REDEFINING CUSTOMER EXPERIENCE

dfcu Group 2015 Annual Report and Financial Statements

...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, an professional integrity.

Our Vision

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

Our Values

- Customer focus
- Excellence
- Teamwork
- Integrity
- Corporate social responsibility and sustainable development

Contents

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

- **dfcu** Limited was established (1964)
- Bought Uganda Leasing Company and 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)
- Established **dfcu** Women Business Advisory Council (2012)
- Realignment of shareholders bringing on board a strategic partner – Rabobank, with significant experience in agribusiness (2013)
- Consolidated all our key operations into our Head Office, **dfcu** Towers (2014)

dfcu Bank channels

- Currently boasts of a network of 45 branches countrywide
- Is connected to Interswitch giving customers access to a network of over 290 ATMs countrywide
- Offers banking through the Internet and mobile phone channels

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

Consumer Banking

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 solutions that support their financial transformation. We are always on hand to help you manage your money with a range of products and services that 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 and Logistics, Manufacturing, Agriculture and 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.

We nurture and grow customers by offering relevant banking products and services that support their financial transformation.

dfcu Limited
Board of Directors

Elly Karuhanga
Non-Executive Director/Chairman

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

Albert Jonkergouw
Non-Executive Director

Appointed to the Board:
December, 2013.

Dr. Winifred T. Kiryabwire
Non-Executive Director

Appointed to the Board:
September, 2013.

Kironde Lule
Non-Executive Director

Appointed to the Board:
September, 2012.

Deepak Malik
Non-Executive Director

Appointed to the Board:
November, 2007.

Michael Alan Turner
Non-Executive Director

Appointed to the Board:
March, 2010.

James Mugabi
General Manager and
Company Secretary

Appointed: April, 2015.

dfcu Bank
Board of Directors

Jimmy D. Mugerwa
Non-Executive Director/ Chairman

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

Deepak Malik
Non-Executive Director

Appointed to the Board: November, 2007.

Michael Alan Turner
Non-Executive Director

Appointed to the Board: March, 2010.

Terje Vareberg
Non-Executive Director

Appointed to the Board: May, 2014.

Albert Jonkergouw
Non-Executive Director

Appointed to the Board: December, 2013.

Juma Kisaame
Managing Director

Managing Director since 2007.

Paul van Apeldoorn
Executive Director

Executive Director since October, 2013.

Agnes Tibayeita Isharaza
Company Secretary

Appointed: March, 2006.

Meet the dfcu Women Business Advisory Council

With the Women Business Advisory Council (WBAC), **dfcu** has continued to play a key role in the financial inclusion of women in Uganda. The Women's Council addresses the specific needs of both the female customers and female employees more effectively. The aim is to benefit from the valuable consulting expertise of female entrepreneurs whilst playing our part to augment and strengthen the role of women in the Ugandan economy.

Dr. Gudula Naiga Basaza
Chairperson

Gudula is the chairperson of Uganda Women Entrepreneurs Limited (UWEAL) and a UWEAL delegate of the Eastern African Women Entrepreneurs Exchange Network (EAWEExN). She is a Rotarian and the Proprietor of Gudie leisure farm in Wakiso.

Rosemary Mutyabule

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

Olive Birungi Lumonya

Olive has over 19 years of Brand Marketing, public relations, corporate communication and stakeholder engagement. Currently, Olive is the Country Director of SOS Children's Villages Uganda, a leading child focused International NGO which focuses on providing comprehensive care, and education for children.

Patricia Onyango

Patricia is a project and corporate finance specialist with diversified experience spanning twenty seven (27) years. She is an independent Financial Services Consultant, offering advisory services in capital mobilisation, transaction structuring and financial analysis and modelling.

Patricia Karugaba Kyazze

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

dfcu Bank
Senior Management Team

1 Juma Kisaame
Managing Director.

2 Paul van Apeldoorn
Executive Director and Chief of Business.

3 Thomas Banza
Chief Operating Officer.

4 Kate K. Kiiza
Chief Financial Officer.

5 Niels JCT. Berendsen
Head, Credit.

6 George Ochom
Head, Treasury.

7 Denis Kibukamusoke
Head, Consumer Banking.

8 William Sekabembe
Head, Development and Institutional Banking.

9 Harriet Musoke
Head, Human Resources.

10 Agnes Tibayeita Isharaza
Head, Legal.

11 Agnes Mayanja
Head, Risk and Compliance.

12 Chris Sserunkuma
Head, Internal Audit.

List of Acronyms

AGM	–	Annual General Meeting
ALCO	–	Asset and Liability Committee
AML	–	Anti-Money Laundering
ATM	–	Automated Teller Machine
AUDITCO	–	Audit Committee
BCP	–	Business Continuity Planning
BIS	–	Bank for International Settlement
BOU	–	Bank of Uganda
CAR	–	Capital Adequacy Ratios
CB	–	Commercial Banking
CBR	–	Central Bank Rate
CM	–	Chairman
CPC	–	Credit Portfolio Committee
CSR	–	Corporate Social Responsibility
DIB	–	Development and Institutional Banking
EXCO	–	Executive Committee
FIA	–	Financial Institutions Act
GRI	–	Global Reporting Initiative
IFRS	–	International Financial Reporting Standards
KYC	–	Know Your Customer
NSSF	–	National Social Security Fund
RISCO	–	Risk Committee
RTGS	–	Real Time Gross Settlement
Shs M	–	Shillings in Millions
USE	–	Uganda Securities Exchange
WiB	–	Women in Business

Financial definitions

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

Financial Highlights

	2015	2014	Change (%)
Results for the year (Shs M)			
Income	222,885	205,349	8.54
Profit before taxation	46,922	56,561	(17.04)
Profit after taxation	35,290	42,109	(16.19)
Taxes paid to Government	12,793	10,494	21.91
Gross dividends	10,804	11,700	(7.66)
Shareholders' funds (Capital and Reserves)	215,131	191,541	12.32
Deposits	914,951	822,877	11.19
Net loans and advances	808,047	680,679	18.71
Total assets	1,651,629	1,424,742	15.92
Information per ordinary share (Shs)			
Earnings (Basic)	70.98	84.69	16.00
Earnings (Diluted)	70.98	84.69	16.00
Dividends - cash	21.73	23.53	(7.64)
Dividends - shares	-	-	-
Ratios:			
Return on average shareholders' funds (%)	16.40	21.98	(25.39)
Return on average assets (%)	2.14	2.96	(27.70)
Cost to income ratio (%)	60	54	11.11
Statutory Ratios:			
Capital Adequacy Ratios:			
Tier I (%) - Minimum Requirement 8%	16	19	(15.79)
Tier I and II (%) - Minimum Requirement 12%	23	27	(14.81)

Financial Goals and Achievements

	Goal	Achievement				
Financial Indicators		2015	2014	2013	2012	2011
Return on average assets (%)	3	2.14	2.96	2.82	3.05	3.22
Return on average shareholders' funds (%)	24.5	16.40	21.98	21.47	25.0	26.9
Cost to income ratio	56.8	60	54	52	52	52
Capital adequacy ratios:						
Tier I (%)	12	16	19	18	17	15
Tier I and II (%)	15	23	27	25	19	16

Non-Financial Indicators		2015	2014	2013	2012	2011
Customers	Number of customers	255,796	253,716	175,420	121,543	96,816
	Number of Customer Touch Points:					
	Number of branches	45	45	36	31	29
	Number of ATMs	45	45	35	30	28
Employees	Total number of employees	723	718	501	470	432
	Employee turnover ratio (%)	8	12	9	10	9
Government Institutions	Taxes to Government (Shs M)	11,632	14,452	10,564	9,709	10,730
Community	Donations (Shs M)	308	305	335	223	80

Redefining Customer Experience

The financial services sector is embracing a number of technological advances, which has redefined the way a customer relates with a bank. We are not only following proceedings, but we are spearheading the drive in several areas with the overall objective of transforming the banking experience of a **dfcu** customer.

dfcu is leveraging technology including the current and emerging transformational trends in digitization to bring value to our customers. We are exploiting technology to facilitate faster and convenient processes, create e-platforms and reduce transaction costs. Our innovations in recent years have enhanced our customer franchise and are improving the overall customer experience.

Transforming day to day banking

A lot of focus and financial investment has been dedicated towards improving customer experience with our multi-channel approach, combining digital capabilities with face-to-face services.

The exponential growth in mobile phone usage and the massive adoption of the internet is transforming customer habits and expectations, including what customers demand from their banks. Customers today want everything to be as rapid, close-to-hand and immediate. They consider that all other services must work in the same way. As a result, this is putting enormous pressure on the financial services sector.

We are responding to these evolving customer trends by transforming our digital presence, providing simpler,

dfcu is leveraging technology including the current and emerging transformational trends in digitization to bring value to our customers. Our innovations in recent years have enhanced our customer franchise and are improving the overall customer experience.

seamless interactions across online and mobile while sustaining customer reach through our extensive branch network.

We have significantly upgraded our flagship digital platforms - **dfcu** Mobile and Click Banking. The platforms are robust and user friendly, allowing the customer to effortlessly navigate through without much of a hassle.

Payments made simple

Our e-payment platforms allow customers to conveniently settle their bills without going through the hassle of writing cheques or visiting the branch. Several enhancements have already been effected in this area and a number of them are in the offing.

Of major significance to us and our customers, is the roll out of the bulk payments feature on our internet banking platform; Click banking. Our corporate customers are now able to make multiple payments with just a single transaction. Besides bulk payments, customers are also able to make RTGS transfers, pay taxes and make NSSF remittances.

The e-utilities service offers a one-stop solution for bill payments at any **dfcu** Branch; customers can pay water, electricity bills, council dues and taxes instantly. With Zee pay, we have made school fees and tuition payments paperless. A secure and complete payment solution, Zee pay allows parents to make school fees/ tuition payments at any **dfcu** Branch by simply presenting a unique payment registration number.

Improving transaction speed

Our Business process redesign and automation project has been at the fore of our innovations for one major purpose; simple and efficient processes allow us to deliver financial solutions to our customers faster and cheaper. Several of our operational, credit and on boarding processes have been automated with the objective of increasing transaction velocity. For instance, the application of loans has been automated eliminating the challenges often associated with manual transactions.

Partnerships that bring added value

We continue to seek partnerships that bring added value to our customers. The introduction of the Visa payments solution is in advanced stages with the product launch planned for 2016. The visa platform will give our customers added convenience and enhanced security while making payments for goods and services both at home and in over 150 countries.

Upgrading core systems

We are creating operational capability which is simpler and more efficient through further system enhancement and integration, and are becoming more responsive to changing customer expectations. The upgraded core banking platform will give us a firm base upon which to expand, innovate and increase automation of our end-to-end customer journeys.

Making our products and services clearer

We serve an increasingly diverse customer base of individuals and businesses. To deliver sustainable growth, we need to serve them all equally well. We are currently reviewing our segmentation to ensure that our services and products specifically address a given customer profile. The goal is to better serve every financial need of all our varying customer audiences; to tailor product propositions to meet customer needs more effectively.

Managing customer relationships

Any technological advancement meant to enhance customer experience is never complete without a proportionate investment in human resource. In this regard, there is ongoing upskilling of staff on products and services plus the related processes offered to ensure all round royalty for our customers at the different touch points.

We have also introduced Client Services; a unit that is dedicated to our Development and Institutional Banking. This unit supports the relationship managers by responding to routine customer requests and inquiries.

Looking forward, the ever changing technological advances mean we cannot say we have hit the ceiling. More upgrades are expected whether driven by the market demands or by expansion of technology. But whatever the case, we assure our customers that we shall be at the forefront of it all, as we provide the services, products and the right experience.

dfcu Women in Business Program

Nurturing and developing women entrepreneurs

For **dfcu**, helping women to overcome financial barriers while supporting them in their quest for growth, is not just a business proposition, it's in fact an obligation because we value the role of women in our society.

The **dfcu** Women in Business program was established in February 2007 with an overall objective of creating a Business-enabling environment for women entrepreneurs. Our approach to banking women provides solutions to meet their unique financial and lifestyle needs whether it's a young professional, a woman engaged in business or a woman involved in agri-business.

Why women entrepreneurs?

The reasons that inspired this program, which are still relevant today, are solid. The contribution of women to the economy has been steadily growing over the years. Today women own approximately 40% of SMEs in Uganda and employ nearly 2 million people. This translates into considerable direct and indirect contribution to the Gross Domestic Product (GDP).

In spite of the unquestionable growth trends, women in business tend to have fewer opportunities. The key reasons being;

- Inadequate business skills and knowledge on how to operate in the market place
- Limited access to credit
- Lack of collateral

Benefits of the dfcu WiB program

The above concerns, and many more not mentioned, have been the reason why this program is relevant to today's woman entrepreneur. Some of the unique benefits of the **dfcu** WiB program include:

- Business training – the trainings are both practical and theoretical.
- A range of banking products that are tailored to the needs of the woman entrepreneur.
- Mentor - mentee programs. Through our partnership with the Cherie Blair Foundation, the **dfcu** WiB members can take part in this online mentoring program.
- Local and international business/study trips and tours.
- A dedicated relationship manager to support day-to-day banking requirements.

Achievements

- Over 8,000 members currently registered on the **dfcu** WiB program
- Over 6,000 women have benefited from the capacity building sessions
- Over 3,000 women have benefited from the **dfcu** WiB loans
- Introduced the Women Business Advisory Council in 2012
- Opened the Women Advisory Centre in 2015

Awards

- Most innovative bank in Africa 2009
- Hosted the Global Banking Alliance regional study tour in 2010
- Recognised as the bank that supports women entrepreneurs by Uganda Women's Entrepreneurship Association Limited (UWEAL) in 2014

dfcu Women in Business Advisory Centre

The **dfcu** WiB Advisory Centre serves as a one-stop shop for the provision of business advisory services to women enrolled in the **dfcu** WiB program. Services offered at the Centre include the following:

- Financial Advisory
- Business to Business Linkage Advisory
- Marketing and Branding
- Legal Advisory
- Human Resource Advisory

The advisory services are conducted at the WiB Centre at **dfcu** Head Office, Kyadondo Road, every weekday between 9:00am and 5:00pm.

Supporting the transformation of Agriculture

At face value, growing populations and rising affluence across the African continent and globally means there are enormous opportunities for our agricultural produce, which should assure the agriculture sector in Uganda of a continued productive future.

Using a value chain based approach; **dfcu** is committed to supporting the transformation of the agri-sector through financing and capacity building of farmer organizations/ associations engaged in viable agriculture projects in certain value chains. Our ambition is to become the leading player in the sector by 2018.

dfcu has a dedicated agribusiness unit and a well-trained network of agri officers to address the unique needs of the agri-client. We further benefit from the cooperation we have with our shareholder Rabobank who are the largest agri-bank in the world. This has enabled us to optimize on new and extensive knowledge in agriculture worldwide and thus strengthen our offer.

Our products are tailored to meet the specific and unique needs of the agri-client. We offer a vast range of specific finance and savings products which take into consideration the specific characteristics of the sector like seasonality, price fluctuations and climate disruptions. In 2015, **dfcu** introduced the "Save for Loan" product which enables small holder farmer groups to access agri-financing using their savings as security. This product has enhanced on-farm production activities for farmers.

Through partnerships with processors and community organisations, we unlock the finance opportunities for small holder farmers and other players in the value chain. This is done through value chain financing and out grower schemes, in combination with funds for capacity building availed through private public partnerships.

