dfcu Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 December 2011

Contents

Directors' Report
For the year ended 31 December 2011

The directors submit their report together with the audited consolidated financial statements of **dfcu** Limited and its subsidiaries (together "the Group") for the year ended 31 December 2011, 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 Leasing Company Limited	1 July 1999	100.0
dfcu Bank Limited	1 May 2000	100.0
Rwenzori Properties Limited	30 September 2000	62.67

dfcu Leasing Company Limited and Rwenzori Properties Limited ceased trading in 2006 and 2007 respectively. **dfcu** Leasing Company Limited was wound up in December 2010 while 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 DIVIDEND

The Group made a net profit attributable to shareholders of the group of Shs 30,774 million for the year (2010: Shs 23,056 million). The directors recommend payment of a dividend for the year ended 31 December 2011 of Shs 9,222 million (2010: Shs 9,222 million) or Shs 37.10 per share (2010: 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
E. Karuhanga - Non-executive Director
B. Irwin - Non-executive Director
D. Malik - Non-executive Director
R. Bigirwa - Non-executive Director
M. Grant - Non-executive Director
M. Turner - Non-executive Director
L. Kironde - Non-executive Director (appointed 1 August 2011)

During the financial year and up to the date of this report, other than as disclosed in Note 33 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 33 to the financial statements.

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.

Directors' Report
For the year ended 31 December 2011

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
PO Box 2767
Kampala
Uganda
Tel: +256 312300200/300

AUDITORS
The Company's auditors, Ernst & Young, will not seek re-appointment at the annual general meeting of the Company to be held later in the year in accordance with Section 159(2) of the Ugandan Companies Act, having reached the fourth year of continuous service as stipulated under Section 62(1) of the Financial Institutions Act, 2004 with which the Group's major subsidiary, **dfcu** Bank Limited, has to comply.

ISSUE OF FINANCIAL STATEMENTS
The financial statements were authorised for issue in accordance with a resolution of the directors on 19th March 2012.

By order of the Board

Atibayeita

SECRETARY

A Tibayeita Isharaza
2012

Statement of Directors' Responsibilities
For the year ended 31 December 2011

The Ugandan Companies Act (Cap 110) requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Group and of the Company as at the end of the financial year and of the Group's operating results. 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 annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent estimates and judgements, in conformity with International Financial Reporting Standards and the requirements of the Ugandan Companies Act (Cap 110). 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 of the Company and of the Group's 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, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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.

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Director	**Director**
2012	2012

Independent Auditors Report
to the members of **dfcu** Limited

Report on the financial statements

We have audited the accompanying consolidated financial statements of **dfcu** Limited ('the Group'), which comprise the consolidated statement financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 7 to 68.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act (Cap 110), 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.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 the audit to obtain reasonable assurance about whether 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 entity's internal control. An audit also includes 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **dfcu** Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act (Cap 110).

Report on other legal requirements

As required by the Ugandan Companies Act (Cap 110) we report to you, based on our audit, that;

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the 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 consolidated statements of financial position, consolidated income statement and consolidated statement of comprehensive income are in agreement with the books of account.

KAMPALA
2012

Consolidated income statement
As at 31 December 2011

	Note	2011 Shs M	2010 Shs M
Interest			
Interest and similar income	6 (a)	118,533	88,541
Interest expense	6 (b)	(37,863)	(28,266)
Net interest income		80,670	60,275
Fees and commission income	6 (c)	9,600	9,937
		90,270	70,212
Other income	6 (d)	6,167	3,677
Total income		96,437	73,889
Operating expenses	7	(50,382)	(41,916)
Allowance for impairment of loans and advances	8	(4,551)	(2,628)
Profit before income tax	9	41,504	29,345
Income tax expense	10(a)	(10,730)	(6,289)
Profit for the year		**30,774**	**23,056**
Attributable to:			
Equity holders of the Company		30,780	23,056
Non-controlling interest	29	(6)	-
		30,774	**23,056**

		2011 Shs per share	2010 Shs per share
Earnings per share attributable to ordinary equity			
Equity holders of the Company			
-Basic and diluted	11	123.81	92.74

Consolidated statement of comprehensive income
As at 31 December 2011

	Note	2011 Shs M	2010 Shs M
Profit for the year		**30,774**	**23,056**
Currency translation differences		-	(249)
Revaluation surplus on land	18	3,400	-
Deferred income tax on revaluation of land	22	(1,020)	-
Other comprehensive income, net of taxes		**2,380**	**(249)**
Total comprehensive income for the year, net of taxes		**33,154**	**22,807**
Attributable to:			
Equity holders of the Company		33,160	22,807
Non-controlling interest	29	(6)	-
		33,154	**22,807**

Consolidated statement of financial position
As at 31 December 2011

	Note	2011 Shs M	2010 Shs M
Assets			
Cash at hand		31,844	29,826
Government and other securities	13	175,598	218,767
Deposits and balances due from banks	14	201,383	120,897
Loans and advances to customers	15	496,426	397,338
Other assets	17	13,296	11,010
Current income tax recoverable	10(b)	-	500
Property and equipment	18	26,856	14,467
Intangible assets	19	8,278	9,575
Deferred income tax asset	22	-	680
Total assets		953,681	803,060
Liabilities			
Customer deposits	20	525,391	480,731
Amounts due to related Companies	33(c)	26	-
Other liabilities	21	11,775	10,840
Current income tax payable	10(b)	1,309	-
Borrowed funds	23	286,044	206,891
Special funds	24	13,191	12,653
Managed funds	25	32	112
Deferred income tax liability	22	1,514	1,231
Total liabilities		839,282	712,458
Equity			
Issued capital	26	4,972	4,972
Share premium	26	2,878	2,878
Revaluation reserves	27	2,380	135
Retained earnings		76,828	58,981
Other reserves	2.24	12,113	12,113
Currency translation reserve	2.24	3	3
Regulatory reserve	28	5,990	2,279
Proposed dividend	12	9,222	9,222
Total equity attributable to the Company's shareholders		114,386	90,583
Non-controlling interest	29	13	19
Total equity		114,399	90,602
Total equity and liabilities		953,681	803,060

The financial statements were approved for issue by the Board of Directors on 19th March 2012 and signed on its behalf by:

………………………………………….

Director

………………………………………….

Director

Company statement of financial position
As at 31 December 2011

	Note	2011 Shs M	2010 Shs M
Assets			
Deposits and balances due from banks	14	176	164
Loans and advances to customers	15	1,431	3,492
Other assets	17	581	31
Investment in subsidiaries	16	26,824	16,394
Current income tax recoverable	10(b)	-	494
Amounts due from Group companies	33(b)	1,141	-
Property and equipment	18	7,965	1,133
Deferred income tax asset	22	-	680
Total assets		**38,118**	**22,388**
Liabilities			
Other payables	21	78	2
Amounts due to Group companies	33(b)	-	205
Managed funds	25	32	112
Deferred income tax liability	22	652	-
Total liabilities		762	319
Equity			
Issued capital	26	4,972	4,972
Share premium	26	2,878	2,878
Revaluation reserves	27	2,380	135
Retained earnings		15,012	1,970
Other reserves	2.24	12,114	12,114
Total equity		37,356	22,069
Total equity and liabilities		**38,118**	**22,388**

The financial statements were approved for issue by the board of directors on 19th March 2012 and signed on its behalf by:

