RELENTLESSLY WORKING HARD TO

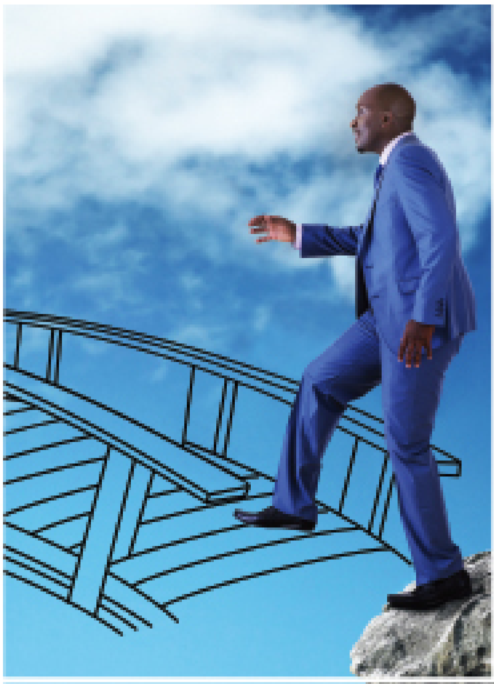
MAKE MORE POSSIBLE

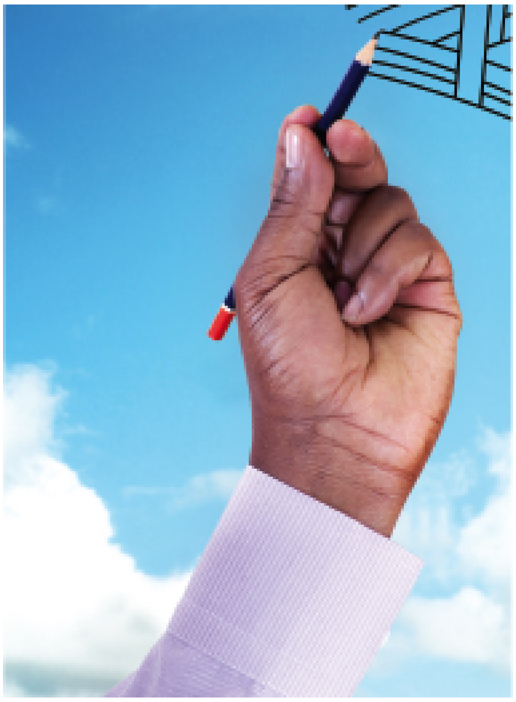
2013 ANNUAL REPORT

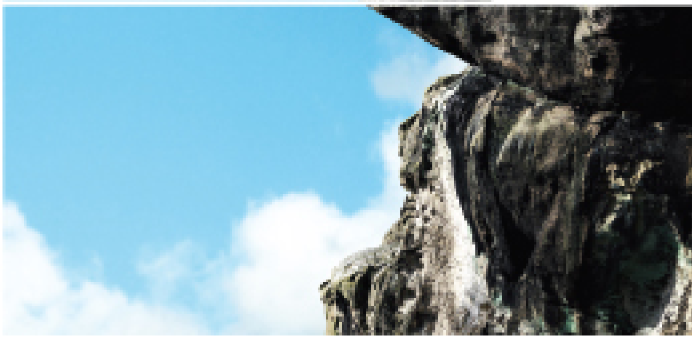
dfcu
...with pleasure

our **mission**

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







our **vision**

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

our **values**

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

inside

Who we are

dfcu Limited was established in 1964 as a Development Finance institution. Over the years dfcu has been associated with many success stories in Uganda's economy in various sectors: agribusiness, communication, education, health, manufacturing, tourism, real estate, mining, construction, transport, trade and commerce.

dfcu Limited

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

dfcu Bank channels

- Currently boasts of a network of 34 branches countrywide
- Is connected to Interswitch giving clients access to a network of over 200 ATMs countrywide
- Offers banking through the Internet and mobile phone channels

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

dfcu New Head Office

Consumer Banking

The Consumer Banking business unit focuses on meeting the financial needs of the personal banking and small business customers seeking fast, convenient and affordable banking. We nurture and grow customers by offering relevant personal banking products that support their financial transformation and are always on hand to help you manage your money with a range of bank products and services to meet your savings, transactional and borrowing needs.

Treasury

We facilitate international trade through buying and selling of foreign currency, and issuance of international trade instruments. Treasury also facilitates liquidity management by offering investment vehicles to our customers with excess cash to invest in instruments such as government bills.

Development and Institutional Banking

Development and Institutional Banking manages the top tier relationships and has proven experience across a breadth of sectors including: Transport & Logistics, Manufacturing, Agriculture & Agro processing, Communication, Education, Health, Tourism, Real estate, Mining, Construction, Trade and Commerce, Government, Parastatal Organisations, and Non-Government Organisations. Our expertise covers transactional banking, structured products, credit products, loan syndications and agricultural lending.

> **“Nurturing and growing customers by offering relevant banking products and services that support their financial transformation.”**

Board of Directors

Elly Karuhanga
Non-Executive Director/
Chairman **dfcu** Limited

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

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

Appointed to the Board: April, 2006

Deepak Malik
Non-Executive Director
dfcu Limited and **dfcu** Bank

Appointed to the Board: November, 2007

Kironde Lule
Non-Executive Director
dfcu Limited and **dfcu** Bank

Appointed to the Board: July, 2012

Michael Alan Turner
Non-Executive Director
dfcu Limited and **dfcu** Bank

Appointed to the Board:March, 2010

Jimmy Mugerwa
Non-Executive Director
dfcu Limited and **dfcu** Bank

Appointed to the Board:
August, 2012

Albert Jonkergouw
Non-Executive Director
dfcu Limited and **dfcu** Bank

Appointed to the Board:
December, 2013

Thomas van Rijckevorsel
Non-Executive Director
dfcu Limited and **dfcu** Bank

Appointed to the Board:
September, 2013

Dr. Winifred T. Kiryabwire
Non-Executive Director
dfcu Limited

Appointed to the Board:
September 2013

John Blanthorne
Non-Executive Director,
dfcu Bank

Appointed to the Board:
February, 2010

Juma Kisaame
Managing Director,
dfcu Bank

Managing Director since 2007

Paul van Apeldoorn
Executive Director,
dfcu Bank

Appointed to board: October, 2013

Agnes Tibayeita Isharaza
Corporation Secretary

Joined **dfcu** Group Legal Department in June 2001.

Women Business Advisory Council

Dr. Winifred Tarinyeba – Kiryabwire JSD (Chairperson)

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

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

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

Audrey Kahara-Kawuki – MBA, Bsc. Agriculture – MUK.

Audrey is a Professional Trainer in the areas of Sustainable Agricultural Practices, Post- Harvest Handling, Loan Management, Entrepreneurship Development, Business Planning, Marketing and Human Resource Management.

Rosemary Iwanu Mutyabule – MBA, B. Economics & Social Administration

Rosemary is an Enterprise Development Specialist with versatile experience in small enterprise promotion and private sector development.

Josephine Ahikire – Assoc. Prof. School of Women and Gender Studies, MUK.

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

Senior Management Team

1 Juma Kisaame
Managing Director

2 Paul van Apeldoorn
Executive Director & Chief of Business

3 Walusimbi - Kaweesa
Chief Operating Officer

4 Sophie Nkuutu
Chief Financial Officer

5 Agnes Mayanja
Head, Development and Institutional Banking

6 William Sekabembe
Head, Consumer Banking

7 George Ochom
Head, Treasury

8 James Mugabi
Head, Strategy & Innovation

9 Isa Nsereko
Head, Human Resources

10 Agnes Tibayeita Isharaza
Head, Legal

11 Niels JCT. Berendsen
Head, Credit

12 Thomas Banza
Head, Risk and Compliance

13 Chris Sserunkuma
Head, Internal Audit

Women in Business update

1. WiB networking session
2. Mrs. Gloria Turyatemba, a Director at the Uganda National Chamber of Commerce, and Dr. Gudula Naiga Basaza Vice Chairperson **dfcu** Women Business Advisory Council, at the WiB expo.
3. WiB training session.
4. WiB study tour at the Uganda Industrial Research Institute.

The **dfcu** Women in Business (WiB) programme remains an integral part of our overall business strategy. The **dfcu** Women Business Advisory Council has continued to work with the management team to enrich the programme.

The enhanced customer trainings have kept our WiB customers abreast with the latest business practices, knowledge and skills. One of the major trainings took place in July 2013 and was attended by over 100 customers. The attendance was indicative of the value customers attach to these meetings.

To complement the trainings, **dfcu** organized study tours to the Uganda Industrial Research Institute (UIRI) which opened up new business opportunities for our WiB customers.

The ladies have found the trainings very educative and informative because they tackle the daily business needs and offer tailored solutions.

Women in Business days have also been added to the program. Last year's theme was "Ask me about WiB" and it opened the doors to both customers and would-be customers to know more about the program and its offering. It also gave us an opportunity to interact with our customers, get their feedback from which we shall draft specific benefits for our customers. The days have raised awareness of the WiB program and inspired new customers to enroll.

To crown the year, **dfcu** organized the inaugural Women in Business Expo in August. The aim was to create a platform to showcase the successes of our WiB customers, build networks and offer business trainings to the attendees.

34 branches and counting

In line with our objective of growing a robust retail network to support our business strategy, we continued to expand our footprint with the addition of four new branches - two in Kampala (Ben Kiwanuka Street and Wilson Lane), one in Mukono and Ishaka respectively. At the same time, a number of our existing branches were refurbished to serve our customers better. We also continued the enhancement of our electronic banking platforms (mobile and internet) to offer added convenience to our customers.

Harnessing

Uganda's competitive advantage in agriculture

At dfcu we are committed to harnessing Uganda's competitive advantage in the agriculture sector. Through our partnership with Rabobank, the world's largest Food & Agri Bank, we are optimizing their extensive knowledge and experience in agriculture to strengthen our involvement in the sector.

Agriculture is the backbone of the Ugandan economy with over 80% of the population being directly or indirectly involved in various aspects of this sector. At **dfcu** we are committed to harnessing Uganda's competitive advantage in the sector. Through our partnership with Rabobank, the world's largest Food & Agri Bank, we are optimizing their extensive knowledge and experience in agriculture to strengthen our involvement in the sector.

Consequently, we are actively engaged in availing financial services to players along the agri-business value chain including input suppliers, farmers, agri processors and traders/exporters.

We offer loans and working capital facilities for production (inputs), the collection of commodities, warehouse receipt finance and the purchase of equipment and storage facilities. For traders, we offer trade finance solutions including Letters of Credit, Documentary Collections, Invoice Discounting, Bid Bonds and Bank Guarantees.

Making More Possible

Our mandate to customers is to always be the partner of choice by being a one-stop Centre for all banking solutions; a partner that stretches the boundary beyond what the market perceives as possible.

This is certainly an immense challenge but we are embracing it with relish. The push to make more possible has inevitably led to a number of innovations and partnerships, at the fore of which was the entrance of Rabo Development (a subsidiary of Rabobank Group) as a major shareholder alongside NORFUND (Norwegian Investment Fund for Developing Countries) and Commonwealth Development Corporation (CDC).

Given Rabo's reputation as the world's biggest agri business bank, we are now well positioned to offer more highly targeted banking solutions to our customers who operate in the agriculture sector. Working with Rabo has given us access to tap into the immense knowledge

regarding this sector, all to the benefit of our customers who have always sought products and services that suit their respective needs.

We also sealed partnerships with the European Investment Bank and the Dutch government which will spur more innovations as we seek to deepen our involvement within the segments where we operate. The facilities acquired will go a long way towards stimulating long term funding across various sectors including Transport, Education, Manufacturing, Real estate, Agriculture and Leasing, among others.

We continue to harness our involvement in the Small and Medium Enterprises (SMEs) sector. Our relevance in the sector has been strengthened by the addition of new products such as the unsecured lending for traders and suppliers. This package has enabled SMEs that do not have collateral to access short term loans to enable them grow their businesses.

Through our Pinnacle Banking proposition, we have also increased our engagement with the high end value customers. The quarterly customer forums and workshops, and allocated relationship managers have enabled us to understand the customer needs better and also offer solutions that are customized.

For the large business, corporate and institutional customers we continue to tailor our offers to meet the specific needs. Using our flagship products such as Term loans, Mortgages and Leasing, we continuously support viable private sector projects that have a positive impact on the economic transformation of Uganda. During the year, we introduced a tailored offer for Non Profit Organisations that resonates with their banking needs. In addition, we enhanced our service to offer better transactional convenience. Our customers can now pay all their taxes, fees and utilities under one roof at **dfcu**.

Our drive to offer more to our customers has further been manifested in the continued enhancement of our service channels to offer more convenience. Through our internet and mobile banking platforms customers can literally do their banking anytime, anywhere; for example check account activity, make transfers and pay bills among others.

We are the go-to financial solutions provider. This is the only way we envision making a lasting contribution to the success stories of our customers, build trust and retain relevancy.

Business highlights

During 2013, the bank engaged in various activities that included; building the brand by signing several partnerships with funders which in turn strengthened our lending capital base, financial literacy sessions that equipped our customers with the right skills required to grow their businesses in this volatile market and bidding farewell to our former **dfcu** Limited Chairman; Mr. Sam Kibuuka.

Below are highlights of some of the activities;

1. The Governor, Bank of Uganda Mr. Tumusiime Mutebile, Mr. Elly Karuhanga and the Minister of Finance Hon. Maria Kiwanuka at a welcome cocktail for Rabobank - a major shareholder of **dfcu**.
2. **dfcu** Bank MD Mr. Juma Kisaame and European Investment Bank Vice President Pim van Ballekom exchange partnership documents after the signing of the MoU that confirmed the Euro 5M credit-line extension to **dfcu** that will go towards supporting SMEs.
3. **dfcu** Bank MD Mr. Juma Kisaame and the Netherlands Minister for Foreign Trade and Development Cooperation, Ms Lilianne Ploumen exchange documents that confirmed Rabobank as a major shareholder.
4. **dfcu** Chairman Board of directors Mr. Elly Karuhanga explains the meaning behind one of the tokens of appreciation that were handed over to the outgoing chairman Mr. Sam Kibuuka during the farewell dinner.
5. Mr. Peter Kimbowa, a financial literacy consultant conducts a session during the pinnacle business breakfast.

A rich heritage

In 2014, **dfcu** will celebrate 50 years of existence. Our rich history has shaped our present and positioned us for a strong future.

On 14th May 1964, Development Finance Company of Uganda Limited (**dfcu**) was incorporated with the aim of creating a commercially operated development organization to support the economic transformation of Uganda. Having started out as a development finance institution, **dfcu** quickly became successful and went on to diversify its portfolio to include Leasing, Mortgage Finance and Property business.

In 2000, **dfcu** Limited ventured into commercial banking through the acquisition of Gold Trust Bank, which was renamed **dfcu** Bank.