The Best Farmer competition, which we co- sponsor, is a great platform to highlight our ambitions in the sector. In April 2015, the ten best farmers in the previous competition had the opportunity to visit The Netherlands on an exchange program. The learnings and business linkages acquired from this trip have broadened the view on agriculture as a viable and profitable venture.

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Other Highlights

1. Paul van Apeldoorn - Executive Director, addresses a team from the Rabobank African Partner banks during the annual COO conference that was hosted by **dfcu** Bank.
2. Jimmy D. Mugerwa - Chairman **dfcu** Bank (R), rewards Chris Sserunkuma during the staff Long Service Awards.
3. Jude Kansiime - Marketing Manager (L), rewards Frank Mutebi, the winner of the Makerere University Tuition Zone promotion.
4. Michael Mwesigwa - Head of Sales, explains the **dfcu** Home Loans proposition to prospective customers during the 2015 Property Expo.
5. Juma Kisaame - Managing Director, shares a light moment with guests at the breaking of the fast event that was held at Sheraton.
6. Staff share best practice during a strategy session.

Investing in our Community

Our guiding principle has been and will continue to be, to enhance the financial wellbeing of Ugandans, businesses and the communities where we operate. This is not just through our banking activities to customers but, also through the many community programs we run and through our partners.

As one of the large financial institutions, we have an important role to play in the financial education and inclusion of Ugandans. Through our partnership with GIZ (German Society for International Cooperation), we have invested over Ushs 350 million in the development of new financial literacy tools that will help to improve the population's knowledge, skills and confidence to manage their personal finances more effectively to enhance savings and investments.

Our **dfcu** Investment Clubs and Women in Business programs have extended financial literacy training and advisory to thousands of Ugandans. The results of this intervention are visible, with over Ushs 20 Billion mobilized in savings.

Under the child and maternal health focus area, we supported health camps through which over 6,500 women and children in vulnerable communities were able to access free medical services.

As part of several emergency interventions during the year, **dfcu** also supported the typhoid eradication initiatives where over 5,000 students in ten community schools in Kampala were given access to free safe drinking water. This intervention allowed the students to stay healthy and gain more school days.

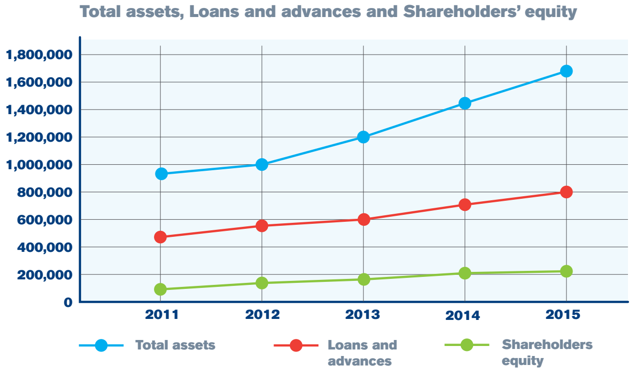
Financial Overview 2015

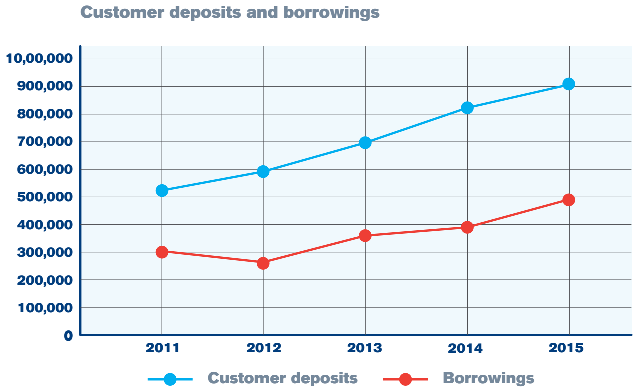
dfcu Group has established its presence in most parts of Uganda. Propelled forward by the momentum from past achievements, we moved into 2015 well-prepared to navigate the seas of strong competition in the banking industry. After setting ambitious targets at the beginning of the year via the corporate plan, retail plan and budget, we leveraged our extensive resources and focused all of our efforts on achieving budgeted targets through organic growth. Below is the detailed analysis of our 2015 financial performance.

All financial disclosures herein are based on the International Financial Reporting Standards (IFRS), and the guidelines of the Financial Institutions Act.

Statement of financial position

Total assets grew by 16% during the year from Shs 1,424,742 million in 2014 to Shs 1,651,629 million in 2015. Loans and advances increased by 19% representing 49% of the total assets. Total liabilities increased by 16% whereas customer deposits increased by 11% representing 64% of the total liabilities. Shareholders' equity grew by 12% as a result of the increase in the earnings and ploughing back of profits after payment of the dividends. The earnings for the year will be partly distributed to the shareholders as recommended by the Board of Directors (subject to approval in the Annual General Meeting) while the rest will be ploughed back into the business to enhance its growth.





Funding mix

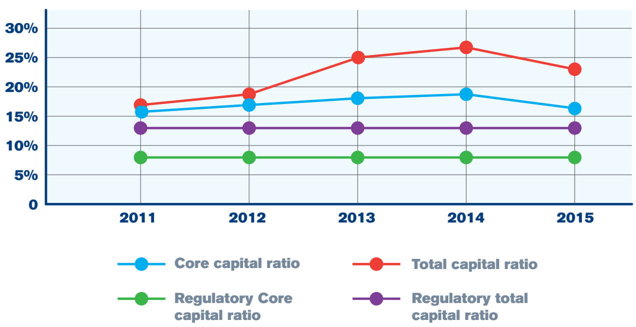
Customer deposits continued to be the major source of funding for the year representing 64% of the total liabilities of the Group in 2015 compared to 67% in 2014. Customer deposits registered 11% growth in 2015. The Group also has access to funding in terms of borrowings and these grew by 28% from Shs 384,023 million in 2014 to Shs 491,914 million in 2015.

Capital adequacy

dfcu Group monitors its capital adequacy ratios (CAR) using the ratios established by the Financial Institutions Act. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets and off-statement of financial position commitments at weighted amounts to reflect their relative risk. As at 31 December 2015, the Group's total capital base was 23% (2014: 27%) of the risk weighted assets, with core capital at 16% (2014: 19%).

The capital adequacy remains above the stipulated regulatory minimums of 12% and 8% for total capital and core capital respectively.

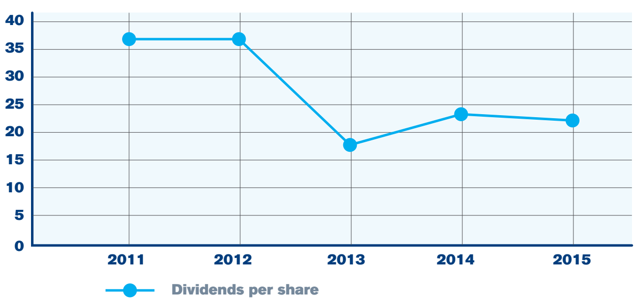
Core capital ratio and Total capital ratio



Dividend

dfcu Group's dividend policy is designed to address multiple objectives. The main considerations were to maximize shareholder wealth, increase market capitalisation, ploughing back of additional profits for business expansion and maintaining consistent stream of dividend to shareholders. **dfcu** Group paid a total dividend of Shs 23.53 per share to ordinary shareholders for the year ended 31 December 2014. The Board of Directors of the Group are recommending a total dividend of Shs 21.73 per share. The payment is subject to approval from the shareholders during the Annual General Meeting (AGM).

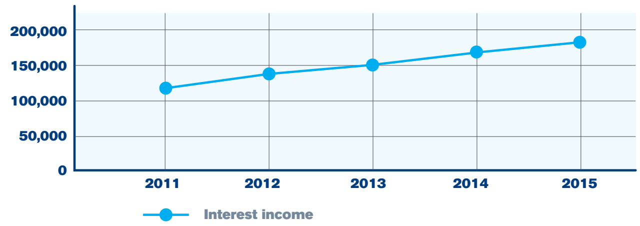
Dividends per share



Interest income

dfcu Group had an increase in the interest income of 12% from Shs 163,278 million in 2014 to Shs 182,974 million in 2015. This was due to the 19% increase in the lending portfolio and other earning assets like investment securities.

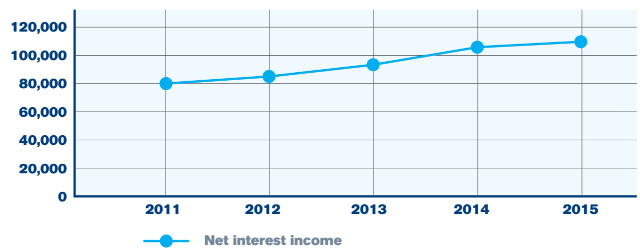
Interest income



Net interest income

Net interest income-the principal source of income from the Group's operations reached Shs 108,232 million, registering a 5% increase from Shs 103,289 million in 2014. This was driven by a 19% growth in the lending portfolio and interest from other earning assets like investment securities.

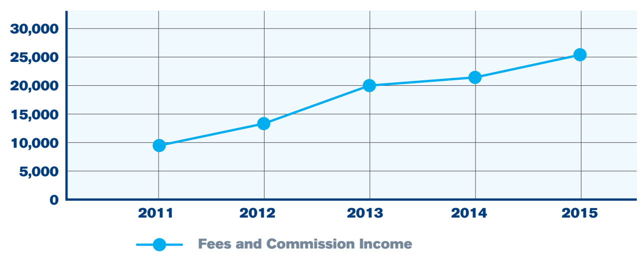
Net interest income



Fees and commission Income

dfcu Group's fees and commission 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 20,852 million in 2014 to Shs 25,002 million in 2015. The growth was driven by higher transaction volumes arising out of increased customer base during the deposit mobilisation campaigns.

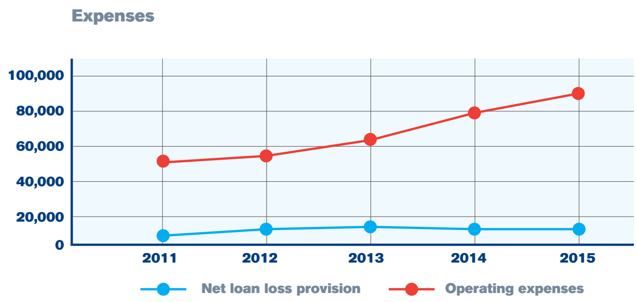
Fees and Commission Income



Expenses

The net loan loss provision charged to the consolidated statement of comprehensive income for the year increased by 11% from Shs 10,490 million in 2014 to Shs 11,690 million in 2015. **dfcu** Group registered a 49% growth in the Non-performing loans and advances due to the high interest rates that affected the financial sector especially during the second half of 2015. More provisions were registered under mortgage lending, personal loans, leases and term finance. Operating expenses increased by 14% from Shs 78,309 million in 2014 to Shs 89,531 million in 2015. The increment was mainly due to depreciating shilling, inflationary pressures during the period and growth in the business.

This led to the increase of the cost to income ratio by 11% from 54% in 2014 to 60% in 2015.



Summary of the five year performance review

	2015	2014	2013	2012	2011
Statement of comprehensive income (Shs' m)					
Interest income	182,974	163,278	150,604	140,066	118,533
Net interest income	108,232	103,289	96,163	83,505	80,670
Fees and commission income	25,002	20,852	20,116	14,055	9,600
Net loan loss provision	11,690	10,490	13,414	11,336	4,551
Operating expenses	89,531	78,309	64,381	54,108	50,382
Profit before tax	46,922	56,561	45,070	40,326	41,504
Profit after tax	35,290	42,109	34,601	30,617	30,774
Statement of financial position (shs' m)					
Loans and advances	808,047	680,679	623,800	555,411	496,426
Total assets	1,651,629	1,424,742	1,226,062	1,001,339	953,681
Customer deposits	914,951	822,877	700,285	591,280	525,391
Borrowings	491,914	384,023	340,489	259,939	299,235
Shareholders' equity	215,131	191,541	161,160	135,781	114,399
Capital adequacy					
Core capital ratio	16%	19%	18%	17%	15%
Total capital ratio	23%	27%	25%	19%	16%
Risk weighed assets (shs' m)	1,042,174	870,035	814,983	695,867	683,682
Share statistics					
Number of shares in issue (in millions)	497	497	497	249	249
Earnings per share	70.98	84.69	69.59	123.16	123.81
Dividends per share	21.73	23.53	17.84	37.10	37.10

Chairman's Statement

Overview

Despite the challenges in the business environment in 2015, **dfcu's** performance remained resilient, demonstrating the strength of our key strategic and operational initiatives. We continued to be proactive and at the same time, remaining sensitive to changes in the external environment, while competing strongly in all the markets and segments we serve.

Market conditions

The Uganda shilling depreciated by 17.5% in 2015, driven by global strengthening of the US dollar and widening current account deficit.

During the year, the Central Bank of Uganda pursued a tight monetary policy stance aimed at curbing the inflationary pressures caused by the knock on effects of the Uganda Shilling depreciation. The tight monetary policy driven in part by the increase in the Central Bank Rate (CBR), led to a spike in commercial bank lending rates resulting into subdued private sector credit growth and a higher rate of loan defaults.

Yields on government securities increased considerably in 2015 causing a corresponding upsurge in cost of funds as financial institutions were forced to match the rates to attract wholesale deposits.

We continued to be proactive and at the same time, remaining sensitive to changes in the external environment, while competing strongly in all the markets and segments we serve.

Operating and financial results

Despite the less than optimal operating environment, **dfcu** delivered Ushs 222.89 Billion in total revenue driven by a 12% increase in interest income from a growing loan book, thanks to our resilient customers.

The Group's total assets increased by 16% to Ushs 1,651.63 Billion, with loans and advances growing by 19% to Ushs 808.05 Billion. Customer deposits grew by 11% to Ushs 914.95 Billion.

Challenges in deposit mobilization coupled with more attractive Treasury Bill rates for our customers, resulted in a 25% rise in interest expense. This negatively impacted our profit.

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

Serving our customers better

We partnered with Mobile Network Operators (MNOs) and launched **"dfcu Mobile Plus"**, a service that enables our customers to conveniently transfer money between their **dfcu** accounts and mobile money accounts respectively.

dfcu continued to support the growth of women entrepreneurs and in 2015, launched the **Women in Business (WiB) Advisory Centre**. The WiB Centre provides a one-stop shop for business advisory services to women engaged in business.

In line with our key strategic ambition of becoming the leading agri business partner in Uganda, **dfcu** rolled out the **"Save for Loan"** product that enables smallholder farmers access loans for agri inputs.

At the back end, a number of customer impacting processes are being automated to allow a much faster response to customer needs.

How we govern

The Board is committed to the highest levels of governance, ensuring we balance and protect the long-term interests of our many stakeholders, including shareholders, customers, the broader community and our team. We believe that strong governance is an important foundation of **dfcu's** success.

We continued with the established governance framework and oversight organs of the board committees to ensure the group remained stable and focused on delivering on the strategy.