....
Director

....
Director

Consolidated statement of changes in equity
For the year ended 31 December 2011

	Note	Issued capital (note 26) Shs M	Share premium (note26) Shs M	Revaluation reserves (note 27) Shs M	Retained earnings (note 3D) Shs M	Other reserves (note 2.24) Shs M	Currency translation reserve (note 2.24) Shs M	Regulatory reserve (note 28) Shs M	Proposed dividend (note 12) Shs M	Attributable to equity holders of the parent Shs M	Non controlling interest (note 29) Shs M	Total Shs M
Year ended 31 December 2010												
At 1 January 2010		**4,972**	**2,878**	**135**	**42,850**	**12,113**	**252**	**4,576**	**7,712**	**75,488**	**1,083**	**76,571**
Other comprehensive income, net of taxes		-	-	-	-	-	(249)	-	-	(249)	-	(249)
Profit for the year		-	-	-	23,056	-	-	-	-	23,056	-	23,056
Total comprehensive income for the year, net of taxes		-	-	-	23,056	-	(249)	-	-	22,807	-	22,807
Decrease in regulatory reserve		-	-	-	2,297	-	-	(2,297)	-	-	-	-
Net distributions paid to non controlling interest	29	-	-	-	-	-	-	-	-	-	(1,064)	(1,064)
Dividends paid		-	-	-	-	-	-	-	(7,712)	(7,712)	-	(7,712)
Dividends proposed	12	-	-	-	(9,222)	-	-	-	9,222	-	-	-
At 31 December 2010		**4,972**	**2,878**	**135**	**58,981**	**12,113**	**3**	**2,279**	**9,222**	**90,583**	**19**	**90,602**

Consolidated statement of changes in equity (Continued)
For the year ended 31 December 2011

	Note	Issued capital (note 26) Shs M	Share Premium (note 26) Shs M	Revaluation reserves (note 27) Shs M	Retained earnings (note 3D) Shs M	Other reserves (note 2.24) Shs M	Currency translation reserve (note 2.24) Shs M	Regulatory reserve (note 28) Shs M	Proposed dividend (note 12) Shs M	Attributable to equity holders of the parent Shs M	Non controllin interest (note 29) Shs M	Total Shs M
Year ended 31 December 2011												
At 1 January 2011		**4,972**	**2,878**	**135**	**58,981**	**12,113**	**3**	**2,279**	**9,222**	**90,583**	**19**	**90,602**
Other comprehensive income, net of taxes		-	-	2,380	-	-	-	-	-	2,380	-	2,380
Profit/(loss) for the year		-	-	-	30,780	-	-	-	-	30,780	(6)	30,774
Total comprehensive income for the year, net of taxes		-	-	2,380	30,780	-	-	-	-	33,160	(6)	33,154
Write off of building		-	-	(135)	-	-	-	-	-	(135)	-	(135)
Increase in regulatory reserve		-	-	-	(3,711)	-	-	3,711	-	-	-	-
Dividends paid	12	-	-	-	-	-	-	-	(9,222)	(9,222)	-	(9,222)
Dividends proposed	12	-	-	-	(9,222)	-	-	-	9,222	-	-	-
At 31 December 2011		**4,972**	**2,878**	**2,380**	**76,828**	**12,113**	**3**	**5,990**	**9,222**	**114,386**	**13**	**114,399**

Company statement of changes of equity
As At 31 December 2011

	Note	Issued capita (note 26) Shs M	Share Premium (note 26) Shs M	Revaluation reserves (note 27) Shs M	Retained earnings (note 3D) Shs M	Other reserves (note 2.24) Shs M	Total Shs M
At 1 January 2010		**4,972**	**2,878**	**135**	**(572)**	**12,114**	**19,527**
Profit for the year		-	-	-	2,542	-	2,542
Other comprehensive income, net of taxes		-	-	-	-	-	-
Total comprehensive income for year, net of taxes		**-**	**-**	**-**	**2,542**	**-**	**2,542**
At 31 December 2010		**4,972**	**2,878**	**135**	**1,970**	**12,114**	**22,069**
At 1 January 2011		**4,972**	**2,878**	**135**	**1,970**	**12,114**	**22,069**
Profit for the year		-	-	-	13,042	-	13,042
Other comprehensive income, net of taxes		-	-	2,380	-	-	2,380
Total comprehensive income for year, net of taxes		**-**	**-**	**2,380**	**13,042**	**-**	**15,422**
Write off of building		-	-	(135)	-	-	(135)
At 31 December 2011		**4,972**	**2,878**	**2,380**	**15,012**	**12,114**	**37,356**

Consolidated statement of cash flows
As at 31 December 2011

	Note	2011 Shs M	2010 Shs M
Operating activities			
Interest receipts		118,533	88,588
Interest payments		(37,863)	(37,016)
Fee and commission receipts		8,866	9,846
Net foreign exchange and other income received		5,931	3,358
Recoveries on loans previously written off	8	755	935
Cash payments to employees and suppliers		(42,050)	(39,028)
Income tax paid	10	(9,141)	(3,902)
Prior year corporation tax under/(over) paid	10	163	(79)
Cash flows from operating activities before changes in operating assets and liabilities		45,194	22,702
Changes in operating assets and liabilities			
Decrease/(increase) in Government and other securities		14,803	(50,017)
Increase/(decrease) in Bank of Uganda cash reserve requirement		3,944	(13,689)
Increase in loans and advances to customers		(104,394)	(74,602)
Increase in other assets		(1,854)	(2,452)
Increase in customer deposits		44,661	134,092
Decrease in other liabilities		(66)	(284)
Increase in amounts due from group companies		26	-
Decrease in managed funds		(81)	(663)
Net cash flows from operating activities		**2,233**	**15,087**
Investing activities			
Purchase of property and equipment	18	(13,821)	(5,033)
Purchase of intangible assets	19	(859)	(9,815)
Proceeds from sale of property and equipment		57	374
Net cash flows used in investing activities		**(14,623)**	**(14,474)**
Financing activities			
Net increase in borrowings and special funds		79,692	51,767
Dividends paid to shareholders		(9,222)	(7,712)
Distributions paid to non controlling interest		-	(1,455)
Net cash flows from financing activities		**70,470**	**42,600**
Net increase in cash and cash equivalents		58,080	43,213
Cash and cash equivalents at 1 January		149,658	106,445
Cash and cash equivalents at 31 December	**30**	**207,738**	**149,658**

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. 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:

- IFRS 1,Limited Exemption from Comparative IFRS7 Disclosures for First-time Adopters (Amendment)-effective 1 July 2010
- IAS 24 Related Party Disclosures (revised) effective 1 January 2011
- IAS 32 Financial Instruments: Classification of Rights Issues (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010
- Improvements to IFRSs (May 2010) effective 1 July 2010 or 1 January 2011 as listed below:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards
  - IFRS 3 Business Combinations
  - IFRS 7 Financial Instruments: Disclosures
  - IAS 1 Presentation of Financial Statements
  - IAS 27 Consolidated and Separate Financial Statements
  - IFRIC 13 Customer Loyalty Programmes-Fair value of award credit
  - IAS 34 Interim Financial Statements-Significant events and transactions

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised standards (continued)

The adoption of the standards or interpretations is described below:

IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment)
The amendment to IFRS 1 is effective for annual periods beginning on or after 1 July 2010. The amendment allows first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures, as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application. To achieve this, the transitional provisions in IFRS 7 were also amended. This is not applicable to the Group as it is not a first-time adopter.

IAS 24 Related Party Disclosures (Revised)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified and simplified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. The amendment had no impact, as the definitions were already applied according to these amendments and the Group is not government related.

IAS 32 Classification of Rights Issues (Amendment)
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. This amendment had no impact on the Group as no such transactions were entered into.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment had no impact on the financial statements of the Group, as no defined benefit plans are used by the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised standards (continued)

The adoption of this interpretation had no effect on the financial position or performance of the Group, as no such transactions were entered into.