In 2004, **dfcu** Limited was listed on the Uganda Securities Exchange and this has enabled Ugandans to own and be a part of this very successful company. In 2008, the operations of **dfcu** Limited were integrated with those of **dfcu** Bank, to form one of Uganda's leading financial institutions. Today, **dfcu** is a fast growing company with an asset footing of over UGX 1.2 trillion, a market capitalization in excess of UGX 300 Billion and net worth of over UGX 161 Billion.

Through the years, **dfcu** has transformed several private enterprises in Uganda through provision of funding for development projects using our flagship products Term Loans, Home Loans, Commercial Mortgages and Leasing.

We are associated with many success stories across a wide range of sectors including Agribusiness, Communication, Education, Agriculture, Health, Manufacturing, Tourism, Real Estate, Mining, Construction, Transport, Trade and Commerce. We are always mindful of the responsibility we hold to help our customers achieve their financial goals; to support and strengthen the communities, and our country; and to increase the value of our shareholders' investment.

With 34 branches countrywide and growing, we are a formidable institution looking forward to making more, possible.

We are associated with many success stories across a wide range of sectors

Making a difference in our communities

At the core of our values is the commitment to initiate and actively engage in activities that better the welfare of the communities in which we operate and 2013 was no different.

The **dfcu** Foundation supports various Corporate Social Responsibility (CSR) ventures under the focus areas of **Child and Maternal Health, Environmental Management, Community Development and Emergency Intervention**. We were involved in a number of outreach programs that truly changed both the community's and our lives too.

One of the activities in 2013 was the commissioning of a water harvest system at Reach One Touch One Ministries (ROTOM), an international charity organization with a vision of enabling elderly disadvantaged persons live dignified and fulfilled lives. The system now provides water to the recently constructed health centre in Mukono which caters for the grannies and the entire community of about 6000 people.

In partnership with the Makerere University School of Public Health, the Foundation also supported the implementation of a lifesaving regional referral model for preterm babies and their mothers. The model was successfully rolled out in six hospitals in Eastern Uganda. Following the success and key learnings identified, the plan is to progressively scale up the project to cover other parts of the country.









The various bank branches and departments were also involved in outreach programs in honour of our annual CSR day. They responded to issues that pertain to our core intervention areas.

Financial overview 2013

dfcu Group registered a pre-tax profit of Shs 45,070 million, an increase of 12% from the results of 2012. Profit after tax increased by 13% to Shs 34,601 million compared to Shs 30,617 million of 2012.

Net interest income

Net interest income increased by 15% from Shs 83,505 million in 2012 to Shs 96,163 million in 2013. This was driven by a 12% growth in the lending portfolio and interest from other earning assets like investment securities.

Non-interest income

dfcu Group's non-interest income arises from trading financing activities, transactional fees, funds transfer charges, revaluation of currency positions and income on foreign transactions. Non-interest income grew by 20% from Shs 22,265 million in 2012 to Shs 26,702 million in 2013. The growth was driven by higher transaction volumes arising out of the increased customer base and expansion of branch and ATM network.

Net loan loss provision

The net loan loss provision charged to the consolidated statement of comprehensive income for the year grew by 18% from Shs 11,336 million in 2012 to Shs 13,414 million in 2013. The business environment was adversely affected by high inflation and escalated the production costs which in turn affected customers. However the non-performing loans were contained during the year and these reduced by 14% from Shs 29,508 million in 2012 to Shs 25,450 million in 2013.

Operating expenses

Operating expenses increased by 19% from Shs 54,108 million in 2012 to Shs 64,381 million in 2013. The increment was mainly due to higher interest charges, depreciating shilling, inflationary pressures during the period and business expansions. Despite the increase in the operating expenses, the cost to income ratio remained stable at 52% when compared to 2012. **dfcu** Group also implemented several measures to contain cost growth during the year.

Statement of financial position

Total assets grew by 22% during the year from Shs 1,001,339 million in 2012 to Shs 1,226,062 million in 2013. Loans and advances increased by 12% representing 51% of the total assets. Total liabilities increased by 23% whereas customer deposits increased by 18% representing 66% of the total liabilities. Shareholders' equity grew by 19% as a result of the increase in the earnings. The earnings for the year will be partly distributed to the shareholders as recommended by the Board of Directors (subject to approval during the annual general meeting) while the rest will be ploughed back into the business to enhance its growth.

Funding mix

Customer deposits continued to be the major source of funding for the year representing 66% of the total liabilities of the Group in 2013 compared to the 68% in 2012. The Group also has access to funding in terms of borrowings and these grew by 31% from Shs 259,939 million in 2012 to Shs 340,489 million in 2013.

Capital adequacy

dfcu Group monitors its capital adequacy using the ratios established by the Central Bank of Uganda. These ratios measure capital adequacy by comparing the Group's eligible capital with its risk weighted assets. As at 31 December 2013, the Group's total capital base was 25% (2012: 19%) of the risk weighted assets, with core capital at 18% (2012: 17%). The capital adequacy remains above the stipulated regulatory minimums of 12% and 8% for total capital and core capital respectively.

pre-tax profit of UGX
45,070
million

profit after tax of UGX
34,601
million

Five year performance review

Statement of comprehensive income (Shs' m)	2013	2012	2011	2010	2009
Net interest income	**96,163**	83,505	80,670	60,275	51,938
Non-interest income	**26,702**	22,265	15,767	13,614	11,049
Net loan loss impairment	**13,414**	11,336	4,551	2,629	4,694
Operating expenses	**64,381**	54,108	50,382	41,916	35,451
Profit before income tax	**45,070**	40,326	41,504	29,345	22,842
Profit after tax	**34,601**	30,617	30,774	23,056	19,280
Statement of financial position (shs' m)					
Loans and advances	**623,800**	555,411	496,426	397,338	326,299
Total assets	**1,226,062**	1,001,339	953,681	803,060	611,821
Customer deposits	**700,285**	591,280	525,391	480,731	346,638
Borrowings	**340,489**	259,939	299,235	219,544	167,776
Shareholders' equity	**161,160**	135,781	114,399	90,602	76,571
Capital adequacy					
Core capital ratio before dividends	**18%**	17%	15%	16%	17%
Total capital ratio before dividends	**25%**	19%	16%	16%	18%
Risk weighed assets (shs' m)	**814,983**	695,867	683,682	499,791	388,950
Share statistics					
Number of shares in issue (in millions)	**249**	249	249	249	249
Earnings per share	**139.18**	123.16	123.81	92.74	77.55
Dividends per share	**55.67**	37.10	37.10	37.10	31.02

Financial definitions

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

Chairman's statement

Hon. Elly Karuhanga

"We are well positioned than ever before to meet the needs of our customers and shareholder expectations."

Overview

2013 was a year of progress for **dfcu** in a challenging economic environment. We continued to implement our strategy aimed at fulfilling our vision to be the preferred financial institution, providing a broad range of products to our chosen customer segments. We will continue to focus relentlessly on meeting customer needs, simplifying operations and becoming more efficient.

Even though the operating environment remained subdued, the Group has delivered another good result, demonstrating the strength of our key strategic and operational initiatives. The Group remains well funded, which has enabled us to continue supporting our customers, even in the current challenging environment.

Market conditions

The economic environment during 2013 remained moderated. Market volatility was generally lower than we had seen the previous year. The Uganda Shilling strengthened by 9% in 2013, underpinned by an improving balance of payments. The shilling is expected to depreciate moderately by 2% to 3% in 2014.

Annual headline inflation eased to 6.7 % in December 2013 and is expected to be contained between 5.5% and 6.5% for the first half of 2014, but projected to rise moderately in the second half of 2014. Bank lending rates bottomed out during the year and should closely mirror adjustments in the Central Bank Rate (CBR). However private sector credit growth remained subdued during the year.

Household demand slowly gained traction and is expected to grow in 2014.

With inflation projected to rise in the second half of 2014, this dampens the prospects for monetary policy easing. The economy is expected to grow at 6% to 6.5% in the fiscal year 2013/14.

Operating and Financial Results

I am pleased to report that the Group delivered a good financial performance for the year 2013.

Net profit after tax increased by 13% over the prior year to UGX 34.60 Billion.

Highlights of the financial results:

Total operating income increased by 9.2% to UGX 177.31 Billion.

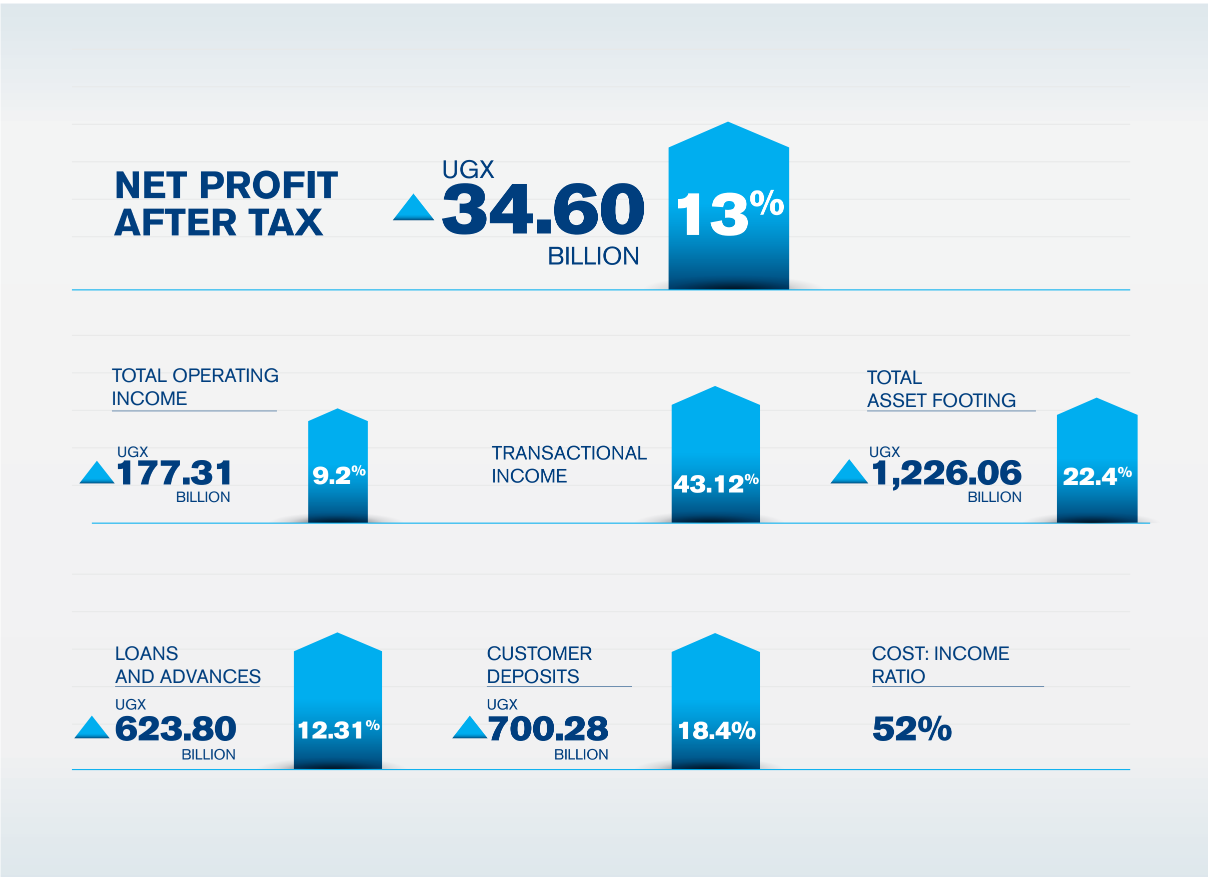
Transaction income grew by 43.12% driven by several initiatives to grow customer numbers and transaction volumes.

Loans and advances grew by 12.31% to UGX 623.80 Billion.

Customer deposits surged by UGX 109.00 Billion to close the year at UGX 700.28 Billion.

Total asset footing grew by 22.4% to UGX 1,226.06 Billion.

Cost to income ratio was contained at 52% through tight cost control.



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

Expanding for Growth

In line with our retail expansion program, we increased our footprint with 4 additional branches - two in Kampala, one in Mukono and another in Ishaka, taking the total network to 34 fully fledged branches. At the same time, a number of our existing branches were refurbished to serve our customers better. We also continued the enhancement of our electronic banking platforms to offer more convenience to our customers and expect to see the investment in these initiatives bearing fruit in 2014.

Strong Committed Shareholders

In May 2013, we announced a shareholder realignment where the Commonwealth Development Corporation (CDC) divested a portion of its shareholding in **dfcu** to NORFUND and Rabobank through its subsidiary Rabo Development.

Having co-founded **dfcu** in 1964 with the Ugandan government, CDC has been an active investor and provided strategic advice to help the bank grow, develop and eventually undergo an IPO on the Uganda Securities Exchange in 2004.

Following the share realignment, CDC now holds a significant direct minority stake of 15% while NORFUND increased its stake to 27.54%, and the new entrant Rabobank acquired the remaining 27.54% shares.

The entry to the Uganda market of a strong banking partner such as Rabobank with significant experience in agribusiness has opened up new frontiers for business. Rabobank through its subsidiary Rabo Development is an active investor in the bank as part of the senior management team and also provides technical assistance.

With a strong, committed shareholder base, the profile of **dfcu** has risen and this gives us the platform to consolidate our position and reinforce our ambition to become a leading player in the financial sector of Uganda.

Active and Good Corporate Governance

The demands made on the board have increased over the years, which make active and constructive corporate governance necessary. Establishing clear goals, strategies, values and good risk controls has been and remains the Board's duty and responsibility naturally together with the Executive Management. We continued with the established governance framework and oversight organs of the board/committees to ensure the group remained stable and focused.

The Board of Directors underwent changes during the year. I would like to recognize the contribution of Mr. Sam J. Kibuuka, who retired from the board. Mr. Kibuuka has served as a member of the board with distinction since 2004 and became the chairman in 2005. During his tenure, **dfcu** fundamentally evolved to become a major player in the financial services sector in Uganda. Speaking personally, and for every employee of **dfcu**, I would like to profoundly thank him for his distinguished leadership and wise counsel. Following the shareholder realignment, Mr. James Murray Grant left the board and was replaced by Mr. Albert Jonkergouw and Mr. Thomas Van Rijckevorsel from Rabobank.

Dr. Winifred Tarinyeba-Kiryabwire, who is the Chairperson of the **dfcu** Women Business Advisory Council, was also appointed to the **dfcu** Board in September 2013. At the Executive Management level, Mr. Peter J. Madeley left his position as Executive Director, **dfcu** Bank and was replaced by Mr. Paul van Apeldoorn.

The Community

Making a difference in the communities we operate in remains one of our core values. For **dfcu,** this not only strengthens and grows our business, but also helps to foster trust and confidence in the banking sector and the positive role banks should play in society as a whole. Through the **dfcu** Foundation, we commit 1% of our profits towards Corporate Social Responsibility (CSR) activities in the areas of child and maternal health, environmental management, community development and emergency interventions. The annual **dfcu** CSR day allows all staff to participate in various community activities.

