore a hike in the interest rates relative to external markets interest rates. This attracted portfolio flows which helped to stabilize the exchange rate for that period.

The tight monetary policy stance was effective in driving inflation downwards from 27 per cent in December 2011 to 5.8 per cent in December 2012. Consequently, Bank of Uganda began to undertake an accommodative monetary stance, resulting in the easing of the Central Bank Rate (CBR).

Commercial bank lending rates also begun to ease, but were still sticky at a high level, resulting in subdued private sector credit growth. The quality of the asset book across the entire sector deteriorated as borrowers struggled to keep up with the increased loan cost and repayment installments.

Consistent Performance on a Solid Foundation

Despite the slow operating business environment and the lower than expected economic growth, the Group's performance remained strong. Total income raised to UGX 162.33 billion an increase of 20.9% over 2011. The Group's asset footing increased by 5% to UGX 1,001.3 billion with loans and advances growing by 12% to UGX 555.41 billion. Customer deposits surged by 13% to UGX 591.28 billion.

Challenges in deposit mobilization due to liquidity constraints in the market resulted in a 49% rise in interest expense which negatively impacted our profit. The tight macro-economic conditions constrained growth in lending across the industry resulting in a modest rise in interest income. Transaction income grew by 29% due to specific efforts to grow customer numbers and transaction volumes, while cost/income ratio was contained at 52% through tight cost control.

The detail of the financial results and performance indicators can be found in the subsequent pages of this report.

Delivering Value by Serving Customers Better

Even in the current operating environment, we believe it is possible to achieve quality growth through channel optimization and delivering a great customer experience. The Group added two new bank branches in Naalya and Agago respectively, taking the total network to 31 fully fledged branches. We also enhanced the functionality of our electronic banking platforms (internet and mobile) for added convenience to our customers.

At the same time, through relentless pursuit of operating efficiency to deliver superior service, our customer retention framework was enhanced to drive relationship management at the branch level.

A customer service policy and standards were put in place supported by a well-structured customer feedback mechanism. The operations at the call centre were realigned to support the branch network better.

Building on our Competitive Strengths

We renewed our focus on the Retail banking business. Consequently, we repositioned ourselves in the chosen segments: Affluent, Salaried and SME, in order to improve our market penetration. The Pinnacle banking proposition targeting the affluent segment was enhanced; we increased our presence in the salaried space through workplace banking and strengthened our position among women through our 'Women in Business' programme.

A sustained strong performance from our long-established Development and Institutional Banking business; and the Treasury department contributed significantly to our top line performance.

We continued to leverage our IT platforms to enhance our service levels. To this end we officially launched an innovative mobile banking platform that enables customers to do their banking and make payments anytime, anywhere.

In order to support the aggressive business strategy and the growing customer needs, the Bank negotiated Tier II capital from DEG (German Investment and Development Corporation) of USD 10 million. **dfcu** has also continued to enjoy lines of credit from key partners including KFW, FMO, EIB, IFC, NORFUND and PROPARCO, among others.

Deepening our Participation in Strategic Sectors

The SME sector remains an important value driver for our business. Our partnerships with Abitrust and Crossroads, where they provide guarantees to our borrowers, helped to mitigate the financing risks to this sector.

In the fourth quarter of 2012, we successfully piloted structured lending to SMEs targeting the traders and plan to fully roll this out in 2013. Additionally, we set up a dedicated desk to support the trade financing needs of our customers who are in the import/export business.

dfcu remains a very strong partner to government and has played a leading role in the implementation of the Youth Venture Capital Fund and the Agricultural Credit facility. We are actively engaged in the funding of agri-business projects in the value chain. Through the youth fund, we have been able to support thousands of business ventures owned by young entrepreneurs between the ages of 18 and 35 years.

The oil and gas sector is beginning to take shape and in order to compete in this important sector we have established a desk to develop tailored propositions and harness the anticipated benefits from the downstream businesses in the oil value chain.

Bank of China link

A year ago **dfcu** took the first step of entering into collaboration with Bank of China. Our aim is to leverage trade between Uganda and China. In December 2012, we consolidated this relationship with the formal launch of our partnership. In addition, two staff from Bank of China have been seconded to **dfcu** to support our Chinese Business centre.

We will further deepen our engagement of the Chinese Business community by setting up a dedicated branch in the Central Business District in 2013.

An Effective Management and Governance framework

We strive to earn and retain the trust of our shareholders through our high standards of corporate governance. We have rigorous oversight and regulations in place, and we work to embed those practices. In 2012, we continued with the established governance framework and oversight organs of the board/committees to ensure proper functioning, transparency and accountability.

In the course of the year, Dr. William S. Kalema, one of the long serving members, left the board and was replaced by Mr. Jimmy Mugerwa, who brings a wealth of knowledge and experience to the Group having lived and worked with the Shell Group in Ghana, East Africa, South Africa, UK and the Netherlands.

In addition, the Board of Directors of **dfcu** Limited resolved to set up a Women Business Advisory Council that will assist both the Board and Management in reaching out to its customers and stakeholders. This makes **dfcu** the first institution in Uganda to initiate and launch its own Women Business Advisory Council, setting a new tone in the Ugandan market.

We Continue to Make a Difference in the Community

As part of our commitment to our community, we launched the **dfcu** Foundation to drive our Corporate Social Responsibility (CSR) agenda with a focus on Community development, Maternal and Child Health Care, Environmental Conservation and Humanitarian Emergency Interventions. To this end, one percent of our profits is to be invested back in the community through several CSR engagements. We attained the highest staff involvement through the **dfcu CSR** week in November 2012 where several local community programmes were implemented across the network. We also made a significant contribution to the welfare of the communities ravaged by the Nodding disease in Northern Uganda.

Outlook for the Future

Against the backdrop of a volatile 2012, the macroeconomic indicators, going into 2013, look more stable. The banking sector will continue to attract new players and the competitive space will become more intense.

The Group's aim is to continue to operate in a disciplined and prudent manner with a focus on driving productivity initiatives which will deliver sustainable growth and improvements in business performance. The Group's priority is to maintain a robust and stable financial and operating platform, which will enable us to support our customers and provide acceptable returns to the shareholders. To this end, we will continue to strengthen the control environment in line with industry best practices; and also continue to adhere to standard Corporate Governance framework.

We expect to consolidate all our key operations into the Head Office building (currently under construction) by the end of 2013.

We believe that by being the best place to work for our employees, they can better serve our customers and clients, which, in turn, will result in good returns for all stakeholders. To put this philosophy into practice, we will continue to invest in training for our staff and provide enriching career opportunities for those who excel at their jobs.

dfcu remains committed to promoting the growth of the financial sector in Uganda and continued contribution to the economic development of the country. We will continue to expand our footprint to bring our services closer to the population. In line with our strategic imperative of leveraging technology for business growth, we will pilot Agency Banking to gain a foothold in the unbanked bankable segment of the market. We will deepen our participation in agriculture which is the biggest economic activity in Uganda. We will continue to engage in the oil and gas sector as it continues to be nurtured.

A Note of Appreciation

dfcu Group wishes to recognize Government contribution through Bank of Uganda for their joint role in creating an enabling atmosphere for banking to grow in Uganda.

I would like to thank our customers for their continued support, expression of loyalty and confidence in us despite the challenges they face. Our shareholders continue to show their commitment to **dfcu** for its future successes. I wish to appreciate our staff for their continued effort and commitment, on which the Group rely for all success.

Last but not least I extend thanks to the individual Board and Women Business Advisory Council Members. We value the patronage of all of you who have generously given value to the Bank and assure you of our continued dedication as we work together for a successful 2013.

Sam KIBUUKA
Chairman, Board of Directors

Corporate Governance Statement

"**dfcu** ensures that its corporate operations and structures are governed by clearly defined principles of good corporate governance to ensure proper governance, transparency, full disclosure and accountability to all stakeholders through the existence of effective systems of self-regulation."

Codes and Regulations

dfcu has a corporate governance manual designed to foster a culture of compliance and best practice within the organisation and its subsidiary. This manual is in line with international corporate governance trends (including the Commonwealth Association of Corporate Governance Principles and the OECD Principles) as well as the Capital Markets (Corporate Governance) Guidelines, 2003, the Companies Act Cap 110, and the Financial Institutions Act 2004, among others.

dfcu is therefore committed to complying with legislation, regulations and best practice codes. 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.

dfcu Group Board of Directors

Board Structure

The directors who held office under **dfcu** Limited during the year are listed on page 2. The Board of Directors comprises of eight directors, all of whom are non-executive, save for the Chairman who was entrusted with executive oversight over the company's activities. On the other hand, **dfcu** Bank Limited, which is a fully owned subsidiary of **dfcu** Limited and trading arm of the Group, has eleven directors, nine of whom are non-executive and two executive. This Board of Directors has delegated its authority to four committees with membership during the period of review as follows:

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 2012 were John Blanthorne (Chairman), Murray Grant, Elly Karuhanga, Michael Turner, Kironde Lule and Deepak Malik.

Board Remuneration Committee

This Committee's objective is to ensure that the Group's remuneration practices attract, retain and motivate staff needed to run the business successfully, avoiding underpayment as well as overpayment, 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 2012 were Dr. William Kalema (Chairman until his retirement in June 2012), Deepak Malik, Sam Kibuuka (assumed Chairmanship in June 2012), Murray Grant and Jimmy Mugerwa.

Board Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities for prudential risk management and effective corporate governance. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial and legal 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's members for the year 2012 were Michael Turner (Chairman), Elly Karuhanga, Murray Grant, and Kironde Lule.

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 2012 were Deepak Malik (Chairman), Dr. William Kalema, Sam Kibuuka, and John Blanthorne.

Board meetings

Board meetings are held quarterly. During the year of review, the Board of Directors of **dfcu** Limited held four meetings (excluding the subsidiary board and subcommittee meetings). The Board members' attendance was as follows:

Name	Meetings attended	Percentage attended
Sam Kibuuka	4/4	100%
Bill Irwin	3/4	75%
William Kalema	1/1	100%
Deepak Malik	3/4	75%
Murray Grant	4/4	100%
Michael Turner	4/4	100%
Elly Karuhanga	3/4	75%
Richard Bigirwa	1/1	100%
Kironde Lule	4/4	100%
Jimmy Mugerwa	2/2	100%

Board Evaluation

The Board annually conducts an evaluation of its performance and uses the process and results therefrom to improve its effectiveness. This exercise was duly conducted in September 2012.

Board remuneration

Non-executive directors receive fixed fees for their services on the Board and its Committees. These fees are recommended to the shareholders at the Annual General Meeting for approval. The aggregate amount of emoluments received by directors is shown under note 36(e) of the financial statements.