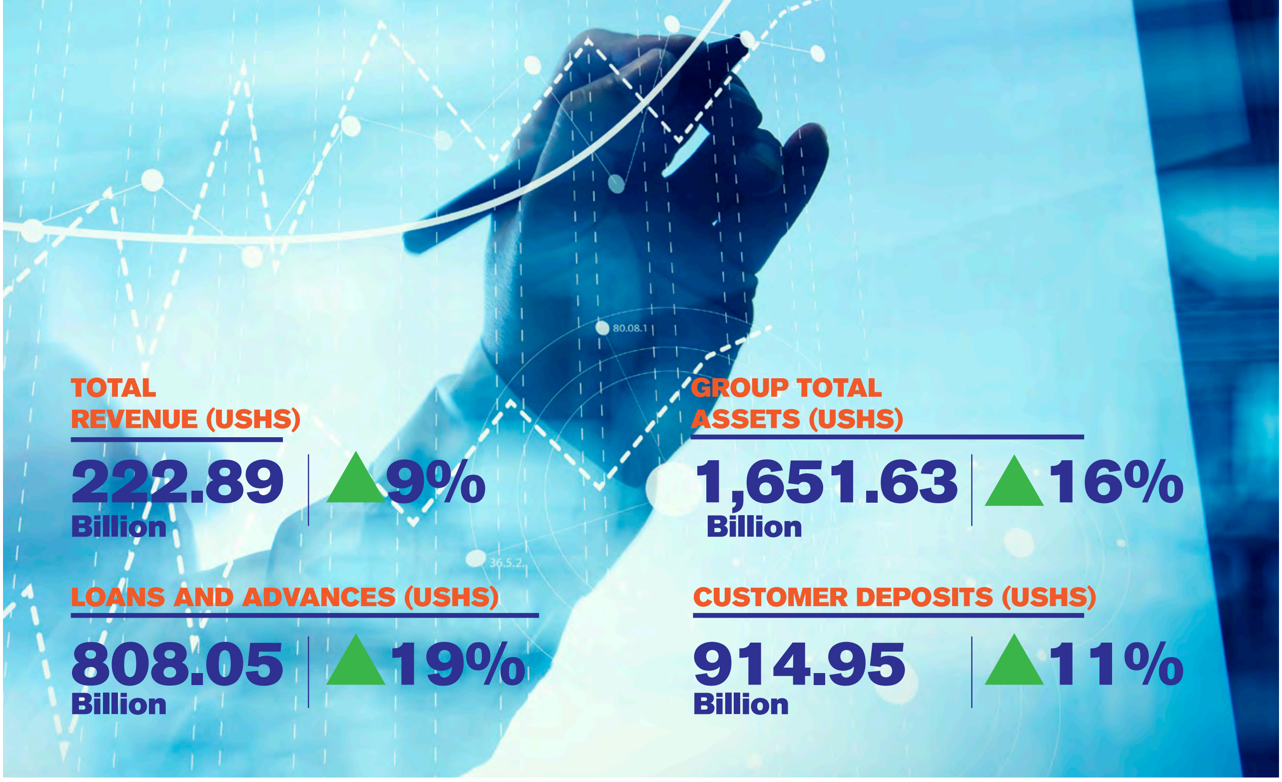
It is also worth mentioning that as individuals, Directors contribute a diverse range of skills and well-rounded experience which, when combined, enable the Board to challenge management effectively and provide guidance on the Bank's strategic direction. This breadth and diversity allows the Board to exercise its judgement and to appropriately fulfill its role for shareholders.

We worked towards meeting our subsidiary's regulatory requirements reconstituting separate Boards for the Parent Company and **dfcu** Bank respectively. As a result Mr. Jimmy D. Mugerwa and Mr. Terje Vareberg resigned from the **dfcu** Limited Board, to serve as Chairman and Non – Executive Director respectively of the Board for our subsidiary **dfcu** Bank.

Investing in our community

As one of the largest financial institutions in Uganda, we have an important role to play in the financial education and inclusion of the community. We have continued to support the communities around us, as they form an important part of our vision.

Through our Investment Clubs and Women in Business program, we have extended financial literacy training and advisory to thousands of Ugandans. The results of this intervention are visible, with over Ushs 20 Billion mobilized in savings.



In collaboration with our partners, we sponsored health camps through which over 6,500 women and children in vulnerable communities were able to access free medical services.

As part of several emergency interventions during the year, **dfcu** supported the typhoid eradication initiatives where over 5,000 students in ten community schools in Kampala were given access to free safe drinking water.

The strategic agenda

A series of events are creating fundamental shifts in the financial services sector. Of particular note, we see rapidly evolving customer expectations, innovative digital technologies and new emerging service models – all of which are changing how customers are served.

The digital transformation is being led by both financial technology players (known as "FinTech") and established telecom industry players. In order not to be left behind, we are proactively investing in our own digital strategies and partnering with some of these players.

Our mid-term agenda clearly articulates those areas where we must be sharply focused going forward. We are evolving our business mix to align with opportunities where we have, and build deeper relationships with our customers.

We have made solid progress through the quantum leap transformation program and expect to see a positive tangible impact in 2016.

Outlook for the future

In addition to shifting competitive dynamics in our industry, we also expect that uneven economic conditions will likely persist into 2016. Both of these will present challenges for us at times, but 2016 will also be filled with opportunities.

We are adapting to these operating conditions with increased investments in technology to transform and simplify the customer experience. These investments will also help to enhance our growth and reduce our structural costs. The Group will continue to focus on meeting the diverse needs of our customers across the various segments, and creating sustainable value for all our stakeholders including the broader community in which we operate.

Conclusion

I would like to take this opportunity to thank my fellow directors for their dedication and commitment over the past twelve months. I appreciate our customers for their business and for their trust. I also recognize the efforts of all our staff and the work they do every day to earn this trust, and to help our customers see the future with confidence.

Our shareholders continue to show loyalty and confidence in **dfcu** and its future successes.

Elly Karuhanga,
Chairman, Board of Directors

Risk management and control

dfcu is subject to a variety of risks and uncertainties in the normal course of its business activities. The management of risk therefore plays a central role in the execution of the Group strategy and provides insight into the level of risk across businesses and portfolios.

In order to effectively minimise the impact of these risks, the Board of Directors established a risk management framework covering accountability, measurement, reporting and management of risk throughout the company.

Risk Management Framework

Effective risk management is fundamental to the success of **dfcu** and is recognized in its strategic priorities.

The primary goals of risk management are to ensure that the outcomes of risk- taking activities are consistent with the company's overall strategy and risk appetite, and that there is appropriated balance between risk and reward in order to maximize shareholder returns.

The company enterprise-wide risk management framework provides the foundation for achieving the goals.

dfcu's risk management framework applies on an enterprise-wide basis and consists of four key elements: Risk Appetite Statement, Governance and Culture, the Risk Principles and Policies; and the Risk Management Techniques.

The company appreciates the risks faced in its business and has put in place robust systems to identify, measure and manage these risks; and have people who are risk aware so that **dfcu** can exploit the opportunities that are presented to it while mitigating the associated exposures.

Risk Governance Structure

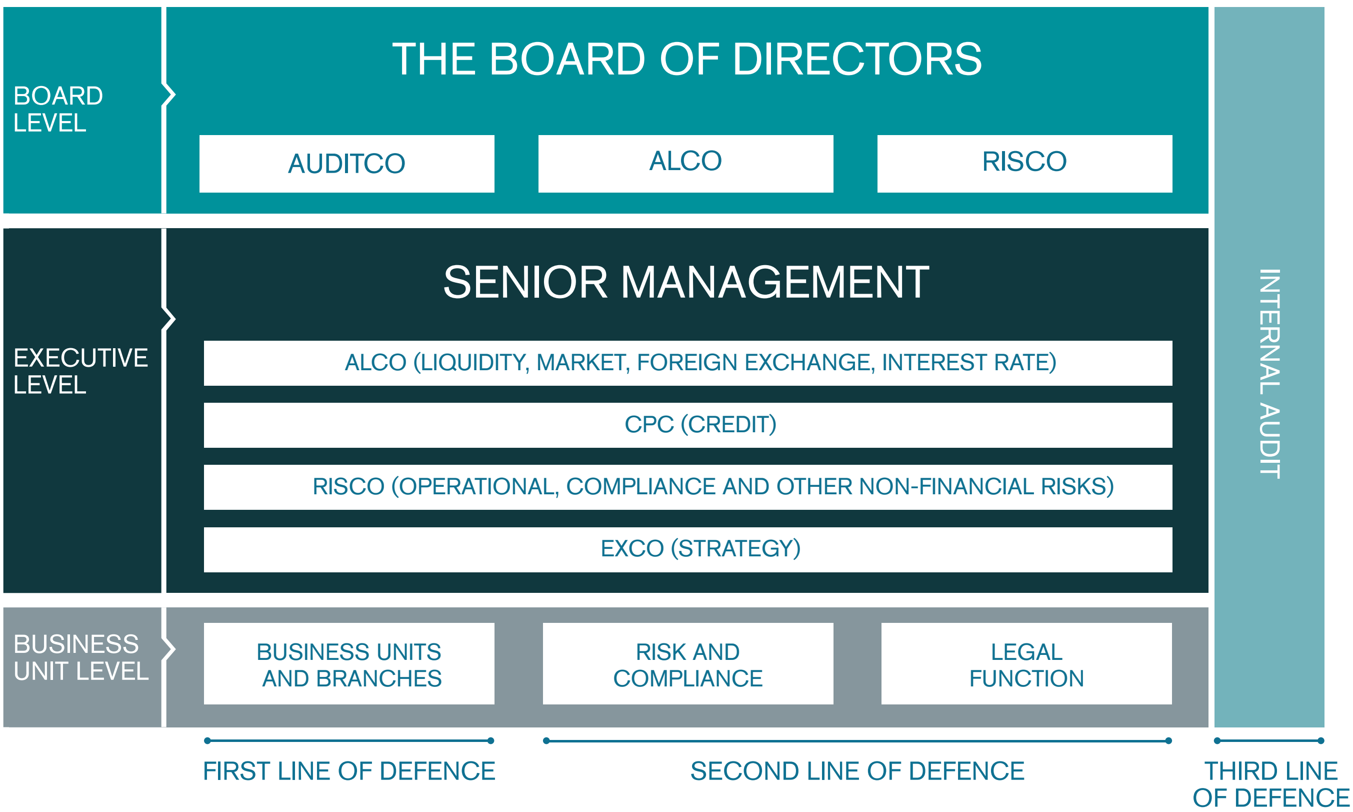
The Company's risk governance structure ensures that risk governance is able to respond with timely, complete and enterprise-wide risk information, enabling the Board to make critical decisions to minimise incidents of loss.

Amongst the components that make up the governance framework are:

- Board and Senior management oversight
- Documented and approved delegation of authority
- Standing risk committees with appropriate terms of reference
- Three lines of defense model
- Reporting including appropriate data and management information systems.

dfcu has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized risk management unit that is independent of the business lines. Decision making is highly centralized through a number of senior management committees.

RISK GOVERNANCE FRAMEWORK



The Board of Directors has ultimate responsibility for risk management, which includes setting the tone at the top, setting the risk appetite, approving policies, limits and ensuring that the company's risk management framework and internal controls are effectively implemented.

The Board delegates its risk-related responsibilities primarily to specialized committees which then focus on different aspects of risk management.

The Board receives regular updates on the key risks of the company including quarterly comprehensive summary of the company's risk profile and performance of the portfolio against defined goals.

Senior management is responsible for risk management under the oversight of the Board. This is done through policies and procedures and together with an effective structure to support the execution and implementation of those policies. The formulation of policies relating to risk management only would not serve the purpose unless these are clear and communicated down the line. Senior management also ensures that these policies are translated into procedures and work instructions and more importantly, are embedded in the culture of **dfcu.**

Management of risk is the responsibility of staff at all levels. Officers within individual Business Units retain primary responsibility for managing the risk originating from their operations. However, overall responsibility for ensuring effective controls and compliance lies with the Risk Management function.

Three lines of defence

The business units are the first line of responsibility. Operational managers, Branches and the Unit heads own and manage risks. They are the risk takers and are responsible for compliance with policies, procedures and limits and for implementing corrective actions to address processes and control deficiencies.

Risk department serves as a second line. It is independent of the business unit, implements appropriate risk management strategies in adherence with the agreed risk appetite.

Internal and external auditors provide independent assurance on governance and control framework. As the third line of defence, the auditors periodically review the proper functioning of the two other lines, and provide independent assurance on the same to the audit committee of the Board.

Risk Appetite

This is the aggregated level of risk that **dfcu** is willing to assume within its capacity to achieve its strategic goals and objectives as defined in the business plan. Risk Appetite is a key component of our risk management. It describes the quantum and types of risk the company is prepared to take in executing its strategy. Effective risk management requires clear articulation of the company's risk appetite and how its risk profile will be managed in relation to that appetite.

The company has in place an objective metrics that is used to gauge risk and articulate the company's risk appetite. These provide a link between actual risk taking activities and risk management principles, strategic principles and financial objectives.
The measures include capital and earnings ratios, market and liquidity risk limits and credit and operational risk targets.

Risk appetite tolerance levels are set at different trigger levels with defined escalation requirements which enable appropriate actions to be defined and implemented as required. Where tolerance levels are breached it is the responsibility of the risk owners to bring it to the attention of the respective management risk committees and ultimately the senior management and the Board of Directors.

The Risk Appetite is determined annually in combination with a review of the business strategy, the markets development and the annual budget.

Key Risks faced by the Company

Credit Risk

Credit risk is the risk that the company will suffer a financial loss from counterparty's failure to pay interest, repay capital or meet a commitment and the collateral pledged as security is insufficient to cover the payments due.

The company's credit risk arises primarily from its lending activities to customers but also from interbank lending and investment in securities. **dfcu** has a robust framework of policies and processes in place to measure, manage and mitigate credit risks. The Group's credit policy is to maintain a diversified portfolio, avoiding large risk concentrations while maintaining stringent internal risk/ return guidelines and controls.

Market Risk

Market risk is the risk of a potential adverse change in the company's income or financial position arising from movements in interest rates, exchange rates or other market prices. The risk arises from the structure of the balance sheet, the execution of customer and interbank business and from trading activities. The company recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value.
The company's exposure to market risk is governed by policies approved by the Board of Directors who also determine the overall market risk appetite.

Liquidity Risk

Liquidity risk is the risk that the company does not have sufficient financial resources available at all times to meet its contractual and contingent cash flow obligations or can only secure these resources at excessive cost. Liquidity risk is monitored centrally by the Asset and Liability Committee (ALCO), whose responsibilities in relation to liquidity include, but are not limited to: Setting liquidity risk strategy for the Group; Approving and maintaining **dfcu**'s funding and liquidity policy; Approving and maintaining **dfcu**'s contingency funding plan; Maintaining internal and external liquidity risk limits; Liquidity stress testing and scenario analysis; and providing the Board and relevant Board Committees with regular liquidity updates.

Independent oversight for liquidity risk is the responsibility of the Risk function and this involves a formal review of all liquidity risk parameters, procedures, reporting sources and compliance to limits and guidelines.

A dedicated management ALCO, comprising key business and risk heads, provides an important forum for management and risk control matters relating to funding and liquidity. The committee reports directly to the Board ALCO and provides formal updates on a regular basis.

Operational Risk

Operational risk is the risk of loss arising from inadequate controls and procedures, unauthorised activities, outsourcing, human error, systems failure and business continuity. It is inherent in every business organisation and covers a wide spectrum of issues.

dfcu's management of its exposure to operational risk is governed by policies and procedures. In line with policy, **dfcu** operates such measures of risk identification, assessment, monitoring and management as are necessary to ensure that operational risk management is consistent with the strategic goals of the company. The policy is designed to safeguard **dfcu**'s assets while allowing sufficient operational freedom to conduct business. The policy document also sets out the responsibilities of senior management, the requirement for reporting of operational risk incidents and the role of Internal Audit in providing independent assurance.

Recognising that operational risk cannot be entirely eliminated, **dfcu** implements risk mitigation controls including fraud prevention, contingency planning, information security and incident management. Where appropriate this strategy is further supported by risk transfer mechanisms such as insurance.