"We will continue to focus relentlessly on meeting customer needs, simplifying operations and becoming more efficient."

Economic and Business Outlook

Overall we believe that the underlying conditions for our business in the 2014 financial year will be similar to those we have experienced in 2013. However, we are well positioned to meet the needs of our customers and shareholder expectations.

The transformation project being implemented over the next five years starting 2014 will enable us to move with greater speed, efficiency and capability in a fast changing financial environment, with the ultimate goal of becoming a truly retail focused outfit.

This project will cover five key aspects:

- Process redesign to achieve faster, automated processes for efficient operations;
- Channel optimization and leveraging technology for the benefit of our customers;
- Deepening our participation in the strategic agriculture sector to become the leading Agribusiness bank;
- Financial inclusion for segments with growth potential including women and the unbanked;
- Internal capacity building to drive high staff productivity.

We also see a great opportunity to keep growing our Development and Institutional Banking, and Treasury business arms whilst aggressively pursuing growth in the retail banking space.

dfcu remains committed to promoting the advancement of the financial sector and continued contribution to the economic development of Uganda. We will continue to invest in expanding our distribution network including branches and self-service channels to bring our services closer to the population.

We have a lot of strength, including an iconic brand, a rich heritage and great people. Consequently, we are well positioned to realise the Group's full growth potential.

Appreciation

I am encouraged by the commitment and grateful for the ongoing support of all our shareholders as we implement our strategy.

I would also like to thank our customers, strategic partners and stakeholders for their continuing support to **dfcu.**

To all the staff of the Group on whom we rely for our success, thank you.

Lastly, I appreciate the individual Board and Women Business Advisory Council members for the guidance and continuing oversight that has enabled the Group to successfully steer through the challenging business environment and look forward to your dedication as we pull together towards an even more successful 2014.

Elly KARUHANGA

Chairman, Board of Directors

Sustainability report

The Board, Management and Staff are committed to sustainability which can be seen not only in the financial results, but also in customer relations, employee satisfaction, operational processes, safety and regulatory compliance, environmental performance and community support.

Environmental, Social and Governance policy

dfcu Group's Environmental, Social and Governance System comprises policy, procedure, capacity, monitoring, and reporting arrangements to meet the following operating principles:

- To conduct activities with regard to health and safety, environmental, and social aspects of its banking and lending activities, and the principles of environmentally sound and sustainable development.
- Align **dfcu**'s lending strategy to comply with the exclusion list.
- Companies to which **dfcu** lends, comply, at a minimum, with Uganda's Employment laws (the Employment Act, the Factories Act, the NSSF Act, Income Tax Act, the Workers' Compensation Act, and Trade Unions Act), the National Environmental Act, regulations and standards.
- **dfcu** reviews and monitors its loans and reports periodically to its stakeholders about the activities of its sub-borrowers in the areas of health and safety, environmental and social performance.

The Social Policy

dfcu recognises that social issue risks are part of the normal risk assessment process. **dfcu** emphasises that its customers can only employ children if education is not disrupted and they are protected from potential exploitation, moral and physical hazard. While at the present, Uganda does not have a legal national minimum wage; **dfcu** urges its customers to substantially reward their employees. Furthermore, **dfcu** endeavours to encourage its customers to treat its employees fairly in terms of recruitment, progression, terms & conditions of work, irrespective of gender, race, colour, disability, political opinion, religion or social origin.

The Environmental Policy

dfcu recognises that environmental risks should be part of the normal risk assessment procedures. As part of the credit process, **dfcu** seeks to ensure that the environmental effects of the activities it supports are assessed and monitored in the planning, implementation and operational stages. **dfcu** seeks to ensure that all customers comply with all applicable local environmental regulations. Each proposal is processed and given an initial classification of environmental risk and recorded on internal approval documents, advisory and evaluation reports as required in the Credit Policy Guidelines and the Risk Management Control Document.

The Health and Safety Policy

dfcu Group is committed to preventing the safety risk of its operations to both workers and its customers. During the year, there were NIL fatal accidents (2012: NIL) to both the workers and customers.

dfcu ensures that customers engage in activities that do not jeopardize the Health and Safety of their employees, taking into account the industrial sectors concerned. Businesses are encouraged to adopt appropriate Health & Safety measures and to comply with the National Employment laws.

Sustainability as an integral part of our business strategy

dfcu Group proactively embeds sustainable thinking and sustainable business practices at every level of business. We believe that our most important contribution to sustainable development is to operate an effective and profitable company. By providing access to credit, savings and insurance products, we enable individuals to improve their quality of life and enhance their financial security. By providing finance to large and small businesses, we facilitate economic growth and job creation, and by financing infrastructure and the development of key sectors, we assist in resolving global challenges such as energy and food scarcity, resource depletion and climate change. The very nature of our business positions us to help our customers and stakeholders, manage social and environmental challenges and invest for the future, which in turn contributes to the viability and sustainable growth of local markets and national economies. The success of our customers, clients and stakeholders guarantees future business, which underpins our sustainability.

Stakeholder engagement

We build and maintain strategic relationships with a broad range of stakeholders, to enable proactive engagement, manage social expectations, minimise reputational risk and influence the business environment. We employ a range of channels and mechanisms to gather stakeholder feedback. The frequency of engagement varies according to the stakeholder group and the particular issue. Our key stakeholders include the following;

Customer service

Customer Service means providing a quality product or service that satisfies the needs/wants of a customer and keeps them coming back. Customer Service includes the way we identify and respond to needs and requests of our customers from both outside and inside the bank in order to achieve the purpose of our existence. It is about delivering quality consistently through small actions that yield huge returns.

Aligned with our Brand Promise, "...*with Pleasure*" through this policy, we aim to deliver warm, pleasant, passionate and positive experiences with each and every customer who reaches us. We engage our customers through various channels that include;

- Branch network
- Automated Teller Machines (ATMs)
- Dedicated Direct Sales Representatives who handle lending and deposit mobilisation
- Dedicated Relationship Managers
- Mobile & Internet platform
- Workshops and seminars for the Women in Business members, Pinnacle customers, SMEs and Corporates on Schemes
- Print and electronic media
- Dedicated Call Centre team
- Marketing and advertising

Corporate Governance Statement

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

Codes and Regulations

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

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

Shareholders' Responsibilities

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

dfcu Group Board of Directors

The Board is comprised of members with a variety of skills and experience required to provide the necessary overall strategic guidance to the Company.

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

- To protect the interests of shareholders and other stakeholders of the company, and take these into account in directing the affairs of the company;
- To determine the aims of the company, review, provide input into and approve business plans, strategy, structures, policies and investments, and ensure achievement of the company's objectives;
- Provide oversight to and supervise management of the company, operations and ensure the establishment of effective internal control systems;
- To see that systems are established to ensure that the company is managed with integrity and complies with all legal and regulatory requirements and that it conducts its business in accordance with high ethical standards.

The Directors who held office during the year under review are listed on Page 2. Mr. Murray Grant and Mr. Sam Kibuuka resigned from the Boards of **dfcu** Limited and **dfcu** Bank Limited whilst Dr. Winifred Tarinyeba Kiryabwire was appointed to the Board of **dfcu** Limited. Mr. Peter Madeley, former Executive Director, **dfcu** Bank Limited, left the Bank after expiry of his contract in September 2013.

As at end of 2013, the Board of Directors of **dfcu** Limited comprised nine (9) non-executive directors including the Chairman who maintains executive oversight over the company's activities.

On the other hand, **dfcu** Bank Limited, which is a fully owned subsidiary of **dfcu** Limited through which the business of the Company is conducted, had eleven (11) directors, nine non-executive and two executive.

Board Meetings

The Board meets routinely as provided for in the Company's Articles of Association. To facilitate efficient decision making, senior management and third party professionals may be in attendance on a need basis.

Board meetings are held quarterly. During the year of review, the Board of Directors of **dfcu** Limited held 4 meetings. The Board of Directors of its subsidiary **dfcu** Bank Limited similarly held 4 meetings during the year. The Board members' attendance was as follows:

The Directors' attendance of Board Meetings for the year 2013 is as follows:

dfcu Limited Board Meetings

Name	Mar	Jun	Sep	Dec
Mr. Sam Kibuuka (CM)	√	√	√	N/A
Mr. Bill Irwin	√	√	√	√
Mr. Elly Karuhanga (CM effective Dec. 2013)	√	√	√	√
Mr. Deepak Malik	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Kironde Lule	√	√	√	√
Mr. Jimmy Mugerwa	√	√	√	√
Mr. Murray Grant	√	N/A	N/A	N/A
Mr. Thomas van Rijckevorsel	N/A	√	√	√
Mr. Albert Jonkergouw	N/A	√	√	√
Dr. Winifred Tarinyeba Kiryabwire	N/A	N/A	√	√

N/A – Not Applicable

dfcu Bank Limited Board Meetings

Name	Mar	Jun	Sept	Dec
Mr. Bill Irwin (CM)	√	√	√	√
Mr. Sam Kibuuka	√	√	√	N/A
Mr. Elly Karuhanga	√	√	√	√
Mr. Deepak Malik	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Murray Grant	√	A	N/A	N/A
Mr. Kironde Lule	√	√	√	√
Mr. Jimmy Mugerwa	√	√	√	√
Mr. Thomas van Rijckevorsel	N/A	√	√	√
Mr. John Blanthorne	√	√	√	√
Mr. Albert Jonkergouw	N/A	√	√	√
Mr. Juma Kisaame	√	√	√	√
Mr. Peter Madeley	√	√	N/A	N/A
Mr. Paul van Apeldoorn	N/A	N/A	√	√

A – Absent with apologies
N/A – Not Applicable

Board Committees

The Board of Directors of **dfcu** Bank Limited has delegated its authority to four (4) Committees as follows:

Board Audit Committee

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

The Committee's members for the year 2013 were Michael Turner (Chairman), Elly Karuhanga, Murray Grant (resigned June 2013), Kironde Lule and Thomas van Rijckevorsel (joined September 2013).

The Board Audit Committee's attendance for the year 2013 was as follows;

Name	Mar	Jun	Sep	Dec
Mr. Michael Turner	√	√	√	√
Mr. Elly Karuhanga	√	√	√	√
Mr. Kironde Lule	√	√	√	√
Mr. Murray Grant	A	A	N/A	N/A
Mr. Thomas van Rijckevorsel	N/A	N/A	N/A	√

A – Absent with Apologies

N/A – Not Applicable

Board Risk and Credit Committee

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

The Committee members for the year 2013 were John Blanthorne (Chairman), Murray Grant (resigned June 2013), Elly Karuhanga, Michael Turner (left the Committee in September 2013), Deepak Malik and Albert Jonkergouw (joined the Committee in December 2013).

The Board Risk and Credit Committee's attendance for the year 2013 was as follows;

Name	Mar	Jun	Sept	Dec
Mr. John Blanthorne	√	√	√	√
Mr. Elly Karuhanga	√	√	√	√
Mr. Deepak Malik	√	√	√	√
Mr. Michael Turner	√	√	N/A	N/A
Mr. Murray Grant	A	A	N/A	N/A
Mr. Albert Jonkergouw	N/A	N/A	N/A	√

A – Absent with apologies

N/A – Not Applicable

Board Remuneration Committee

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

The Committee's members for the year 2013 were Sam Kibuuka (Chairman until September 2013), Jimmy Mugerwa (Chairman effective September 2013), Deepak Malik, Michael Turner and Albert Jonkergouw.

The Board Remuneration Committee's attendance for the year 2013 was as follows;

Name	Mar	Jun	Sep	Dec
Mr. Sam Kibuuka (CM)	√	√	√	N/A
Mr. Jimmy Mugerwa (CM effective December 2013)	√	√	√	√
Mr. Deepak Malik	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Murray Grant	A	A	N/A	N/A
Mr. Albert Jonkergouw	N/A	N/A	√	√

A – Absent with apologies

N/A – Not applicable

Board Assets and Liabilities Committee

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

The Committee members for the year 2013 were Deepak Malik (Chairman), Jimmy Mugerwa, Sam Kibuuka, Kironde Lule, John Blanthorne and Thomas van Rijckvorsel

The Board Assets and Liabilities Committee's attendance for the year 2013 was as follows;

Name	Mar	Jun	Sep	Dec
Mr. Deepak Malik	√	√	√	√
Mr. Sam Kibuuka	√	√	√	N/A
Mr. Kironde Lule	√	√	√	√
Mr. Jimmy Mugerwa	√	√	√	√
Mr. John Blanthorne	√	√	√	√
Mr. Thomas van Rijckevorsel	N/A	N/A	N/A	√

N/A – Not Applicable

Board Evaluation

The Board annually conducts an evaluation of its performance and uses the process and results therefrom to improve its effectiveness.