Brief Shareholder Analysis

Directors' interest in the shares of the company as at 31st December 2012

Name	Number of shares held
Mr Elly Karuhanga	374,575
Dr William S.Kalema	52,092

Distribution of shareholders as at 31st December 2012

Category	Number of shareholders
1 - 1000	2,011
1001 - 5000	1,089
5001 - 10000	213
10001 - 100000	318
100001 and over	71
Totals	**3,702**

List of 20 largest shareholders as at 31st December 2012

Shareholders	Shares	Percent
Actis Management Mauritius Limited on behalf of CDC	149,213,732	60.02
Norfund	25,000,000	10.06
National Social Security Fund	14,743,829	5.93
Investec Asset Management Africa Fund	10,786,574	4.34
Investec Asset Management Pan Africa Fund	6,787,751	2.73
Investec Asset Management	2,825,388	1.14
Central Bank Of Kenya Pension Fund	2,531,194	1.02
Bank Of Uganda Staff Retirement Benefit Sch-Sim	1,452,041	0.58
Pinebridge Sub-Saharan Africa Equity Master Fund	1,359,564	0.55
Kenya Airways Limited Staff Provident Fund	957,000	0.38
Bank Of Uganda Staff Retirement Benefit Scheme AIG	855,520	0.34
UAP Insurance Co. Limited	847,293	0.34
Stanbic Bank Uganda Limited Staff Pension Fund AAU	820,107	0.33
URA Retirement Benefits Scheme-Pinebridge	741,468	0.30
Crane Bank Limited	722,104	0.29
National Social Security Fund - SIMS	719,280	0.29
Mr Rakesh Gadani	646,323	0.26
MTN Uganda Staff Contributory Provident Fund-AAU	622,708	0.25
Jubilee Investments Limited	600,000	0.24
Alexander Forbes Retirement Fund	544,683	0.22
Total Number Of Shares	222,776,559	89.61
And: 3675 Other Shareholders	25,824,352	10.39
Total	**248,600,911**	**100.00**

The Year Ahead

We will continue to execute our strategic plan in line with our ambition of achieving a market share of 10% by 2014, through the following strategic priorities:

1. Continued building of a robust retail banking operation whilst consolidating our position as a key player in the SME market segment.
2. Maximizing overall balance sheet yield by growing the short term business streams and optimizing our pricing.
3. Diversifying the deposit mix to grow cheap liabilities and minimize concentration risk.
4. Consolidation of all Bank operations in the new Head Office in 2013 to enhance efficiency and **dfcu** brand equity.
5. Continue to invest in our people to build a high performance culture and enhance accountability.
6. Driving a strong bank wide risk management and compliance culture.
7. Leveraging our Information Technology investments to enhance efficiency in service delivery.
8. Exploring regional expansion opportunities.
9. Engaging in sustainable corporate social responsibility.

dfcu Limited

Directors' Report and Consolidated Financial Statements

For the year ended 31 December 2012

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Directors' Report
For the year ended 31 December 2012

The directors submit their report together with the audited consolidated financial statements of **dfcu** Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2012, 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 or controls the following subsidiaries:

Subsidiary	Date of acquisition/ consolidation	Percentage shareholding (%)
dfcu Bank Limited	1 May 2000	100
Rwenzori Properties Limited	30 September 2000	62.67

Rwenzori Properties Limited is in the process of being wound up.

PRINCIPAL ACTIVITIES

The Group provides commercial banking, term lending, lease and mortgage financing for the development of people and businesses in Uganda.

RESULTS AND DIVIDENDS

The Group made a net profit attributable to shareholders of the group of Shs 30,617 million for the year (2011: Shs 30,774 million). The directors recommend payment of dividends for the year ended 31 December 2012 of Shs 9,222 million (2011: Shs 9,222 million) or Shs 37.10 per share
(2011: Shs 37.10 per share).

DIRECTORS AND THEIR BENEFITS

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

S. J. Kibuuka	-	Chairman
W.S. Kalema	-	Non-executive Director (Resigned 27 June 2012)
E. Karuhanga	-	Non-executive Director
D. Malik	-	Non-executive Director
M. Grant	-	Non-executive Director
M. Turner	-	Non-executive Director
L. Kironde	-	Non-executive Director (Appointed 9 March 2012)
J. Mugerwa	-	Non-executive Director (Appointed 27 June 2012)
R. Bigirwa	-	Non-executive Director (Resigned 15 May 2012)

During the financial year and up to the date of this report, other than as disclosed in Note 36 to the financial statements, no director has received or become entitled to receive any benefit other than directors' fees, and amounts receivable by the executive directors under employment contracts and the senior staff incentive scheme.

The aggregate amount of emoluments for directors' services rendered in the financial year is disclosed in Note 36 to the financial statements.

DIRECTORS AND THEIR BENEFITS (continued)

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

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
Tel: +256 41 343850

CORPORATION SECRETARY

The name and address of the secretary of the Company is shown below:

Agnes Tibayeita Isharaza
dfcu Limited
Plot 2, Jinja Road
P.O. Box 2767
Kampala
Uganda
Tel: +256 41 256125 or +256 312300200/300

AUDITORS

The Company's auditors, PricewaterhouseCoopers were appointed during the year and continue in office in accordance with Section 159(2) of the Ugandan Companies Act.

ISSUE OF FINANCIAL STATEMENTS

The financial statements were authorised for issue in accordance with a resolution of the directors on 15th March 2013.

By order of the Board

A Tibayeita

A Tibayeita Isharaza
SECRETARY
2013

Statement of Directors' Responsibilities
For the year ended 31 December 2012

The Ugandan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Ugandan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of its profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements and of such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

....
Director

....
Director

....
Director

....
Secretary

26 March 2013

Report Of The Independent Auditor To The Members Of dfcu Limited

We have audited the accompanying financial statements of **dfcu** Limited ("the Company") and its subsidiary (together, "the Group"), as set out on pages 7 to 62. These financial statements comprise the consolidated statement of financial position for the year ended 31 December 2012, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, together with the statement of financial position of the Company standing alone for the year ended 31 December 2012 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 internal controls. An audit also involves evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements give a true and fair view of the financial affairs of the Group and of the Company at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Ugandan Companies Act and the USE listing rules, 2003.

Report Of The Independent Auditor To The Members Of dfcu Limited

Report on other legal requirements

The Ugandan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's statement of financial position is in agreement with the books of account.

PriceWaterhouseCoopers

Certified Public Accountants
Kampala

27 March 2013

Consolidated Income Statement
For the year ended 31 December 2012

	Note	2012 Shs M	2011 Shs M
Interest			
Interest and similar income	6	**140,066**	118,999
Interest expense	7	**(56,561)**	(37,863)
Net interest income		**83,505**	81,136
Fees and commission income	8	**14,055**	9,600
		97,560	90,736
Net trading and other income	9	**8,210**	5,701
Total income		**105,770**	96,437
Operating expenses	10	**(54,108)**	(50,382)
Allowance for impairment of loans and advances	17	**(11,336)**	(4,551)
Profit before income tax		**40,326**	41,504
Income tax expense	11	**(9,709)**	(10,730)
Profit for the year		**30,617**	30,774
Attributable to:			
Owners of the Company		**30,617**	30,780
Non-controlling interests	32	**-**	(6)
		30,617	30,774

		2012 Shs per share	2011 Shs per share
Earnings per share attributable to ordinary equity Equity holders of the Company			
-Basic and diluted	12	**123.16**	123.81

Consolidated Statement Of Comprehensive Income
For the year ended 31 December 2012

	Note	2012 Shs M	2011 Shs M
Profit for the year		**30,617**	30,774
Revaluation surplus on property	20	-	3,400
Deferred income tax on revaluation of property	25	-	(1,020)
Other comprehensive income		-	2,380
Total comprehensive income for the year		**30,617**	33,154
Attributable to:			
Equity holders of the Company		**30,617**	33,160
Non-controlling interest	32	-	(6)
		30,617	33,154

Consolidated Statement Of Financial Position
For the year ended 31 December 2012

	Note	2012 Shs M	2011 Shs M
Assets			
Cash and balances with Bank of Uganda	14	**100,050**	83,648
Government securities	15	**228,438**	175,598
Deposits and balances due from banks	16	**61,706**	149,579
Loans and advances to customers	17	**555,411**	496,426
Other assets	19	**13,295**	13,296
Property and equipment	20	**36,065**	26,856
Intangible assets	21	**6,374**	8,278
Total assets		1,001,339	953,681
Liabilities			
Customer deposits	22	**591,280**	525,391
Deposits due to other banks	23	**17,204**	68,482
Amounts due to Group companies	36	**-**	26
Other liabilities	24	**11,422**	11,775
Current income tax payable	11	**1,504**	1,309
Borrowed funds	26	**241,505**	217,562
Special funds	27	**1,230**	13,191
Managed funds	28	**-**	32
Deferred income tax liability	25	**1,413**	1,514
Total liabilities		**865,558**	839,282
Equity			
Share capital	29	**4,972**	4,972
Share premium	29	**2,878**	2,878
Revaluation reserves	30	**2,380**	2,380
Retained earnings		**94,587**	76,828
Other reserves		**12,113**	12,113
Currency translation reserve		**3**	3
Regulatory reserve	31	**9,626**	5,990
Proposed dividends	13	**9,222**	9,222
Total equity attributable to the Company's shareholders		135,781	114,386
Non-controlling interest	32	-	13
Total equity		135,781	114,399
Total equity and liabilities		1,001,339	953,681

The financial statements on pages 7 to 62 were approved for issue by the Board of Directors on 15th March 2013 and signed on its behalf by:

....	....
Director	**Director**
....	....
Director	**Secretary**

Company Statement Of Financial Position
For the year ended 31 December 2012

	Note	2012 Shs M	2011 Shs M
Assets			
Deposits and balances due from banks	16	177	176
Loans and advances to customers	17	**829**	1,431
Other assets	19	**867**	580
Investment in subsidiaries	18	**26,793**	26,824
Amounts due from Group companies	36	**5,208**	1,141
Property and equipment	20	**17,884**	7,965
Total assets		**51,758**	38,117
Liabilities			
Other liabilities	24	**460**	78
Managed funds	28	**-**	32
Borrowed funds	26	**9,228**	-
Deferred income tax liability	25	**960**	652
Total liabilities		**10,648**	762
Equity			
Share capital	29	**4,972**	4,972
Share premium	29	**2,878**	2,878
Revaluation reserves	30	**2,380**	2,380
Retained earnings		**9,545**	5,790
Proposed dividends	13	**9,222**	9,222
Other reserves		**12,113**	12,113
Total equity		**41,110**	37,355
Total equity and liabilities		**51,758**	38,117

The financial statements on pages 7 to 62 were approved for issue by the Board of Directors on 15th March 2013 and signed on its behalf by:

.... **Director**

.... **Director**

.... **Director**

.... **Secretary**

Consolidated Statement Of Changes In Equity
For the year ended 31 December 2012

	Note	Share capital Shs M	Share premium Shs M	Revaluation reserves Shs M	Retained earnings Shs M	Other reserves Shs M	Currency translation reserve Shs M	Regulatory reserve Shs M	Proposed dividend Shs M	Attributable to equity holders of the parent Shs M	Non controlling interest Shs M	Total Shs M
Year ended 31 December 2011												
At start of year		4,972	2,878	135	58,981	12,113	3	2,279	9,222	90,583	19	90,602
Comprehensive income												
Profit for the year		-	-	-	30,780	-	-	-	-	30,780	(6)	30,774
Other comprehensive income												
Other comprehensive income		-	-	2,380	-	-	-	-	-	2,380	-	2,380
Increase in regulatory reserve		-	-	-	(3,711)	-	-	3,711				
Write off of buillding				(135)	-	-	-	-	-	(135)	-	(135)
Total comprehensive income for the year		-	-	2,245	27,069	-	-	3,711	-	33,025	(6)	33,019
Transactions with shareholders												
Dividends paid		-	-	-	-	-	-	-	(9,222	(9,222)	-	(9,222)
Dividends proposed	13	-	-	-	(9,222)	-	-	-	9,222	-	-	-
Total transactions with shareholders		-	-		(9,222)	-	-	-	-	(9,222)	-	(9,222)
At end of year		4,972	2,878	2,380	76,828	12,113	3	5,990	9,222	114,386	13	114,399