Improvements issued in May 2010

- IFRS 1, First-time Adoption of International Financial Reporting Standards (effective from 1 January 2011)

  - Accounting policy changes in the year of adoption - The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it has to explain those changes and update the reconciliations between previous GAAP and IFRS.
  - Revaluation basis as deemed cost - The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of trahnsition, but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity).
  - Use of deemed cost for operations subject to rate regulation - The amendment expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulate activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalisation under IAS 16, Property, Plant and Equipment, IAS 23, Borrowing Costs, and IAS 38, Intangible Assets.

  The amendments to IFRS 1 had no impact on the Group, as it already reports in terms of IFRS.

- IFRS 3, Business Combinations (effective from 1 July 2010)

  - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. - The amendment clarifies that the amendments to IFRS 7, Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39, Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The amendment is applied retrospectively. This had no impact on the Group, as there is no contingent consideration on business combinations.
  - Measurement of non-controlling interests (NCI) - The amendment limits the scope of the measurement choices only to the components of NCI that are present ownership interests which entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS. This had no impact on the Group, as there is no NCI.
  - Un-replaced and voluntarily replaced share-based payment awards - The amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether by obligation or voluntarily), i.e., split between consideration and post-combination expenses.

2 Summary of significant accounting policies (continued)
2.2 Adoption of new and revised standards (continued)

However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. This had no impact on the Group, as there has been no share-based payment transactions entered into.

- IFRS 7, Financial Instruments — Disclosures (effective 1 January 2011) — Clarification of Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in the notes.
- IAS 1, Presentation of Financial Statements (effective 1 January 2011) — Clarification of statement of changes in equity - The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively. The Group reflects this analysis in the statement of changes in equity.
- IAS 27, Consolidated and Separate Financial Statements (effective from 1 July 2010) — The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The amendment is applied retrospectively. This had no impact on the Group as there are no transactions subject to these amendments.
- IAS 34 Interim Financial Statements - Significant events and transactions — The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around circumstances likely to affect fair values of financial instruments and their classification. This will have an impact on interim reports, but not the annual financial statements.
- IFRIC 13, Customer Loyalty Programmes - Fair value of award credit (effective 1 January 2011) — The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively. This had no impact on the Group as it has no customer loyalty programs.

Standards issued but not yet effective

The standards and interpretations issued, which the Group reasonably expects to be applicable at a future date are listed below. The Group intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

2 Summary of significant accounting policies (continued)
2.2 Adoption of new and revised standards (continued)
Standards issued but not yet effective (continued)

The amendment becomes effective for annual periods beginning on or after 1 January 2013. Although the Group will not be impacted by amendments relating to defined benefit plans, the impact on the definitions of short-term and long-term employee benefits is still being assessed.

IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets (Amendment)
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Disclosures – Offsetting Financial Assets and Financial Liabilities
The amendment amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the Group is still in the process of determining how it will impact the disclosures upon adoption.

IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities
The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts". This means that the right of set-off:
- must not be contingent on a future event; and,
- must be legally enforceable in all of the following circumstances:
    - the normal course of business;
    - the event of default; and,
    - the event of insolvency or bankruptcy of the entity and all of the counterparties.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised standards (continued)

Standards issued but not yet effective (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements.

IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how tomeasure fair value under IFRS when fair value is required or permitted. There are also consequential amendments to other standards to delete specific requirements for determining fair value. Clarifications on certain aspects are also provided. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The standards issued, which the Group does not reasonably expect to be applicable at a future date are listed below.

IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets (Amendment)

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. This amendment will have no impact on the Group after initial application, as it has no investment properties and the deferred tax on non depreciable assets measured using the revaluation model is currently measured on a sale basis of the asset.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no immediate impact on the Group as it does not have any investments in associates or interests in Joint arrangements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require entities to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised standards (continued)

Standards issued but not yet effective (continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group as it is not party to any Joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This new interpretation provides guidance on how to account for stripping cost in the development phase of a surface mine. This interpretation will become effective on 1 January 2013 and will have no impact, as the Group is not involved in mining activities.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of **dfcu** Limited and its subsidiaries as at 31 December 2011.

Subsidiaries are all 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. 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.

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in profit or loss in the year of acquisition. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

Non controlling interest (minority interest) represents the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity.

2.4 Segment reporting

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The Group's view is that the operating segments determined in accordance with IFRS 8 are the same as these business units. IFRS 8 disclosures are shown in note 5.

2 Summary of significant accounting policies (continued)

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.

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.

(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.

On consolidation, exchange differences arising from the translation of the net investment in entities whose functional currency is not Uganda Shillings are taken to shareholders' equity. On disposal of these entities, the exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

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.

2 Summary of significant accounting policies (continued)

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 Dividend income

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

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.

2 Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

(iv) Available-for-sale financial assets: These 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.

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;

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

(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.

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:

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

(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%.

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

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

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.

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 Summary of significant accounting policies (continued)

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.

2.16 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

2 Summary of significant accounting policies (continued)

2.17 Taxation (continued)

- 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.

2.18 Retirement employee benefits and other 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 if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The 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.

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 unutilised 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 profit or loss and then appropriated from retained earnings to non distributable reserve. 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.

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	2011 Shs M	2010 Shs M
Held-for-trading:		
Government securities	28,671	26,003
Held-to-maturity:		
Government and other securities	146,927	192,764
Deposits and balances due from other Banks	149,579	82,875
Balances with Bank of Uganda	51,804	38,022
	348,310	**313,661**
Loans and advances and other receivables/financial assets:		
Loans and advances customers (Net of impairment)	496,426	397,338
Other financial assets	8,299	6,447
Cash in hand	31,844	29,826
	536,569	**433,611**

3 Financial risk management (continued)

Financial liabilities	2011 Shs M	2010 Shs M
Measured at amortised cost:		
Customer deposits	525,391	480,731
Balances due to other banks:inter-bank borrowings	68,482	10,684
Borrowed funds	217,561	196,207
Other financial liabilities	2,397	2,970
	813,831	**690,592**

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.

3 Financial risk management (continued)
3A Credit risk (continued)

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.

Maximum exposure to credit risk before collateral held	**2011 Shs M**	**2010 Shs M**
Government and other securities	175,598	218,767
Deposits and balances due from banks	149,579	82,875
Loans and advances to customers	496,426	397,338
Other assets	13,296	11,010
Credit risk exposures relating to off-statement of financial position items:		
- Acceptances and letters of credit	9,643	283
- Guarantee and performance bonds	42,514	23,633
- Commitments to lend	7,818	14,299
	894,874	**748,205**

The above table represents the worst case scenario of credit risk exposure to the Group as at 31 December 2011 and 2010, 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:

3 Financial risk management (continued)

3A Credit risk (continued)

- the Group exercises stringent controls over the granting of new loans;
- 82% (2010: 79%) 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% (2010: 99.5%) 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:

	2011 Shs M	2010 Shs M
Neither past due nor impaired	408,338	315,493
Past due but not impaired	76,675	77,676
Impaired	25,244	15,194
Gross	510,257	408,363
Less: Allowance for impairment	(13,831)	(11,025)
Net	**496,426**	**397,338**

No other financial assets are either past due or impaired.