The operational risk management framework is also being used to track and manage non-traditional risks like Compliance, Regulatory and Reputational.

Compliance Risk

Effectively managing compliance risk maximises the company's opportunities in the market and enhances its competitive position by building trust. Integrating a strong compliance risk management program, into the daily management of our business and strategic planning, gives the Group a strategic competitive advantage.

Compliance risk is defined as the risk of legal, or regulatory sanctions, material financial loss, or loss of reputation that **dfcu** may suffer as a result of our failure (or perceived failure) to comply with the company's internal standards and rules of conduct, applicable laws, regulations, prudential guidelines, supervisory recommendations, and directives, rules, internal policies or codes of conduct applicable to our activities.

Compliance risk goes beyond what is legally binding and embraces broader standards of integrity and ethical conduct. **dfcu** is subject to extensive supervisory and regulatory regimes and conducts its business within the set legal and regulatory requirements and guidelines. **dfcu** operates a centralized independent risk and compliance management structure. Compliance is run separately therein and provides oversight and guidance on compliance with Anti-money laundering, terrorist financing, and any other new legislative developments. The unit also, provides training and awareness on regulatory developments.

Reputation Risk

Reputational risk is the risk of an adverse perception of the Group on the part of any stakeholder arising from an event or transaction of, or related to, the Group. It may arise as a result of an external event or the company's own actions can adversely affect perceptions about **dfcu** held by the public including its customers, shareholders, investors or regulators. Damage to the company's reputation may have wide ranging impacts, including adverse effects on profitability, capacity and cost of sourcing funding and availability of new business opportunities.

The Board is committed to ensuring that the governance of **dfcu** is of the highest standard. Directors and employees are made aware of the role they have in maintaining the company's reputation, and of their responsibilities and duties from a customer service, regulatory and ethical perspective. New products are reviewed by the Risk and Compliance function to ensure that they are clear, transparent and comply with both duties of care to customers and regulatory requirements. A comprehensive and timely procedure is in place to deal with customer complaints.

Money Laundering

Anti-money laundering, counter terrorist financing, sanctions and compliance have been the subject of increasing regulatory change and enforcement in recent years. The company is exposed to the risk of receiving significant regulatory fines and sanctions in the event of breaches of regulation and law relating to anti-money laundering or terrorism financing and sanctions.

The company continues to strengthen its anti-money laundering and terrorist financing measures through its Banking business as the regulatory environment becomes more dynamic. **dfcu** maintains appropriate policies and has invested in procedures and internal controls aimed to detect, prevent and report money laundering, terrorist financing and sanction breaches.

Bribery and Corruption

dfcu is committed to conducting business in accordance with the highest ethical standards and full compliance with all applicable anti-bribery and corruption (ABC) laws and regulations.

Bribery and corruption have no place at **dfcu** Group. The ABC program embodies this principle; the program includes oversight and governance, risk management processes, communication and training, reviews, due diligence, pre-approval processes for third party relationships, confidential reporting, financial control and record keeping, independent testing and processes.

Breaches or attempted breaches of the bribery and corruption policies by an employee, is regarded as an act of gross misconduct. Employees who engage in bribery or who fail to comply with all applicable policies and laws on ABC may be subject to disciplinary action up to and including termination.

dfcu Group also seeks to encourage an equivalent policy in other business entities with which it has a significant business relationships. The Group reserves the right to terminate immediately any business relationship that violates our high ethical standards and our commitment to responsible business.

CORPORATE GOVERNANCE STATEMENT

dfcu ensures that corporate operations and structures are governed by clearly defined principles to enable 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 charter whose contents are designed to foster a culture of compliance and best practice within the organization and its subsidiary. This charter is in line with international corporate governance 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.

We are therefore committed to complying with legislation, regulations and best practice codes with the objective of fostering transparency, disclosure, accountability and probity in our 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 responsible for overseeing the management of the business and affairs of the Company on behalf of the shareholders. The Board, which is multi skilled acts as the ultimate decision-making body of the company, except in those matters reserved for the shareholders under the Company's Act.

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

In choosing directors, the company seeks individuals who are of very high integrity with a passion for the sectors the company is involved with.

As at end of 2015, the Board of Directors of **dfcu** Limited comprised of six (6) non-executive directors including the Chairman.

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 seven (7) Directors, five of whom are non-executive and two executive directors.

The Directors who held office during the year under review are listed on pages iv to v. Mr. Jimmy D. Mugerwa and Mr. Terje Vareberg resigned from the Board of **dfcu** Limited to focus on **dfcu** Bank Limited.

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 to 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 Directors' attendance of Board Committee Meetings for the year 2015 is as follows:

a) dfcu Limited Board of Directors

Name	Mar.	Jun.	Sep.	Nov.
Mr. Elly Karuhanga (CM)	√	√	√	√
Mr. Deepak Malik	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Kironde Lule	√	√	√	√
Mr. Jimmy D. Mugerwa	√	√	√	N/A
Mr. Thomas van Rijckevorsel	√	√	N/A	N/A
Mr. Albert Jonkergouw	√	√	√	√
Dr. Winifred Tarinyeba Kiryabwire	√	√	√	√
Mr. Terje Vareberg	√	√	√	N/A

N/A – Not Applicable (was not a member of the board at the time of the meeting)

a) dfcu Bank Limited Board Meeting

Name	Mar.	Jun.	Sep.	Nov.
Mr. Jimmy D. Mugerwa (CM)	√	√	√	√
Mr. Deepak Malik	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Kironde Lule	√	√	√	N/A
Mr. Elly Karuhanga	√	√	√	N/A
Mr. Thomas van Rijckevorsel	√	√	N/A	N/A
Mr. Albert Jonkergouw	√	√	√	√
Mr. Terje Vareberg	A	√	√	√
Mr. Juma Kisaame	√	√	√	√
Mr. Paul van Apeldoorn	√	√	√	√

A – Absent with apology
N/A – Not Applicable (was not a member of the board at the time of the meeting)

Board Committees

The Board of Directors of **dfcu** Limited set up the Audit committee with others to follow as business opportunity grows to warrant their constitution. All matters other than the ones attended to by the Audit committee are discussed at the full Board meetings consisting of six members.

The Bank Board has delegated its authority to five (5) technical committees as explained below.

The Board also has an adhoc Nominations Committee. This committee revised the Board Committees' composition during the September 2015 board meeting, leading to a number of changes in membership that are reflected in the November 2015 meetings.

The changes prior to that are mainly as a result of compliance to the Bank regulator's directive, which led to the resignation of Mr. Jimmy D. Mugerwa and Mr. Terje Vareberg from the Board of **dfcu** Limited in September 2015 for them to fully focus on the affairs of **dfcu** Bank Limited.

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 2015 were Michael Turner (Chairman), Elly Karuhanga (until September 2015), Kironde Lule and Terje Vareberg.

The Board Audit Committee's attendance for the year 2015 was as follows;

Name	Mar.	Jun.	Sep.	Nov.
Mr. Michael Turner	√	√	√	√
Mr. Elly Karuhanga	√	A	A	N/A
Mr. Kironde Lule	√	√	√	N/A
Terje Vareberg	A	√	√	√

A – Absent with apology
N/A – Not Applicable (was not a member of the Committee at the time of the meeting)

Board Risk and Credit Committee

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

The Committee members for the year 2015 were Albert Jonkergouw (Chairman), Elly Karuhanga, Terje Vareberg and Deepak Malik.

The Board Risk and Credit Committee's attendance for the year 2015 was as follows;

Name	Mar.	Jun.	Sep.	Nov.
Mr. Albert Jonkergouw (CM)	√	√	√	√
Mr. Elly Karuhanga	√	√	√	N/A
Mr. Deepak Malik	√	√	√	√
Mr. Terje Vareberg	A	√	√	√

A – Absent with apology
N/A – Not Applicable (was not a member of the Committee at the time of the meeting)

Board Remuneration Committee

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

The Committee's members for the year 2015 were Jimmy D. Mugerwa (CM effective September 2015), Elly Karuhanga (Chairman until September 2015 when he resigned from the Bank Board), Deepak Malik, Michael Turner and Albert Jonkergouw.

The Board Remuneration Committee's attendance for the year 2015 was as follows;

Name	Mar.	Jun.	Sep.	Nov.
Mr. Elly Karuhanga (CM until September 2015)	√	√	√	N/A
Mr. Jimmy D. Mugerwa (Ag CM from September 2015)	N/A	N/A	N/A	√*
Mr. Deepak Malik	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Albert Jonkergouw	√	√	√	√

N/A – Not applicable (was not a member of the Committee at the time of the meeting)
*Acting Chairman

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 2015 were Deepak Malik (Chairman), Kironde Lule, Jimmy D. Mugerwa (until June 2015), and Albert Jonkergouw.

The Board Assets and Liabilities Committee's attendance for the year 2015 was as follows;

Name	Mar.	Jun.	Sep.	Nov.
Mr. Deepak Malik (CM)	√	√	√	√
Mr. Kironde Lule	√	√	√	N/A
Mr. Jimmy D. Mugerwa	√	√	N/A	N/A
Mr. Albert Jonkergouw	√	√	√	√

N/A – Not Applicable (was not a member of the Committee at the time of the meeting)

Board Nominations Committee

The Board has a Nominations Committee that meets when there is business to be conducted. The Committee is, amongst other responsibilities, charged with identifying suitable candidates to fill board vacancies as well as review and determine board remuneration. The committee is comprised of the Bank Board Chairman, Mr. Jimmy D. Mugerwa, Mr. Michael Turner, Mr. Deepak Malik and Mr. Albert Jonkergouw.

The Nominations Committee met in September 2015 to review the board committees' composition and recommended for Board approval the various changes as reflected in the Committee membership.

Board Evaluation

The Board annually conducts an evaluation of its performance and uses the process and results therefrom to improve its effectiveness. During the year, the Board continued with implementation of recommendations from the previous year's evaluation.

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.

For the year 2015, the directors received fees as follows:

Annual Retainer
Board Chairmen - USD 25,000
Board Non-Executive Directors - USD 12,500

Sitting Allowances:
Chairmen - USD 950
Non-Executive Directors - USD 700

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

The aggregate amount of emoluments received by directors is shown under note 36(g) of the financial statements.

Brief shareholder analysis

Directors' interest in the shares of the company as at 31 December 2015

Name	Number of shares held
Elly Karuhanga	749,150
Mary Winifred Tarinyeba	3,000

Distribution of shareholders as at 31 December 2015

Description	No. of Investors	No. of Shares Held	Percent Holding
Between 1 and 1,000 Shares	1,670	707,088	0.14
Between 1,001 and 5,000 Shares	1,264	3,287,247	0.66
Between 5,001 and 10,000 Shares	184	1,388,469	0.28
Between 10,001 and 100,000 Shares	454	12,209,721	2.46
Above 100,001 Shares	101	479,609,297	96.46
	3,673	**497,201,822**	**100.00**

List of the 20 Largest Shareholders as at 31 December 2015

Investor Name	Shares Held	Percentage (%)
Rabo Development B.V	136,923,594	27.54
NORFINANCE AS	136,923,594	27.54
CDC Group Plc	74,580,276	15.00
National Social Security Fund	29,487,658	5.93
Kimberlite Frontier Africa Naster Fund	18,685,286	3.76
SCBM PICTET AND CIE (EUROPE) S.A BLAKENEY LP.	10,094,713	2.03
National Social Security Fund-Pinebridge	5,435,580	1.09
Vanderbilt University	3,691,755	0.74
SSB-Conrad N Hilton Foundation	3,503,808	0.70
SCBM PICTET AND CIE (EUROPE) S.A HEVIBEN LP.	3,300,000	0.66
Parliamentary Pension Scheme	3,185,682	0.64
Bank of Uganda Staff Retirement Benefit Scheme-SIMS	2,904,082	0.58
Bank of Uganda Staff Retirement Benefit Scheme-AIG	2,831,040	0.57
SCBM PICTET AND CIE (EUROPE) S.A. BLAKENEY INVESTORS	2,700,000	0.54
URA Retirement Benefit Scheme-Pinebridge	2,062,936	0.41
Centenary Bank Staff Defined Contributory Scheme	1,934,044	0.39
SCBM PICTET AND CIE (EUROPE) S.A.-AUSTIN ALPHA LP	1,800,000	0.36
UAP Insurance Co. Ltd	1,786,893	0.36
Central Bank of Kenya Pension Fund	1,601,632	0.32
Makerere University Retirement Benefit Scheme	1,526,360	0.31
Others	52,242,889	10.51
	497,201,822	**100.00**

SUSTAINABILITY REPORT

The Report's Scope

This report covers the economic, social and environmental performance of **dfcu** Group for the year ended 31 December 2015. In reporting both financial and non-financial matters, we have acted in compliance with the provisions stipulated by the Central Bank of Uganda, International Financial Reporting Standards, the Companies Act Cap 110 and the Listing Rules of Uganda Securities Exchange (USE). The report also adopts the Global Reporting Initiative (GRI) Guidelines, version G4 and the GRI's G4 Financial Services Sector Supplement for sustainability reporting.

Inclusivity

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

Materiality

This report covers aspects identified as having at least a moderate impact on sustainability, either in **dfcu** Group's view or from the perspective of one or more stakeholder groups. The aspects identified as material and the process for determining materiality, are discussed below.

Reporting Cycle

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

Reporting Quality

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

Completeness: We include key material sustainability impacts within and index the direct control of Statutory regulations, impacts outside the organization that are indirectly influenced through our engagement with stakeholders; and broader sustainability initiatives undertaken through the CSR programs and other groups.

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

Precautionary Approach

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

Material Aspects and Boundaries

Our Approach to Defining Report Content and the Aspect Boundaries

We believe it is vital to align **dfcu** Group's business strategy with the expectations of our stakeholders, given the strong connection between our sustainability commitment and our overall goals as an enterprise. The content of this report therefore considers the full range of **dfcu** Group's business activities, along with our economic, environmental and social impacts and also the views expressed by our stakeholders.

The methodology used to determine report content is based primarily on the strategic imperatives and the GRI G4 guidelines and follows a two-step process:

Step 1 – Identify Relevant Aspects and Their Boundaries

We have identified aspects with broad sustainability significance collected via the stakeholder engagement process and established 'boundaries' to isolate those impacts that are most relevant to **dfcu** Group and our stakeholders. We evaluated aspects according to their impact on, and contribution to, areas of sustainability related to **dfcu** Group's business strategy and operations. Aspects were categorized according to three levels of significance; high, moderate and low. We applied the following criteria to measure impacts and boundaries;

- The level of influence that **dfcu** Group has over each aspect.
- The extent to which a resource is used in our operations.
- The degree of various stakeholders' interactions and their levels of expectation.
- **dfcu** Group's responsibility as a good corporate citizen.
- The impacts of the activities of our customers and suppliers.
- The value that **dfcu** Group can potentially deliver in relation to each aspect.

Step 2 – Establishing Material Aspects and Prioritization

We evaluated and ranked 'material aspects' based on their importance to **dfcu** Group's operations, as well as the expectations of our stakeholders and the applicability of relevant local laws and regulations. At the same time, for each material aspect, we identified boundaries encompassing its most significant aspects. To establish an aspect's 'materiality' or direct importance, we prioritized its relevance (again, with rankings of high, medium and low) from two perspectives:

1. The importance of the aspect to our pursuit of **dfcu** Group's strategies and objectives (set out in the Strategic Plan), as we fulfill our responsibilities to the economy, natural environment and society as a whole.

2. The importance of the aspect of specific stakeholder groups and the influence it could have on how they assess their relationship with **dfcu** Group.