Consolidated Statement Of Changes In Equity (Continued)

For the year ended 31 December 2012

	Note	Share capital	Share Premium	Revaluation reserves	Retained earnings	Other reserves	Currency translation reserve	Regulatory reserve	Proposed dividend	Attributable to equity holders of the parent	Non controlling interest	Total
		Shs M	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M
Year ended 31 December 2012												
At start of year		4,972	2,878	2,380	76,828	12,113	3	5,990	9,222	114,386	13	114,399
Comprehensive income												
Profit/(loss) for the year		-	-	-	30,617	-	-	-	-	30,617	-	30,617
Other comprehensive income												
Increase in regulatory reserve		-	-	-	(3,636)	-	-	3,636	-	-	-	-
Write off of non-controlling interest share of results		-	-	-	-	-	-	-	-	-	(13)	(13)
Total comprehensive income for the year		-	-	-	26,981	-	-	3,636	-	30,617	(13)	30,604
Transactions with shareholders												
Dividends paid		-	-	-	-	-	-	-	(9,222)	(9,222)	-	(9,222)
Dividends proposed	13	-	-	-	(9,222)	-	-	-	9,222	-	-	-
Total transactions with shareholders		-	-	-	(9,222)	-	-	-	-	(9,222)	-	(9,222)
At end of year		**4,972**	**2,878**	**2,380**	**94,587**	**12,113**	**3**	**9,626**	**9,222**	**135,781**	**-**	**135,781**

Company Statement Of Changes In Equity
For the year ended 31 December 2012

	Share capital Shs M	Share Premium Shs M	Revaluation reserves Shs M	Retained earnings Shs M	Proposed Dividends Shs M	Other reserves Shs M	Total Shs M
Year ended 31 December 2011							
At start of year	4,972	2,878	135	(7,252)	9,222	12,113	22,068
Comprehensive income							
Profit for the year	-	-	-	22,264	-	-	22,264
Other comprehensive income							
Other comprehensive income	-	-	2,380	-	-	-	2,380
Write off of building	-	-	(135)	-	-	-	(135)
Total comprehensive income for the year	-	-	2,245	22,264	-	-	24,509
Transactions with shareholders							
Dividends paid	-	-	-	(9,222)	9,222	-	-
Dividends proposed	-	-	-	-	(9,222)	-	(9,222)
At end of year	4,972	2,878	2,380	5,790	9,222	12,113	37,355
Year ended 31 December 2012							
At start of year	4,972	2,878	2,380	5,790	9,222	12,113	37,355
Comprehensive income							
Profit for the year	-	-	-	12,977	-	-	12,977
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	12,977	-	-	12,977
Transactions with shareholders							
Proposed dividends	-	-	-	(9,222)	9,222	-	-
Dividends paid	-	-	-	-	(9,222)	-	(9,222)
At end of year	**4,972**	**2,878**	**2,380**	**9,545**	**9,222**	**12,113**	**41,110**

Consolidated Statement Of Cash Flows
For the year ended 31 December 2012

	Note	2012 Shs M	2011 Shs M
Operating activities			
Interest receipts		**140,066**	118,999
Interest payments		**(56,561)**	(37,863)
Fee and commission receipts		**14,711**	8,866
Net foreign exchange and other income received		**7,454**	5,465
Recoveries on loans previously written off	17	**805**	755
Cash payments to employees and suppliers		**(48,111)**	(42,050)
Income tax paid	11	**(9,615)**	(8,978)
Cash flows from operating activities before changes inoperating assets and liabilities		**48,749**	45,194
Changes in operating assets and liabilities			
(Increase)/decrease in Government and other securities		**(34,491)**	14,803
(Increase)/decrease in Bank of Uganda cash reserve requirement		**(4,300)**	3,944
Increase in loans and advances to customers		**(71,126)**	(104,394)
Increase in other assets		**(353)**	(1,854)
Increase in customer deposits		**65,889**	44,661
Increase/(decrease) in other liabilities		**177**	(66)
Increase in amounts due from group companies		**(26)**	26
Decrease in managed funds		**(32)**	(81)
Net cash flows from operating activities		**4,487**	2,233
Investing activities			
Purchase of property and equipment	20	**(13,201)**	(13,821)
Purchase of intangible assets	21	**(229)**	(859)
Proceeds from sale of property and equipment		**40**	57
Net cash flows used in investing activities		**(13,390)**	(14,623)
Financing activities			
Net (decrease)/increase in borrowings and special funds		**(39,296)**	79,692
Dividends paid to shareholders		**(9,222)**	(9,222)
Net cash flows (used in)/from financing activities		**(48,518)**	70,470
Net increase in cash and cash equivalents		**(57,421)**	58,080
Cash and cash equivalents at start of year		**207,738**	149,658
Cash and cash equivalents at end of year	**33**	**150,317**	207,738

1 General information

dfcu Limited ('the Company') is incorporated in Uganda under the Ugandan Companies Act (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).The address of its registered office is:

Plot 2, Jinja Road
P.O. Box 2767
Kampala.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are presented in the functional currency, Uganda Shillings (Shs), rounded to the nearest million. The measurement basis applied is the historical cost convention except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. 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 financial statements, are disclosed in Note 4.

2.2 Adoption of new and revised standards

The accounting policies adopted are consistent with those used in the previous financial year. There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the Group.

Amendments resulting from the following new and revised standards and interpretations and improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Group:

Amendment to IAS 1, 'Presentation of Financial Statements regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment will mainly impact the presentation of the primary statements.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application of IFRS 13 may enhance fair value disclosures in a lot of circumstances.

2 Summary of significant accounting policies (continued)

IAS 19, 'Employee benefits', was amended in June 2012. The impact on the Group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The directors are yet to assess the full impact of the amendments.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2011, it replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The directors are yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

IFRS 10, Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The directors are yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The directors are yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of **dfcu** Limited and its subsidiaries as at 31 December 2012.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases

2 Summary of significant accounting policies (continued)

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 remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement 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 remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

(iv) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit of loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss as appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2 Summary of significant accounting policies (continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising from investments in associates are recognised profit or loss.

(v) 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.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Board.

2.5 Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Uganda Shillings, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

Translation differences on non-monetary items, such as equities, held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities, classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2 Summary of significant accounting policies (continued)

(iii) Consolidation of Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at exchange rates prevailing at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and then as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.6 Interest income and interest expense

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be measured reliably. Interest income and expense are recognised in profit or loss for all interest bearing instruments at amortised cost using the effective interest method.The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

2.7 Fee and commission income

The Group earns fees and commission income from a diverse range of services it provides to its customers. These are earned from services that are provided over a certain period of time. Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

When it is unlikely that the loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

2.8 Dividends income

Dividends are recognised as income in the period in which the right to receive payment is established.

2 Summary of significant accounting policies (continued)

2.9 Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale instruments, loans and receivables and held-to-maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates such designation at every reporting date:

i). Financial assets at fair value through profit or loss*:* Financial assets classified in this category are those that have been designated by management on initial recognition and financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Interest and similar income'. Interest income is recorded according to the terms of the contract, or when the right to the payment has been established. Management may only designate an instrument at fair value through profit or loss upon initial recognition.

ii). Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as held-for-trading and those that the Group on initial recognition designates as at fair value through profit and loss; (b) those that the Group upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

iii). Held-to-maturity investments: These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

iv). Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership or the Group has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income.When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities.

2 Summary of significant accounting policies (continued)

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the reporting date. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in profit or loss. The fair values of unquoted equity investments is estimated as the group's share of the net assets of the investee entity as derived from the financial statements of the investee entity.

2.10 Financial liabilities

Financial liabilities are recognised initially at fair value (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. A financial liability is derecognised where the related obligation is discharged, cancelled or expires.

2.11 Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets carried at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as default or delinquency in interest or principal repayments;

c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

d) it becoming probable that the borrower will enter bankruptcy or other financial difficulty;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

(i) adverse changes in the payment status of borrowers in the group; or

(ii) national or local economic conditions that correlate with defaults on the assets in the group.

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

The Group first assesses whether objective evidence of impairment exists individually for all financial assets. If the Group determines no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's business and product segments). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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's subsidiary, **dfcu** Bank Limited is also required by the Ugandan Financial Institutions Act, 2004 to estimate losses on loans and advances as follows:

i) A specific allowance for impairment for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Bank of Uganda, as follows:

   a) substandard assets with arrears period between 90 and 180 days – 20%;
   b) doubtful assets with arrears period between 181 days and 360 days – 50%;
   c) loss assets with arrears period over 360 days – 100%.

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

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

(ii) A general allowance for impairment of at least 1% of the total outstanding credit facilities net of specific provisions.

Where allowances for impairment losses of loans and advances determined in accordance with the Ugandan Financial Institutions Act, 2004 exceed amounts determined in accordance with International Financial Reporting Standards, the excess is taken to the regulatory reserve as an appropriation of retained earnings. Otherwise no further accounting entries are made.

When a loan is uncollectible, it is written off against the related allowancefor 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 chargefor 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 recognized in profit or loss.

2.12 Intangible assets (goodwill and software)

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Software is initially recorded at cost and then subsequently at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Software is depreciated using the straight line method at 20% per annum.

2.13 Property and equipment

All categories of property and equipment are initially recorded at cost. Buildings, freehold land and land held under finance lease are subsequently shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. All other property and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2 Summary of significant accounting policies (continued)

2.13 Property and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity through other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to profit or loss.

Freehold land and land held under finance leases is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	%
Freehold buildings	2.5
Office equipment, furniture and fittings	12.5 – 15
Computer equipment	25 - 33.3
Motor vehicles	25
Work in progress	Nil

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

2.14 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.15 Accounting for leases – where a group company is the lessor

When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable under finance leases. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

2 Summary of significant accounting policies (continued)

2.16 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 offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.17 Taxation

Income tax expense is the aggregate of the charge to profit or loss in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of accounts receivables or accounts payables in the statement of financial position.

2 Summary of significant accounting policies (continued)

2.18 Retirement employee benefits and other obligations

(i) Retirement benefit obligations

The Group operates a defined contribution pension scheme for all its eligible employees in **dfcu** Limited and **dfcu** Bank Limited. The scheme is administered by a Board of Trustees and is funded from contributions from both the Group companies and employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions ifthe fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. 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 pension scheme are charged to profit or loss in the year to which they relate.

(ii) Other entitlements

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

2.19 Contract lease disbursements

Contract lease disbursements represent payments that are made under finance lease agreements prior to delivery of the leased asset(s) to the borrower. Interest is accrued on these payments and recognised as income. Once the equipment is delivered, the lessee has the option to pay cash for the interest accrued or to add the interest onto the finance lease as part of the gross amount due.