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:

	2011 Shs M	2010 Shs M
Standard	408,338	315,493

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:

	2011 Shs M	2010 Shs M
Past due up to 30 days	44,122	22,193
Past due 31 – 60 days	22,491	21,222
Past due 61 – 90 days	10,062	34,261
	76,675	**77,676**

3 Financial risk management (continued)
3A Credit risk (continued)

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	
	2011	**2010**
	Shs M	**Shs M**
Individually assessed impaired loans and advances	25,244	15,194
Fair value of collateral	**53,429**	**25,476**

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

	2011	**2010**
	%	**%**
Manufacturing	5	6
Trade and commerce	30	26
Building and construction	5	5
Mining and quarrying	1	1
Transport and communications	7	7
Agriculture and agro-processing	4	4
Home Loans	10	11
Hotel and tourism	4	6
Real Estate	16	16
Non Bank Financial Institution	2	2
Schools	3	4
Health	1	-
Personal	7	8
Other	5	4
	100	**100**

3 Financial risk management (continued)

3B 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 except for Rwenzori Properties Limited whose assets and liabilities were measured in United States dollars.

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 2011, the Group had a net foreign exchange asset position of US$ 730,667 (2010: US$ 738,528).

The Group's profit before income tax and equity would decrease/ increase by Shs 91 million (2010: Shs 85.3 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 2011.

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)

3B i) Currency risk (continued)

Group	USD	GBP	EURO	Shs and other	Total
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 and equity	**264,334**	**2,556**	**6,039**	**563,530**	**836,459**
Net on-statement of financial position	**5,425**	**1**	**6**	**76,656**	**82,088**
As at 31 December 2010					
Assets					
Cash at hand	10,115	190	885	18,636	29,826
Government and other securities	-	-	-	218,767	218,767
Deposits and balances due from banks	63,236	704	5,400	51,557	120,897
Loans and advances	113,619	2	2	283,715	397,338
Other assets	160	-	-	10,850	11,010
Total assets	**187,130**	**896**	**6,287**	**583,525**	**777,838**
Liabilities					
Customer deposits	74,480	823	6,183	399,245	480,731
Other payables	996	32	43	9,769	10,840
Borrowed funds	110,050	-	-	96,841	206,891
Special funds	-	-	-	12,653	12,653
Managed funds	-	-	-	112	112
Total liabilities and equity	**185,526**	**855**	**6,226**	**518,620**	**711,227**
Net on-statement of financial position	**1,604**	**41**	**61**	**64,905**	**66,611**

3 Financial risk management (continued)

3B 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 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 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**
Property and equipment	-	-	-	-	-	26,856	**26,856**
Intangible assets	-	-	-	-	-	8,278	**8,278**
Total assets	**248,396**	**29,801**	**190,806**	**232,188**	**71,441**	**181,049**	**953,681**
Liabilities and equity							
Customer deposits	131,926	33,542	79,002	482	-	280,439	**525,391**
Other liabilities	-	-	-	-	-	11,775	**11,775**
Deferred income tax assets	-	-	-	-	-	1,514	**1,514**
Amounts due to Group companies	26	-	-	-	-	-	**26**
Current income tax recoverable	-	-	-	-	-	1,309	**1,309**
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**
Shareholders' equity	-	-	-	-	-	114,399	**114,399**
Total liabilities and equity	**211,178**	**41,540**	**146,624**	**123,671**	**4,299**	**426,369**	**953,681**
Interest sensitivity gap	**37,218**	**(11,739)**	**44,182**	**108,517**	**67,142**		

3 Financial risk management (continued)

3B ii) Interest rate risk (continued)

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 2010							
Assets							
Cash at hand	-	-	-	-	-	29,826	**29,826**
Government and other securities	15,400	28,218	90,315	73,039	11,795	-	**218,767**
Deposits and balances due from banks	37,264	-	-	-	-	83,633	**120,897**
Loans and advances	85,197	22,957	76,158	198,281	26,111	(11,366)	**397,338**
Other assets	-	-	-	-	-	11,010	**11,010**
Current income tax recoverable	-	-	-	-	-	500	**500**
Property and equipment	-	-	-	-	-	14,467	**14,467**
Intangible assets	-	-	-	-	-	9,575	**9,575**
Deffered income tax asset	-	-	-	-	-	680	**680**
Total assets	**137,861**	**51,175**	**166,473**	**271,320**	**37,906**	**138,325**	**803,060**
Liabilities and equity							
Customer deposits	159,431	17,110	90,924	382	-	212,884	**480, 731**
Other liabilities	-	-	-	-	-	10,840	**10,840**
Deferred income tax liability	-	-	-	-	-	1,231	**1,231**
Borrowed funds	20,360	2,295	36,114	107,042	35,665	5,415	**206,891**
Special funds	-	-	-	-	-	12,653	**12,653**
Managed funds	-	-	-	-	-	112	**112**
Shareholders' equity	-	-	-	-	-	90,602	**90,602**
Total liabilities and equity	**179,791**	**19,405**	**127,038**	**107,424**	**35,665**	**333,737**	**803,060**
Interest sensitivity gap	**(41,930)**	**31,770**	**39,435**	**163,896**	**2,241**		

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.

3 Financial risk management (continued)

3B ii) Interest rate risk (continued)

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.

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 (2010: 3%).

As at 31 December

	2011 Shs M	2010 Shs M
Fair value interest rate risk	236	212
Cash flow interest rate risk	7,623	6,858
Impact on profit before tax	**7,859**	**7,070**

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 2011 to the contractual maturity date. All figures are in millions of shillings.

3 Financial risk management (continued)

3C Liquidity risk (continued)

Group	Up to 1 month	1-3 months	3-12 months	1-5 Years	Over 5 years	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	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**
Property and equipment	-	-	-	26,856	-	**26,856**
Intangible assets	-	-	-	-	8,278	**8,278**
Total assets	**400,663**	**32,553**	**195,880**	**244,866**	**79,719**	**953,681**
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**
Deferred income tax	1,514	-	-	-	-	**1,514**
Amounts due to Group companies	26	-	-	-	-	**26**
Current income tax recoverable	1,309	-	-	-	-	**1,309**
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	**509,471**	**42,188**	**159,576**	**123,747**	**4,300**	**839,282**
Net liquidity gap	**(108,808)**	**(9,635)**	**36,304**	**121,119**	**75,419**	**114,399**
As at 31 December 2010						
Assets						
Cash at hand	29,826	-	-	-	-	**29,826**
Government and other securities	15,400	28,218	90,315	73,039	11,795	**218,767**
Deposits and balances due from banks	120,897	-	-	-	-	**120,897**
Loans and advances	85,843	21,722	75,697	186,650	27,426	**397,338**
Other assets	3,775	3,423	2,951	861	-	**11,010**
Current income tax recoverable	-	399	101	-	-	**500**
Property and equipment	-	-	-	11,265	3,202	**14,467**
Intangible assets	-	-	-	9,112	463	**9,575**
Defered income tax asset	-	-	680	-	-	680
Total assets	**255,741**	**53,762**	**169,744**	**280,927**	**42,886**	**803,060**
Liabilities						
Customer deposits	372,315	17,110	90,924	382	-	**480,731**
Interest payable and other payables	2,594	1,354	4,817	1,512	563	**10,840**
Deferred income tax	-	-	1,231	-	-	**1,231**
Borrowed funds	23,079	2,295	36,254	108,907	36,356	**206,891**
Special funds	-	-	1,114	3,662	7,877	**12,653**
Managed funds	-	-	-	-	112	**112**
Total liabilities	**397,988**	**20,759**	**134,340**	**114,463**	**44,908**	**712,458**
Net liquidity gap	**(142,247)**	**33,003**	**35,404**	**166,464**	**(2,022)**	**90,602**

3 Financial risk management (continued)

3C Liquidity risk (continued)

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.

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 Shs 25 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 2011.