Board Remuneration

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

Brief Shareholder Analysis

Directors' interest in the shares of the company as at 31st December 2013

Name	Number of shares held
Mr. Elly Karuhanga W	374,575
Mary Winifred Tarinyeba	1,500

Distribution of shareholders as at 31st December 2013

dfcu Limited shares distribution schedule

Category	No. of Shareholders
1 - 1000 shares	2,010
1001 - 5000 shares	1,072
5001 - 10000 shares	203
10001 - 100000 shares	297
100001 and over shares	66
Totals	**3,648**

List of the 20 largest shareholders

NO	NAME	SHARES	PERCENT
1.	RABO DEVELOPMENT B.V	68,461,797	27.54
2.	NORFUND	68,461,797	27.54
3.	CDC GROUP PLC	37,290,138	15.00
4.	NATIONAL SOCIAL SECURITY FUND	14,743,829	5.93
5.	INVESTEC ASSET MANAGEMENT AFRICA FUND	10,786,574	4.34
6.	INVESTEC ASSET MANAGEMENT PAN AFRICA FUND	6,787,751	2.73
7	INVESTEC ASSET MANAGEMENT	2,825,388	1.14
8	CENTRAL BANK OF KENYA PENSION FUND	1,600,816	0.64
9	NATIONAL SOCIAL SECURITY FUND-PINEBRIDGE	1,571,182	0.63
10.	BANK OF UGANDA STAFF RETIREMENT	1,452,041	0.58
11	PINEBRIDGE SUB-SAHARAN AFRICA EQUITY MASTER FUND	1,359,564	0.55
12	BANK OF UGANDA STAFF RETIREMENT BENEFIT SCHEME AIG	1,255,520	0.51
13	URA RETIREMENT BENEFITS SCHEME-PINEBRIDGE	951,468	0.38
14	UAP INSURANCE CO. LIMITED	847,293	0.34
15	CERUDEB STAFF DEFINED CONTRIBUTORY SCHEME-AIG	847,022	0.34
16	STANBIC BANK UGANDA LIMITED STAFF PENSION FUND AAU	820,107	0.33
17	NATIONAL SOCIAL SECURITY FUND-SIMS	743,108	0.30
18	PARLIAMENTARY PENSION SCHEME	722,104	0.29
19	CRANE BANK LIMITED	722,104	0.29
20	MR RAKESH GADANI	646,323	0.26
	Total number of Shares	222,895,926	89.66
	AND:- 3628 other Shareholders	25,704,985	10.34
	TOTAL	**248,600,911**	**100.00**

The year ahead

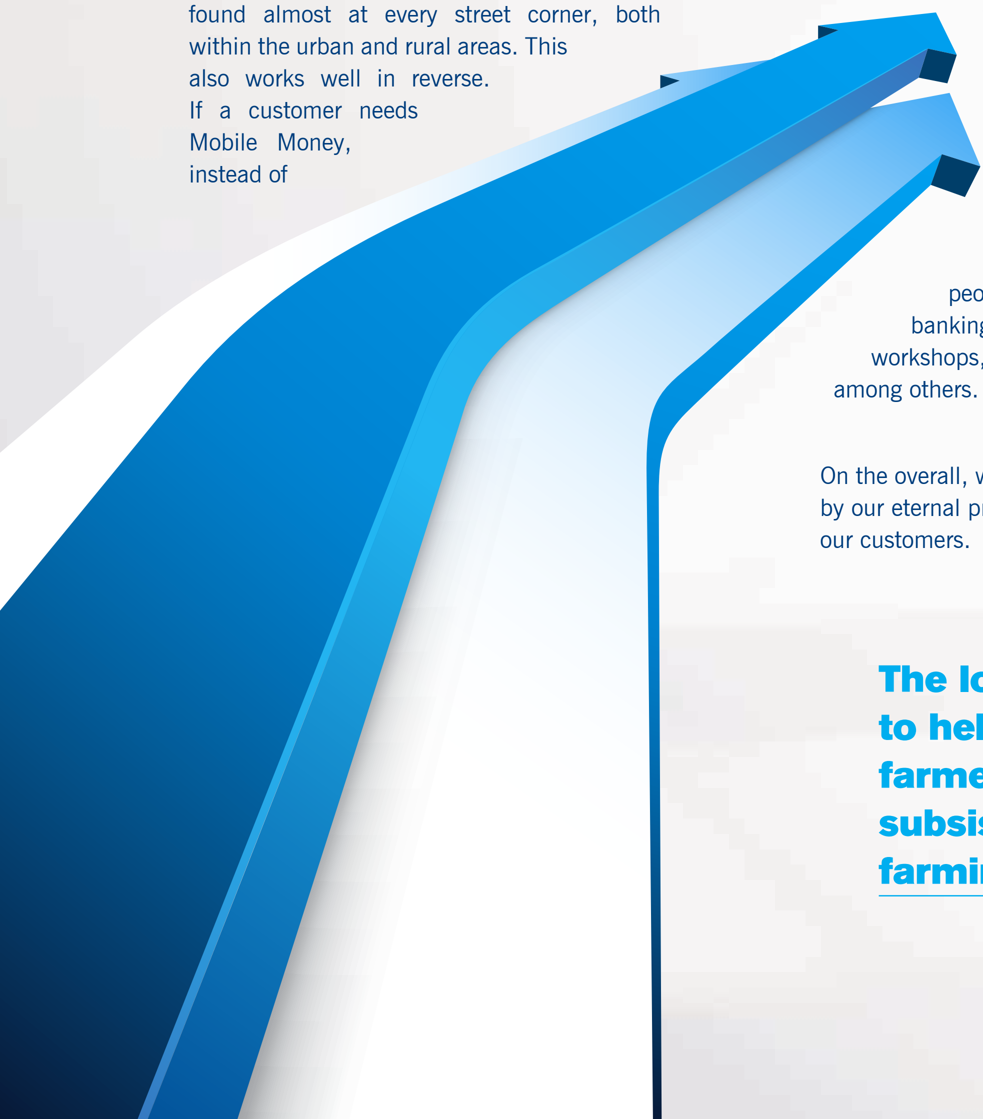
Looking ahead, we are hoping to build on the gains made this year. They are springboards to greater expectations especially in terms of leveraging our IT infrastructure although there's more to be developed to ensure that customers have a better experience whenever they interact with the bank.

Our goal is to spur economic velocity by optimizing cashless transactions. So going forward our customers will be able to do a lot more on our Mobile Banking platform. For example our partnerships with the Mobile Money networks will enable a customer to transfer money back and forth between their Mobile Money account and **dfcu** Bank account.

This will minimize customer walk-ins into the banking-hall given the fact that Mobile Money agents can be found almost at every street corner, both within the urban and rural areas. This also works well in reverse. If a customer needs Mobile Money, instead of making an ATM withdrawal, they will transfer funds from their respective **dfcu** Bank account to their Mobile Money account and proceed with whatever they planned to do.

In the same vain, we will also add the VISA Card onto our portfolio. This will provide our customers with another transaction option that is not bound by location and time. It is this kind of convenience that we purpose to bring to our customers.

We also intend to maintain and expand the in-roads made in the agriculture sector. We have refocused and renewed our energy in this sector with the hope of reaching out to the unbanked. The long-term objective is to help the majority of the farmers to transition from subsistence to commercial farming. And those that are already commercial we hope to link them to international markets through various workshops and networking opportunities.



The branch network shall also be scaled up as we endeavor to bring the unbanked on board. It is only by extending the banking services to the people that we shall appreciate the need for banking, and related benefits such as business workshops, building networks, access to funding among others.

On the overall, we look forward with optimism, driven on by our eternal promise to always make more possible for our customers.

The long-term objective is to help the majority of the farmers to transition from subsistence to commercial farming.

Directors' Report and Consolidated Financial Statements For the year ended 31 December 2013

Table of contents

Directors' Report

For the year ended 31 December 2013

The directors submit their report together with the audited consolidated financial statements of **dfcu** Limited ("the Company") and its subsidiary, **dfcu** Bank Limited (together "the Group") for the year ended 31 December 2013, which disclose the state of affairs of the group and of the company. The Group's parent company is **dfcu** Limited ("the Company"), which owns 100% of the ordinary shares of **dfcu** Bank Limited.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year, all of which is attributable to shareholders of the group was Shs 34,601 million (2012: Shs 30,617 million).

Bonus shares issue

The Directors will recommend, subject to regulatory approvals and that of the shareholders, at the Company's next annual general meeting (AGM), the issue of bonus shares in the proportion of one (1) new bonus share for every one (1) ordinary share currently in issue and fully paid up representing a total of 248,600,911 bonus shares. The book closure date for purposes of determining eligibility to the bonus issue is 30 May 2014

Cash dividend

The Directors will recommend the payment of a final dividend of Shs 17.84 per share on the total shares including the bonus issue (2012 - Shs 18.55 per share) at the Company's next AGM. The dividend, less withholding tax where applicable, will be paid on or about 25th July 2014 to shareholders on the register as at close of business on 30th May 2014. The shareholders' register will be closed on 30th May 2014 for purposes of determining eligibility to this dividend.

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 (Resigned 20 September 2013)
E. Karuhanga	-	Non-executive Director (Appointed Chairman on 20 September 2013)
W. Irwin	-	Non-executive Director
D. Malik	-	Non-executive Director
M. Grant	-	Non-executive Director (Resigned 6 June 2013)
M. Turner	-	Non-executive Director
L. Kironde	-	Non-executive Director
J. Mugerwa	-	Non-executive Director
AJM. Jonkergouw	-	Non-executive Director (Appointed 6 June 2013)
T. Van Rijckevorsel	-	Non-executive Director (Appointed 6 June 2013)
WT. Kiryabwire	-	Non-executive Director (Appointed 20 September 2013)

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

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

DIRECTORS AND THEIR BENEFITS (continued)

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

COMPANY REGISTRAR

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

Plot 1 Lumumba Avenue
3rd Floor Rwenzori House
P. O. Box 10314
Kampala
Uganda
Tel: +256 41 343850

CORPORATION SECRETARY

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

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

AUDITOR

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 167(2) of the Ugandan Companies Act.

ISSUE OF FINANCIAL STATEMENTS

The financial statements were authorised for issue in accordance with a resolution of the directors on 17 March 2014

By order of the Board

A Tibayeita Isharaza

SECRETARY

Date: 17 March 2014

Statement Of Directors' Responsibilities

For the year ended 31 December 2013

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

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

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

Director

Director

Director

Secretary

17 March 2014

Report Of The Independent Auditor

To the Members Of **dfcu** Limited

Report on the financial statements

We have audited the accompanying financial statements of **dfcu** Limited ("the Company") and its subsidiary (together, "the Group"), as set out on pages 7 to 60. These financial statements comprise the consolidated statement of financial position for the year ended 31 December 2013, and, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended of the Group, together with the statement of financial position of the Company standing alone as at 31 December 2013 and the statement of changes in equity of the Company standing alone for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls. An audit also involves evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements give a true and fair view of the financial affairs of the Group and of the Company at 31 December 2013 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Ugandan Companies Act.

Report on other legal requirements

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

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

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

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

PricewaterhouseCoopers

Certified Public Accountants
Kampala

17 March 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 Shs M	2012 Shs M
Interest			
Interest and similar income	6	**150,604**	140,066
Interest expense	7	**(54,441)**	(56,561)
Net interest income		**96,163**	83,505
Fees and commission income	8	**20,116**	14,055
		116,279	97,560
Net trading and other income	9	**6,586**	8,210
Total income		**122,865**	105,770
Operating expenses	10	**(64,381)**	(54,108)
Allowance for impairment of loans and advances	17	**(13,414)**	(11,336)
Profit before income tax		**45,070**	40,326
Income tax expense	11	**(10,469)**	(9,709)
Profit for the year		**34,601**	30,617
Attributable to:			
Owners of the Company		**34,601**	30,617
Non-controlling interests	32	**-**	-
		34,601	30,617

		2013 Shs per share	2012 Shs per share
Earnings per share attributable to ordinary equity Equity holders of the Company -Basic and diluted	12	**139.18**	123.16

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 Shs M	2012 Shs M
Profit for the year		**34,601**	30,617
Other comprehensive income		**-**	-
Total comprehensive income for the year		**34,601**	30,617
Attributable to:			
Equity holders of the Company		**34,601**	30,617
Non-controlling interest	32	**-**	-
		34,601	30,617

Consolidated Statement Of Financial Position

For the year ended 31 December 2013

	Note	2013 Shs M	2012 Shs M
Assets			
Cash and balances with Bank of Uganda	14	**223,665**	100,050
Government securities	15	**209,205**	228,438
Deposits and balances due from banks	16	**83,103**	61,706
Loans and advances to customers	17	**623,800**	555,411
Other assets	19	**24,015**	13,295
Deferred income tax asset	25	**283**	-
Property and equipment	20(a)	**57,116**	36,065
Intangible assets	21	**4,875**	6,374
Total assets		**1,226,062**	1,001,339
Liabilities			
Customer deposits	22	**700,285**	591,280
Deposits due to other banks	23	**56,050**	17,204
Other liabilities	24	**22,932**	11,422
Current income tax payable	11	**1,196**	1,504
Borrowed funds	26	**282,731**	241,505
Special funds	27	**1,708**	1,230
Deferred income tax liability	25	**-**	1,413
Total liabilities		**1,064,902**	865,558
Equity			
Share capital	29	**4,972**	4,972
Share premium	29	**2,878**	2,878
Revaluation reserves	30	**2,380**	2,380
Retained earnings		**116,759**	94,587
Other reserves		**12,113**	12,113
Currency translation reserve		**-**	3
Regulatory reserve	31	**8,218**	9,626
Proposed dividends	13	**13,840**	9,222
Total equity attributable to the Company's shareholders		**161,160**	135,781
Non-controlling interest	32	**-**	-
Total equity		**161,160**	135,781
Total equity and liabilities		**1,226,062**	1,001,339

The financial statements on pages 7 to 60 were approved for issue by the Board of Directors on 17 March 2014 and signed on its behalf by:

Director **Director**

Director **Secretary**

Company Statement Of Financial Position

For the year ended 31 December 2013

	Note	2013 Shs M	2012 Shs M
Assets			
Deposits and balances due from banks	16	**195**	177
Loans and advances to customers	17	**662**	829
Other assets	19	**597**	867
Investment in subsidiaries	18	**26,793**	26,793
Amounts due from Group companies	36	**3,661**	5,208
Income tax recoverable		**90**	-
Investment property	20(b)	**35,600**	17,884
Total assets		**67,598**	51,758
Liabilities			
Other liabilities	24	**6,338**	460
Amounts due to Group companies	36	**7,302**	-
Borrowed funds	26	**9,151**	9,228
Deferred income tax liability	25	**872**	960
Total liabilities		**23,663**	10,648
Equity			
Share capital	29	**4,972**	4,972
Share premium	29	**2,878**	2,878
Revaluation reserves	30	**2,380**	2,380
Retained earnings		**7,752**	9,545
Proposed dividends	13	**13,840**	9,222
Other reserves		**12,113**	12,113
Total equity		**43,935**	41,110
Total equity and liabilities		**67,598**	51,758

The financial statements on pages 7 to 60 were approved for issue by the Board of Directors on 17 March 2014 and signed on its behalf by:

Director **Director**

Director **Secretary**

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2013

	Note	Share capital Shs M	Share premium Shs M	Revaluation reserves Shs M	Retained earnings Shs M	Other reserves Shs M	Currency translation reserve Shs M	Regulatory reserve Shs M	Proposed dividend Shs M	Attributable to equity holders of the parent Shs M	Non controlling interest Shs M	Total Shs M
Year ended 31 December 2012												
At start of year		4,972	2,878	2,380	76,828	12,113	3	5,990	9,222	114,386	13	114,399
Comprehensive income												
Profit for the year		-	-	-	30,617	-	-	-	-	30,617	-	30,617
Other comprehensive income												
Other comprehensive income		-	-	-	-	-	-	-	-	-	-	-
Increase in regulatory reserve		-	-	-	(3,636)	-	-	3,636	-	-	-	-
Total comprehensive income for the year		-	-	-	26,981	-	-	3,636	-	30,617	-	30,617
Transactions with shareholders												
Dividends paid		-	-	-	-	-	-	-	(9,222)	(9,222)	-	(9,222)
Dividends proposed	13	-	-	-	(9,222)	-	-	-	9,222	-	-	-
Write off of non-controlling interest share of results				-	-	-	-	-	-	-	(13)	(13)
Total transactions with shareholders		-	-		(9,222)	-	-	-	-	(9,222)	(13)	(9,235)
At end of year		4,972	2,878	2,380	94,587	12,113	3	9,626	9,222	135,781	-	135,781

Consolidated Statement Of Changes In Equity — Continued)