2.20 Special funds

Special funds represent liabilities created under the terms of borrowing agreements with various international lending organisations. The Group holds these funds, utilizing and disbursing them as directed by the Government of Uganda. The unutilized balances on these funds are presented as liabilities on the statement of financial position.

2.21 Managed funds

Managed funds represent amounts received from the Government of Uganda for on-lending to specific third parties in accordance with the terms and conditions of each managed fund. The Group does not bear the credit risk related to the lent funds. The liability related to such funds is presented in the statement of financial position net of the carrying value of the respective managed assets.

2.22 Dividends

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

2 Summary of significant accounting policies (continued)

2.23 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less including: cash and balances with Bank of Uganda, treasury and other eligible bills. Cash and cash equivalents excludes the cash reserve requirement held with Bank of Uganda. Cash and cash equivalents are measured at amortised cost.

2.24 Other reserves, fair value reserves and currency translation reserves

In accordance with the terms and conditions of certain grants received by the Group, amounts are recognised in profit or loss and then appropriated from retained earnings to non distributable reserves. The non distributable reserve is set aside by the directors for the purpose of meeting any future deficit in Capital.

Revaluation reserves include gains or losses from the revaluation of property. Fair value gains and/or losses on property are recognised in other comprehensive income and only transferred to retained earnings when realised.

Currency translation differences arising from translation of investments in subsidiaries are recognised in other comprehensive income.

2.25 Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3 Financial risk management

The Group's financial assets are classified as held-for-trading, held-to-maturity or loans, advances and other receivables, 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:

Financial assets	**Shs M**	**Shs M**
Held-for-trading:		
Government securities	**22,535**	28,671
Held-to-maturity:		
Government and other securities	**205,903**	146,927
Deposits and balances due from other Banks	**61,528**	149,579
Balances with Bank of Uganda	**58,697**	51,804
	326,128	348,310
Loans and advances and other receivables/financial assets:		
Loans and advances customers (Net of impairment)	**555,411**	496,426
Other financial assets	**8,652**	8,299
Cash in hand	**41,353**	31,844
	605,416	536,569
Financial liabilities		
Measured at amortised cost:		
Customer deposits	**591,280**	525,391
Balances due to other banks:inter-bank borrowings	**17,204**	68,482
Borrowed funds	**241,505**	217,562
Other financial liabilities	**6,311**	6,182
	856,300	817,617

3 Financial risk management (continued)

Financial risk factors

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Treasury department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

3A Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty 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. 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 geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-statement of financial position exposures. Actual exposures against limits are monitored regularly.

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 these 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 which are issued by **dfcu** Bank Limited (the Bank) is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. The Bank'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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 Bank makes such commitments at market rates. With respect to credit risk on commitments to extend credit, the Bank 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 Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3 Financial risk management (continued)

Maximum exposure to credit risk before collateral held	2012 Shs M	2011 Shs M
Government and other securities	**228,438**	175,598
Deposits and balances due from banks	**61,528**	149,579
Loans and advances to customers	**555,411**	496,426
Other assets	**13,295**	13,296
Credit risk exposures relating to off-statement of financial position items:		
- Acceptances and letters of credit	**484**	9,643
- Guarantee and performance bonds	**29,965**	42,514
- Commitments to lend	**27,747**	7,818
	916,868	894,874

The above table represents the worst case scenario of credit risk exposure to the Group as at 31 December 2012 and 2011, without taking account of any 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.

Loans and advances to customers, other than to major corporates and to individuals borrowing less than Shs 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;
- 72% (2011: 82%) of the loans and advances portfolio are neither past due nor impaired;
- All loans and advances with an initial amount above 30 million are backed by collateral; and
- 99% (2011: 99%) of the investments in debt securities are government securities.

Financial assets that are neither past due nor impaired, past due but not impaired and impaired:

Loans and advances are summarised as follows:

	2012 Shs M	2011 Shs M
Neither past due nor impaired	**393,598**	408,338
Past due but not impaired	**149,138**	76,675
Impaired	**29,508**	25,244
Gross	**572,244**	510,257
Less: Allowance for impairment	**(16,833)**	(13,831)
Net	**555,411**	496,426

No other financial assets are either past due or impaired.

3 Financial risk management (continued)

3 A Credit risk (continued)

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group:

	2012 Shs M	2011 Shs M
Standard	**393,598**	408,338

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:

	2012 Shs M	2011 Shs M
Past due up to 30 days	**115,179**	44,122
Past due 31 – 60 days	**22,538**	22,491
Past due 61 – 90 days	**11,421**	10,062
	149,138	76,675

Loans and advances individually impaired

Of the total gross amount of impaired loans, the following amounts have been individually assessed for impairment:

	Loans and mortgages	
	2012 Shs M	2011 Shs M
Individually assessed impaired loans and advances	**29,508**	25,244
Fair value of collateral	**45,432**	53,429

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2012 %	2011 %
Manufacturing	**7**	5
Trade and commerce	**22**	30
Building and construction	**9**	5
Mining and quarrying	**-**	1
Transport and communications	**5**	7
Agriculture and agro-processing	**7**	4
Home Loans	**12**	10
Hotel and tourism	**5**	4
Real Estate	**18**	16
Non Bank Financial Institutions	**-**	2
Schools	**7**	3
Health	**-**	1
Personal	**4**	7
Other	**4**	5
	100	100

3 Financial risk management (continued)

3 B 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 faced by the group 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 Group is not exposed to equity price risk. The Group's exposure to market risk is a function of its asset and liability management activities and its role as a financial intermediary in customer related transactions. The objective of market risk management is to minimise the impact of losses due to market risks on earnings and equity capital. The Group manages market risk policies using Asset and Liability Management (ALM) policies approved by the Board of Directors.

The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk. Overall responsibility for managing market risks rests with the Assets and Liability Committee (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.

ALCO's responsibilities include setting liquidity, interest rate and foreign exchange risk limits, monitoring risk levels and adherence to set limits, articulating the Group's interest rate strategy and deciding the business strategy in light of the current and expected business environment. These sets of policies and processes are articulated in the ALM policy.

i) Currency risk

The Group operates wholly within Uganda and its assets and liabilities are measured in Uganda Shillings.

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.

The Group's ALCO reviews on a monthly basis the net foreign exchange position of the Group. As at 31 December 2012, the Group had a net foreign exchange asset position of US$ 1,433,267. (2011: US$ 730,667).

The Group's profit before income tax and equity would decrease/ increase by Shs 178 million (2011: Shs91 million) were the US$ foreign exchange rate to change by 5%. This variation in profitability is measured by reference to foreign currency exposures existing at 31 December 2012.

The variations in other currencies do not have a material impact on the Group's profit.

The table below summarises the group's exposure to foreign currency exchange rate risk. Included in the table are the group's financial assets and liabilities categorized by currency.

All balances are in millions of shillings.

3 Financial risk management (continued)

i) Currency risk (continued)

Group	USD	GBP	EURO	Shs and other	Total
As at 31 December 2012					
Assets					
Cash at hand	24,143	1,302	3,980	11,928	**41,353**
Government and other securities	-	-	-	228,438	**228,438**
Deposits and balances due from banks	48,906	52	1,649	69,796	**120,403**
Loans and advances	214,915	-	1	340,495	**555,411**
Other assets	96	-	-	13,199	**13,295**
Total assets	**288,060**	**1,354**	**5,630**	**663,856**	**958,900**
Liabilities					
Customer deposits	148,344	1,332	5,385	436,219	**591,280**
Other payables	1,864	17	203	9,338	**11,422**
Borrowed funds	139,253	-	-	119,456	**258,709**
Special funds	-	-	-	1,230	**1,230**
Total liabilities	**289,461**	**1,349**	**5,588**	**566,243**	**862,641**
Net on-statement of financial position	**(1,401)**	**5**	**42**	**97,613**	**96,259**
As at 31 December 2011					
Assets					
Cash at hand	10,031	905	819	20,089	**31,844**
Government and other securities	-	-	-	175,598	**175,598**
Deposits and balances due from banks	122,362	1,637	5,163	72,221	**201,383**
Loans and advances	136,779	2	63	359,582	**496,426**
Other assets	587	13	-	12,696	**13,296**
Total assets	**269,759**	**2,557**	**6,045**	**640,186**	**918,547**
Liabilities					
Customer deposits	128,123	2,385	6,007	388,876	**525,391**
Other payables	1,286	171	32	10,286	**11,775**
Amounts due to Group companies	26	-	-	-	**26**
Borrowed funds	134,899	-	-	151,145	**286,044**
Special funds	-	-	-	13,191	**13,191**
Managed funds	-	-	-	32	**32**
Total liabilities	**264,334**	**2,556**	**6,039**	**563,530**	**836,459**
Net on-statement of financial position	**5,425**	**1**	**6**	**76,656**	**82,088**

3 Financial risk management (continued)

ii) Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Management department for the day-to-day monitoring activities.

The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear an interest rate risk on off statement of financial position items. All figures are in millions of Uganda Shillings.

Group	Up to 1 month	1-3 months	3-12 Months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2012							
Assets							
Cash at hand	-	-	-	-	-	41,353	**41,353**
Government and other securities	15,890	30,870	129,238	41,058	11,382	-	**228,438**
Deposits and balances due from banks	38,198	-	-	-	-	82,205	**120,403**
Loans and advances	138,514	19,447	95,849	253,195	71,465	(23,059)	**555,411**
Other assets	-	-	-	-	-	13,295	**13,295**
Total assets	**192,602**	**50,317**	**225,087**	**294,253**	**82,847**	**113,794**	**958,900**
Liabilities							
Customer deposits	169,796	50,474	106,476	13,243	-	251,291	**591,280**
Other liabilities	-	-	-	-	-	11,422	**11,422**
Borrowed funds	3,456	7,524	47,383	111,314	60,045	11,783	**241,505**
Special funds	-	-	-	-	-	1,230	**1,230**
Total liabilities	**173,252**	**57,998**	**153,859**	**124,557**	**60,045**	**275,726**	**845,437**
Interest sensitivity gap	**19,350**	**(7,681)**	**71,228**	**169,696**	**22,802**	**(161,932)**	**113,463**

3 Financial risk management (continued)

ii) Interest rate risk

Group	Up to 1 month	1-3 months	3-12 Months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2011							
Assets							
Cash at hand	-	-	-	-	-	31,844	**31,844**
Government and other securities	3,444	11,844	102,275	46,999	11,036	-	**175,598**
Deposits and balances due from banks	84,519	-	-	-	-	116,864	**201,383**
Loans and advances	160,433	17,957	88,531	185,189	60,405	(16,089)	**496,426**
Other assets	-	-	-	-	-	13,296	**13,296**
Total assets	**248,396**	**29,801**	**190,806**	**232,188**	**71,441**	**145,915**	**918,547**
Liabilities							
Customer deposits	131,926	33,542	79,002	482	-	280,439	**525,391**
Other liabilities	-	-	-	-	-	11,775	**11,775**
Amounts due to Group companies	26	-	-	-	-	-	**26**
Borrowed funds	79,226	7,998	67,622	123,189	4,299	3,710	**286,044**
Special funds	-	-	-	-	-	13,191	**13,191**
Managed funds	-	-	-	-	-	32	**32**
Total liabilities	**211,178**	**41,540**	**146,624**	**123,671**	**4,299**	**309,147**	**836,459**
Interest sensitivity gap	**37,218**	**(11,739)**	**44,182**	**108,517**	**67,142**	**(163,232)**	**82,088**

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 the held-for-trading portfolio of Government securities and the available-for-sale investments. Financial instruments with cash flow interest rate risk comprise deposits and balance due from banks, loans and advances receivable/ payable, customer deposits, and amounts due to other group companies.