	2011	2010
	Shs M	Shs M
Before dividend declaration		
Core capital	108,391	88,321
Total capital	121,821	90,600
After dividend declaration		
Core capital	99,169	79,099
Total capital	112,599	81,378

3 Financial risk management (continued)

3D Capital management (continued)

Risk weighted assets	2011 Shs M	2010 Shs M
On-statement of financial position	637,259	469,008
Off-statement of financial position	46,423	30,783
Total risk weighted assets	683,682	499,791
Basel Ratio (after dividend declaration)	**2011**	**2010**
Core capital	15%	16%
Total capital	16%	16%
Basel Ratio (before dividend declaration)		
Core capital	16%	18%
Total capital	18%	18%

Included in total composition is the surbordinated debt from NORFUND - (refer to note 23)

3E Fair values of financial instruments

As at 31 December 2011, 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	2011 Shs M	2010 Shs M
Level 2-treasury bills and bonds	28,671	26,002
	28,671	**26,002**

During the reporting period ended 31 December 2011, there were no transfers into and out of Level 2 fair value measurements. (Refer to note 16)

The fair values of held-to-maturity investment securities as at 31 December 2011 is estimated at Shs 125,337 million (2010: Shs 175,878 million) compared to their carrying value of Shs 146,927 million (2010: Shs 192,764 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 above.

4 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that materially affect the reported amounts of assets 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 15)

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 10)

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. (Refer to note 13)

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 segments as follows:

- **dfcu** Limited which is the holding company that is listed on the Uganda Stock Exchange. **dfcu** Limited merged its two businesses - 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 development finance 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.

No operating segments have been aggregated to form the above reportable operating segments.
19.6% (2009: 21.7%) 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 2011 were as follows:

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
Total income	887	118,170	(524)	118,533
Profit/(loss) before income tax	14,010	41,294	(13,800)	41,504
Income tax expense	(985)	(9,745)	-	(10,730)
Profit/(loss) after tax	13,025	31,549	(13,800)	30,774
Depreciation and amortisation	8	6,036	-	6,044

5 Segment information (continued)

The segment results for the year ended 31 December 2010 were as follows:

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
Total income	815	87,997	(271)	**88,541**
Profit/(loss) before income tax	2,883	27,824	(1,362)	**29,345**
Income tax expense	(341)	(5,921)	(27)	**(6,289)**
Profit/(loss) after tax	2,542	21,903	(1,389)	**23,056**
Depreciation	52	4,393	-	**4,445**

Statement of financial position

	dfcu Limited Shs M	dfcu Bank Shs M	Intra segment items Shs M	Group Shs M
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**
31 December 2010				
Total assets	22,973	797,956	(17,869)	**803,060**
Total liabilities	904	716,914	(5,360)	**712,458**
Capital expenditure	653	14,195	-	**14,848**

The Group's operations are all attributed to Uganda, the Company's country of domicile.

The table below indicates the Group's revenue from external customers for each group of similar products:

	dfcu Limited Shs M	dfcu Bank Shs M	Group Shs M
2011	**887**	**117,646**	**118,533**
2010	**815**	**87,726**	**88,541**

6 (a) Interest and similar income

	Group 2011 Shs M	Group 2010 Shs M
Loans and advances	85,407	63,774
Finance leases	10,247	5,401
Government securities	19,010	17,353
Fair value (losses)/gains on held-for-trading securities	(466)	771
Other interest income	4,335	1,242
	118,533	**88,541**

(b) Interest expense

	Group 2011 Shs M	Group 2010 Shs M
Borrowed funds	19,317	11,460
Deposits	18,546	16,806
	37,863	**28,266**

(c) Fees and commission income

	Group 2011 Shs M	Group 2010 Shs M
Fees and commissions income	9,600	9,937

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.

(d) Other income

	Group 2011 Shs M	Group 2010 Shs M
Net foreign exchange income	5,931	3,359
Other	236	318
	6,167	**3,677**

Net foreign income includes commissions earned on foreign currency operation or dealings and foreign currency translation gains or losses. The Group maintains one account for foreign currency operations and the net income or loss is recognised in profit or loss.

7 Operating expenses

	Group 2011 Shs M	Group 2010 Shs M
Employee benefits expense	21,862	18,225
Professional services	2,227	1,728
Advertising and marketing	1,406	1,778
Office and residential occupancy expenses	6,227	5,485
Communication expenses	5,872	5,106
Depreciation (Note 18)	3,988	3,742
Amortisation (Note 19)	2,056	703
Audit expenses	267	241
Travel expenses	1,134	965
Printing and stationery	980	962
Other administrative expenses	4,363	2,981
	50,382	**41,916**

8 Allowance for impairment of loans and advances

	Group 2011 Shs M	Group 2010 Shs M
Provision for the year less recoveries during the year	5,306	3,563
Recoveries of losses previously written off	(755)	(935)
Net charge to profit or loss	**4,551**	**2,628**

9 Profit before income tax

Profit before income tax is stated after charging the following items:		
Employee benefits expenses (note 7)	21,862	18,225
Depreciation of property and equipment (note 18)	3,988	3,742
Amortisation of intangible assets (note 19)	2,056	703
Auditors' remuneration	267	241
Operating lease expenses	3,720	3,256

10 Income tax

a) Income tax expense

Current income tax	10,786	4,111
Deferred income tax (credit)/charge (note 22)	(56)	2,178
	10,730	**6,289**

The tax 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 2011 Shs M	Group 2010 Shs M
Profit before income tax	41,504	29,345
Tax calculated at the tax rate of 30% (2010: 30%)	12,451	8,803
Prior year under/(over) provision of corporation tax	163	(79)
Prior year under provision of deferred tax	36	-
Tax effect of:		
Income taxed at 15%	(2,848)	(2,584)
Income not subject to tax	(281)	(777)
Expenses not deductible for tax purposes	1,209	926
Income tax expense	**10,730**	**6,289**

10 Income tax (continued)

b) Current income tax payable/(recoverable)

The movements in current income tax during the year are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	Shs M	**Shs M**	**Shs M**	**Shs M**
Tax recoverable at start of year	(500)	(630)	(494)	(494)
Prior year under/(over) provision	163	(79)	720	-
Current tax charge for the year	10,787	4,111	-	-
Tax paid during year	(9,141)	(3,902)	(226)	
Current income tax payable/(recoverable)	**1,309**	**(500)**	**-**	**(494)**

11 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 2011	**Group 2010**
Profit attributable to equity holders of the Company (Shs M)	30,780	23,056
Weighted average number of ordinary shares in issue	248,600,911	248,600,911
Basic earnings per share (Shs)	123.81	92.74

There were no dilutive shares as at 31 December 2011 and 31 December 2010. Therefore, diluted earnings per share is the same as basic earnings per share.

12 Dividends

	2011		2010	
	Dividend per share Shs	Total Shs M	Dividend per share Shs	Total Shs M
Proposed dividend	37.10	9,222	37.10	9,222

At the annual general meeting to be held on 27 June 2012 a final dividend in respect of the year ended 31 December 2011 of Shs 37.10 per share (2010: Shs 37.10 per share) amounting to a total of Shs 9,222 million (2010: Shs 9,222 million) is to be proposed.

Payment of dividends by publicly listed companies is subject to withholding tax at 10%.

13 Government and other securities

	Group	
	2011	**2010**
Treasury bills	**Shs M**	**Shs M**
Held-for-trading		
Maturing within 90 days of the date of acquisition	4,311	12,942
Maturing after 90 days of the date of acquisition	19,242	4,792
Held-to-maturity		
Maturing within 90 days of the date of acquisition	7,183	30,675
Maturing after 90 days of the date of acquisition	41,702	67,703
Total treasury bills	**72,438**	**116,112**
Treasury and other bonds:		
Held-for-trading		
Maturity after 90 days	5,118	8,269
Held-to-maturity		
Maturing within 90 days of the date of acquisition	3,758	-
Maturing after 90 days of the date of acquisition	94,284	94,386
Total treasury bonds	**103,160**	**102,655**
	175,598	**218,767**

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 1,113 million (2010: Shs 1,421 million) issued by Stanbic Bank Uganda Limited and East African Development Bank.