For the year ended 31 December 2013

	Note	Share capital Shs M	Share Premium Shs M	Revaluation reserves Shs M	Retained earnings Shs M	Other reserves Shs M	Currency translation reserve Shs M	Regulatory reserve Shs M	Proposed dividend Shs M	Attributable to equity holders of the parent Shs M	Total Shs M
Year ended 31 December 2013											
At start of year		4,972	2,878	2,380	94,587	12,113	3	9,626	9,222	135,781	135,781
Comprehensive income											
Profit/(loss) for the year		-	-	-	34,601	-	-	-	-	34,601	34,601
Other comprehensive income											
Increase in regulatory reserve		-	-	-	1,408	-	-	(1,408)	-	-	-
Write off of currency translation reserve		-	-	-	3	-	(3)	-	-	-	-
Total comprehensive income for the year		-	-	-	36,012	-	(3)	(1,408)	-	34,601	34,601
Transactions with shareholders											
Dividends paid		-	-	-	-	-	-	-	(9,222)	(9,222)	(9,222)
Dividends proposed	13	-	-	-	(13,840)	-	-	-	13,840	-	-
Total transactions with shareholders		-	-	-	(13,840)	-	-	-	4,618	(9,222)	(9,222)
At end of year		**4,972**	**2,878**	**2,380**	**116,759**	**12,113**	**-**	**8,218**	**13,840**	**161,160**	**161,160**

Company Statement Of Changes In Equity

For the year ended 31 December 2013

	Share capital Shs M	Share Premium Shs M	Revaluation reserves Shs M	Retained earnings Shs M	Proposed Dividends Shs M	Other reserves Shs M	Total Shs M
Year ended 31 December 2012							
At start of year	4,972	2,878	2,380	5,790	9,222	12,113	37,355
Comprehensive income							
Profit for the year	-	-	-	12,977	-	-	12,977
Other comprehensive income							
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	12,977	-	-	12,977
Transactions with shareholders							
Dividends paid	-	-	-	(9,222)	9,222	-	-
Dividends proposed	-	-	-	-	(9,222)	-	(9,222)
At end of year	**4,972**	**2,878**	**2,380**	**9,545**	**9,222**	**12,113**	**41,110**
Year ended 31 December 2013							
At start of year	4,972	2,878	2,380	9,545	9,222	12,113	41,110
Comprehensive income							
Profit for the year	-	-	-	12,047	-	-	12,047
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	12,047	-	-	12,047
Transactions with shareholders							
Proposed dividends	-	-	-	(13,840)	13,840	-	-
Dividends paid	-	-	-	-	(9,222)	-	(9,222)
At end of year	**4,972**	**2,878**	**2,380**	**7,752**	**13,840**	**12,113**	**43,935**

Consolidated Statement Of Cash Flows

For the year ended 31 December 2013

	Note	2013 Shs M	2012 Shs M
Operating activities			
Interest receipts		**150,604**	140,066
Interest payments		**(54,441)**	(56,561)
Fee and commission receipts		**24,227**	14,711
Net foreign exchange and other income received		**7,273**	7,454
Recoveries on loans previously written off	17	**536**	805
Cash payments to employees and suppliers		**(63,540)**	(48,111)
Income tax paid	11	**(12,479)**	(9,615)
Cash flows from operating activities before changes in operating assets and liabilities		**52,180**	48,749
Changes in operating assets and liabilities			
(Increase)/decrease in Government and other securities		**(6,026)**	(34,491)
Increase in Bank of Uganda cash reserve requirement		**(5,870)**	(4,300)
Increase in loans and advances to customers		**(82,135)**	(71,126)
Increase in other assets		**(3,756)**	(353)
Increase in customer deposits		**109,006**	65,889
Increase in other liabilities		**5,454**	177
Increase in balances due to other banks		**38,846**	-
Increase in amounts due from group companies		**-**	(26)
Decrease in managed funds		**-**	(32)
Net cash flows from operating activities		**107,699**	4,487
Investing activities			
Purchase of property and equipment	20	**(25,573)**	(13,201)
Purchase of intangible assets	21	**(747)**	(229)
Proceeds from sale of property and equipment		**23**	40
Net cash flows used in investing activities		**(26,297)**	(13,390)
Financing activities			
Net increase/(decrease) in borrowings and special funds		**41,704**	(39,296)
Dividends paid to shareholders		**(9,222)**	(9,222)
Net cash flows generated from/(used in) financing activities		**32,482**	(48,518)
Net increase/(decrease) in cash and cash equivalents		**113,884**	(57,421)
Cash and cash equivalents at start of year		**150,317**	207,738
Cash and cash equivalents at end of year	**33**	**264,201**	150,317

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.

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

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 Changes in accounting policies and disclosures

New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2013 and have a material impact on the Group:

Amendment to IAS 1, 'Presentation of Financial Statements ' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment only affects presentation on the face of the statement of comprehensive income.

Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The impact has been increased disclosure in the financial statements.

2 Summary of significant accounting policies (continued)

New and amended standards adopted by the Group (continued)

IFRS 10, 'Consolidated Financial Statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. .

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. This standard has not had a significant impact in the financial statements given that the company does not have interest in other entities other than the consolidated entity.

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

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. There are no other new or revised standards or interpretations issued and effective that would be expected to have a material impact on the Group.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

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

2 Summary of significant accounting policies (continued)

2.3 Consolidation

The consolidated financial statements comprise the financial statements of **dfcu** Limited and its subsidiaries as at 31 December 2013.

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

(iv) Seperate financial statements

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

Dividend income is recognised when the right to receive payment is established.

2 Summary of significant accounting policies (continued)

2.4 Segment reporting

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

2.5 Foreign currency

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

(iii) Consolidation of Group entities

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.6 Interest income and interest expense

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

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

2.7 Fee and commission income

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

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

2.8 Dividends income

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

2.9 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.

2 Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

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

*iv). Available-for-sale financial assets are non-derivatives that are either designated in this category or not classifie*d 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.

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (Continued)

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

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.

2 Summary of significant accounting policies (continued)
2.11 Impairment of financial assets (Continued)

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

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

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

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

(ii) A general allowance for impairment of at least 1% of the total outstanding credit facilities net of specific provisions. Where allowances for impairment losses of loans and advances determined in accordance with the Ugandan

Financial Institutions Act, 2004 exceed amounts determined in accordance with International Financial Reporting Standards, the excess is taken to the regulatory reserve as an appropriation of retained earnings. Otherwise no further accounting entries are made.

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

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

2.12 Intangible assets (goodwill and software)

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

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

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

2 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 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 propertyand 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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Leases where the lessee assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Similarly leases of assets under which the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases

(a) With the Group Company as lessee

To date, all leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(b) With the Group Company as lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. 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 (before income tax), 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 Income tax

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.

2 Summary of significant accounting policies (continued)

2.17 Income tax (continued)

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

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

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

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

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

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

2.18 Retirement employee benefits and other obligations

(i) Retirement benefit obligations

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

(ii) Other entitlements

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

2.19 Contract lease disbursements

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

2 Summary of significant accounting policies (continued)

2.20 Special funds

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

2.21 Managed funds

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

2.22 Dividends

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

2.23 Cash and cash equivalents

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

2.24 Other reserves, fair value reserves and currency translation reserves

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

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

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

2.25 Investment property

Investment property comprises land and buildings under development for future use as investment property (i.e, to earn rental income and capital appreciation).

It is measured at cost without provision for depreciation until the property is commissioned for use. For purposes of the consolidated financial statements, this property forms part of property, plant and equipment reflecting its use from a group perspective.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of 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:

	2013	2012
Financial assets	**Shs M**	**Shs M**
Held-for-trading:		
Government securities	**16,144**	22,535
Held-to-maturity:		
Government and other securities	**193,061**	205,903
Loans and advances and other receivables/financial assets:		
Deposits and balances due from other Banks	**83,103**	61,528
Balances with Bank of Uganda	**166,653**	58,697
Loans and advances customers (Net of impairment)	**623,800**	555,411
Other financial assets	**12,410**	8,652
Cash in hand	**57,012**	41,353
	942,978	725,641
Financial liabilities		
Measured at amortised cost:		
Customer deposits	**700,285**	591,280
Balances due to other banks:inter-bank borrowings	**56,050**	17,204
Borrowed funds	**282,731**	241,505
Other financial liabilities	**7,645**	6,311
	1,046,711	856,300

3 Financial risk management (continued)

Financial risk factors

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

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

3A Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Group by failing to pay amounts in full when due. Impairment allowances are provided for losses that have been incurred at the reporting date. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a portion is personal lending where no such facilities can be obtained.

Credit related commitments

The primary purpose of these instruments which are issued by **dfcu** Bank Limited (the Bank) is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. The Bank's policy is to hold cash cover for most of the commitments and hence the credit risk arising from such commitments is less than for direct borrowing. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than for direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Bank makes such commitments at market rates. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3 Financial risk management (continued)

	2013 Shs M	2012 Shs M
Maximum exposure to credit risk before collateral held		
Government and other securities	**209,205**	228,438
Deposits and balances due from banks	**83,103**	61,528
Loans and advances to customers	**623,800**	555,411
Other assets	**24,015**	13,295
Credit risk exposures relating to off-statement of financial position items:		
- Acceptances and letters of credit	**1,048**	484
- Guarantee and performance bonds	**71,250**	29,965
- Commitments to lend	**23,019**	27,747
	1,035,440	916,868

The above table represents the worst case scenario of credit risk exposure to the Group as at 31 December 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

Loans and advances to customers, other than to major corporates and to individuals borrowing less than Shs 30 million, are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and debt securities based on the following:

- the Group exercises stringent controls over the granting of new loans;
- 84% (2012: 71%) 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% (2012: 99%) of the investments in debt securities are government securities.

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

Loans and advances are summarised as follows:

	2013 Shs M	2012 Shs M
Neither past due nor impaired	**524,725**	393,598
Past due but not impaired	**88,749**	149,138
Impaired	**25,450**	29,508
Gross	**638,924**	572,244
Less: Allowance for impairment	**(15,124)**	(16,833)
Net	**623,800**	555,411

No other financial assets are either past due or impaired.

3 Financial risk management (continued)

3 A Credit risk (continued)

Loans and advances neither past due nor impaired

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

	2013 Shs M	2012 Shs M
Standard	**524,725**	393,598

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:

	2013 Shs M	2012 Shs M
Past due up to 30 days	**72,947**	115,179
Past due 31 – 60 days	**9,706**	22,538
Past due 61 – 90 days	**6,096**	11,421
	88,749	149,138

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	
	2013 Shs M	2012 Shs M
Individually assessed impaired loans and advances	**25,450**	29,508
Fair value of collateral	**28,618**	45,432

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

	2013 %	2012 %
Manufacturing	8	7
Trade and commerce	22	22
Building and construction	11	9
Mining and quarrying	-	-
Transport and communications	7	5
Agriculture and agro-processing	9	7
Home Loans	8	12
Hotel and tourism	4	5
Real Estate	14	18
Non Bank Financial Institutions	-	-
Schools	8	7
Health	-	-
Personal	8	4
Other	1	4
	100	100

3 Financial risk management (continued)

3 B Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates, interest rates and equity prices will affect the fair value or future cash flows of a financial instrument. Market risk faced by the group arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The Group is not exposed to equity price risk. The Group's exposure to market risk is a function of its asset and liability management activities and its role as a financial intermediary in customer related transactions. The objective of market risk management is to minimise the impact of losses due to market risks on earnings and equity capital. The Group manages market risk policies using Asset and Liability Management (ALM) policies approved by the Board of Directors.

The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk. Overall responsibility for managing market risks rests with the Assets and Liability Committee (ALCO). The Treasury department is responsible for the detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

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

i) Currency risk

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

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, counter party limits and stop loss limits, which are monitored daily by Treasury with senior management.

The Group's ALCO reviews on a monthly basis the net foreign exchange position of the Group. As at 31 December 2013, the Group had a net foreign exchange asset position of Shs 2,497 million. (2012: Shs 7,697 million).

The Group's profit before income tax and equity would decrease/increase by Shs 125 million (2012: Shs 385 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 2013.

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

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

All balances are in millions of shillings.

3 Financial risk management (continued)

i) Currency risk (continued)

Group	USD	GBP	EURO	Shs and other	Total
As at 31 December 2013					
Assets					
Cash at hand	39,423	850	1,223	182,169	**223,665**
Government and other securities	-	-	-	209,205	**209,205**
Deposits and balances due from banks	72,785	813	6,344	3,161	**83,103**
Loans and advances	234,702	-	-	389,098	**623,800**
Other assets	511	(1)	28	23,477	**24,015**
Deferred income tax asset	-	-	-	283	**283**
Property and equipment	-	-	-	57,116	**57,116**
Intangible assets	-	-	-	4,875	**4,875**
Total assets	**347,421**	**1,662**	**7,595**	**869,384**	**1,226,062**
Liabilities					
Customer deposits	173,117	1,697	7,341	518,130	**700,285**
Deposits due to other banks	-	-	-	56,050	**56,050**
Other liabilities	(2,853)	(41)	228	25,598	**22,932**
Borrowed funds	174,660	-	-	108,071	**282,731**
Special funds	-	-	-	1,708	**1,708**
Current income tax payable	-	-	-	1,196	**1,196**
Total liabilities	**344,924**	**1,656**	**7,569**	**710,753**	**1,064,902**
Net on-statement of financial position	**2,497**	**6**	**26**	**158,631**	**161,160**
As at 31 December 2012					
Assets					
Cash at hand	24,143	1,302	3,980	70,625	100,050
Government and other securities	-	-	-	228,438	228,438
Deposits and balances due from banks	48,906	52	1,649	11,099	61,706
Loans and advances	214,915	-	1	340,495	555,411
Other assets	96	-	-	13,199	13,295
Property and equipment	-	-	-	36,065	36,065
Intangible assets	-	-	-	6,374	6,374
Total assets	**288,060**	**1,354**	**5,630**	**706,295**	**1,001,339**
Liabilities					
Customer deposits	148,344	1,332	5,385	436,219	591,280
Deposits due to other banks	8,106	-	-	9,098	17,204
Other liabilities	1,864	17	203	9,338	11,422
Borrowed funds	122,049	-	-	119,456	241,505
Special funds	-	-	-	1,230	1,230
Deferred income tax liability	-	-	-	1,413	1,413
Current income tax payable	-	-	-	1,504	1,504
Total liabilities	**280,363**	**1,349**	**5,588**	**578,258**	**865,558**
Net on-statement of financial position	**7,697**	**5**	**42**	**128,037**	**135,781**