3 Financial risk management (continued)

ii) Interest rate risk

The table summarises the Group's fair value and cash flow interest rate risks sensitivity at 31 December assuming a market interest rate variation of 3 percentage points from the rates ruling at year-end (2011: 3%).

As at 31 December	2012 Shs M	2011 Shs M
Fair value interest rate risk	**117**	236
Cash flow interest rate risk	**5,724**	7,623
Impact on profit before tax	**5,841**	7,859

3 C 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-Group and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2012 to the contractual maturity date. All figures are in millions of Uganda Shillings.

Group	Up to 1 month	1-3 months	3-12 months	1-5 Years	Over 5 years	Total
As at 31 December 2012						
Assets						
Cash at hand	41,353	-	-	-	-	**41,353**
Government and other securities	15,890	30,870	129,238	41,058	11,382	**228,438**
Deposits and balances due from banks	120,403	-	-	-	-	**120,403**
Loans and advances	137,170	19,446	95,738	230,278	72,779	**555,411**
Other assets	4,612	1,164	2,964	4,427	128	**13,295**
Total assets	**319,428**	**51,480**	**227,940**	**275,763**	**84,289**	**958,900**
Liabilities						
Customer deposits	406,910	50,474	120,653	13,243	-	**591,280**
Interest payable and other payables	8,389	-	3,033	-	-	**11,422**
Borrowed funds	15,239	7,524	47,383	111,314	77,249	**258,709**
Special funds	1,230	-	-	-	-	**1,230**
Total liabilities	**431,768**	**57,998**	**171,069**	**124,557**	**77,249**	**862,641**
Net liquidity gap	**(112,340)**	**(6,518)**	**56,871**	**151,206**	**7,040**	**96,259**

3 Financial risk management (continued)

3 C Liquidity risk

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 Years	Over 5 years	Total
Assets						
Cash at hand	31,844	-	-	-	-	**31,844**
Government and other securities	3,444	11,844	102,275	46,999	11,036	**175,598**
Deposits and balances due from banks	201,383	-	-	-	-	**201,383**
Loans and advances	159,691	17,957	88,420	169,953	60,405	**496,426**
Other assets	4,301	2,752	5,185	1,058	-	**13,296**
Total assets	**400,663**	**32,553**	**195,880**	**218,010**	**71,441**	**918,547**
Liabilities						
Customer deposits	405,224	33,542	86,142	483	-	**525,391**
Interest payable and other payables	8,949	648	2,103	75	-	**11,775**
Amounts due to Group companies	26	-	-	-	-	**26**
Borrowed funds	79,226	7,998	71,331	123,189	4,300	**286,044**
Special funds	13,191	-	-	-	-	**13,191**
Managed funds	32	-	-	-	-	**32**
Total liabilities	**506,648**	**42,188**	**159,576**	**123,747**	**4,300**	**836,459**
Net liquidity gap	**(105,985)**	**(9,635)**	**36,304**	**94,263**	**67,141**	**82,088**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for maturities and interest rates ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantee and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding amount of commitments to extend credit does not necessarily represent expected requirements, since many of these commitments will expire or terminate without being funded.

3 Financial risk management (continued)

3D Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, are:

- To comply with the capital requirements set by Bank of Uganda;
- 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.

dfcu Limited is the parent company of **dfcu** Bank Limited, which is a licensed commercial bank. **dfcu** Bank Limited manages its capital adequacy, employing techniques based on the Basel Committee guidelines, which are also implemented by Bank of Uganda for supervisory purposes.

Bank of Uganda requires licensed banks to:

a) hold the minimum level of regulatory capital of Shs25 billion;

b) maintain core capital of not less than 8% of risk weighted assets and off-statement of financial position items; and

c) maintain total capital of not less than 12% of risk weighted assets plus risk weighted off-statement of financial position items.

dfcu Limited also monitors the Group's overall capital adequacy following the same Basel Committee guidelines. The table below summarizes the capital adequacy ratios of the Group as at 31 December 2012.

	2012 Shs M	2011 Shs M
Before dividend declaration		
Core capital	**119,581**	108,391
Total capital	**129,208**	121,821
After dividend declaration		
Core capital	**110,359**	99,169
Total capital	**119,985**	112,599
Risk weighted assets		
On-statement of financial position	**652,028**	637,259
Off-statement of financial position	**43,839**	46,423
Total risk weighted assets	**695,867**	683,682

3 Financial risk management (continued)

3D Capital management (Continued)

Risk weighted assets comprise of the following;	**Shs M**		**2012** **Shs M**
On-statement of financial position:			
Cash and balances with Bank of Uganda	100,050	0%	**-**
Due from commercial banks in Uganda	2,097	20%	**419**
Due from banks outside Uganda;			
Rated AAA and AA-	3,413	20%	**684**
Rated A+ and A-	20,081	50%	**10,040**
Rated A- and non-rated	36,114	100%	**36,114**
Government and other securities	228,438	0%	**-**
Other assets	13,295	100%	**13,295**
Loans and advances to customers	555,411	100%	**555,411**
Property, plant and equipment	36,065	100%	**36,065**
	994,964		**652,028**
Off-statement of financial position;			
Letters of credit secured by cash collateral	484	0%	**-**
Guarantees and acceptances	29,965	100%	**29,965**
Undrawn facilities	27,747	50%	**13,874**
	58,196		**43,839**

Basel Ratio (after dividend declaration)	**2012**	2011
Core capital	**16%**	15%
Total capital	**17%**	16%
Basel Ratio (before dividend declaration)		
Core capital	**17%**	16%
Total capital	**19%**	18%

Included in the total capital computation is the subordinated debt from Norwegian Investment Fund for Developing Countries (NORFUND) and Deutche Investitions-Und Entwicklungsgesellschanft mbH (DEG).

3 Financial risk management (continued)

3E Fair values of financial instruments

As at 31 December 2012, the Group had treasury bills and treasury bonds that are held-for- trading and are measured at fair value. Held-for-trading treasury bills and held-for-trading treasury bonds fair values are derived from discounting future cash flows. The discounting rates used for the valuation of treasury bills and bonds are derived from observable market data.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly from the market
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following are the financial instruments measured at fair value:

Hierarchy	2012 Shs M	2011 Shs M
Level 2-treasury bills and bonds	22,535	28,671

During the reporting period ended 31 December 2012, there were no transfers into and out of Level 2 fair value measurements. Refer to note 15.

The fair values of held-to-maturity investment securities as at 31 December 2012 is estimated at Shs 185,632 million (2011: Shs 125,337 million) compared to their carrying value of Shs 205,904 million (2011: Shs 146,927 million).

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 as set out in note 3C (Liquidity risk)

4 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that 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 experience of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment each month. 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 17.

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 11 and 25)

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.

The fair value of available-for-sale equity securities that are not traded in an active market is estimated as the group's share of the net assets of the underlying investee entity based on the investee's financial statements. This estimation process assumes that the net assets of the investee entity best represent future benefits accruing to the Group from these securities. This assumption is considered particularly appropriate for property investments whose investment property is representative of underlying value. (Refer to note 3E)

Held-to-maturity financial assets

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such assets to maturity. If the Group fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale.

4 Critical accounting estimates and judgements in applying accounting policies (continued)

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5 Segment information

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating s as follows:

- **dfcu** Limited, which is the holding company that is listed on the Uganda stock exchange. **dfcu** Limited merged its two business development finance and **dfcu** Bank into one.

- **dfcu** Bank; 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.

15.1% (2011: 19.6%) 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 2012 were as follows:

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
Income from external customers	1,091	21,174	-	**22,265**
Income from transactions with operating segments of the same entity	12,259	-	(12,259)	**-**
Interest income	246	139,917	(97)	**140,066**
Interest expense	-	(56,658)	97	**(56,561)**
Depreciation and amortisation	-	(6,094)	-	**(6,094)**
Other operating expenses	(311)	(59,039)	-	**(59,350)**
Profit/(loss) before tax	13,285	39,300	(12,259)	**40,326**
Income tax expense	(308)	(9,401)	-	**(9,709**
Profit/(loss) after tax	**12,977**	**29,899**	**(12,259)**	**30,617**

5 Segment information (continued)

The segment results for the year ended 31 December 2011 were as follows:

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
Income from external customers	313	15,091	(103)	**15,301**
Income from transactions with operating segments of the same entity	23,022	-	(23,022)	**-**
Interest income	873	118,636	(510)	**118,999**
Interest expense	-	(38,386)	523	**(37,863)**
Depreciation and amortisation	(8)	(3,980)	-	**(3,988)**
Other operating expenses	(904)	(50,065)	24	**(50,945)**
Profit/(loss) before tax	23,296	41,296	(23,088)	**41,504**
Income tax expense	(1,032)	(9,745)	47	**(10,730)**
Profit/(loss) after tax	22,264	31,551	(23,041)	**30,774**
Statement of financial position				
At 31 December 2012				
Total assets	51,758	981,119	(31,538)	**1,001,339**
Total liabilities	10,648	860,111	(5,201)	**865,558**
Capital expenditure	9,919	3,511	-	**13,430**
At 31 December 2011				
Total assets	38,689	943,068	(28,076)	**953,681**
Total liabilities	349	839,699	(766)	**839,282**
Capital expenditure	3,913	10,768	-	**14,681**

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 Shs M	dfcu Bank Shs M	Group Shs M
Year ended 31 December 2012	246	139,820	**140,066**
Year ended 31 December 2011	873	118,126	**118,999**

6 Interest and similar income

	Group 2012 Shs M	Group 2011 Shs M
Loans and advances	**105,082**	95,654
Government securities	**27,963**	19,010
Other interest income	**7,021**	4,335
	140,066	118,999

7 Interest expense

	Group 2012 Shs M	Group 2011 Shs M
Borrowed funds	**23,634**	19,317
Customer Deposits	**32,927**	18,546
	56,561	37,863

8 Fee and commission income

	Group 2012 Shs M	Group 2011 Shs M
Fee and commission income	**14,055**	9,600

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, telex transfer fees, and other fees and commissions.

9 Net trading and other income

	2012 Shs M	2011 Shs M
Fair value gains/ (losses) on held-for-trading securities	**1,851**	(466)
Net foreign exchange income	**5,604**	5,931
Other gains	**755**	236
	8,210	5,701

Net foreign exchange income includes gains realised on foreign currency dealings and foreign currency translation gains or losses.