The following table shows the levels of significance accorded to various aspects relative to sustainability:

		Aspect Boundary					Materiality	
		Internal	External					
Aspect	Significance to **dfcu** Group's Operations	Staff, Board of Directors, Management	Customers	Communities	Suppliers	Shareholders	To **dfcu** Group	To the stakeholders
Economic								
Economic performance	High	*					High	High
Market presence	High	*					High	High
Procurement practices	High	*					High	High
Environment								
Energy	High	*					High	Moderate
Water	Low	*						
Emissions	Low	*						
Effluents and waste	Moderate	*			*		Moderate	High
Products and services	Moderate	*	*				High	High
Compliance	Low							
Social: Labour practices and Decent Work								
Employment	High	*					High	High
Occupational health and safety	Moderate	*					High	High
Training and education	High	*					High	High
Equal remuneration for women and men	High	*					High	High
Labour practice grievance mechanisms	High	*					High	High
Social: Human Rights								
Non-discrimination	High	*					High	High
Freedom of association and collective bargaining	High	*					High	High
Child Labour	High	*					High	High
Forced or compulsory Labour	High	*					High	High
Security practices	High	*					High	High
Social: Society								
Local communities	High	*		*		*	High	High
Anti-corruption, anti-bribery and anti-money laundering	High	*	*				High	High
Compliance	High	*					High	High
Social: Product Responsibility								
Customer health and safety	High	*	*				High	High
Product and service labelling	High	*	*				High	High
Customer privacy	High	*	*				High	High
Other Topics								
Corporate Social Responsibility activities	High	*	*			*	High	High

Environmental, Social and Governance policy

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

(i) 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.

(ii) Alignment of **dfcu**'s lending strategy to comply with the exclusion list.

(iii) 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.

(iv) **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 issues and risks are part of the normal risk assessment process. **dfcu** emphasizes that its customers can only employ children of the right working age and if education is not disrupted and that 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 and 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.

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 (2014: NIL) to both **dfcu** workers and customers visiting **dfcu** premises. **dfcu** ensures that customers engage in activities that do not jeopardize the Health and Safety of their employees, taking into account the industrial sectors concerned. Businesses are encouraged to adopt appropriate Health and Safety measures and to comply with the national Employment laws.

Stakeholder Engagement

We consider a 'stakeholder' to be any person, group or entity that is affected by, or that we expect to be affected by **dfcu** Group's activities or their engagement with our organization. We build and maintain strategic relationships with a broad range of stakeholders, to enable proactive engagement, manage social expectations, minimise reputational risk and influence the business environment. We employ a range of channels and mechanisms to gather stakeholder feedback.
The frequency of engagement varies according to the stakeholder group and the particular issue. Accordingly, we identify the groups listed below as our key stakeholders, all of whom have an expressed interest in our economic, social and environmental performance;

The governance structure of **dfcu** Group demands active engagement with stakeholders to achieve our strategy.

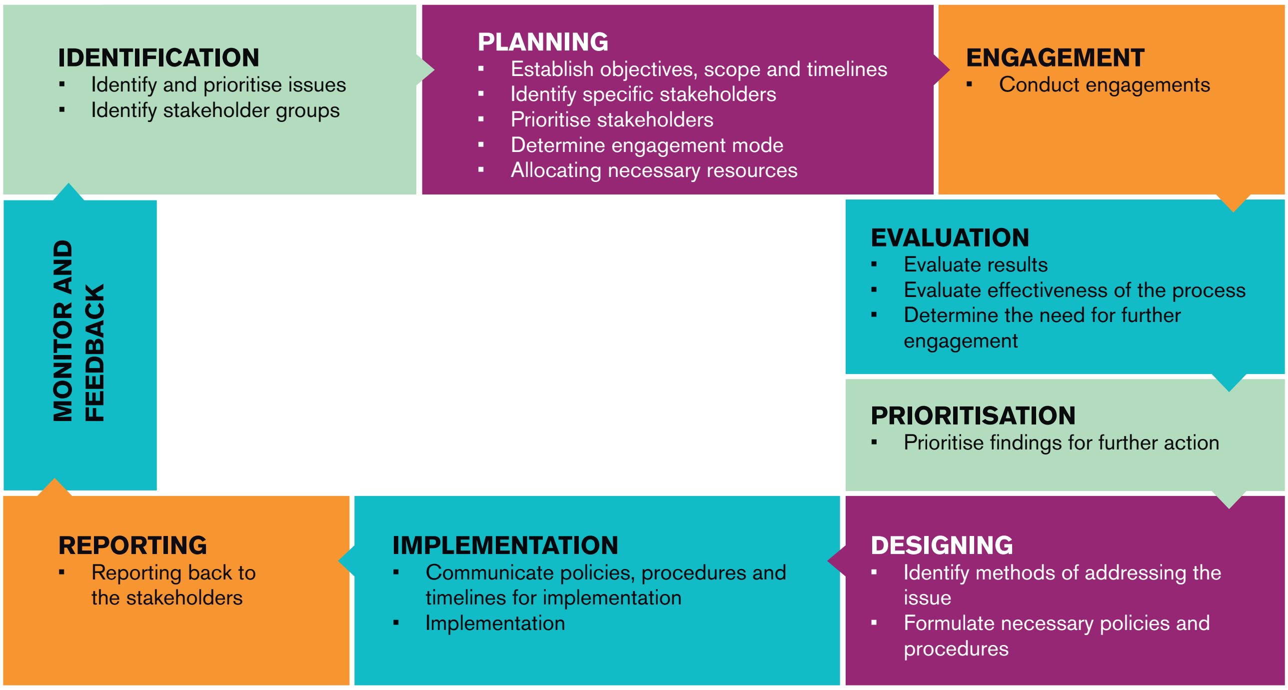
A constructive dialogue with stakeholders helps us understand their expectations so we can better manage risk, innovation and process improvements. Maintaining an on-going conversation also helps us to identify current and emerging issues, recognize opportunities to develop new products and services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

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

The Stakeholder Engagement Process

This process is designed to promote inclusiveness and ensure that any critical concerns are brought swiftly to the attention of the Board of Directors and senior management to prompt effective action. **dfcu** Group did not encounter any critical stakeholder concerns during 2015.

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



How We Connect with Stakeholder Groups

Dialogue with **dfcu** Group's stakeholders is our primary method of understanding important current and emerging issues. For each of our stakeholder groups, we ensure appropriate engagement mechanisms are in place (as demonstrated above), so we can better understand their key issues.

1. Investors, including shareholders, funders and analysts

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

2. Customers

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

3. Employees

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

4. Government Institutions, including Legislators and Regulators

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

5. Suppliers and Other Business Partners

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

6. Society and environment

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

Economic Sustainability

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

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

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

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

- Detailed management accounts, including key performance data, are submitted to the Board of Directors on a monthly basis with explanations of material variances. **dfcu** Group prepares interim and annual financial statements according to the requirements of the International Financial Reporting Standards (IFRS).
- There are quarterly board meetings at which the heads of the Group's main strategic business units discuss recommended action plans to improve performance.
- The Board has established sub-committees that support them in their efforts and to ensure good governance. These committees are in turn, backed by several other management committees headed by the Managing Director. The proceedings of these Board Committees are duly communicated to the Board.

The composition of all Board Committees, their mandates and how each committee functions are disclosed in the section of Corporate Governance.

- An effective internal audit function covers entire scope of operations.
- Annual external audits of financial statements are conducted by reputable firms of chartered accountants, while other statutory audits are undertaken by Bank of Uganda.

Our economic impact:

dfcu Group recognises the role played by the private sector in the development of Uganda. As a business, we were able to contribute to the investments required to stimulate economic development and mitigate risks posed by global challenges. The value added statement below shows the economic footprint of our operations in Uganda in 2015. It shows our impact on the economic conditions of our stakeholders and throughout the society.

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

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

The total wealth created by the Group in 2015 was Shs 58,612 million as shown in the statement below.

Value added statement:	**2015 Shs. M**		**2014 Shs. M**	
Interest income	182,974		163,278	
Fees and commission income	25,002		20,852	
Net trading and other income	14,909		21,219	
Interest expense	(74,742)		(59,989)	
Operating expenses	(89,531)		(78,309)	
Wealth created	**58,612**		**67,051**	
Distribution of wealth	**2015 Shs. M**	**% of wealth created**	**2014 Shs. M**	**% of wealth created**
Employees	31,835	54%	27,602	41%
Government	11,632	20%	14,452	22%
Dividends to shareholders	11,700	20%	8,868	13%
Corporate social responsibility	360	1%	305	0%
Retentions to support future business growth	3,085		15,824	
Wealth distributed	**58,612**		**67,051**	

The value added statement above shows that **dfcu** Group is a positive contributor to the society of Uganda. Of the total wealth created in 2015, the following is the total flow of capital among some key stakeholders:

- Shs 31,835 million was distributed to the employees as remuneration benefits (2014: Shs 27,602 million)
- Shs 11,632 million was distributed to the Government of Uganda in form of taxes (2014: 14,452 million)
- Shs 11,700 million was paid to the shareholders as dividends (2014: 8,868 million).

Business Continuity Management

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

The BCP Committee developed a formal Business Continuity Plan in line with the requirements and guidelines of Bank of Uganda (BOU), which has been formally approved by the Board.

The Business Continuity Plan addresses operational risks and strives to minimize any threats posed by shortcomings or failures of internal processes and systems, as well as external events, including natural disasters.

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

Strategic snapshot

Initiatives undertaken by dfcu Group during the year against strategic imperatives along with planned activities for the future are listed below;

Objective	Strategic imperative	Performance indicators	Future actions
Grow value for shareholders through sustainable financial performance	Maintaining and enhancing our strength of the financial position	Our total assets grew by 16% in 2015 (2015: 16%), loan portfolio grew by 19% (2014: 9%) and net interest income grew by 20% (2014: 15%)	▪ Upgrade the core banking system to enhance productivity ▪ Establish more 24/7 automated banking centers at identified locations. ▪ Further improve centralized approval process and loan disbursement process. ▪ Further improve on the mobile banking platform and click banking.
	Driving operational excellence through cost management	Cost to income ratio was 60% (2014: 54%). Key contribution to the cost to income ratio higher interest charges, depreciating shilling, inflationary pressures and business expansion.	
	Management of credit impairment losses	Credit loss ratio in 2015 was 1.5% (2014: 1.7%).	
Building a robust retail operation	Wealth creation	Wealth created in 2015 was Shs 58,612 (2014: Shs 67,051). The branch network was maintained at 45 branches in 2015.	▪ Maximise profits while managing substantial growth in the lending portfolio and maintaining a quality loan book. Encourage branches to carry out local campaigns with special focus on mega and micro savings ▪ Introduce more micro-savings products. ▪ Continue improving communication platforms to promote the wide range of deposit products. ▪ Finalise development of new products such as VISA. ▪ Improve on agricultural and micro-financing lending and to continue capacity building programs for targeted sectors.
	Consolidate our position as a key player in the SME market segment.	Grew our support to SMEs by 2% during 2015. SMEs form 74% of the total loan book in 2015 (2014: 72%)	
	Supporting the Government of Uganda's National Development Plan Primary Growth Sectors (Agriculture, tourism, mining, oil and gas, manufacturing, information communications development, housing development)	Our lending to the primary growth sectors was 51% of our loan book (2014: 46%).	

Sustainable high level of operational excellence and effectiveness.	Enhanced risk management	We fully adopt the Financial Consumer Protection Guidelines and our progress is reported regularly to Bank of Uganda. We fully support the Anti-Money Laundering legislation in Uganda as it protects the integrity of Uganda's financial services industry.	▪ Ensuring on-going compliance with all mandatory requirements and encourage to adopt best practices and voluntary requirements. ▪ Continue to strengthen the corporate governance mechanism within the Group. ▪ Manage and maintain the capital levels consistent with the risk profile of the Group. ▪ Maintain a sound Capital Adequacy Ratio to support future expansion plans of the Group. ▪ Expand the framework and capabilities of risk management across the Group. ▪ Co-ordinate all risk related efforts carried out to improve decision-making.
	Engaging transparency with our stakeholders and responding to their needs	We engage with our stakeholders and obtain feedback from them concerning their needs. These are reported to the board for decision-making.	
	Operational efficiency	We prioritize Know Your Customer (KYC) and Anti-Money Laundering efforts in all that we do.	
Embedding a highly professional customer centric institutional culture	Treating customers in a fair manner.	We have fully adopted the Bank of Uganda Financial Consumer Protection Guidelines and cascaded all the relevant information to our staff.	▪ Continue to adhere to the Bank of Uganda Financial Consumer Protection Guidelines. ▪ Engage with identified projects with sustained positive impact to the communities. ▪ Enhance the managerial competencies of all executive officers based on identified leadership competencies. ▪ Maintain effective management of the performance appraisal system and the variable pay plan. ▪ Continue the evaluation of existing welfare services and identify initiatives to enhance staff well-being, taking into consideration branch expansion and current economic and social conditions.
	Becoming an employer of choice through best practice in people management.	723 employees in 2015 (2014: 718). Labour turnover in 2015 was 8% (2014: 12%).	
	Growing leadership capability	Training spend was Shs 665 million in 2015 (2014: Shs 457 million).	

THE JOURNEY AHEAD

Although the business environment remains uneven going into 2016, our ambitions are intact. The underlying business potential remains solid, with a strong position in the marketplace and a clear strategic direction for the next leg of our journey. We are confident that this will enable us to seize the opportunities and mitigate the risks arising from changes in the marketplace and macroeconomic conditions.

Driving sustainable growth

Our key priority is the continued development and optimisation of our customer offerings to reap the full benefits of our business mix. We will continue to adjust our business model in order to ensure that we reach our medium term targets, while maintaining a prudent risk profile.

Creating the best customer experience

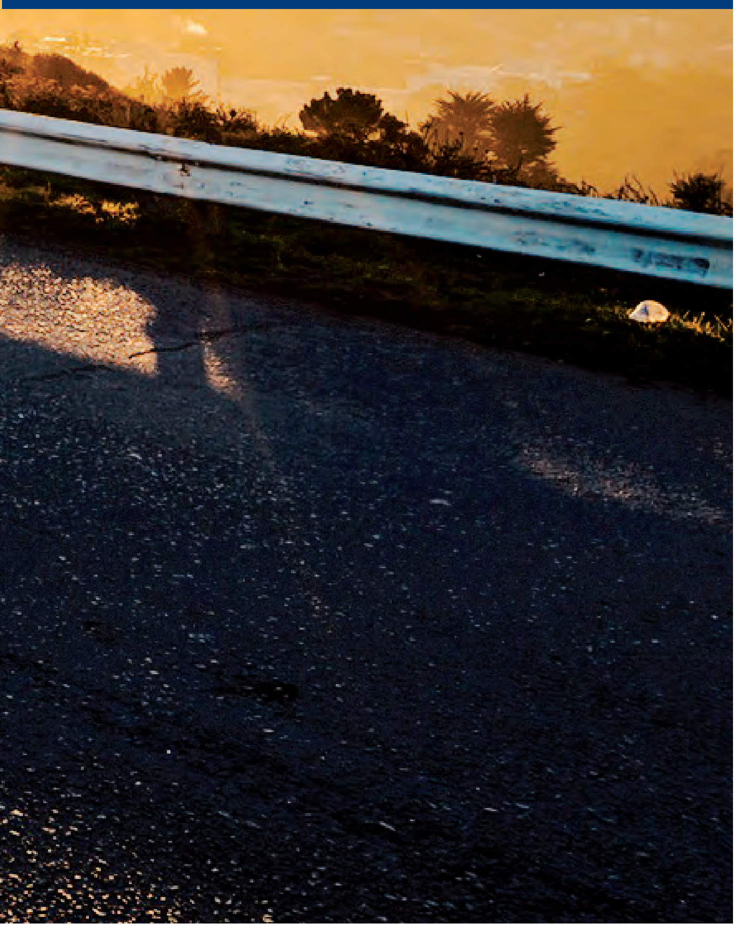
We are improving customer experience with our multi-channel approach, combining digital capabilities with face-to-face services. We are transforming our digital presence, providing simpler, seamless interactions across online and mobile while sustaining extensive customer reach through our branch network.