The fair value losses on held-for-trading investments amounted to Shs 467 million. (2010: Gains of Shs 771 million) and are recognised in profit or loss under 'interest and similar income'.

14 Deposits and balances due from banks

	Group		Company	
	2011	**2010**	**2011**	**2010**
	Shs M	**Shs M**	**Shs M**	**Shs M**
Balances with Bank of Uganda	51,804	38,022	-	-
Balances with other banks	149,579	82,875	176	164
	201,383	**120,897**	**176**	**164**

Balances with Bank of Uganda are non-interest bearing and normally settled within 90 days.

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.

The Group holds no collateral in respect to these balances.

15 Loans and advances to customers

	Group		Company	
	2011 Shs M	2010 Shs M	2011 Shs M	2010 Shs M
Loans and advances	510,257	408,363	2,418	4,870
Less: Allowance for impairment losses				
Individually assessed	(8,101)	(5,883)	(987)	(1,378)
Collectively assessed	(5,730)	(5,142)	-	-
	496,426	**397,338**	**1,431**	**3,492**

The movement in allowance for impairment of loans and advances comprising individually and collectively assessed provisions was as follows:

	Group		Company	
	2011 Shs M	2010 Shs M	2011 Shs M	2010 Shs M
At start of the year	11,025	11,705	1,378	3,061
Allowance for impairment for the year	5,421	10,023	140	705
Write offs	(2,499)	(4,243)	(462)	(1,535)
Recoveries of loans and advances previously written off and amounts no longer required	(116)	(6,460)	(69)	(853)
At end of the year	**13,831**	**11,025**	**987**	**1,378**

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

	2011 Shs M	2010 Shs M
Gross investment in finance leases:		
Not later than 1 year	35,623	10,758
Later than 1 year and not later than 5 years	23,802	33,615
Later than 5 years	418	1,236
	59,843	45,609
Unearned future finance income on finance leases	(13,885)	(5,671)
Net investment in finance leases	**45,958**	**39,938**

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

	2011 Shs M	2010 Shs M
Not later than 1 year	27,437	10,796
Later than 1 year and not later than 5 years	18,201	27,906
Later than 5 years	320	1,236
	45,958	**39,938**

Included in the allowance for impairment of loans and advances as at 31 December 2011 is Shs 482 million (2010: Shs 896 million) attributable to uncollectible finance lease receivables.

15 Loans and advances to customers (continued)

The terms and conditions normally provided for the loans and advances to customers are as follows:

a) Personal loans – These are loans that are issued to individuals and there is no collateral required. They are given for a period of 3 – 4 years and interest is charged at the **dfcu**'s prime rate plus a margin. These loans are charged loan arrangement fees as well as insurance cover for death and disability.

b) Mortgages – These are offered for house purchase, construction, completion and renovation as a form of equity release. Collateral is required for this product. They are given for a period of 7 – 15 years at competitive market rates. These loans attract a non-refundable application fee, loan processing fees, legal fees and other expenses.

c) Term Finance – These are medium and long term loans offered to viable businesses with an established market and track record. They are given for a period of 3-12 years and interest is payable based on the cost of funds plus the margin and any other repayment terms. These loans attract registration fees, loan processing fees, legal fees and other expenses. Thes are normally secured by debenture and property.

d) Leases – This is a form of financing the asset where the asset serves as the main security. They are offered for a period between 2 to 5 years depending on the type of equipment financed and the anticipated cash flow. The lessee is required to a pay a non-refundable fee that is subject to value added tax and equal periodic rental payments during the lease period.

e) Secured short term loans - These are loans that are issued to individuals and collateral is required in the form of land, assets, savings or cash cover. They are offered for a period of 6 to 48 months depending on the need. Interest rates are determined using risk based pricing method and they vary according to the market rates.

16 Investment in subsidiaries and available-for-sale investments

Investment in subsidiaries:

	Shareholding	Company	
	%	2011	2010
		Shs M	Shs M
dfcu Leasing Company Limited	100	-	3,370
dfcu Bank Limited	100	26,793	12,993
Rwenzori Properties Limited	62.7	31	31
		26,824	**16,394**

During the year, the Company increased its share capital in **dfcu** Bank Limited by Shs 13.8 billion to Shs 26,793 billion to enable the Bank comply with Bank of Uganda's new requirement on issued capital for banks. This was done by way of bonus share issue.

16 Investment in subsidiaries and available-for-sale investments (continued)

Available-for-sale – Group and Company	**2011 Shs M**	**2010 Shs M**
At start of the year	-	**191**
Write down of investment	-	**(191)**
At end of the year	-	**-**

The available-for-sale investment comprised a 16.45% shareholding in Rwenzori Courts Limited (In Liquidation). In 2007, Rwenzori Courts Limited was taken into voluntary liquidation and the issued capital and reserves were distributed to the shareholders thereafter. The investment was measured at cost and was fully written off in 2010.

17 Other assets

	Group		**Company**	
	2011 Shs M	**2010 Shs M**	**2011 Shs M**	**2010 Shs M**
Prepaid expenses	4,997	4,563	-	-
Items in course of collection	1,757	2,239	-	-
Sundry debtors	4,012	2,139	-	31
Other assets	2,530	2,069	581	-
	13,296	**11,010**	**581**	**31**

Other assets are non-interest bearing and normally settled within 30-90 days. The Group holds no collateral in respect to these receivables.

Items in the course of collection relate to cheques sent for clearance.

18 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 2010					
Opening net carrying amount	496	9,958	491	2,485	13,430
Additions	-	5,205	15	(187)	5,033
Disposals:- at cost	-	-	(898)	-	(898)
Disposal:- accumulated depreciation	-	-	722	-	722
Impairment	-	-	-	(78)	(78)
Depreciation charge for the year	(16)	(3,517)	(209)	-	(3,742)
Net carrying amount	480	11,646	121	2,220	14,467
At 31 December 2010					
Cost or valuation	523	29,425	605	2,220	32,773
Accumulated depreciation	(43)	(17,779)	(484)	-	(18,306)
Net carrying amount	480	11,646	121	2,220	14,467
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	9,767	13,821
Disposals:- at cost	-	(103)	(48)	-	(151)
Disposal:- accumulated depreciation	-	39	39	-	78
Write off	(473)	-	-	(298)	(771)
Depreciation charge for the year	(8)	(3,844)	(136)	-	(3,988)
Net carrying amount	3,399	11,412	356	11,689	26,856
At 31 December 2011					
Cost or valuation	3,923	32,995	938	11,988	49,844
Accumulated depreciation	(524)	(21,583)	(582)	(299)	(22,988)
Net carrying amount	3,399	11,412	356	11,689	26,856

During the year, the Group's building was demolished to enable the commencement of construction of the head office building.

The land was re-valued in February 2011 by Survesis, a firm of professional valuers. Valuations were made on the basis of the market value for existing use. The book value of the land was adjusted to the revaluations and the resulting surplus credited to revaluation reserves in equity (note 27).

Work-in-progress relates to work done on setting up branches that have not yet been commissioned and construction work done on **dfcu** Head Office building.