3 Financial risk management (continued)

ii) Interest rate risk

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

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

Group	Up to 1 month	1-3 months	3-12 Months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2013							
Assets							
Cash and balances with Bank of Uganda	-	-	-	-	-	223,665	**223,665**
Government and other securities	11,496	20,401	107,138	58,755	11,415	-	**209,205**
Deposits and balances due from banks	36,248	-	-	-	-	46,855	**83,103**
Loans and advances	129,674	23,993	117,741	301,756	69,053	(18,417)	**623,800**
Other assets	-	-	-	-	-	24,015	**24,015**
Deferred income tax asset	-	-	-	-	-	283	**283**
Property and equipment	-	-	-	-	-	57,116	**57,116**
Intangible assets	-	-	-	-	-	4,875	**4,875**
Total assets	**177,418**	**44,394**	**224,879**	**360,511**	**80,468**	**338,392**	**1,226,062**
Liabilities							
Customer deposits	211,288	136,711	82,915	3,024	-	266,347	**700,285**
Deposits due to other banks	56,000	-	-	-	-	50	**56,050**
Other liabilities	-	-	-	-	-	22,932	**22,932**
Borrowed funds	1,345	3,795	37,986	127,044	110,959	1,602	**282,731**
Special funds	-	-	-	-	-	1,708	**1,708**
Current income tax payable	-	-	-	-	-	1,196	**1,196**
Total liabilities	**268,633**	**140,506**	**120,901**	**130,068**	**110,959**	**293,835**	**1,064,902**
Interest sensitivity gap	**(91,215)**	**(96,112)**	**103,978**	**230,443**	**(30,491)**	**44,557**	**161,160**

3 Financial risk management (continued)

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 2012							
Assets							
Cash and balances with Bank of Uganda	-	-	-	-	-	100,050	100,050
Government and other securities	15,890	30,870	129,238	41,058	11,382	-	228,438
Deposits and balances due from banks	38,198	-	-	-	-	23,508	61,706
Loans and advances	138,514	19,447	95,849	253,195	71,465	(23,059)	555,411
Other assets	-	-	-	-	-	13,295	13,295
Property and equipment	-	-	-	-	-	36,065	36,065
Intangible assets	-	-	-	-	-	6,374	6,374
Total assets	192,602	50,317	225,087	294,253	82,847	156,233	1,001,339
Liabilities							
Customer deposits	169,796	50,474	106,476	13,243	-	251,291	591,280
Deposits due to other banks	17,065	-	-	-	-	139	17,204
Other liabilities	-	-	-	-	-	11,422	11,422
Borrowed funds	3,456	7,524	47,383	111,314	60,045	11,783	241,505
Special funds	-	-	-	-	-	1,230	1,230
Deferred income tax liability	-	-	-	-	-	1,413	1,413
Current income tax payable	-	-	-	-	-	1,504	1,504
Total liabilities	190,317	57,998	153,859	124,557	60,045	278,782	865,558
Interest sensitivity gap	2,285	(7,681)	71,228	169,696	22,802	(122,549)	135,781

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored monthly.

The Group faces fair value interest rate risk on its fixed interest financial assets that are measured at fair value. In addition, the Group faces cash flow interest rate risk on its variable rate financial instruments measured at amortised cost. Financial instruments with fair value interest rate risk comprise the held-for-trading portfolio of Government securities and the available-for-sale investments. Financial instruments with cash flow interest rate risk comprise deposits and balance due from banks, loans and advances receivable/ payable, customer deposits, and amounts due to other group companies.

3 Financial risk management (continued)

ii) Interest rate risk (continued)

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 (2012: 3%).

As at 31 December	2013 Shs M	2012 Shs M
Fair value interest rate risk	**121**	117
Cash flow interest rate risk	**5,941**	5,724
Impact on profit before tax	**6,062**	5,841

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 2013 to the contractual maturity date. All figures are in millions of Uganda Shillings.

	Up to 1 month	1-3 months	3-12 months	1-5 Years	Over 5 years	Non liquid items	Total
Group							
As at 31 December 2013							
Assets							
Cash and balances with Bank of Uganda	223,665	-	-	-	-	-	**223,665**
Government and other securities	11,496	20,401	107,138	58,755	11,415	-	**209,205**
Deposits and balances due from banks	83,103	-	-	-	-	-	**83,103**
Loans and advances	129,498	23,993	117,741	283,514	69,054	-	**623,800**
Other assets	8,244	996	3,170	-	-	11,605	**24,015**
Deferred income tax asset	-	-	-	-	-	283	**283**
Property and equipment	-	-	-	-	-	57,116	**57,116**
Intangible assets	-	-	-	-	-	4,875	**4,875**
Total assets	**456,006**	**45,390**	**228,049**	**342,269**	**80,469**	**73,879**	**1,226,062**

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	Non liquid items	Total
Liabilities							
Customer deposits	477,635	136,711	82,915	3,024	-	-	**700,285**
Deposits due to other banks	56,050	-	-	-	-	-	**56,050**
Interest payable and other payables	7,645	-	-	-	-	15,287	22,932
Borrowed funds	2,947	3,795	37,986	127,044	110,959	-	**282,731**
Special funds	1,708	-	-	-	-	-	**1,708**
Current income tax payable	-	-	-	-	-	1,196	**1,196**
Total liabilities	**545,985**	**140,506**	**120,901**	**130,068**	**110,959**	**16,483**	**1,064,902**
Net liquidity gap	**(89,979)**	**(95,116)**	**107,148**	**212,201**	**(30,490)**	**57,396**	**161,160**
As at 31 December 2012							
Assets							
Cash and balances with Bank of Uganda	100,050	-	-	-	-	-	**100,050**
Government and other securities	15,890	30,870	129,238	41,058	11,382	-	**228,438**
Deposits and balances due from banks	61,706	-	-	-	-	-	**61,706**
Loans and advances	137,170	19,446	95,738	230,278	72,779	-	**555,411**
Other assets	8,652	-	-	-	-	4,643	**13,295**
Property and equipment	-	-	-	-	-	36,065	**36,065**
Intangible assets	-	-	-	-	-	6,374	**6,374**
Total assets	323,468	50,316	224,976	271,336	84,161	47,082	**1,001,339**
Liabilities							
Customer deposits	406,910	50,474	120,653	13,243	-	-	**591,280**
Deposits due to other banks	17,204	-	-	-	-	-	**17,204**
Interest payable and other payables	6,311	-	-	-	-	5,111	**11,422**
Borrowed funds	15,239	7,524	47,383	94,110	77,249		**241,505**
Special funds	1,230	-	-	-	-	-	**1,230**
Deferred income tax liability	-	-	-	-	-	1,413	**1,413**
Current income tax payable	-	-	-	-	-	1,504	**1,504**
Total liabilities	446,894	57,998	168,036	107,353	77,249	8,028	**865,558**
Net liquidity gap	(123,426)	(7,682)	56,940	163,983	6,912	39,054	**135,781**

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.

3 Financial risk management (continued)

3C Liquidity risk (continued)

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 2013.

	2013 Shs M	2012 Shs M
Before dividend declaration		
Core capital	**147,674**	119,581
Total capital	**206,293**	129,208
After dividend declaration		
Core capital	**133,834**	110,359
Total capital	**192,453**	119,985
Risk weighted assets		
On-statement of financial position	**732,224**	652,028
Off-statement of financial position	**82,759**	43,839
Total risk weighted assets	**814,983**	695,867

3 Financial risk management (continued)

3D Capital management (Continued)

Risk weighted assets comprise of the following;			2013
	Shs M		Shs M
On-statement of financial position:			
Cash and balances with Bank of Uganda	223,665	0%	-
Due from commercial banks in Uganda	36,053	20%	**7,211**
Due from banks outside Uganda;			
Rated AAA and AA-	11,840	20%	**2,368**
Rated A+ and A-	34,993	50%	**17,497**
Rated A- and non-rated	217	100%	**217**
Government and other securities	209,205	0%	-
Other assets	24,015	100%	**24,015**
Loans and advances to customers	623,800	100%	**623,800**
Deferred tax	283	0%	-
Intangible assets	4,875	0%	-
Property, plant and equipment	57,116	100%	**57,116**
	1,226,062		**732,224**

Off-statement of financial position;			
Letters of credit secured by cash collateral	1,048	0%	-
Guarantees and acceptances	71,250	100%	**71,250**
Undrawn facilities	23,019	50%	**11,509**
	95,317		**82,759**

Basel Ratio (after dividend declaration)	2013	2012
Core capital	**16%**	16%
Total capital	**24%**	17%
Basel Ratio (before dividend declaration)		
Core capital	**18%**	17%
Total capital	**25%**	19%

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

3 Financial risk management (continued)

3E Fair values of financial instruments

As at 31 December 2013, 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	2013 Shs M	2012 Shs M
Level 2-treasury bills and bonds (held for trading)	16,144	22,535

During the reporting period ended 31 December 2013, there were no transfers into and out of Level 2 fair value measurements. Refer to note 15.

The fair values of held-to-maturity investment securities as at 31 December 2013 is estimated at Shs 191,485 million (2012: Shs 185,632 million) compared to their carrying value of Shs 193,061 million (2012: Shs 205,904 million).

The fair values of the Group's other financial assets and liabilities that are measured at amortised cost approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out in note 3C (Liquidity risk)

4 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment each month. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to note 17 for more information.

Income tax

The Group is subject to various government taxes under the Ugandan tax laws. Significant estimates and judgements are required in determining the provision for taxes on certain transactions. For these transactions, the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact profit or loss.(Refer to note 11 and 25 for more information)

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 for more information)

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.

Going concern

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

5 Segment information

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

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

- **dfcu** Bank; the commercial banking segment which provides innovative products and superior service levels catering for customer needs in the areas of savings and investment products, personal and current accounts, personal credit, corporate credit, trade finance, foreign exchange trading, money market transfers, etc.It also consists of a development finance segment which provides medium and long term finance to private sectors in Uganda. The sectors include agro processing, education, health, manufacturing, transport, hospitality industry, tourism and construction.

19.8% (2012: 15.1%) 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 2013 were as follows:

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
Income from external customers	(105)	26,842	(35)	**26,702**
Income from transactions with operating segments of the same entity	12,247	-	(12,247)	-
Interest income	302	150,537	(235)	**150,604**
Interest expense	-	(54,676)	235	**(54,441)**
Other operating expenses	(492)	(77,338)	35	**(77,795)**
Profit/(loss) before tax	11,952	45,365	(12,247)	**45,070**
Income tax expense	95	(10,564)	-	**(10,469)**
Profit/(loss) after tax	**12,047**	**34,801**	**(12,247)**	**34,601**

5 Segment information (continued)

The segment results for the year ended 31 December 2012 were as follows:

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
Income from external customers	1,091	21,174	-	**22,265**
Income from transactions with operating segments of the same entity	12,259	-	(12,259)	**-**
Interest income	246	139,917	(97)	**140,066**
Interest expense	-	(56,658)	97	**(56,561)**
Other operating expenses	(311)	(65,133)	-	**(65,444)**
Profit/(loss) before tax	13,285	39,300	(12,259)	**40,326**
Income tax expense	(308	(9,401)	-	**(9,709)**
Profit/(loss) after tax	**12,977**	**29,899**	**(12,259)**	**30,617**

Statement of financial position

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
At 31 December 2013				
Total assets	67,598	1,196,720	(38,256)	**1,226,062**
Total liabilities	23,663	1,053,158	(11,919)	**1,064,602**
Capital expenditure	17,716	7,857	-	**25,573**
At 31 December 2012				
Total assets	51,758	981,119	(31,538	**1,001,339**
Total liabilities	10,648	860,111	(5,201)	**865,558**
Capital expenditure	9,919	3,511	-	**13,430**

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

The table below indicates the Group’s interest income for each group of similar products:

	dfcu Limited Shs M	dfcu Bank Shs M	Group Shs M
Year ended 31 December 2013	302	150,537	**150,604**
Year ended 31 December 2012	246	139,820	140,066

6 Interest and similar income

	Group 2013 Shs M	Group 2012 Shs M
Loans and advances	**116,828**	105,082
Government securities	**29,903**	27,963
Other interest income	**3,873**	7,021
	150,604	140,066

7 Interest expense

	Group 2013 Shs M	Group 2012 Shs M
Borrowed funds	**19,600**	23,634
Customer Deposits	**34,841**	32,927
	54,441	56,561

8 Fee and commission income

	Group 2013 Shs M	Group 2012 Shs M
Fee and commission income	**20,116**	14,055

Fee and commission income includes fees and commissions from ledger fees, money transfers, low balance fees, statement fees, unpaid cheques charges, URA licensing, ATM commissions, letters of credit fees, telex transfer fees, and other fees and commissions.

9 Net trading and other income

	Group 2013 Shs M	Group 2012 Shs M
Fair value gains/ (losses) on held-for-trading securities	**(745)**	1,851
Net foreign exchange income	**7,273**	5,604
Other gains	**58**	755
	6,586	8,210

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

10 (a) Operating expenses

	Group 2013 Shs M	Group 2012 Shs M
Employee benefits expense (note 10b)	**24,645**	21,619
Professional services	**1,841**	2,154
Advertising and marketing	**2,165**	2,154
Office and residential occupancy expenses	**8,005**	2,654
Communication expenses	**8,246**	5,772
Depreciation (Note 20)	**3,785**	3,961
Amortisation (Note 21)	**2,246**	2,133
Auditor's remuneration	**312**	316
Travel expenses	**1,083**	1,144
Printing and stationery	**1,424**	1,195
Other administrative expenses	**5,559**	6,604
Operating lease expenses	**5,070**	4,402
	64,381	54,108

10 (b) Employee benefits expenses include:

	Group 2013 Shs M	Group 2012 Shs M
Wages and salaries	**21,577**	18,837
Company pension fund contributions	**954**	917
National Social Security Fund contributions	**2,114**	1,865
	24,645	21,619

11 Income tax

a) Income tax expense

Current income tax expense	**12,165**	9,810
Deferred income tax charge (note 25)	**(1,696)**	(101)
	10,469	9,709

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

	Group 2013 Shs M	Group 2012 Shs M
Profit before income tax	**45,070**	40,326
Tax calculated at the tax rate of 30% (2012: 30%)	**13,521**	12,098
Prior year over provision of corporation tax	**(18)**	-
Tax effect of:		
Income not taxable	**(481)**	(550)
Income taxable at other rates	**(3,401)**	(2,510)
Expenses not deductible for tax purposes	**848**	691
Income tax expense	**10,469**	9,709

b) Current income tax payable/ (recoverable)

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

	Group 2013 Shs M	Group 2012 Shs M	Company 2013 Shs M	Company 2012 Shs M
At start of year	**1,504**	1,309	**-**	(494)
Prior year over provision for current income tax	**6**			
Current income tax charge for the year	**12,165**	9,810	**-**	-
Income tax paid during year	**(12,479)**	(9,615)	**(90)**	494
At end of year	**1,196**	1,504	**(90)**	-

12 Earnings per share – basic and diluted

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	Group 2013	Group 2012
Profit attributable to equity holders of the Company (Shs M)	**34,601**	30,617
Weighted average number of ordinary shares in issue (No.)	**248,600,911**	248,600,911
Basic earnings per share (Shs)	**139.18**	123.16

There were no dilutive shares or potentially dilutive shares as at 31 December 2013 and 2012. Therefore, diluted earnings per share is the same as basic earnings per share.