Becoming simpler and more efficient

We will continue our strong focus on becoming more efficient and reducing costs. We are improving our operational capability through further system enhancements and becoming more responsive to changing customer expectations.

dfcu Group Directors' Report and Consolidated Financial Statement

For The Year Ended 31 December 2015



Contents

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 2015, 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 was Shs 35,290 million (2014: Shs 42,109 million). The directors recommend payment of dividends for the year ended 31 December 2015 of Shs 10,804 million (2014: Shs 11,700 million) or Shs 21.73 per share (2014: Shs 23.53 per share).

DIRECTORS AND THEIR BENEFITS

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

E. Karuhanga	Chairman
D. Malik	Non-executive Director
M. Turner	Non-executive Director
L. Kironde	Non-executive Director
J. Mugerwa	Non-executive Director (resigned 17 September 2015)
AJM. Jonkergouw	Non-executive Director
WT. Kiryabwire	Non-executive Director
Terje Vareberg	Non-executive Director (resigned 17 September 2015)

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.

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:

James Mugabi
dfcu Limited
Plot 26 Kyadondo Road
P.O. Box 2767
Kampala
Uganda
Tel: +256 41 256125 or +256 312 300200/300

AUDITOR

The Company's auditor, PricewaterhouseCoopers, Certified Public Accountants, will not seek re-appointment at the annual general meeting in accordance with Section 167(2) of the Ugandan Companies Act, having completed the fourth year of continuous service to **dfcu** Bank Limited as stipulated under Section 62(1) of the Financial Institutions Act.

ISSUE OF FINANCIAL STATEMENTS

The financial statements were authorised for issue in accordance with a resolution of the directors on 2 March 2016.

By order of the Board

James Mugabi
SECRETARY
2 March 2016

Statement of Director' Responsibilities

For the year ended 31 December 2015

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

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

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

2 March 2016

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, **dfcu** Bank Limited (together, "the Group"), as set out on pages 7 to 65. These financial statements comprise the consolidated statement of financial position for the year ended 31 December 2015, the consolidated income statement and the consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, together with the statement of financial position of the Company standing alone for the year ended 31 December 2015 and the statement of changes in equity of the Company for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 2015 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Ugandan Companies Act.

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF dfcu LIMITED (Continued)

Report on other legal and regulatory 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

23 March 2016

Consolidated Income Statement

For the year ended 31 December 2015

	Note	2015 Shs M	2014 Shs M
Interest			
Interest and similar income	7	**182,974**	163,278
Interest expense	8	**(74,742)**	(59,989)
Net interest income		**108,232**	103,289
Fees and commission income	9	**25,002**	20,852
		133,234	124,141
Net trading and other income	10	**14,909**	21,219
Total income		**148,143**	145,360
Operating expenses	11	**(89,531)**	(78,309)
Allowance for impairment of loans and advances	18	**(11,690)**	(10,490)
Profit before income tax		**46,922**	56,561
Income tax expense	12	**(11,632)**	(14,452)
Profit for the year		**35,290**	42,109

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 Shs M	2014 Shs M
Profit for the year		**35,290**	42,109
Other comprehensive income:			
Reversal of revaluation reserve		**-**	-
Total comprehensive income for the year		**35,290**	42,109
Attributable to:			
Equity holders of the Company		**35,290**	42,109
Non-controlling interest		**-**	-
		35,290	42,109

Consolidated Statement of Financial Position

For the year ended 31 December 2015

	Note	2015 Shs M	2014 Shs M
Assets			
Cash and balances with Bank of Uganda	15	**194,977**	178,386
Government securities	16	**407,695**	331,107
Deposits and balances due from banks	17	**128,733**	132,165
Loans and advances to customers	18	**808,047**	680,679
Other assets	20	**20,856**	17,603
Deferred income tax asset	26	**2,142**	175
Property and equipment	21(a)	**72,858**	68,686
Investment property	21(b)	**12,086**	11,315
Intangible assets	22	**4,235**	4,626
Total assets		**1,651,629**	1,424,742
Liabilities			
Customer deposits	23	**914,951**	822,877
Deposits due to other banks	24	**98,096**	54,021
Other liabilities	25	**25,293**	22,275
Current income tax payable	12	**4,340**	4,026
Borrowed funds	27	**392,110**	328,294
Special funds	28	**1,708**	1,708
Total liabilities		**1,436,498**	1,233,201
Equity			
Share capital	30	**9,464**	9,464
Share premium	30	**2,878**	2,878
Retained earnings		**155,669**	143,951
Other reserves		**12,113**	12,113
Regulatory reserve	32	**24,203**	11,435
Proposed dividends	14	**10,804**	11,700
Total equity		**215,131**	191,541
Total equity and liabilities		**1,651,629**	1,424,742

The financial statements on pages 7 to 65 were approved for issue by the Board of Directors on 2 March 2016 and signed on its behalf by:

.... **Director**

.... **Director**

.... **Director**

.... **Secretary**

Company Statement of Financial Position

For the year ended 31 December 2015

	Note	2015 Shs M	2014 Shs M
Assets			
Deposits and balances due from banks	17	**195**	195
Loans and advances to customers	18	**469**	520
Other assets	20	**2**	4
Investment in subsidiaries	19	**26,793**	26,793
Amounts due from Group companies	36	**839**	4,292
Current Income tax recoverable	12	**574**	90
Deferred income tax asset	26	**539**	-
Investment property	21(b)	**42,662**	39,615
Total assets		**72,073**	71,509
Liabilities			
Other liabilities	25	**4,033**	5,009
Amounts due to Group companies	36	**12,507**	7,160
Borrowed funds	27	**5,739**	8,673
Deferred income tax liability	26	**-**	82
Total liabilities		**22,279**	20,924
Equity			
Share capital	30	**9,464**	9,464
Share premium	30	**2,878**	2,878
Retained earnings		**14,535**	14,430
Proposed dividends	14	**10,804**	11,700
Other reserves		**12,113**	12,113
Total equity		**49,794**	**50,585**
Total equity and liabilities		**72,073**	71,509

The financial statements on pages 7 to 65 were approved for issue by the Board of Directors on 2 March 2016 and signed on its behalf by:

....
Director

....
Director

....
Director

....
Secretary

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Note	Share capital Shs M	Share Premium Shs M	Revaluation reserves Shs M	Retained earnings Shs M	Other reserves Shs M	Regulatory reserve Shs M	Proposed dividends Shs M	Attributable to equity holders of the parent Shs M	Total Shs M
Year ended 31 December 2014										
At start of year		4,972	2,878	2,380	116,759	12,113	8,218	13,840	161,160	161,160
Comprehensive income										
Profit for the year		-	-	-	42,109	-	-	-	42,109	42,109
Reversal of revaluation reserve	31	-	-	(2,380)	-	-	-	-	(2,380)	(2,380)
Total comprehensive income for the year		-	-	(2,380)	42,109	-	-	-	39,729	39,729
Transactions with shareholders										
Increase in share capital		4,972	-	-	-	-	-	(4,972)	-	-
Bonus issue costs		(480)	-	-	-	-	-	-	(480)	(480)
Increase in regulatory reserve	32	-	-	-	(3,217)	-	3,217	-	-	-
Dividends paid	14	-	-	-	-	-	-	(8,868)	(8,868)	(8,868)
Dividends proposed	14	-	-	-	(11,700)	-	-	11,700	-	-
Total transactions with shareholders		4,492	-	-	(14,917)	-	3,217	(2,140)	(9,348)	(9,348)
At end of year		9,464	2,878	-	143,951	12,113	11,435	11,700	191,541	191,541

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2015

	Note	Share capital Shs M	Share Premium Shs M	Retained earnings Shs M	Other reserves Shs M	Regulatory reserve Shs M	Proposed dividends Shs M	Attributable to equity holders of the parent Shs M	Total Shs M
Year ended 31 December 2015									
At start of year		**9,464**	**2,878**	**143,951**	**12,113**	**11,435**	**11,700**	**191,541**	**191,541**
Comprehensive income									
Profit for the year		-	-	35,290	-	-	-	35,290	35,290
Total comprehensive income for the year		-	-	35,290	-	-	-	35,290	35,290
Transactions with shareholders									
Increase in regulatory reserve	32	-	-	(12,768)	-	12,768	-	-	-
Dividends paid	14	-	-	-	-	-	(11,700)	(11,700)	(11,700)
Dividends proposed	14	-	-	(10,804)	-	-	10,804	-	-
Total transactions with shareholders		-	-	(23,572)	-	12,768	(896)	(11,700)	(11,700)
At end of year		**9,464**	**2,878**	**155,669**	**12,113**	**24,203**	**10,804**	**215,131**	**215,131**

Company Statement of Changes in Equity

For the year ended 31 December 2015

	Note	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 2014								
At start of year		4,972	2,878	2,380	7,752	13,840	12,113	43,935
Comprehensive income								
Profit for the year		-	-	-	18,378	-	-	18,378
Reversal of revaluation reserve	31	-	-	(2,380)	-	-	-	(2,380)
Total comprehensive income for the year		-	-	(2,380)	18,378	-	-	15,998
Transactions with shareholders								
Increase in share capital		4,972	-	-	-	(4,972)	-	-
Bonus issue costs		(480)	-	-	-	-	-	(480)
Proposed dividends	14	-	-	-	(11,700)	11,700	-	-
Dividends paid		-	-	-	-	(8,868)	-	(8,868)
		4,492	-	-	(11,700)	(2,140)	-	(9,348)
At end of year		9,464	2,878	-	14,430	11,700	12,113	50,585
Year ended 31 December 2015								
At start of year		9,464	2,878	-	14,430	11,700	12,113	**50,585**
Comprehensive income								
Profit for the year		-	-	-	10,909	-	-	**10,909**
Total comprehensive income for the year		-	-	-	10,909	-	-	**10,909**
Transactions with shareholders								
Proposed dividends	14	-	-	-	(10,804)	10,804	-	**-**
Dividends paid	14	-	-	-	-	(11,700)	-	**(11,700)**
		-	-	-	(10,804)	(896)	-	**(11,700)**
At end of year		**9,464**	**2,878**	**-**	**14,535**	**10,804**	**12,113**	**49,794**

Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	2015 Shs M	2014 Shs M
Operating activities			
Interest receipts		**182,123**	153,274
Interest payments		**(77,347)**	(57,193)
Fee and commission receipts		**19,656**	22,766
Net foreign exchange and other income received		**13,281**	12,016
Recoveries on loans previously written off	18	**1,889**	244
Cash payments to employees and suppliers		**(79,456)**	(60,061)
Income tax paid	12	**(12,793)**	(10,494)
Cash flows from operating activities before changes in operating assets and liabilities		**47,353**	60,552
Changes in operating assets and liabilities			
Increase in government and other securities		**(75,601)**	(124,404)
Increase in Bank of Uganda cash reserve requirement		**(7,060)**	(13,460)
Increase in loans and advances to customers		**(141,085)**	(63,450)
Increase in other assets		**(207)**	1,045
Increase in customer deposits		**97,564**	119,622
Increase in other liabilities		**5,460**	1,507
(Decrease)/increase in balances due to other banks		**44,075**	(2,029)
Net cash flows from operating activities		**(29,501)**	(20,617)
Investing activities			
Purchase of property and equipment	21	**(13,981)**	(30,300)
Purchase of intangible assets	22	**(285)**	(2,243)
Proceeds from sale of property and equipment		**10**	67
Net cash flows used in investing activities		**(14,256)**	(32,476)
Financing activities			
Net increase in borrowings and special funds		**60,931**	45,737
Bonus issue costs		**-**	(480
Dividends paid to shareholders		**(11,700**	(8,868
Net cash flows from financing activities		**49,231**	36,389
Net increase in cash and cash equivalents		**5,474**	(16,704)
Cash and cash equivalents at start of year		**246,181**	264,201
Unrealised exchange gain/(losses)		**625**	(1,316)
Cash and cash equivalents at end of year	33	**252,280**	**246,181**

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 26 Kyadondo Road
P.O. Box 2767
Kampala.

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

There were no new standards or amendments that have been applied by the Group for the first time for the financial year beginning 1 January 2015.

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 2015, 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. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

2 Summary of significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes..

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group has commenced activities to assess the full impact of IFRS on its financial statements.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The company is assessing the impact of IFRS 15.

IAS 1, 'Presentation of financial statements' These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. Effective for annual periods beginning on or after 1 January 2016.
Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 34, 'Interim financial reporting' regarding disclosure of information

IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016.

IFRS 16, 'Leases'. The new standard requires that for lessees all leases, regardless of whether they are operating or financial in nature, will be on balance sheet and accounted for as "finance leases". IFRS 16 will significant change the way lessees account for leases, however lessor accounting remains largely the same and the classification as a finance lease or operating lease is still a consideration. This means that straight-lining of operating leases will remain for lessors. It is expected that most entities are lessees and would therefore be impacted by this new standard. The most significant change would be the increase in liabilities and right of use assets on the balance sheet, together with the associated finance costs and depreciation in the statement of comprehensive income. The effective date is 1 January 2019. The Group is assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected.

2 Summary of significant accounting policies (continued)

2.3 Consolidation

The consolidated financial statements comprise the financial statements of **dfcu** Limited and its subsidiary as at 31 December 2015.

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

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.

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

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

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

2 Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

Separate financial statements

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

2.4 Borrowing costs

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

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

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. All other foreign exchange gains and losses are presented in profit or loss within ‘net trading and other income. Translation differences on non-monetary items, such as equities, held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities, classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2 Summary of significant accounting policies (continued)

2.6 Interest income and interest expense

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

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

2.7 Fee and commission income

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

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

2.8 Dividends income

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

2 Summary of significant accounting policies (continued)

2.9 Financial assets

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

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

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

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

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

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

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 Summary of significant accounting policies (continued)

2.10 Financial liabilities

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

2.11 Impairment of financial assets

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

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

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.

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

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

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

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

In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Group's subsidiary, **dfcu** Bank Limited is also required by the Ugandan Financial Institutions Act 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 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 Summary of significant accounting policies (continued)

2.12 Intangible assets (goodwill and software)

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

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

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

2.13 Property and equipment

All categories of property and equipment are initially recorded at cost and subsequently measured 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.

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

2 Summary of significant accounting policies (continued)

2.14 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.

2.15 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).

2.16 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.

2.17 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 Summary of significant accounting policies (continued)

2.18 Taxation

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

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

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

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

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

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

Revenues, expenses and assets are recognised net of the amount of Value Added Tax (VAT) except:

- where the VAT 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 VAT included.

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

2 Summary of significant accounting policies (continued)

2.19 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.

2.20 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.

2.21 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.

2.22 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.

2.23 Dividends

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

2 Summary of significant accounting policies (continued)

2.24 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.

2.25 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.