10 (a) Operating expenses

	2012 Shs M	2011 Shs M
Employee benefits expense (note 10b)	**23,091**	21,862
Professional services	**2,154**	2,156
Advertising and marketing	**2,154**	1,406
Office and residential occupancy expenses	**2,654**	2,507
Communication expenses	**5,772**	5,872
Depreciation (Note 20)	**3,961**	3,988
Amortisation (Note 21)	**2,133**	2,056
Auditor's remuneration	**316**	338
Travel expenses	**1,144**	1,134
Printing and stationery	**1,195**	980
Other administrative expenses	**5,132**	4,363
Operating lease expenses	**4,402**	3,720
	54,108	50,382

10 (b) Employee benefits expenses include:

	2012 Shs M	2011 Shs M
Wages and salaries	**18,837**	17,322
Other employee benefits	**2,389**	2,834
National Social Security Fund contributions	**1,865**	1,706
	23,091	21,862

11 Income tax

a) Income tax expense

Current income tax expense	**9,810**	10,786
Deferred income tax charge (note 25)	**(101)**	(56)
	9,709	10,730

The income tax expense on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	Group 2012 Shs M	Group 2011 Shs M
Profit before income tax	**40,326**	41,504
Tax calculated at the tax rate of 30% (2011: 30%)	**12,098**	12,451
Prior year under/(over) provision of corporation tax	**-**	163
Prior year under provision of deferred tax	**-**	36
Tax effect of:		
Income not taxable	**(550)**	(652)
Income taxable at other rates	**(8,894)**	(4,639)
Expenses not deductible for tax purposes	**671**	1,209
Final tax on treasury bills and bonds	**6,384**	2,162
Income tax expense	**9,709**	10,730

11 Income tax (continued)

b) Current income tax payable/ (recoverable)

The movements in current income tax payable/ (recoverable) during the year are as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	Shs M	**Shs M**	**Shs M**	**Shs M**
At start of year	**1,309**	(500)	**-**	(494)
Current income tax charge for the year	**9,810**	10,787	**-**	-
Income tax paid during year	**(9,615)**	(8,978)	**-**	494
At end of year	**1,504**	1,309	**-**	-

12 Earnings per share – basic and diluted

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.

	Group 2012	Group 2011
Profit attributable to equity holders of the Company (Shs M)	**30,617**	**30,780**
Weighted average number of ordinary shares in issue (No.)	**248,600,911**	**248,600,911**
Basic earnings per share (Shs)	**123.16**	**123.81**

There were no dilutive shares or potentially dilutive shares as at 31 December 2012 and 2011. Therefore, diluted earnings per share is the same as basic earnings per share.

13 Dividends

2012 per share Shs		2011 per share Shs	Total Shs M
37.10	**9,222**	37.10	9,222

At the annual general meeting of **dfcu** Limited to be held on 5 June 2013 a final dividend in respect of the year ended 31 December 2012 of Shs 37.10 per share (2011: Shs 37.10 per share) amounting to total dividends of Shs 9,222 million (2011: Shs 9,222 million) is to be proposed for approval by the shareholders.

Payment of dividends is subject to withholding tax at a rate depending on the tax residence of the shareholder.

14 Cash at hand and balances with Bank of Uganda

	Group	
	2012	**2011**
	Shs M	**Shs M**
Cash at hand	**41,353**	31,844
Balances with Bank of Uganda	**58,697**	51,804
	100,050	83,648

15 Government and other securities

	Group	
	2012	**2011**
Treasury bills	**Shs M**	**Shs M**
Held-for-trading		
Maturing within 90 days of the date of acquisition	**7,099**	4,311
Maturing after 90 days of the date of acquisition	**13,214**	19,242
	20,313	23,553
Held-to-maturity		
Maturing within 90 days of the date of acquisition	**14,224**	7,183
Maturing after 90 days of the date of acquisition	**114,006**	41,702
Total treasury bills	**148,543**	72,438
Treasury and other bonds:		
Held-for-trading		
Maturity after 90 days	**2,222**	5,118
Held-to-maturity		
Maturing within 90 days of the date of acquisition	**12,279**	3,758
Maturing after 90 days of the date of acquisition	**65,394**	94,284
Total treasury bonds	**79,895**	103,160
Total treasury bills and bonds	**228,438**	175,598

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 and ten years.

Other bonds include corporate bonds amounting to Shs 1,700 million (2011: Shs 1,113 million) issued by Stanbic Bank Uganda Limited and East African Development Bank.

16 Deposits and balances due from banks

	Group		Company	
	2012	**2011**	**2012**	2011
	Shs M	**Shs M**	**Shs M**	Shs M
Deposits with foreign banks	**50,358**	117,049	**147**	147
Deposits with local banks	**11,348**	32,530	**30**	30
	61,706	149,579	**177**	176

Deposits and balances due from 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.

17 Loans and advances to customers

	Group		Company	
	2012	**2011**	**2012**	**2011**
	Shs M	**Shs M**	**Shs M**	**Shs M**
Loans and advances	**572,244**	510,257	**1,106**	2,418
Less: Allowance for impairment losses				
Individually assessed	**(10,359)**	(8,101)	**(277)**	(987)
Collectively assessed	**(6,474)**	(5,730)	**-**	-
	555,411	496,426	**829**	1,431

Movements in allowance for impairment of loans and advance are as follows :

Group	**Individually assessed Shs M**	**Collectively assessed Shs M**	**Total Shs M**
At 1 January 2011	**5,883**	**5,142**	**11,025**
Increase in allowances for impairment	4,869	552	5,421
Recoveries and allowances no longer required	(116)	-	(116)
Net increase in allowances	4,753	552	5,305
Debts written off during the year	(2,499)	-	(2,499)
At 31 December 2011	**8,137**	**5,694**	**13,831**
Charge to the income statement (2011)			
Net increase in allowances above	4,753	552	5,305
Recoveries of amounts previously written off	(754)	-	(754)
Net charge to the income statement	**3,999**	**552**	**4,551**

17 Loans and advances to customers (continued)

Group	Individually assessed Shs M	Collectively assessed Shs M	Total Shs M
At 1 January 2012	**8,100**	**5,731**	**13,831**
Increase in allowances for impairment	11,651	743	12,394
Recoveries and allowances no longer required	(253)	-	(253)
Net increase in allowances	11,398	743	12,141
Debts written off during the year	(9,139)	-	(9,139)
At 31 December 2012	**10,359**	**6,474**	**16,833**
Charge to profit (2012)			
Net increase in allowances above	11,398	743	12,141
Recoveries of amounts previously written off	(805)	-	(805)
Net charge to profit or loss	**10,593**	**743**	**11,336**
Company			
At 1 January 2011	**1,377**	**-**	**1,377**
Increase in allowances for impairment	140	-	140
Recoveries and allowances no longer required	(69)	-	(69)
Net increase in allowances	71	-	71
Debts written off during the year	(460)	-	(460)
At 31 December 2011	**988**	**-**	**988**
Charge to the income statement (2011)			
Net increase in allowances above	71	-	71
Recoveries of amounts previously written off	-	-	-
Net charge to the income statement	71	-	71
At 1 January 2012	**988**	**-**	**988**
Increase in allowances for impairment	(150)	-	(150)
Recoveries and allowances no longer required	(159)	-	(159)
Net increase in allowances	(309	-	(309)
Debts written off during the year	(403)	-	(403)
At 31 December 2012	**276**	**-**	**276**
Charge to profit (2012)	(309)	-	(309)
Net increase in allowances above	(143	-	(143)
Recoveries of amounts previously written off			
Net charge to profit or loss	**(452)**	**-**	**(452)**

17 Loans and advances to customers (continued)

The loans and advances to customers include finance lease receivables, which are analysed as follows:

	2012 Shs M	2011 Shs M
Gross investment in finance leases:		
Not later than 1 year	**29,413**	35,623
Later than 1 year and not later than 5 years	**20,126**	23,802
Later than 5 years	**353**	418
	49,892	59,843
Unearned future finance income on finance leases	**(8,508)**	(13,885)
Net investment in finance leases	**41,384**	45,958

The net investment in finance leases may be analysed as follows:

	2012	2011
Not later than 1 year	**25,657**	27,437
Later than 1 year and not later than 5 years	**13,881**	18,201
Later than 5 years	**1,846**	320
	41,384	45,958

Included in the allowance for impairment of loans and advances as at 31 December 2012 is Shs 1,215 million (2011: Shs 482 million) attributable to past due finance lease receivables.

18 Investment in subsidiaries

	Shareholding %	Company 2012 Shs M	2011 Shs M
dfcu Bank Limited	100	**26,793**	26,793
Rwenzori Properties Limited	62.7	**-**	31
		26,793	26,824

Rwenzori Properties Limited is in the process of being wound up.

19 Other assets

	Group 2012 Shs M	Group 2011 Shs M	Company 2012 Shs M	Company 2011 Shs M
Prepaid expenses	**4,643**	4,997	**-**	-
Items in course of collection	**2,097**	1,757	**-**	-
Sundry debtors	**3,395**	4,012	**-**	-
Other assets	**3,160**	2,530	**867**	580
	13,295	13,296	**867**	580

Items in the course of collection relate to cheques, Electronic Fund Transfers (EFTs) and Real Time Gross Settlements (RTGS) sent for clearing.

20 Property and equipment

Group

	Land and buildings Shs M	Furniture and equipment Shs M	Motor vehicles Shs M	Work-in-progress Shs M	Total Shs M
Year ended 31 December 2011					
Opening net carrying amount	480	11,646	121	2,220	14,467
Revaluation of land	3,400	-	-	-	3,400
Additions	-	3,674	380	9,766	13,820
Disposals at cost	-	(103)	(48)	-	(151)
Disposal:- accumulated depreciation	-	39	39	-	78
Write off	(472)	-	-	(298)	(770)
Depreciation charge for the year	(8)	(3,844)	(136)	-	(3,988)
Net carrying amount	3,400	11,412	356	11,688	26,856
At 31 December 2011					
Cost or valuation	3,924	32,995	938	11,987	49,844
Accumulated depreciation	(524)	(21,583)	(582)	(299)	(22,988)
Net carrying amount	3,400	11,412	356	11,688	26,856
Year ended 31 December 2012					
Opening net carrying amount	**3,399**	**11,412**	**356**	**11,689**	**26,856**
Transfer from work in progress	**5,520**	**1,014**	**-**	**(6,534)**	**-**
Additions	**-**	**1,582**	**169**	**11,450**	**13,201**
Disposals at cost	**-**	**(77)**	**(29)**	**-**	**(106)**
Disposal:- accumulated depreciation	**-**	**47**	**29**	**-**	**76**
Write off	**-**	**(71)**	**-**	**-**	**(71)**
Depreciation charge for the year	**(4)**	**(3,750)**	**(137)**	**-**	**(3,891)**
Net carrying amount	**8,915**	**10,157**	**388**	**16,605**	**36,065**
At 31 December 2012					
Cost or valuation	**9,443**	**35,443**	**1,078**	**16,904**	**62,868**
Accumulated depreciation	**(528)**	**(25,286)**	**(690)**	**(299)**	**(26,803)**
Net carrying amount	**8,915**	**10,157**	**388**	**16,605**	**36,065**

20 Property and equipment (continued)

Company

	Land and buildings Shs M	Motor vehicles Shs M	Work-in-progress Shs M	Total Shs M
Year ended 31 December 2011				
Opening net carrying amount	480	-	653	1,133
Additions	-	-	3,912	3,912
Revaluation of land	3,400	-	-	3,400
Depreciation charge	(8)	-	-	(8)
Write off of building	(472)	-	-	(472)
Net carrying amount	3,400	-	4,565	7,965
At 31 December 2011				
Cost or valuation	3,400	-	4,565	7,965
Accumulated depreciation	-	-	-	-
Net carrying amount	**3,400**	**-**	**4,565**	**7,965**
Year ended 31 December 2012				
Opening net carrying amount	**3,400**	**-**	**4,565**	**7,965**
Additions	**-**	**-**	**9,919**	**9,919**
Net carrying amount	**3,400**	**-**	**14,484**	**17,884**
At 31 December 2012				
Cost or valuation	**3,400**	**-**	**14,484**	**17,884**
Accumulated depreciation	**-**	**-**	**-**	**-**
Net carrying amount	**3,400**	**-**	**14,484**	**17,884**

Work-in-progress relates to work done on setting up branches that have not yet been commissioned and ongoing construction work on the head office building for **dfcu** Limited.