18 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 2010				
Opening net carrying amount	-	187	-	187
Additions	-	-	653	653
Transfer from **dfcu** Bank Limited	496	-	-	496
Disposals at cost	-	(766)	-	(766)
Disposal – accumulated depreciation	-	614	-	614
Depreciation charge	(16)	(35)	-	(51)
Net carrying amount	480	-	653	1,133
At 31 December 2010				
Cost or valuation	496	-	653	1,149
Accumulated depreciation	(16)	-	-	(16)
Net carrying amount	**480**	**-**	**653**	**1,133**
Year ended 31 December 2011				
Opening net carrying amount	480	-	653	1,133
Additions	-	-	3,913	3,913
Revaluation of land	3,400	-	-	3,400
Depreciation charge	(8)	-	-	(8)
Write off of building	(473)	-	-	(473)
Net carrying amount	3,399	-	4,566	7,965
At 31 December 2011				
Cost or valuation	3,407	-	4,566	7,973
Accumulated depreciation	(8)	-	-	(8)
Net carrying amount	**3,399**	**-**	**4,566**	**7,965**

Work-in-progress relates to construction work done on **dfcu** Head Office building

19 Intangible assets (Group)

Year ended 31 December 2010

	Goodwill Shs M	Computer Software Shs M	Total Shs M
Cost			
At 1 January 2010	463	-	463
Additions	-	9,815	9,815
At 31 December 2010	**463**	**9,815**	**10,278**
Amortisation			
At 1 January 2010	-	-	-
Charge for the year	-	(703)	(703)
At 31 December 2010	-	(703)	(703)
Net carrying amount	**463**	**9,112**	**9,575**

Year ended 31 December 2011

	Goodwill Shs M	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**

20 Customer deposits

	Group	
	2011 Shs M	2010 Shs M
Demand deposits	271,687	231,603
Savings accounts	79,117	64,739
Fixed deposit accounts	174,587	184,389
	525,391	**480,731**

20 Customer deposits (continued)

The summary of terms and conditions for the various categories of deposits are below:

a) Demand deposits – These are non-interest bearing accounts that are due on demand. They are operated by both individuals and institutions. They are subject to transaction activity fees that are charged on a monthly basis.

b) Fixed deposits - These are high interest-bearing accounts that are opened for a specific period of time at a fixed rate of interest. Funds are fixed on the account for term periods of 1,3,6,9 or 12 months. Interest is calculated daily and paid only on maturity of the deposits. Interest rates are offered at competitive and attractive rates.

c) Savings accounts - This is a deposit account enables one to save money and earn interest. The more one saves, the higher the interest. Interest on minimum monthly balances is paid into the account biannually.

21 Other liabilities

	Group		Company	
	2011	2010	2011	2010
	Shs M	Shs M	Shs M	Shs M
Bills payable	1,471	1,312	78	2
Deferred fees and commission	926	1,658	-	-
Accrued expenses	9,378	7,870	-	-
	11,775	**10,840**	**78**	**2**

Other liabilities are non-interest bearing and normally settled within 30-90 days. The Group gives no collateral in respect to these payables.

22 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2010: 30%), except for interest receivable on treasury bills and bonds where the enacted rate is 15% (2010:15%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2011	2010	2011	2010
	Shs M	Shs M	Shs M	Shs M
At start of the year	551	(1,627)	(680)	(1,021)
Charge to other comprehensive income	1,020	-	1,020	-
Charge to income statement-Company	312	341	312	341
(Credit)/charge to income statement-**dfcu** Bank Limited	(368)	1,837	-	-
Net deferred income tax liability/(asset)	**1,514**	**551**	**652**	**(680)**

The Group deferred tax liability is made up as follows:

dfcu Bank Limited-Deferred tax liability	862	1,231
dfcu Limited-Deferred tax liability/(asset)	652	(680)
	1,514	**551**

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

Group	1 January 2011 Shs M	Charged/ (credited) to income statement Shs M	Charged to other comprehensive income Shs M	31 December 2011 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				
Allowance for 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 treasury bills and bonds	**-**	(140)	-	**(140)**
	(2,759)	**179**	**-**	**(2,580)**
	551	**(57)**	**1,020**	**1,514**

22 Deferred income tax (continued)

Group: As at 31 December 2010	1 January 2010 Shs M	Charged/ (credited) to income statement Shs M	31 December 2010 Shs M
Deferred income tax liabilities			
Property and equipment	845	-	845
Accelerated tax depreciation	483	1,982	2,465
	1,328	**1,982**	**3,310**
Deferred income tax assets			
Allowance for loan impairment losses	(1,234)	(288)	(1,522)
Asset and investment revaluations	(20)	(13)	(33)
Other temporary differences	(168)	-	(168)
Deferred income	(409)	85	(324)
Tax losses carried forward	(1,124)	412	(712)
	(2,955)	**196**	**(2,759)**
Net deferred income tax (asset)/liability	**(1,627)**	**2,178**	**551**

Company

As at 31 December 2011	1 January 2011 Shs M	Charged to income statement Shs M	Charged to other comprehensive income Shs M	31 December 2011 Shs M
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 2010	1 January 2011 Shs M	Charged to income statement Shs M	31 December 2011 Shs M
Deferred income tax assets			
Tax losses	(1,092)	412	(680)
Net deferred income tax asset	**(1,092)**	**412**	**(680)**

23 Borrowed funds

	Group	
	2011	**2010**
	Shs M	**Shs M**
European Investment Bank Apex III	38	962
European Investment Bank Apex IV	9,544	13,857
European Investment Bank Global loan I	-	734
European Investment Bank Global loan II	5,816	9,765
European Investment Bank - MFI	-	273
Uganda Government (KfW II loan)	696	696
Uganda Government (KfW III loan)	1,984	1,984
Uganda Government (KfW V loan)	13,152	13,153
Bank of Uganda	5,165	2,772
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	41,492	43,834
International Finance Corporation	18,456	14,869
The OPEC Fund for International Development	3,395	5,270
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) Housing Loans	20,423	21,543
FMO-USD	24,157	8,719
National Social Security Fund	3,080	4,108
EIB PEFF	23,486	31,850
Norwegian Investment Fund for Developing Countries (NORFUND)	25,753	2,230
NORFUND Subordinated debt	7,440	6,930
East African Development Bank	12,400	11,577
UN Habitat	1,085	1,081
Interbank borrowings	68,482	10,684
	286,044	**206,891**

Included in borrowings is a subordinated debt from Norfund, whose tenure is 7 years and it is due to mature in 2014. The interest rate on this debt is variable at Libor 6 months plus 3.5%.

The borrowings due within one year are included in the liquidity table under Note 3C.

23 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
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	7	24.049%	Variable	Shs
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
UN Habitat	15	2.000%	Fixed	Shs

24 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 Shs M	KfW IV & V Shs M	Total 2011 Shs M	Total 2010 Shs M
Group				
At start of year	198	12,455	12,653	9,286
Additions	-	-	-	3,368
Utilised during the year	-	538	538	(1)
At end of year	**198**	**12,993**	**13,191**	**12,653**

(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.

25 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:

25 Managed funds (continued)

At 31 December 2011	GoU/CDO Shs M	CFF Shs M	GDF Shs M	Total Shs M
Total value of funds under management	1,285	3,732	231	5,248
Assets under management	(1,164)	(3,826)	(226)	(5,216)
Un-disbursed funds	**121**	**(94)**	**5**	**32**
At 31 December 2010				
Total value of funds under management	1,285	3,732	231	5,248
Assets under management	(1,084)	(3,826)	(226)	5,136
Un-disbursed funds	**201**	**(94)**	**5**	**112**

A brief description and movement analysis for the un-disbursed portion of each fund are shown below:

	CDO/GoU Shs M	CFF Shs M	GDF Shs M	Total 2011 Shs M	Total 2010 Shs M
Balance at 1 January	**201**	**(94)**	**5**	**112**	**775**
Lease restatements	-	-	-	-	(43)
Disbursements	(305)	-		(305)	(604)
Government subsidy	(123)	-	-	(123)	(18)
Repayments	348	-	-	348	33
Management fees	-	-	-	-	(31)
	121	**(94)**	**5**	**32**	**112**

(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 comprising 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.