2.26 Grants

Grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and that the Group will comply with all attached conditions. Grants relating to costs are deferred and recognized in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to property, plant and equipment are included in non-current liabilities as deferred grants and are credited to the income statement on a straight line basis over the expected lives of the related assets. In the current year, the Group received grants from the Dutch Embassy (cost compensation) and from Abi Trust (PPE).

2 Summary of significant accounting policies (continued)

2.27 Investment property

Property held for long term rental yields and not occupied by the Group is classified as investment property. A portion of the property at Plot 26 Kyadondo is occupied by the Company's subsidiary, **dfcu** Bank Limited, and is classified as property, plant and equipment in the consolidated financial statements. The remaining portion is held for long term rental yields and is accounted for as investment property.

An investment property is defined under IAS 40, Investment property, as a property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Investment property is measured at cost less accumulated depreciation.

3 Financial risk management

The Group's financial assets are classified as held-for-trading, held-to-maturity or loans, advances and other receivables, and all financial liabilities are measured at amortised cost. The carrying amounts for each class of financial assets and financial liabilities are included in the table below:

Financial assets	Shs M	Shs M
Held-for-trading:		
Government securities	**72,441**	57,994
Held-to-maturity:		
Government and other securities	**335,254**	273,113
Loans and advances and other receivables/financial assets:		
Deposits and balances due from other Banks	**128,733**	132,165
Balances with Bank of Uganda	**132,309**	107,204
Loans and advances customers (Net of impairment)	**808,047**	680,679
Other financial assets	**13,568**	11,363
Cash in hand	**62,668**	71,182
	1,145,325	1,002,593
Financial liabilities		
Measured at amortised cost:		
Customer deposits	**914,951**	822,877
Balances due to other banks:inter-bank borrowings	**98,096**	54,021
Borrowed funds	**392,110**	328,294
Other financial liabilities	**10,870**	9,366
	1,416,027	1,214,558

3 Financial risk management (continued)

Financial risk factors

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity 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.

3.1 Credit risk

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

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

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

Credit related commitments

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

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

3 Financial risk management (continued)

Maximum exposure to credit risk before collateral held	2015 Shs M	2014 Shs M
Government and other securities	**407,695**	331,107
Deposits and balances due from banks	**128,733**	132,165
Loans and advances to customers	**808,047**	680,679
Other assets	**20,856**	17,603
Credit risk exposures relating to off-statement of financial position items:		
- Acceptances and letters of credit	**-**	-
- Guarantee and performance bonds	**67,573**	51,305
- Commitments to lend	**20,572**	21,690
	1,453,476	1,234,549

The above table represents the worst case scenario of credit risk exposure to the Group as at 31 December 2015 and 2014, 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;
- 87% (2014: 80%) 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% (2014: 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:

	2015 Shs M	2014 Shs M
Neither past due nor impaired	**690,326**	555,878
Past due but not impaired	**60,965**	90,378
Impaired	**71,677**	48,035
Gross	**822,968**	694,291
Less: Allowance for impairment	**(14,921)**	(13,612)
Net	**808,047**	680,679

No other financial assets are either past due or impaired.

3 Financial risk management (continued)

3 .1 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:

	2015 Shs M	2014 Shs M
Standard	**690,326**	555,878

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:

	2015 Shs M	2014 Shs M
Past due up to 30 days	**30,294**	32,665
Past due 31 – 60 days	**17,056**	34,715
Past due 61 – 90 days	**13,615**	22,998
	60,965	90,378

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	
	2015 Shs M	2014 Shs M
Individually assessed impaired loans and advances	**71,677**	48,035
Fair value of collateral	**101,700**	64,723

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

	2015 %	2014 %
Manufacturing	9	10
Trade and commerce	19	18
Building and construction	11	9
Transport and communications	6	6
Agriculture and agro-processing	13	12
Home Loans	8	8
Hotel and tourism	6	4
Real Estate	9	12
Non Bank Financial Institutions	0	1
Schools	9	10
Personal	7	9
Other	3	1
	100	100

3. Financial risk management (continued)

3.2 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 2015, the Group had a net foreign exchange asset position of Shs 4,492 million. (2014: Shs 2,695 million).

The Group's profit before income tax and equity would decrease/ increase by Shs 310 million (2014: Shs 244 million) were the US$ foreign exchange rate to change by 10%. This variation in profitability is measured by reference to foreign currency exposures existing at 31 December 2015.

The Group's profit before income tax and equity would decrease/ increase by Shs 129 million (2014: Shs 25 million) were the Euro foreign exchange rate to change by 10%. This variation in profitability is measured by reference to foreign currency exposures existing at 31 December 2015.

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 2015					
Assets					
Cash at hand	41,905	1,343	7,698	144,031	**194,977**
Government and other securities	-	-	-	407,695	**407,695**
Deposits and balances due from banks	114,200	558	9,369	4,606	**128,733**
Loans and advances	388,518	5	2	419,522	**808,047**
Other assets	812	3	25	20,016	**20,856**
Total assets	**545,435**	**1,909**	**17,094**	**995,870**	**1,560,308**
Liabilities					
Customer deposits	256,097	1,463	11,355	646,036	**914,951**
Deposits due to other banks	-	-	-	98,096	**98,096**
Other liabilities	3,634	438	4,451	16,770	**25,293**
Borrowed funds	282,508	-	-	109,602	**392,110**
Special funds	-	-	-	1,708	**1,708**
Total liabilities	542,239	1,901	15,806	872,212	1,432,158
Net on-statement of financial position	**3,196**	**8**	**1,288**	**123,658**	**128,150**
As at 31 December 2014					
Assets					
Cash at hand	57,766	1,542	5,773	113,305	178,386
Government and other securities	-	-	-	331,107	331,107
Deposits and balances due from banks	125,506	1,664	1,998	2,997	132,165
Loans and advances	271,299	1	-	409,379	680,679
Other assets	454	-	-	17,149	17,603
Total assets	455,025	3,207	7,771	873,937	1,339,940
Liabilities					
Customer deposits	230,076	3,074	6,922	582,805	822,877
Deposits due to other banks	-	-	-	54,021	54,021
Other liabilities	3,515	125	601	18,034	22,275
Borrowed funds	218,995	-	-	109,299	328,294
Special funds	-	-	-	1,708	1,708
Total liabilities	452,586	3,199	7,523	765,867	1,229,175
Net on-statement of financial position	2,439	8	248	108,070	110,765

3 Financial risk management (continued)

ii) Interest rate risk (continued)

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 2015							
Assets							
Cash and balances with Bank of Uganda	-	-	-	-	-	194,977	**194,977**
Government and other securities	60,175	82,214	182,258	78,597	4,451	-	**407,695**
Deposits and balances due from banks	45,940	-	-	-	-	82,793	**128,733**
Loans and advances	106,095	82,061	173,425	389,378	71,709	(14,621)	**808,047**
Other assets	-	-	-	-	-	20,856	**20,856**
Deferred tax asset	-	-	-	-	-	2,142	**2,142**
Property and equipment	-	-	-	-	-	72,858	**72,858**
Investment property	-	-	-	-	-	12,086	**12,086**
Intangible assets	-	-	-	-	-	4,235	**4,235**
Total assets	**212,210**	**164,275**	**355,683**	**467,975**	**76,160**	**375,326**	**1,651,629**
Liabilities							
Customer deposits	226,831	169,311	185,297	2,353	-	331,159	**914,951**
Deposits due to other banks	98,096	-	-	-	-	-	**98,096**
Other liabilities	-	-	-	-	-	25,293	**25,293**
Borrowed funds	603	4,262	82,535	186,296	81,266	37,148	**392,110**
Special funds	-	-	-	-	-	1,708	**1,708**
Current income tax payable	-	-	4,340	-	-	-	**4,340**
Total liabilities	**325,530**	**173,573**	**272,172**	**188,649**	**81,266**	**395,308**	**1,436,498**
Interest sensitivity gap	**(113,320)**	**(9,298)**	**83,511**	**279,326**	**(5,106)**	**(19,982)**	**215,131**

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 2014							
Assets							
Cash and balances with Bank of Uganda	-	-	-	-	-	178,386	178,386
Government and other securities	48,908	64,114	117,381	88,190	12,514	-	331,107
Deposits and balances due from banks	122,317	-	-	-	-	9,848	132,165
Loans and advances	90,091	69,391	152,298	327,305	55,206	(13,612)	680,679
Other assets	-	-	-	-	-	17,603	17,603
Deferred tax asset	-	-	-	-	-	175	175
Total assets	261,316	133,505	269,679	415,495	67,720	192,400	1,340,115
Liabilities							
Customer deposits	278,756	125,147	117,992	326	-	300,656	822,877
Deposits due to other banks	54,000	-	-	-	-	21	54,021
Other liabilities	-	-	-	-	-	22,275	22,275
Borrowed funds	12,499	21	76,415	119,771	80,751	38,837	328,294
Special funds	-	-	-	-	-	1,708	1,708
Current income tax payable	-	-	4,026	-	-	-	4,026
Total liabilities	345,255	125,168	198,433	120,097	80,751	363,497	1,233,201
Interest sensitivity gap	(83,939)	8,337	71,246	295,398	(13,031)	(171,097)	106,914

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 (2014: 3%).

As at 31 December	2015 Shs M	2014 Shs M
Fair value interest rate risk	**381**	376
Cash flow interest rate risk	**12,319**	12,171
Impact on profit before tax	**12,700**	12,547

3.3 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 2015 to the contractual maturity date. All figures are in millions of Uganda Shillings.

Group	Up to 1 month	1-3 months	3-12 months	1-5 Years	Over 5 years	Non liquid items	Total
As at 31 December 2015							
Assets							
Cash and balances with Bank of Uganda	194,977	-	-	-	-	-	**194,977**
Government and other securities	5,924	23,342	336,864	96,851	8,259		**471,240**
Deposits and balances due from banks	128,733	-	-	-	-	-	**128,733**
Loans and advances	170,253	127,082	309,685	465,856	54,682	-	**1,127,558**
Other assets	6,926	1,404	4,732	-	-	7,794	**20,856**
Total assets	506,813	151,828	651,281	562,707	62,941	7,794	1,943,364

3 Financial risk management (continued)

3.3 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	558,676	168,625	185,297	2,353	-	-	**914,951**
Deposits due to other banks	98,096	-	-	-	-	-	**98,096**
Interest payable and other payables	1,580	1,817	16,878	3,838	-	1,180	**25,293**
Borrowed funds	7,802	15,614	72,582	286,675	72,984	7,802	**463,459**
Special funds	1,708	-	-	-	-	-	**1,708**
Total liabilities	667,862	186,056	274,757	292,866	72,984	8,982	**1,503,507**
Net liquidity gap	(161,049)	(34,228)	376,524	269,841	(10,043)	(1,188)	**439,857**

As at 31 December 2014							
Assets							
Cash and balances with Bank of Uganda	178,386	-	-	-	-	-	178,386
Government and other securities	24,784	12,160	215,386	159,085	82,576	-	493,991
Deposits and balances due from banks	132,165	-	-	-	-	-	132,165
Loans and advances	144,804	103,008	244,436	340,902	36,774	-	869,924
Other assets	489	619	2,016	5,208	4,610	4,661	17,603
Total assets	480,628	115,787	461,838	505,195	123,960	4,661	1,692,069
Liabilities							
Customer deposits	583,284	125,147	114,121	325	-	-	822,877
Deposits due to other banks	54,021	-	-	-	-	-	54,021
Interest payable and other payables	6,939	4,186	2,017	1,285	532	7,316	22,275
Borrowed funds	673	4,058	78,578	212,633	77,370	-	373,312
Special funds	1,708	-	-	-	-	-	1,708
Total liabilities	646,625	133,391	194,716	214,243	77,902	7,316	1,274,193
Net liquidity gap	(165,997)	(17,604)	267,122	290,952	46,058	(2,655)	417,876

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)

3.3 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.

3.4 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.

Those regulations require licensed banks to:

a) hold a minimum level of capital unimpaired by losses of Shs 25 billion;

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

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

dfcu Limited also monitors the Group's overall capital adequacy following the same FIA (Capital Adequacy) Regulation guidelines. The table below summarizes the capital adequacy ratios of the Group as at 31 December 2015.

	2015	2014
	Shs M	Shs M
Before dividend declaration		
Core capital	**182,670**	163,613
Total capital	**251,099**	238,130
After dividend declaration		
Core capital	**171,866**	163,613
Total capital	**240,295**	226,430
Risk weighted assets		
On-statement of financial position	**964,315**	807,885
Off-statement of financial position	**77,859**	62,150
Total risk weighted assets	**1,042,174**	870,035

3 Financial risk management (continued)

3.4 Capital management (Continued)

Risk weighted assets are as follows;	Shs M		2015 Shs M	2014 Shs M
On-statement of financial position:				
Cash and balances with Bank of Uganda	194,977	0%	**-**	-
Due from commercial banks in Uganda	46,745	20%	**9,349**	24,424
Due from banks outside Uganda;				
Rated A+ and A-	81,738	50%	**40,869**	4,865
Rated A- and non-rated	250	100%	**250**	313
Government and other securities	407,695	0%	**-**	-
Other assets	20,856	100%	**20,856**	17,603
Loans and advances to customers	808,047	100%	**808,047**	680,679
Property, plant and equipment	72,858	100%	**72,858**	68,686
Investment property	12,086	100%	**12,086**	11315
	1,645,252		**964,315**	**807,885**
Off-statement of financial position:				
Guarantees and acceptances	67,573	100%	67,573	51,305
Undrawn facilities	20,572	50%	10,286	10,845
	88,145		**77,859**	**62,150**

Basel Ratio (after dividend declaration)	2015	2014
Core capital	**18%**	19%
Total capital	**24%**	26%
Basel Ratio (before dividend declaration)		
Core capital	**16%**	19%
Total capital	**23%**	27%

Included in the total capital computation is the subordinated debt from Deutche Investitions-Und Entwicklungsgesellschanft mbH (DEG) and CDC Group Plc (CDC).

3 Financial risk management (continued)

3.5 Fair values of financial instruments

As at 31 December 2015, 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	**2015**	2014
	Shs M	Shs M
Level 2-treasury bills and bonds (held for trading)	**73,150**	57,994

During the reporting period ended 31 December 2015, there were no transfers into and out of Level 2 fair value measurements. Refer to note 16.

The fair values of held-to-maturity securities as at 31 December 2015 is estimated at Shs 307,645 million (2014: Shs 232,165 million) compared to their carrying value of Shs 335,254 million (2014: Shs 273,113 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 3.3 (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 18.

Taxes

The Group is subject to various government taxes under the Ugandan tax laws. Significant estimates and judgements are required in determining the provision for taxes on certain transactions. For these transactions, the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact profit or loss. Refer to note 12 and 26.

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.