21 Intangible assets (Group)

Year ended 31 December 2011	Goodwill ShsM	Computer Software Shs M	Total Shs M
Cost			
At 1 January 2011	463	9,815	10,278
Additions	-	859	859
Assets written off	-	(100)	(100)
At 31 December 2011	**463**	**10,574**	**11,037**
Amortisation			
At 1 January 2011	-	(703)	(703)
Charge for the year	-	(2,056)	(2,056)
At 31 December 2011	**-**	**(2,759)**	**(2,759)**
Net carrying amount	**463**	**7,815**	**8,278**

21 Intangible assets (Group) (continued)

Year ended 31 December 2012	Goodwill ShsM	Computer Software Shs M	Total Shs M
Cost			
At 1 January 2012	**463**	10,574	11,037
Additions	**-**	229	229
At 31 December 2012	**463**	**10,803**	**11,266**
Amortisation			
At 1 January 2012	**-**	(2,759)	(2,759)
Charge for the year	**-**	(2,133)	(2,133)
At 31 December 2012	**-**	**(4,892)**	**(4,892)**
Net carrying amount	**463**	**5,911**	**6,374**

22 Customer deposits

	Group 2012 Shs M	2011 Shs M
Demand deposits	**237,324**	271,687
Savings accounts	**92,011**	79,117
Fixed deposit accounts	**261,945**	174,587
	591,280	525,391

23 Deposits due to other banks

Balances due to other banks within 90 days	**17,204**	68,482

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.

24 Other liabilities

	Group		Company	
	2012 Shs M	2011 Shs M	2012 Shs M	2011 Shs M
Bills payable	**918**	1,471	**-**	-
Unclaimed balances	**1,314**	1,034	**63**	42
Other liabilities	**4,079**	3,677	**356**	33
Deferred fees and commission	**1,583**	926	**-**	-
Accrued expenses	**3,528**	4,667	**41**	3
	11,422	11,775	**460**	78

25 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2011: 30%), except for interest receivable on treasury bills and bonds where the enacted rate is 15% (2011: 15%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	Shs M	**Shs M**	**Shs M**	**Shs M**
At start of year	**1,514**	551	**652**	(680)
Charge to other comprehensive income	**-**	1,020	**-**	1,020
Charge to income statement-Company	**(101)**	312	**308**	312
(Credit)/charge to income statement-**dfcu** Bank Limited	**-**	(369)	**-**	-
Net deferred income tax liability/(asset)	**1,413**	**1,514**	**960**	**652**

Deferred income tax asset and liability and the deferred income tax charge/(credit) in profit or loss are attributable to the following items:

Group:	**At start of year Shs M**	**Charged/ (credited) to income statement Shs M**	**Charged to other comprehensive income Shs M**	**At en of year Shs M**
As at 31 December 2011				
Deferred income tax liabilities				
Property and equipment	**845**	-	-	**845**
Accelerated tax depreciation	**2,465**	(236)	-	**2,229**
Revaluation on land	**-**	-	1,020	**1,020**
	3,310	**(236)**	**1,020**	**4,094**
Deferred income tax assets				
Loan impairment losses	**(1,522)**	(153)	-	**(1,675)**
Asset and investment revaluations	**(33)**	-	-	**(33)**
Other temporary differences	**(168)**	-		**(168)**
Deferred income	**(324)**	161	-	**(163)**
Tax losses carried forward	**(712)**	311	-	**(401)**
Revaluation of securities held for trading	**-**	(140)	-	**(140)**
	(2,759)	**179**	**-**	**(2,580)**
Net deferred income tax (asset)/liability	**551**	**(57)**	**1,020**	**1,514**

25 Deferred income tax (continued)

Group:	At start of year Shs M	Charged/ (credited) to income statement Shs M	Charged to other comprehensive income Shs M	At end of year Shs M
As at 31 December 2012				
Deferred income tax liabilities				
Property and equipment	845	-	-	**845**
Accelerated tax depreciation	2,229	(675)	-	**1,554**
Revaluation on land	1,020	-	-	**1,020**
	4,094	(675)	-	**3,419**
Deferred income tax assets				
Provisions for loan impairment	(1,675)	(234)	-	**(1,909)**
Asset and investment revaluations	(33)	-	-	**(33)**
Other temporary differences	(168)	-	-	**(168)**
Deferred income	(163)	(198)	-	**(361)**
Tax losses carried forward	(401)	310		**(91)**
Revaluation of securities held for trading	(140)	696	-	**556**
	(2,580)	574	-	**(2,006)**
Net deferred income tax (asset)/liability	**1,514**	**(101)**	-	**1,413**

Company

As at 31 December 2011				
Deferred income tax (assets)/liabilities				
Tax losses	(680)	312		**(368)**
Revaluation on land	-	-	1,020	**1,020**
Net deferred income tax (asset)/liabilities	**(680)**	**312**	**1,020**	**652**
As at 31 December 2012				
Deferred income tax (assets)/liabilities				
Tax losses	(368)	308	-	**(60)**
Revaluation on land	1,020	-	-	**1,020**
Net deferred income tax (asset)/liabilities	**652**	308	-	**960**

26 Borrowed funds

	Group		Company	
	2012	2011	2012	2011
	Shs M	Shs M	Shs M	Shs M
European Investment Bank Apex III	-	38	-	-
European Investment Bank Apex IV	**5,484**	9,545	-	-
European Investment Bank Global Loan II	**1,837**	5,816	-	-
Uganda Government (KFW II loan)	**696**	696	-	-
Uganda Government (KFW III loan)	**1,984**	1,984	-	-
Uganda Government (KFW V loan)	**17,221**	13,152	-	-
Bank of Uganda	**6,576**	5,165	-	-
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	**34,521**	41,492	-	-
International Finance Corporation	**12,811**	18,456	-	-
The OPEC Fund for International Development	**1,220**	3,395	-	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	**16,404**	20,423	-	-
FMO USD	**33,895**	24,157	-	-
National Social Security Fund	**2,000**	3,080	-	-
European Investment Bank – PEFF II	**43,233**	23,485	-	-
Norwegian Investment Fund for Developing Countries (NORFUND)	**20,469**	25,753	-	-
NORFUND Subordinated debt	**6,041**	7,440	-	-
East African Development Bank	**8,422**	12,400	**8,422**	-
UN Habitat	**1,034**	1,085	-	-
Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) Subordinated debt	**26,850**	-	-	-
Jubilee Insurance	**806**	-	**806**	
	241,505	**217,562**	**9,228**	-

Included in borrowings is a subordinated debt from NORFUND, whose tenure is 7 years and is due to mature in 2014. The interest rate on this debt is variable at Libor 6 months plus 3.5%. Another subordinated debt is from Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) whose tenure is 7 years and is due to mature in 2020. The interest rate on this debt is variable at an aggregate interest rate of 4.5% per annum plus the USD swap rate prevailing at the interest determination date. The debts are subordinated to ordinary liabilities of the bank and recognized by the Bank as Tier 2 Capital.

26 Borrowed funds (continued)

The terms and conditions relating to borrowings are tabulated below:

	Tenure (years)	Interest rate	Fixed / variable	Currency
European Investment Bank Apex III	None	6.605%	Fixed	Shs
European Investment Bank Apex IV	5	8.900%	Fixed	Shs
European Investment Bank Global Loan II	6	11.200%	Fixed	Shs
Uganda Government (KFW II loan)	15	0.000%	Fixed	Shs
Uganda Government (KFW III loan)	15	0.000%	Fixed	Shs
Uganda Government (KFW V loan)	6	7.190%	Fixed	Shs
Bank of Uganda	8	0.000%	Fixed	Shs
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO 1)	7	3.120%	Variable	USD
PROPARCO 2	7	2.854%	Variable	USD
PROPARCO 3	7	3.980%	Variable	USD
International Finance Corporation	7	3.320%	Variable	USD
The OPEC Fund for International Development	7	2.693%	Variable	USD
FMO - UGX	7	24.049%	Variable	UGX
FMO - USD	7	3.090%	Variable	USD
National Social Security Fund	8	12.500%	Variable	Shs
European Investment Bank-PEFF USD	10	5.230%	Fixed	USD
European Investment Bank-PEFF UGX	10	11.930%	Fixed	Shs
NORFUND Subordinated debt	6	3.960%	Variable	USD
NORFUND Senior loan 1	10	13.48%	Variable	Shs
NORFUND Senior loan 1	10	14.62%	Variable	Shs
East African Development Bank	7	2.000%	Fixed	Shs
DEG Subordinated debt	7	5.670%	Variable	USD
UN Habitat	15	2.000%	Fixed	Shs
East African Development Bank USD	5	7.505%	Variable	USD
East African Development Bank UGX	5	19.8%	Variable	Shs
Jubilee Insurance Company Limited	3	5.25%	Variable	USD

27 Special funds

Special funds represent liabilities created under the terms of borrowing agreements with various international lending organisations. These agreements stipulate that upon maturity of loans extended to **dfcu** Limited (and subsequently transferred to **dfcu** Bank Limited), **dfcu** Limited is to remit principal and interest amounts due into special funds, under the control of the Government of Uganda. These special funds are intended to support development in defined sectors of the economy. The special funds are summarised in the table below:

	KFW I, II,III	KFW IV & V	Total 2012	Total 2011
	Shs million	Shs million	Shs million	Shs million
At start of year	198	12,993	13,191	12,653
Transfers out	(198)	(11,763)	(11,961)	-
Additions	-	-	-	538
At end of year	**-**	**1,230**	**1,230**	**13,191**

(a) The Kreditanstalt Fur Wiederaufbau (KFW) I, II and III special fund is to be used to finance qualifying development projects and to support capacity development at **dfcu**.

(b) Under the terms of agreement for KFW IV and V loans, principal and interest repayments are reserved in a fund to support the financing of SME and microfinance businesses.

(c) During the year, there were transfers to the Youth Venture Capital Fund and to the participating banks of the Youth Fund to facilitate job creation and employment generation to address employment challenges for the youth.

28 Managed funds

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 Shs 2.5 billion in cash, Shs 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) Commercial Flowers Fund

The Commercial Flowers Fund was created by the Government of Uganda in July 2005 in a bid to promote commercial flower growing. On the due dates for KfW (I, II and III) loan repayments, **dfcu** Limited remitted Shs 2,928 million to Pearl Flowers Limited and accordingly set up a revolving fund.

28 Managed funds (continued)

(c) 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 Shs 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.

29 Share capital and share premium

	Number of issued ordinary shares	Share capital Shs M	Share premium Shs M	Total Shs M
At 1 January 2011, 31 December 2011 and 2012	**248,600,911**	**4,972**	**2,878**	**7,850**

The total authorised number of ordinary shares is 250,000,000 with a par value of Shs 20 per share.
All issued shares are fully paid.