13 Dividends

	2013		2012	
	per share Shs	Total Shs M	per share Shs	Total Shs M
Proposed dividend	**55.67**	**13,840**	37.10	9,222

At the annual general meeting of **dfcu** Limited to be held on 26 June 2014, the Directors will recommend:

a) Subject to regulatory approvals and that of the shareholders, to issue bonus shares in the proportion of one (1) new bonus share for every one (1) ordinary share currently in issue and fully paid up representing a total of 248,600,911 bonus shares.

b) Cash dividend of Shs 17,84 per share on the total shares including the bonus issue (2012 – Shs 18.55 per share) totaling Shs 8,868 million.

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

14 Cash at hand and balances with Bank of Uganda

	Group 2013 Shs M	Group 2012 Shs M
Cash at hand	**57,012**	41,353
Balances with Bank of Uganda	**166,653**	58,697
	223,665	100,050

15 Government and other securities

	Group 2013 Shs M	Group 2012 Shs M
Treasury bills		
Held-for-trading		
Maturing within 90 days of the date of acquisition	**7,950**	7,099
Maturing after 90 days of the date of acquisition	**1,785**	13,214
	9,735	20,313
Held-to-maturity		
Maturing within 90 days of the date of acquisition	**20,118**	14,224
Maturing after 90 days of the date of acquisition	**73,298**	114,006
Total treasury bills	**103,151**	148,543
Treasury and other bonds:		
Held-for-trading		
Maturity after 90 days	**6,409**	2,222
Held-to-maturity		
Maturing within 90 days of the date of acquisition	**3,188**	12,279
Maturing after 90 days of the date of acquisition	**96,457**	65,394
Total treasury bonds	**106,054**	79,895
Total treasury bills and bonds	**209,205**	228,438

Treasury bills are debt securities issued by the Government of Uganda, and administered by the Bank of Uganda, for a term of three months, six months, nine months or a year. Treasury bonds are debt securities issued by the Government of Uganda and administered by the Bank of Uganda, for terms of two years, three years, five years and ten years.

Other bonds include corporate bonds amounting to Shs 1,700 million (2012: Shs 1,700 million) issued by Stanbic Bank Uganda Limited and East African Development Bank.

16 Deposits and balances due from banks

	Group 2013 Shs M	Group 2012 Shs M	Company 2013 Shs M	Company 2012 Shs M
Deposits with foreign banks	**47,016**	50,358	**160**	147
Deposits with local banks	**36,087**	11,348	**35**	30
	83,103	61,706	**195**	177

Deposits and balances due from other banks are short-term deposits made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

17 Loans and advances to customers

	Group 2013 Shs M	Group 2012 Shs M	Company 2013 Shs M	Company 2012 Shs M
Loans and advances	**638,924**	572,244	**837**	1,106
Less: Allowance for impairment losses				
Individually assessed	**(8,859)**	(10,359)	**(175)**	(277)
Collectively assessed	**(6,265)**	(6,474)	**-**	-
	623,800	555,411	**662**	829

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

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

17 Loans and advances to customers (continued)

Group	Individually assessed Shs M	Collectively assessed Shs M	Total Shs M
At 1 January 2013	**10,359**	**6,474**	**16,833**
Increase/(decrease) in allowances for impairment	14,571	(209)	14,362
Recoveries and allowances no longer required	(412)	-	(412)
Net increase in allowances	14,159	(209)	13,950
Debts written off during the year	(15,659)	-	(15,659)
At 31 December 2013	**8,859**	**6,265**	**15,124**
Charge to profit (2013)			
Net increase in allowances above	14,159	(209)	13,745
Recoveries of amounts previously written off	(536)	-	(536)
Net charge to profit or loss	**13,623**	**(209)**	**13,414**
Company			
At 1 January 2012	**988**	**-**	**988**
Increase in allowances for impairment	(150)	-	(150)
Recoveries and allowances no longer required	(159)	-	(159)
Net increase in allowances	(309)	-	(309)
Debts written off during the year	(402)	-	(402)
At 31 December 2012	**277**	**-**	**277**
Charge to the income statement (2012)			
Net increase in allowances above	(309)	-	(309)
Recoveries of amounts previously written off	(143)	-	(143)
Net charge to the income statement	**(452)**	**-**	**(452)**
At 1 January 2013	**277**	**-**	**277**
Increase in allowances for impairment	-	-	-
Recoveries and allowances no longer required	(102)	-	(102)
Net increase in allowances	(102)	-	(102)
Debts written off during the year	-	-	-
At 31 December 2013	**175**	**-**	**175**
Charge to profit (2013)			
Net increase in allowances above	(102)	-	(102)
Recoveries of amounts previously written off	**(203)**	**-**	**(203)**
Net charge to profit or loss	**(305)**	**-**	**(305)**

17 Loans and advances to customers (continued)

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

	Group 2013 Shs M	Group 2012 Shs M
Gross investment in finance leases:		
Not later than 1 year	**24,111**	29,516
Later than 1 year and not later than 5 years	**32,446**	19,722
Later than 5 years	**881**	346
	57,438	49,584
Unearned future finance income on finance leases	**(10,073)**	(8,508)
Net investment in finance leases	**47,365**	41,076

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

Not later than 1 year	**19,883**	25,349
Later than 1 year and not later than 5 years	**26,756**	13,881
Later than 5 years	**726**	1,846
	47,365	41,076

Included in the allowance for impairment of loans and advances as at 31 December 2013 is Shs 2,768 million (2012: Shs 1,215 million) attributable to past due finance lease receivables.

18 Investment in subsidiaries

	Shareholding %	Company 2013 Shs M	Company 2012 Shs M
dfcu Bank Limited	100	**26,793**	26,793

19 Other assets

	Group 2013 Shs M	Group 2012 Shs M	Company 2013 Shs M	Company 2012 Shs M
Prepaid expenses	**11,605**	4,643	**-**	-
Items in course of collection	**3,809**	2,097	**-**	-
Sundry debtors	**3,416**	3,395	**-**	-
Other assets	**5,185**	3,160	**597**	867
	24,015	13,295	**597**	867

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

20 a) 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 2012					
Opening net carrying amount	3,399	11,412	356	11,689	26,856
Transfer from work in progress	5,520	1,014	-	(6,534)	-
Additions	-	1,582	169	11,450	13,201
Disposals at cost	-	(77)	(29)	-	(106)
Disposal:- accumulated depreciation	-	47	29	-	76
Write off	-	(71)	-	-	(71)
Depreciation charge for the year	(4)	(3,750)	(137)	-	(3,891)
Net carrying amount	8,915	10,157	388	16,605	36,065
At 31 December 2012					
Cost or valuation	9,443	35,443	1,078	16,905	62,569
Accumulated depreciation	(528)	(25,286)	(690)	(299)	(26,504)
Net carrying amount	8,915	10,157	388	16,605	36,065
Year ended 31 December 2013					
Opening net carrying amount	**8,915**	**10,157**	**388**	**16,605**	**36,065**
Additions	**-**	**1,489**	**441**	**23,643**	**25,573**
Disposals at cost	**-**	**(1)**	**(52)**	**-**	**(53)**
Disposals:- accumulated depreciation	**-**	**-**	**52**	**-**	**52**
Transfers from work in progress	**-**	**2,022**	**76**	**(2,834)**	**(736)**
Write off	**-**	**(10,195)**	**(42)**	**-**	**(10,237)**
Write off:- accumulated depreciation	**-**	**10,195**	**42**	**-**	**10,237**
Depreciation charge for the year	**(10)**	**(3,575)**	**(200)**	**-**	**(3,785)**
Net carrying amount	**8,905**	**10,092**	**705**	**37,414**	**57,116**
At 31 December 2013					
Cost or valuation	**9,443**	**36,931**	**1,467**	**37414**	**85,285**
Accumulated depreciation	**(538)**	**(26,839)**	**(792)**	**-**	**(28,169)**
Net carrying amount	**8,905**	**10,092**	**705**	**37,414**	**57,116**

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

20 b) Investment property (Company)

Investment property comprises land and buildings at Plot 26 Kyadondo Road, Kampala. This property is for rental and capital appreciation purposes. The investment property is recognised on the historical cost basis.

	2013 Shs M	2012 Shs M
At start of year (reclassified from property and equipment)	**17,884**	7,965
Additions at cost in the year	**17,716**	9,919
At end of year	**35,600**	17,884

The Company is in the process of constructing a Head Office building that will be occupied partly by the Company's subsidiary **dfcu** Bank and partly by a third party tenant. In the prior year, the property was classified as property, plant and equipment. In the current year, management have reclassified the property as investment property in view of the expected usage of the property for rental purposes and capital appreciation from the point of view of the Company on a standalone basis.

21 Intangible assets (Group)

Year ended 31 December 2012	Goodwill Shs M	Computer Software Shs M	Total Shs M
Cost			
At 1 January 2012	463	10,574	11,037
Additions	-	229	229
At 31 December 2012	463	10,803	11,266
Amortisation			
At 1 January 2012	-	(2,759)	(2,759)
Charge for the year	-	(2,133)	(2,133)
At 31 December 2012	-	(4,892)	(4,892)
Net carrying amount	463	5,911	6,374
Year ended 31 December 2013			
Cost			
At 1 January 2013	463	10,803	11,266
Additions	-	747	747
At 31 December 2013	463	11,550	12,013
Amortisation			
At 1 January 2013	-	(4,892)	(4,892)
Charge for the year	-	(2,246)	(2,246)
At 31 December 2013	-	(7,138)	(7,138)
Net carrying amount	**463**	**4,412**	**4,875**

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment of goodwill identified in 2013 (2012: nil).

22 Customer deposits

	Group 2013 Shs M	Group 2012 Shs M
Demand deposits	**253,438**	237,324
Savings accounts	**113,671**	92,011
Fixed deposit accounts	**333,176**	261,945
	700,285	591,280

23 Deposits due to other banks

Balances due to other banks within 90 days	**56,050**	17,204

Balances due to other banks are short-term deposits made by other banks for varying periods of between one day and three months, and earn interest at the respective short-term deposit rates.

24 Other liabilities

	Group 2013 Shs M	Group 2012 Shs M	Company 2013 Shs M	Company 2012 Shs M
Bills payable	**553**	918	**-**	-
Unclaimed balances	**1,398**	1,314	**59**	63
Other liabilities	**11,757**	4,079	**6,063**	356
Deferred fees and commission	**3,596**	1,583	**-**	-
Accrued expenses	**5,628**	3,528	**216**	41
	22,932	11,422	**6,338**	460

25 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2012: 30%), except for interest receivable on treasury bills and bonds where the enacted rate is 15% (2012: 15%). The movement on the deferred income tax account is as follows:

	Group 2013 Shs M	Group 2012 Shs M	Company 2013 Shs M	Company 2012 Shs M
At start of year	**1,413**	1,514	**960**	652
Charge to other comprehensive income	**-**	-	**-**	-
Charge to income statement-Company	**(89)**	(101)	**(88)**	308
(Credit)/charge to income statement-**dfcu** Bank Limited	**(1,607)**	-	**-**	-
Net deferred income tax liability/(asset)	**(283)**	**1,413**	**872**	**960**

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

25 Deferred income tax (continued)

Group:	At start of year Shs M	Charged/ (credited) to income statement Shs M	Charged to other comprehensive income Shs M	At end of year Shs M
As at 31 December 2012				
Deferred income tax liabilities				
Property and equipment	845	-	-	**845**
Accelerated tax depreciation	2,229	(675)	-	**1,554**
Revaluation on land	1,020	-	-	**1,020**
	4,094	(675)	-	**3,419**
Deferred income tax assets				
Provisions for loan impairment	(1,675)	(234)	-	**(1,909)**
Asset and investment revaluations	(33)	-	-	**(33)**
Other temporary differences	(168)	-	-	**(168)**
Deferred income	(163)	(198)	-	**(361)**
Tax losses carried forward	(401)	310		**(91)**
Revaluation of securities held for trading	(140)	696	-	**556**
	(2,580)	574	-	**(2,006)**
Net deferred income tax (asset)/liability	**1,514**	**(101)**	**-**	**1,413**
As at 31 December 2013				
Deferred income tax liabilities				
Property and equipment	845	(395)	-	**450**
Accelerated tax depreciation	1,554	-	-	**1,554**
Revaluation on land	1,020	-	-	**1,020**
	3,419	(395)	-	**3,024**
Deferred income tax assets				
Provisions for loan impairment	(1,909)	63	-	**(1,846)**
Asset and investment revaluations	(33)	-	-	**(33)**
Other temporary differences	(168)	-	-	**(168)**
Deferred income	(361)	(576)	-	**(937)**
Tax losses carried forward	(91)	(88)		**(179)**
Revaluation of securities held for trading	556	(700)	-	**(144)**
	(2,006)	(1,301)	-	**(3,307)**
Net deferred income tax (asset)/liability	**1,413**	**(1,696)**	**-**	**(283)**
Company				
As at 31 December 2012				
Deferred income tax (assets)/liabilities				
Tax losses	(368)	308	-	**(60)**
Revaluation on land	1,020	-	-	**1,020**
Net deferred income tax (asset)/liabilities	**(680)**	**312**	**1,020**	**652**
As at 31 December 2013				
Deferred income tax (assets)/liabilities				
Tax losses	(60)	(88)	-	**(148)**
Revaluation on land	1,020	-	-	**1,020**
Net deferred income tax (asset)/liabilities	**960**	**(88)**	**-**	**872**

26 Borrowed funds

	Group 2013 Shs M	Group 2012 Shs M	Company 2013 Shs M	Company 2012 Shs M
European Investment Bank Apex IV	1,293	5,484	-	-
European Investment Bank Global Loan II	-	1,837	-	-
Uganda Government (KFW II loan)	696	696	-	-
Uganda Government (KFW III loan)	1,984	1,984	-	-
Uganda Government (KFW V loan)	16,721	17,221	-	-
Bank of Uganda	10,097	6,576	-	-
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	25,200	34,521	-	-
International Finance Corporation	5,400	12,811	-	-
The OPEC Fund for International Development	-	1,220	-	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	13,974	16,404	-	-
FMO USD	72,342	33,895	-	-
National Social Security Fund	1,000	2,000	-	-
European Investment Bank – PEFF II	54,802	43,233	-	-
Norwegian Investment Fund for Developing Countries (NORFUND)	16,830	20,469	-	-
NORFUND Subordinated debt	1,890	6,041	-	-
East African Development Bank	8,330	8,422	8,330	8,422
UN Habitat	951	1,034	-	-
Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) Subordinated debt	25,200	26,850	-	-
CDC Group Plc Subordinated debt	25,200	-	-	-
Jubilee Insurance	821	806	821	806
	282,731	**241,505**	**9,151**	**9,228**

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

26 Borrowed funds (continued)

The terms and conditions relating to borrowings are tabulated below:

	Tenure (years)	Interest rate	Fixed / variable	Currency
European Investment Bank Apex III	None	6.605%	Fixed	Shs
European Investment Bank Apex IV	5	8.900%	Fixed	Shs
European Investment Bank Global Loan II	6	11.200%	Fixed	Shs
Uganda Government (KFW II loan)	15	0.000%	Fixed	Shs
Uganda Government (KFW III loan)	15	0.000%	Fixed	Shs
Uganda Government (KFW V loan)	6	7.190%	Fixed	Shs
Bank of Uganda	8	0.000%	Fixed	Shs
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO 1)	7	3.120%	Variable	USD
PROPARCO 2	7	2.854%	Variable	USD
PROPARCO 3	7	3.980%	Variable	USD
International Finance Corporation	7	3.320%	Variable	USD
The OPEC Fund for International Development	7	2.693%	Variable	USD
FMO - UGX	7	24.049%	Variable	UGX
FMO - USD	7	3.090%	Variable	USD
National Social Security Fund	8	12.500%	Variable	Shs
European Investment Bank-PEFF USD	10	5.230%	Fixed	USD
European Investment Bank-PEFF UGX	10	11.930%	Fixed	Shs
NORFUND Subordinated debt	6	3.960%	Variable	USD
NORFUND Senior loan 1	10	13.48%	Variable	Shs
NORFUND Senior loan 1	10	14.62%	Variable	Shs
East African Development Bank	7	2.000%	Fixed	Shs
DEG Subordinated debt	7	5.670%	Variable	USD
UN Habitat	15	2.000%	Fixed	Shs
East African Development Bank USD	5	7.505%	Variable	USD
East African Development Bank UGX	5	19.8%	Variable	Shs
Jubilee Insurance Company Limited	3	5.25%	Variable	USD
CDC Group Plc	7	4.625%	Variable	USD

27 Special funds

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

	Group 2013 Shs M	Group 2012 Shs M
At start of year	1,230	1,950
Disbursements	539	540
Repayments	(61)	(1,260)
At end of year	**1,708**	**1,230**

28 Managed funds

dfcu Limited manages a number of funds on behalf of the Government of Uganda ("GoU") under which GoU provides financing for on-lending to specified third party beneficiaries under the terms and conditions of each fund. The related loans and advances are not maintained on the statement of financial position of **dfcu** Limited to reflect the fact that the Group has neither rights to future economic benefits beyond management fees nor obligations to transfer economic benefits under the management agreements of the funds. These funds are due on demand. During the year, the Group had the GoU/CDO Fund, Commercial Flower Fund (CFF) and Gomba Daals Fund (GDF) under management. The un-disbursed balances on these funds are as follows:

(a) CDO/ GOU Fund

During 2004, **dfcu** Limited entered into a tripartite agreement with the Government of Uganda and Cotton Development Organisation (CDO) to set up a revolving fund of Shs 2.5 billion in cash, Shs 720 million worth of tractors and US$ 300,000 to finance leases for cotton farmers in Uganda. Under the terms of the agreement, **dfcu** Limited provides leasing administration and management services only and receives fees in this respect of up to 4% of each lease facility. Interest on the facilities is chargeable to a maximum of 10% and is credited to the fund. No time limit was set for the fund under the terms of the agreement.

(b) Commercial Flowers Fund

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

(c) Gomba Daals Fund

During 2007, **dfcu** Limited entered into a tripartite agreement with the Government of Uganda and Gomba Daals Spices (U) Limited to set up a revolving fund of Shs 221 million. Under the terms of the agreement, **dfcu** Limited provides leasing administration and management services only and receives fees in this respect of up to 2% of the lease facility. Interest on the facility is charged at 4% and is credited to the fund. No time limit was set for the fund under the terms of the agreement.

The managed funds are summarised in the table below	CDO/GOU fund Shs M	Commercial flowers fund Shs M	Gomba Daals fund Shs M
At start of year	5	(94)	90
Disbursements	-	-	270
Repayments	-	-	(340)
At end of year	**5**	**(94)**	**20**

29

Share capital and share premium	Number of issued ordinary shares	Share capital Shs M	Share premium Shs M	Total Shs M
At 1 January 2012, 31 December 2012 and 2013	**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.

At the Company's next annual general meeting, the Directors will propose the increase of the Company's authorised share capital by the creation of 248,600,911 new shares.

30 Revaluation reserves – Group and company

	2013 Shs M	2012 Shs M
At start and end of year	**2,380**	2,380

31 Regulatory reserve - Group

At start of year	**9,626**	5,990
Transfer (to)/ from retained earnings	**(1,408)**	3,636
At end of year	**8,218**	9,626

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

32 Non-controlling interests

	Group 2013 Shs M	Group 2012 Shs M
At start of year	**-**	13
Share of results for the year	**-**	(13)
At end of year	**-**	-

Rwenzori Properties Limited (the minority subsidiary) was wound up during the year ended 31 December 2012.

33 Cash and cash equivalents

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

	Group 2013 Shs M	Group 2012 Shs M
Cash in hand and balances with Bank of Uganda	**223,665**	100,050
Less: Cash reserve requirement	**(50,910)**	(45,041)
Treasury bills and bonds maturing within 90 days	**8,343**	33,602
Deposits and balances due from banks (note 16)	**83,103**	61,706
	264,201	150,317

For purposes of the statement of cash flows, cash equivalents include short- term liquid investments which are readily convertible into known amounts of cash and which were less than 90 days to maturity from the statement of financial position date.

Bank of Uganda requires banks to maintain a prescribed minimum cash balance. This balance is available to finance the Bank's day-to-day activities; however there are restrictions as to its use and sanctions for non-compliance. The amount is determined as a percentage of the average outstanding customer deposits held by **dfcu** Bank Limited over a cash reserve cycle period of fourteen days.

34 Retirement benefit obligations

The Group participates in a defined contribution retirement benefit scheme and substantially all of the Group's employees are eligible to participate in this scheme. The Group is required to make annual contributions to the scheme at a rate of 7.5% of basic pay. Employees contribute 7.5% of their basic salary. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under this scheme. During the year ended 31 December 2013, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Shs 953 million (2012: Shs 918 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 2013 the Group contributed Shs 2,115 million (2012: Shs 1,865 million), which has been charged to profit or loss.

35 Contingent liabilities

The Group is defendant in various legal actions in the normal course of business. The total estimated exposure arising from these cases is Shs 2.1 billion (2012: Shs 3.8 billion). Based on legal advice, management has determined that total expected losses to the Bank are Shs 935 million (2012: 486 million) for which a provision has been made in the financial statements. In the opinion of directors and after taking appropriate legal advice, no significant additional losses are expected to arise from these cases.

36 Related party disclosures

There are other companies that are related to **dfcu** Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

(a) Amounts due to group companies	**Group 2013 Shs M**	**Group 2012 Shs M**
Due to **dfcu** Bank Limited	**7,302**	-
Umeme Limited	**1,856**	2,278
National Social Security Fund (NSSF)	**78,100**	77,531

Amounts due to **dfcu** Bank Limited relate to an overdraft which earns interest at the prevailing market rates. Amounts due to other group companies include deposits held with **dfcu** Bank Limited which are due on demand and earn interest at the prevailing market rates.

(b) Amounts due from group companies	**Company 2013 Shs M**	**Company 2012 Shs M**
Due from **dfcu** Bank Limited	**3,661**	5,208

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

(c) Borrowings due to shareholders	**Group 2013 Shs M**	**Group 2012 Shs M**
Norwegian Investment Fund for Developing Countries (NORFUND)	**18,720**	26,511
CDC Group Plc (CDC)	**25,200**	-

The Norwegian Investment Fund for Developing Countries (NORFUND) and CDC Group Plc (CDC) hold a 27.54% and a 15.00% shareholding respectively in **dfcu** Limited. As at 31 December 2013, there were outstanding borrowings due to NORFUND and CDC.

(d) Loans to directors and connected persons	**Group 2013 Shs M**	**Group 2012 Shs M**
At start of year	**330**	2,986
Loans advanced during the year	**-**	-
Loan repayments received	**(147)**	(2,656)
At end of year	**183**	330

(e) Key management compensation

Salaries and other short-term employment benefits	**4,490**	4,443
Post-employment benefits	**518**	509
	5,008	4,952

36 Related party disclosures (continued)

(f) Directors' remuneration

	Group 2013 Shs M	Group 2012 Shs M
Fees	542	496
Other emoluments: Short-term benefits (included in key management compensation above)	441	526
	983	1,022

37 Contingent liabilities and commitments

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

Nature of contingent liabilities

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

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

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

	Group 2013 Shs M	Group 2012 Shs M
Contingent liabilities		
Acceptances and letters of credit	1,048	484
Guarantee and performance bonds	71,250	29,965
	72,298	30,449
Undrawn formal stand-by facilities, credit lines and other commitments to lend	23,019	27,747
	95,317	58,196

Supplementary information

For the year ended 31 December 2013

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.

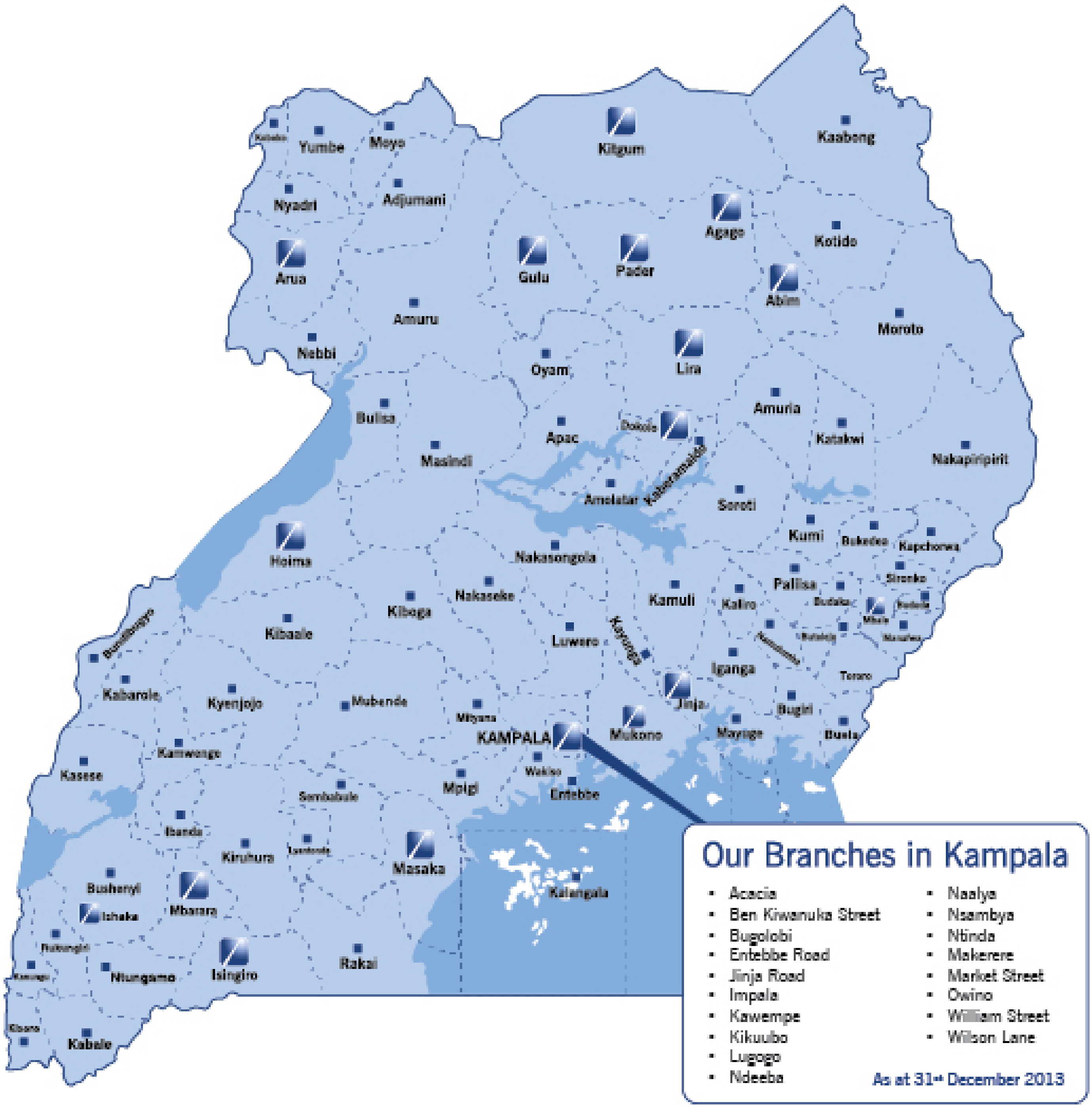
The major shareholders of **dfcu** Limited together with their shareholdings are:

	2013 Number of shares	2013 %
Rabo Development B.V	**68,461,797**	27.54
NORFUND	**68,461,797**	27.54
CDC Group Plc.	**37,290,138**	15.00
National Social Security Fund	**14,743,829**	5.93
Investec Asset Management Africa Fund	**10,786,574**	4.34
Investec Asset Management Pan Fund	**6,787,751**	2.73
Investec Asset Management	**2,825,388**	1.14
Central Bank of Kenya Pension Fund	**1,600,816**	0.64
National Social Security Fund - Pinebridge	**1,571,182**	0.63
Bank of Uganda Staff Retirement	**1,452,041**	0.58
Pinebridge Sub-Saharan Africa Equity Master Fund	**1,359,564**	0.55
Bank of Uganda Staff Retirement Benefit Scheme AIG	**1,255,520**	0.51
URA Retirement Benefits Scheme - Pinebridge	**951,468**	0.38
URA Insurance Co. Limited	**847,293**	0.34
CERUDEB Staff Defined Contributory Scheme AIG	**847,022**	0.34
Stanbic Bank Uganda Limited Staff Pension Fund AAU	**820,107**	0.33
National Social Security Fund-SIMS	**743,108**	0.30
Parliamentary Pension Scheme	**722,104**	0.29
Crane Bank Limited	**722,104**	0.29
Mr. Rakesh Gadani	**646,323**	0.26
Others	**25,704,985**	10.34
	248,600,911	100.00

Company statement of comprehensive income

	2013	2012
	Shs M	Shs M
Interest income	302	246
Fees and commission income	264	363
	566	609
Dividend income	12,247	12,259
Other income	(369)	728
Operating income	12,444	13,596
Operating expenses	(797)	(763)
Net provision for impairment/(recoveries) on loans, advances and leases	305	452
	(493)	(311)
Profit before income tax	11,952	13,285
Income tax expense	95	(308)
Profit for the year	12,047	12,977
Other comprehensive income		
Revaluation surplus on property	-	-
Deferred income tax thereon	-	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	12,047	12,977

34 Branches and counting.



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

dfcu
...with pleasure

Plot 2, Jinja Road
P.O. Box 2767 Kampala - UGANDA
T: +256 414 351 000
+256 312 300 200
F: +256 414 231 687
www.dfcugroup.com