25 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 comprising 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.

26 Issued capital and share premium

	Number of issued ordinary shares	Issued capital Shs M	Share premium Shs M	Total Shs M
At 31 December 2010 and 2011	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.

27 Revaluation reserves

	Group		Company	
	2011 Shs M	2010 Shs M	2011 Shs M	2010 Shs M
Balance brought forward	135	135	135	135
Write off of building	(135)	-	(135)	-
Revaluation surplus for the year	3,400	-	3,400	-
Deferred tax charge on revaluation surplus	(1,020)	-	(1,020)	-
Carried forward	2,380	135	2,380	135

28 Regulatory reserve-Group

	2011 Shs M	2010 Shs M
At start of year	2,279	4,576
Increase/(decrease)	3,711	(2,297)
At end of year	5,990	2,279

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.

29 Non-controlling interest

	Group 2011 Shs M	Group 2010 Shs M
At start of the year	19	1,083
Share of results for the year	(6)	-
Net distributions paid to non controlling interest	-	(1,064)
At end of the year	13	19

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

	Group 2011 Shs M	Group 2010 Shs M
Cash in hand	31,844	29,826
Balances with Bank of Uganda (note 14)	51,804	38,022
Less: Cash reserve requirement	(40,741)	(44,682)
Treasury bills and bonds maturing within 90 days (note 13)	15,252	43,617
Deposits and balances due from banks (note 14)	149,579	82,875
	207,738	**149,658**

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.

31 Retirement benefit obligations and number of employees

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 2011, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Shs 804 million (2010: Shs 724 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 2011 the Group contributed Shs 1,976 million (2010: Shs 1,452 million), which has been charged to profit or loss.

The number of persons employed by the Group during the year ended 31 December 2011 was 476 (2010: 466).

32 Contingent liabilities

There were a number of legal proceedings outstanding against the Group as at 31 December 2011. No provision has been made as professional advice indicates that it is unlikely that loss that is material to the financial statements will materialise.

33 Related party disclosures

The ultimate controlling party of **dfcu** Limited is CDC Group Plc, a company incorporated in the United Kingdom.

In the normal course of business, a number of transactions are made with related parties. These include loans to related companies at interest rates in line with the market.

There are companies related to **dfcu** Limited through shareholding or directorship including **dfcu** Bank Limited, Rwenzori Properties Limited and Rwenzori Courts Limited. **dfcu** Bank Limited and Rwenzori Properties Limited are 100% and 62.67% owned by **dfcu** Limited respectively. **dfcu** Limited owned 16.7% shareholding in Rwenzori Courts Limited (In Liquidation) and this was classified as an available-for-sale investment.

(a) Loans to directors and connected persons	**Group 2011 Shs M**	**Group 2010 Shs M**
At start of year	3,200	1,368
Loans advanced during the year	1,980	1,884
Loan repayments received	(2,194)	(52)
At end of year	**2,986**	**3,200**

(b) Amounts due from/(to) group companies	Company 2011 Shs M	Company 2010 Shs M
dfcu Bank Limited-current account	1,141	3,165
dfcu Leasing Company Limited-merger account	-	(3,370)
	1,141	**(205)**

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

(c) Amounts due to other group companies	**Group 2011 Shs M**	**Group 2010 Shs M**
Deposit held by Rwenzori Courts Limited in **dfcu** Bank Limited	**26**	**-**
(d) Interest income on amounts due from group companies		
Interest income	**523**	**353**
(e) Key management compensation		
Salaries and other short-term employment benefits	4,215	3,281
Post-employment benefits	393	423
	4,608	**3,704**
(f) Directors' remuneration		
Fees	720	622
Other emoluments: Short-term benefits (included in key management compensation above)	949	818
	1,669	**1,440**

33 Related party disclosures (continued)
(g) Other related parties

(i) Umeme Limited

dfcu Limited and Umeme Limited are ultimately controlled by CDC Group Plc. As at 31 December, Umeme Limited held an interest bearing demand deposit at an interest rate of 3% with **dfcu** Bank Limited.

	2011 Shs M	2010 Shs M
At start of the year	1,830	100
Net increase	10,228	1,730
At end of the year	**12,058**	**1,830**

(ii) National Social Security Fund (NSSF)

NSSF holds a 5.93% shareholding in **dfcu** Limited. As at 31 December, NSSF held interest bearing fixed deposits at competitive market rates with **dfcu** Bank Limited.

	2011 Shs M	2010 Shs M
At start of the year	60,300	59,300
Net (decrease)/increase	(21,600)	1,000
At end of the year	**38,700**	**60,300**

(iii) NORFUND

The Norwegian Investment Fund for Developing Countries (NORFUND) holds a 10.06% shareholding in **dfcu** Limited. As at 31 December 2011, there was still an outstanding borrowing due to Norfund as disclosed in note 23.

34 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.

34 Contingent liabilities and commitments (continued)

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.

	2011 Shs M	2010 Shs M
Contingent liabilities		
Acceptances and letters of credit	9,643	283
Guarantee and performance bonds	42,514	23,633
	52,157	**23,916**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	7,818	14,299
	59,975	**38,215**

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:

	2011 Number of shares	**2011 %**
Actis Management Mauritius Limited (On behalf of CDC Group Plc)	149,213,732	60.02
Norfund, Norwegian Investment Fund	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
Pinebridge Sub-Saharan Africa	1,609,564	0.65
Bank of Uganda Staff Retirement	1,452,041	0.58
Kenya Airways Limited Staff Provident Fund	957,000	0.38
UAP Insurance Company Limited	847,293	0.34
Bank of Uganda Staff Retirement Benefits Scheme	825,520	0.33
Stanbic Bank Uganda Limited Staff	820,107	0.33
Crane Bank Limited	722,104	0.29
Mr. Rakesh Gadani	646,323	0.26
MTN Uganda Staff Contributory Fund	622,708	0.25
URA Retirement Benefits Fund	608,708	0.24
Jubilee Investments Limited	600,000	0.24
East African Underwriters Limited	543,750	0.22
The Jubilee Investments Company	539,092	0.22
Others	25,918,233	10.43
	248,600,911	**100.00**

Company statement of comprehensive income
For the year ended 31 December 2011

	2011 Shs M	2010 Shs M
Interest income	873	815
Fees and commission income	306	168
	1,179	**983**
Dividend income	13,800	1,389
Other income	7	443
Operating income	**14,986**	**2,815**
Operating expenses	(841)	(81)
Net provision for impairment/(recoveries) on loans, advances and leases	(71)	148
	(912)	67
Profit before tax	14,074	2,882
Income tax expense	(1,032)	(340)
Profit for the year	13,042	2,542
Other comprehensive income		
Revaluation surplus on land	3,400	-
Deferred income tax on revaluation of land	(1,020)	-
Other comprehensive income, net of tax	2,380	-
Total comprehensive income, net of taxes	**15,422**	**2,542**
Attributable to:		
Profit for the year		
Equity holders of the company	7,825	1,525
Non-controlling interest	5,217	1,017
	13,042	**2,542**
Total comprehensive income, net of taxes		
Equity holders of the company	9,253	1,525
Non-controlling interest	6,169	1,017
	15,422	**2,542**

Notes

Notes