30 Revaluation reserves – Group and company

	2012 Shs M	2011 Shs M
At start of year	**2,380**	135
Write off of building	**-**	(135)
Revaluation surplus for the year	**-**	3,400
Deferred income tax charge on revaluation surplus	**-**	(1,020)
Carried forward	**2,380**	2,380

31 Regulatory reserve - Group

	2012 Shs M	2011 Shs M
At start of year	**5,990**	2,279
Increase/(decrease)	**3,636**	3,711
At end of year	**9,626**	5,990

The regulatory reserve represents amounts by which allowances for impairments of loans and advances for the Bank, determined in accordance with the Ugandan Financial Institutions Act, 2004 exceed those determined in accordance with IFRS. These amounts are appropriated from retained earnings in accordance with accounting policy 2.11.

32 Non-controlling interests

	Group 2012 Shs M	Group 2011 Shs M
At start of year	**13**	19
Share of results for the year	**(13)**	(6)
At end of year	**-**	13

Rwenzori Properties Limited (the minority subsidiary) is in the process of being wound up.

33 Cash and cash equivalents

Analysis of the balance of cash and cash equivalents as shown in the statement of cash flows

	Group 2012 Shs M	Group 2011 Shs M
Cash in hand and balances with Bank of Uganda	**100,050**	83,648
Less: Cash reserve requirement	**(45,041)**	(40,741)
Treasury bills and bonds maturing within 90 days (note 15)	**33,602**	15,252
Deposits and balances due from banks (note 16)	**61,706**	149,579
	150,317	207,738

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 which were less than 90 days to maturity from the statement of financial position date.

Bank of Uganda requires banks to maintain a prescribed minimum cash balance. This balance is available to finance the Bank'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.

34 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 2012, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Shs 918 million (2011: Shs 804 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 2012 the Group contributed Shs 1,865 million (2011: Shs 1,976 million), which has been charged to profit or loss.

35 Contingent liabilities

The Group is defendant in various legal actions in the normal course of business. The total estimated exposure arising from these cases is Shs 3.8 billion. Based on legal advice, management has determined that total expected losses to the Bank are Shs 486 million for which a provision has been made in the financial statements. In the opinion of directors and after taking appropriate legal advice, no significant additional losses are expected to arise from these cases.

36 Related party disclosures

The Group is controlled by CDC Group Plc incorporated in the United Kingdom. There are other companies that are related to **dfcu** Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

	Group	
	2012	**2011**
(a) Amounts due to group companies	**Shs M**	**Shs M**
dfcu Bank Limited - current account	**5,208**	1,141
Deposit held by Rwenzori Courts Limited	-	26
Umeme Limited	**2,278**	12,058
National Social Security Fund (NSSF)	**77,531**	38,700

These include deposits held with **dfcu** Bank Limited which are due on demand and earn interest at the prevailing market rates.

(b) Borrowings due to shareholders	**2012**	**2011**
	Shs M	**Shs M**
Norwegian Investment Fund for Developing Countries (NORFUND)	**26,511**	33,193

The Norwegian Investment Fund for Developing Countries (NORFUND) holds a 10.06% shareholding in **dfcu** Limited. As at 31 December 2012, there were outstanding borrowings due to NORFUND.

(c) Loans to directors and connected persons	**2012**	**2011**
	Shs M	**Shs M**
At start of year	**2,986**	3,200
Loans advanced during the year	**-**	1,980
Loan repayments received	**(2,656)**	(2,194)
At end of year	**330**	2,986

(d) Key management compensation		
Salaries and other short-term employment benefits	**4,443**	4,215
Post-employment benefits	**509**	393
	4,952	4,608
(e) Directors' remuneration		
Fees	**496**	438
Other emoluments: Short-term benefits (included in key management compensation above)	**526**	949
	1,022	1,387

37 Contingent liabilities and commitments

One of the subsidiaries of the Company, **dfcu** Bank Limited (the Bank) conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other commitments including undrawn stand-by facilities, the nominal amounts for which are not reflected in the statement of financial position.

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Amounts committed under acceptances are accounted for as off-statement of financial position items and are disclosed as contingent liabilities and commitments.

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

	2012	2011
	Shs M	Shs M
Contingent liabilities		
Acceptances and letters of credit	**484**	9,643
Guarantee and performance bonds	**29,965**	42,514
	30,449	52,157
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**27,747**	7,818
	58,196	59,975

Other contingent liabilities:

The Bank is defendant in various legal actions in the normal course of business. The total estimated exposure arising from these cases Shs 3.8 billion. Through legal advice, management has determined that total expected losses to the Bank are Shs 486 million for which a provision has been made in the financial statements. In the opinion of directors and after taking appropriate legal advice, no significant additional losses are expected to arise from these cases.

Principal Shareholders

On 14 October 2004, 40% of the shares in **dfcu** Limited that were previously held by International Finance Corporation (IFC) and Uganda Development Corporation (UDC) were listed on the Uganda Securities Exchange in the initial public offering of shares by the company.

The major shareholders of **dfcu** Limited together with their shareholdings are:

	2012 Number of shares	2012 %
Actis Management Mauritius Limited (On behalf of CDC)	149,213,732	60.02
NORFUND	25,000,000	10.06
National Social Security Fund	14,743,829	5.93
Investec Asset Management Africa	10,786,574	4.34
Investec Asset Management Pan	6,787,751	2.73
Investec Asset Management	2,825,388	1.14
Central Bank of Kenya Pension Fund	2,531,194	1.02
Bank of Uganda Staff Retirement Benefits Scheme	2,277,561	0.92
Pinebridge Sub-SaharanAfrica	1,359,564	0.55
Kenya Airways Limited Staff Provident Fund	957,000	0.38
UAP Insurance Company Limited	847,293	0.34
Stanbic Bank Uganda Limited Staff	820,107	0.33
UAP Retirement Benefits	731,468	0.29
Crane Bank Limited	722,104	0.29
National Social Security Fund-SIMS	719,280	0.29
Mr. Rakesh Gadani	646,323	0.26
MTN Uganda Staff Contributory Fund	622,708	0.25
Jubilee Investments Limited	600,000	0.24
Alexander Forbes Retirement Fund	544,683	0.22
Others	25,864,352	10.40
	248,600,911	100.00

Supplementary Information
For the year ended 31 December 2012

Company statement of comprehensive income

	2012 Shs M	RESTATED 2011 Shs M
Interest income	**246**	873
Fees and commission income	**363**	306
	609	1,179
Dividend income	**12,259**	23,022
Other income	**728**	7
Operating income	**13,596**	24,208
Operating expenses	**(763)**	(841)
Net provision for impairment/(recoveries) on loans, advances and leases	**452**	(71)
	(311)	(912
Profit before income tax	**13,285**	23,296
Income tax expense	**(308)**	(1,032)
Profit for the year	**12,977**	22,264
Other comprehensive income		
Revaluation surplus on property	**-**	3,400
Deferred income tax thereon	**-**	(1,020)
Other comprehensive income, net of tax	**-**	2,380
Total comprehensive income	**12,977**	24,644

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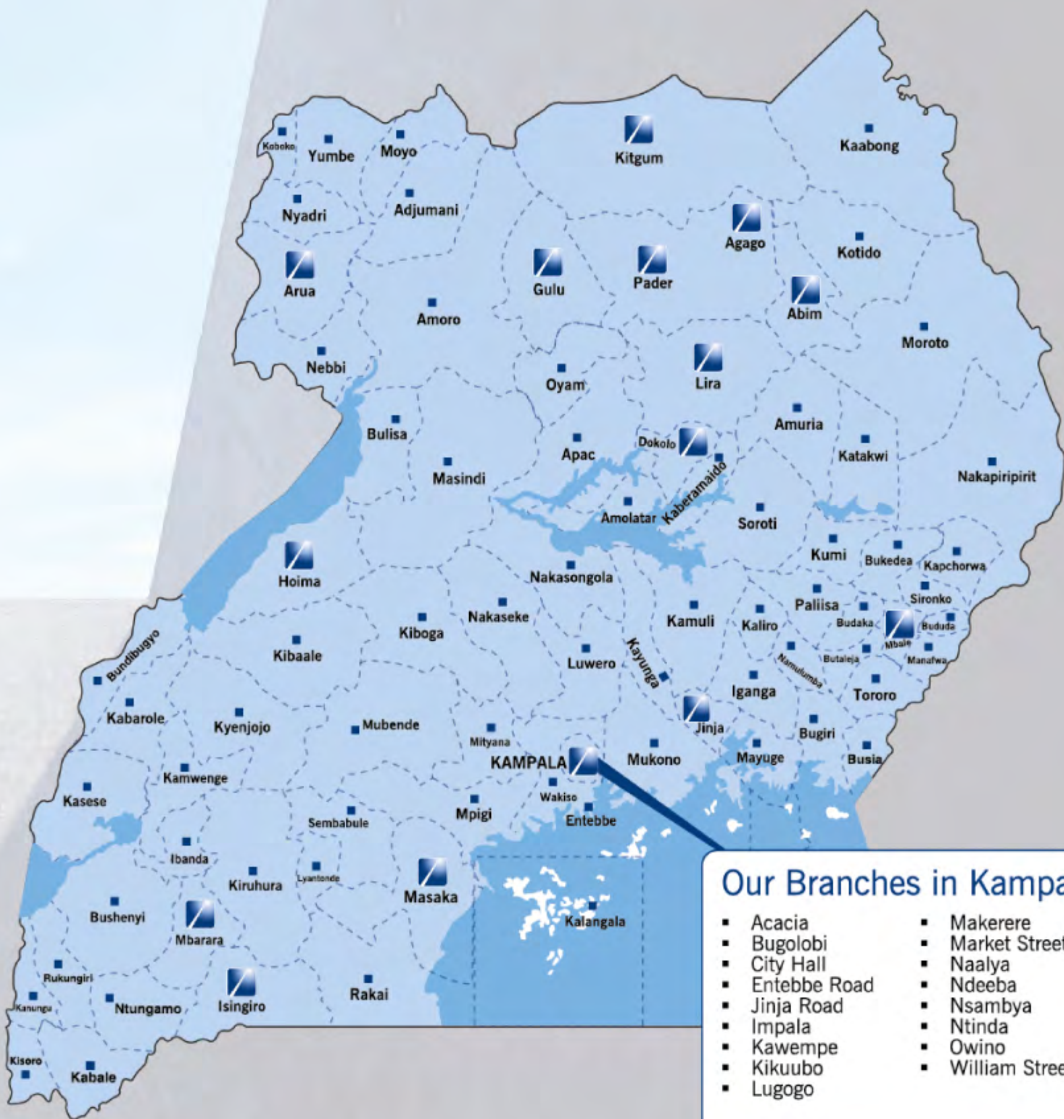

Our Branches in Kampala

- Acacia
- Bugolobi
- City Hall
- Entebbe Road
- Jinja Road
- Impala
- Kawempe
- Kikuubo
- Lugogo
- Makerere
- Market Street
- Naalya
- Ndeeba
- Nsambya
- Ntinda
- Owino
- William Street

We believe in going the distance so you don't have to, which is why **we continue to open more branches countrywide so we can bring our services closer to you**.

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