Held-to-maturity financial assets

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

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

Going concern

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

5 Segment information

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

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

During the year 22.6% (2014: 19.8%) 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 2015 were as follows:

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
Fees and commission income and other operating income	3,422	39,382	(2,893)	**39,911**
Income from transactions with operating segments of the same entity	12,628	-	(12,628)	**-**
Interest income	293	184,729	(2,048)	**182,974**
Interest expense	(3,161)	(73,629)	2,048	**(74,742)**
Other operating expenses	(2,895)	(101,219)	2,893	**(101,221)**
Profit before income tax	10,287	49,263	(12,628)	**46,922**
Income tax expense	622	(12,253)	-	**(11,632)**
Profit for the year	**10,909**	**37,010**	**(12,628)**	**35,290**

5 Segment information (continued)

The segment results for the year ended 31 December 2014 were as follows:

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
Fees and commission income and other operating income	1,325	41,630	(884)	42,071
Income from transactions with operating segments of the same entity	17,840	-	(17,840)	-
Interest income	355	163,230	(307)	163,278
Interest expense	-	(60,296)	307	(59,989)
Other operating expenses	(911)	(88,772)	884	(88,799)
Profit/(loss) before tax	18,609	55,792	(17,840)	56,561
Income tax expense	(231)	(14,221)	-	(14,452)
Profit/(loss) after tax	18,378	41,571	(17,840)	42,109

Statement of financial position

	dfcu Limited Shs M	dfcu Bank Shs M	Intra-segment items Shs M	Group Shs M
At 31 December 2015				
Total assets	72,073	1,622,083	(42,527)	**1,651,629**
Total liabilities	22,279	1,430,408	(16,189)	**1,436,498**
Capital expenditure	3,865	10,116	-	**13,981**
At 31 December 2014				
Total assets	71,509	1,396,249	(43,016)	1,424,742
Total liabilities	20,924	1,228,956	(16,679)	1,233,201
Capital expenditure	5,172	25,128	-	30,300

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 grp of similar products:

	dfcu Limited Shs M	dfcu Bank Shs M	Group Shs M
Year ended 31 December 2015	293	184,729	**182,974**
Year ended 31 December 2014	355	163,230	163,278

6 Business combinations

Following the takeover of Global Trust Bank ("GTB") by Bank of Uganda ("BoU"), on 25 July 2014, BoU entered into a Purchase and Assumption Agreement with **dfcu** Bank Limited for the acquisition of certain assets and assumption of specific liabilities of GTB. These assets included cash and balances with BoU, certain loans and advances to customers, all customer deposits and government securities. The following table summarises the amounts identified assets acquired and liabilities assumed at the acquisition date.

Fair value of consideration transferred	2015 Shs M	2014 Shs M
Recognised amounts of separately identified assets acquired and liabilities assumed		
Cash and balances with Bank of Uganda	-	8,302
Government securities	-	40,044
Loans and advances to customers	-	27,307
Receivables under managed assets portfolio	-	1,487
Customer relationships	-	1,939
Fixed deposits	-	(40,241)
Savings accounts	-	(14,796)
Current accounts	-	(15,770)
Written off loan recovery costs	-	(169
Negative good will	-	8,103

The transaction was designed to ensure that the book values of assets acquired and liabilities assumed were equal at the date of acquisition hence the nil consideration paid by **dfcu** Bank. In accordance with IFRS 3: Business combinations, the Group has recognised a separately identifiable intangible asset in respect of customer relationships details of which are disclosed in Note 20, as well as estimated net receivables under the managed assets portfolio.

Furthermore, the Group measured net assets acquired at fair value resulting in an excess of the value of assets acquired over liabilities assumed. This excess has been recognised as negative goodwill and recorded within other income in the statement of comprehensive income. The negative goodwill is mainly attributed to receivables under managed assets portfolio and customer relationships which had nil book values at the date of acquisition in addition to loans and advances to customers that were acquired at a discount.

The acquired business contributed revenues of Shs Nil (2014: Shs 4,802 million) and profit of Shs Nil (2014: Shs 2,573 million), in addition to negative goodwill that was recognised in other income, to the group for the period from 25 July 2014 to 31 December 2014. The following pro forma summary presents consolidated information of the Group as if the business combination had occurred on 1 January 2014.

	2015 Shs M	2014 Shs M
Revenue	-	11,525
Profit	-	6,175

These amounts have been calculated after applying the Group's accounting policies and including necessary adjustments to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had been applied from 1 January 2014, together with the consequential tax effects. The Group also incurred Shs Nil (2014: Shs 72 million) of acquisition related costs. These expenses are included in general and administrative expenses in the Group's statement of comprehensive income for the year ended 31 December 2015.

	Group 2015	Group 2014
7 Interest and similar income	**Shs M**	Shs M
Loans and advances	**139,058**	119,957
Government securities	**43,628**	35,906
Other interest income	**288**	7,415
	182,974	163,278
8 Interest expense		
Borrowed funds	**30,104**	23,111
Customer Deposits	**44,638**	36,878
	74,742	59,989
9 Fee and commission income		
Fee and commission income	**25,002**	20,852

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.

10 Net trading and other income	**2015**	2014
	Shs M	**Shs M**
Fair value gains on held-for-trading securities	**1,263**	1,465
Net foreign exchange income	**13,281**	10,700
Other gains	**365**	9,054
	14,909	21,219

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

11 (a) Operating expenses

	2015 Shs M	2014 Shs M
Employee benefits expense (note 11b)	**31,835**	27,602
Professional services	**6,272**	4,747
Advertising and marketing	**2,611**	2,742
Office and residential occupancy expenses	**10,491**	8,902
Communication expenses	**11,923**	8,863
Depreciation (Note 21)	**6,869**	3,765
Amortisation (Note 22)	**2,322**	2,492
Auditor's remuneration	**468**	394
Travel expenses	**1,263**	1,218
Printing and stationery	**1,882**	2,110
Other administrative expenses	**4,130**	10,302
Operating lease expenses	**9,465**	5,172
	89,531	78,309

11 (b) Employee benefits expenses include:

	2015 Shs M	2014 Shs M
Wages and salaries	**27,525**	24,229
Other employee benefits	**1,115**	1,035
National Social Security Fund contributions	**3,195**	2,338
	31,835	27,602

12 Income tax

Current income tax expense	**13,107**	13,324
Deferred income tax charge (note 26)	**(1,475)**	1,128
	11,632	14,452

12 Income tax (continued)

a) Income tax expense (continued)

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 2015 Shs M	Group 2014 Shs M
Profit before income tax	**46,922**	56,561
Tax calculated at the tax rate of 30% (2014: 30%)	**14,077**	16,968
Prior year over provision of corporation tax	**81**	-
Tax effect of:		
Income not taxable	**-**	(755)
Income taxable at other rates	**(3,636)**	(2,783)
Expenses not deductible for tax purposes	**1,110**	1,022
Income tax expense	**11,632**	14,452

b) Current income tax payable/ (recoverable)

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

	Group		Company	
	2015 Shs M	2014 Shs M	2015 Shs M	2014 Shs M
At start of year	**4,026**	1,196	**(90)**	(90)
Prior year over provision	**-**	-		
Current income tax charge for the year	**13,107**	13,324	**-**	-
Income tax paid during year	**(12,793)**	(10,494)	**(484)**	-
At end of year	**4,340**	4,026	**(574)**	(90)

13 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 2015	Group 2014
Profit attributable to equity holders of the Company (Shs M)	**35,290**	42,109
Weighted average number of ordinary shares in issue (No.)	**497,201,822**	497,201,822
Basic earnings per share (Shs)	**70.98**	84.69

There were no dilutive shares or potentially dilutive shares as at 31 December 2015 and 2014. Therefore diluted earnings per share is the same as basic earnings per share.

14 Dividends

	2015		2014	
	per share Shs	Total Shs M	per share Shs	Total Shs M
Proposed dividends	**21.73**	**10,804**	23.53	11,700

At the annual general meeting of **dfcu** Limited to be held on 22 June 2016, the Board will be recommending a cash dividend of Shs 21.73 per share payable after deduction of withholding tax where applicable (2014: Shs 23.53 per share). The shareholder's register will be closed on 11 May 2016 with respect to entitlement to this dividend which will be paid by 31 July 2016.

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

15 Cash at hand and balances with Bank of Uganda

	Group	
	2015 Shs M	2014 Shs M
Cash at hand	**62,668**	71,182
Balances with Bank of Uganda	**132,309**	107,204
	194,977	178,386

16 Government and other securities

Treasury bills		
Held-for-trading		
Maturing within 90 days of the date of acquisition	**20,698**	16,719
Maturing after 90 days of the date of acquisition	**37,159**	25,347
	57,857	42,066
Held-to-maturity		
Maturing within 90 days of the date of acquisition	**92,683**	59,669
Maturing after 90 days of the date of acquisition	**106,056**	79,795
Total treasury bills	**256,596**	181,530
Treasury and other bonds:		
Held-for-trading		
Maturity after 90 days of the date of acquisition	**14,584**	15,928
Held-to-maturity		
Maturing after 90 days of the date of acquisition	**136,515**	133,649
Total treasury bonds	**151,099**	149,577
Total treasury bills and bonds	**407,695**	331,107
Current	**324,647**	230,403
Non current	**83,048**	100,704

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.

The weighted average effective interest rate on government securities as at 31 December 2015 was 16.03%. (2014: 12.38%)

Other bonds include corporate bonds amounting to Shs 568 million (2014: Shs 700 million) issued by Stanbic Bank Uganda Limited.

17 Deposits and balances due from banks

	Group		Company	
	2015 Shs M	2014 Shs M	**2015 Shs M**	2014 Shs M
Deposits with foreign banks	**82,954**	10,008	**160**	160
Deposits with local banks	**45,779**	122,157	**35**	35
	128,733	132,165	**195**	195
Current	**128,733**	132,165	**195**	195
Non-current	**-**	-	**-**	-

Deposits and balances due from other banks are short-term deposits made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate on loans and advances to other banks as at 31 December 2015 was 1.85% (2014: 1.02%).

18 Loans and advances to customers

	Group		Company	
	2015 Shs M	2014 Shs M	**2015 Shs M**	2014 Shs M
Loans and advances	**822,968**	694,291	**644**	695
Less: Allowance for impairment losses				
Individually assessed	**(8,615)**	(9,110)	**(175)**	(175)
Collectively assessed	**(6,306)**	(4,502)	**-**	-
	808,047	680,679	**469**	520
Current	**750,959**	639,085	**51**	60
Non-current	**57,088**	41,594	**418**	460

The weighted average effective interest rate on loans and advances to customers as at 31 December 2015 was 23.17% (2014: 17.22%).

18 Loans and advances to customers (continued)

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 2014	8,859	6,265	15,124
Increase in allowances for impairment	15,325	(1,763)	13,562
Recoveries and allowances no longer required	(2,828)	-	(2,828)
Net increase in allowances	12,497	(1,763)	10,734
Debts written off during the year	(12,246)	-	(12,246)
At 31 December 2014	9,110	4,502	13,612
Charge to profit			
Net increase in allowances above	12,497	(1,763)	10,734
Recoveries of amounts previously written off	(244)	-	(244)
Net charge to profit or loss	12,253	(1,763)	10,490
Group			
At 1 January 2015	9,110	4,502	**13,612**
Increase/(decrease) in allowances for impairment	11,667	1,804	**13,471**
Recoveries and allowances no longer required	108	-	**108**
Net increase in allowances	11,775	1,804	**13,579**
Debts written off during the year	(12,270)	-	**(12,270)**
At 31 December 2015	**8,615**	**6,306**	**14,921**
Charge to profit			
Net increase in allowances above	11,775	1,804	**13,579**
Recoveries of amounts previously written off	(1,889)	-	**(1,889)**
Net charge to profit or loss	**9,886**	**1,804**	**11,690**
Company			
At 1 January 2014	**175**	**-**	**175**
At 31 December 2014	**175**	**-**	**175**
Charge to profit			
Recoveries of amounts previously written off	(44)	-	**(44)**
Net charge to profit or loss	**(44)**	**-**	**(44)**
At 1 January 2015	**175**	**-**	**175**
At 31 December 2015	**175**	**-**	**175**
Charge to profit			
Recoveries of amounts previously written off	-	-	**-**
Net charge to profit or loss	**-**	**-**	**-**

18 Loans and advances to customers (continued)

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

	2015 Shs M	2014 Shs M
Gross investment in finance leases:		
Not later than 1 year	**39,739**	24,246
Later than 1 year and not later than 5 years	**48,958**	31,686
Later than 5 years	**100**	162
	88,797	56,094
Unearned future finance income on finance leases	**(12,451)**	(10,329)
Net investment in finance leases	**76,346**	45,765

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

	2015 Shs M	2014 Shs M
Not later than 1 year	**34,167**	19,811
Later than 1 year and not later than 5 years	**42,093**	25,822
Later than 5 years	**86**	132
	76,346	45,765

Included in the allowance for impairment of loans and advances as at 31 December 2015 is Shs 1,763 million (2014: Shs 482 million) attributable to past due finance lease receivables.

19 Investment in subsidiaries

	Shareholding	Company	
	%	2015 Shs M	2014 Shs M
dfcu Bank Limited	100	**26,793**	26,793

Dfcu Bank Limited is incorporated in Uganda under the Ugandan Companies Act as a limited liability company and licensed by Bank of Uganda to operate as a commercial bank. It is domiciled in Uganda and the address of its registered office is:

Plot 26 Kyadondo Road
P.O. Box 70
Kampala
Uganda.

The Bank is engaged in the business of banking and the provision of related services and is licensed under the Financial Institutions Act.

20 Other assets

	Group		Company	
	2015 Shs M	2014 Shs M	2015 Shs M	2014 Shs M
Prepaid expenses	**7,288**	6,240	**-**	-
Items in course of collection	**2,192**	796	**-**	-
Sundry debtors	**3,869**	3,379	**-**	-
Other assets	**5,510**	4,230	**2**	4
Assets acquired on business combination	**1,997**	2,958	**-**	-
	20,856	17,603	**2**	4
Current	**13,062**	3,124	**2**	4
Non-current	**7,794**	14,479	**-**	-

Items in the course of collection relate to cheques, Electronic Fund Transfers (EFTs) and Real Time Gross Settlements (RTGS) that had not cleared by the end of the year.

21 a) Property and equipment

Group	Land and buildings Shs M	Furniture and equipment Shs M	Moto vehicles Shs M	Work-in-progress Shs M	Total Shs M
Year ended 31 December 2014					
Opening net carrying amount	8,905	10,092	705	37,414	57,116
Additions	78	3,187	265	26,770	30,300
Disposals at cost	-	(73)	(252)	-	(325)
Disposals:- accumulated depreciation	-	73	228	-	301
Transfers from work in progress	32,023	339	-	(32,362)	-
Transfer to investment property	(11,315)	-	-	-	(11,315)
Write off	(3,400)	(1,562)	-	-	(4,962)
Write off:- accumulated depreciation	-	1,336	-	-	1,336
Depreciation charge for the year	(10)	(3,426)	(329)	-	(3,765)
Net carrying amount	26,281	9,966	617	31,822	68,686
At 31 December 2014					
Cost	26,829	38,822	1,510	31,822	97,939
Accumulated depreciation	(548	(28,856)	(893)	-	(30,297)
Net carrying amount	26,281	9,966	617	31,822	68,686

21 a) Property and equipment (continued)

Group	Land and buildings Shs M	Furniture and equipment Shs M	Moto vehicles Shs M	Work-in-progress Shs M	Total Shs M
Year ended 31 December 2015					
Opening net carrying amount	26,281	9,966	617	31,822	**68,686**
Reclassification adjustment	-	(30)	28	-	**(2)**
Additions	-	3,361	-	10,620	**13,981**
Disposals at cost	-	(12)	(65)	-	**(77)**
Disposals:- accumulated depreciation	-	7	65	-	**72**
Transfers from work in progress	3,189	25,215	818	(30,867)	**(1,645)**
Transfer to investment property	(1,008)	-	-	-	**(1,008)**
Asset write off	-	-	-	(280)	**(280)**
Depreciation charge for the year	(805)	(5,530)	(337)	(197)	**(6,869)**
Net carrying amount	**27,657**	**32,977**	**1,126**	**11,098**	**72,858**
At 31 December 2015					
Cost	29,010	42,141	1,472	11,098	**83,721**
Accumulated depreciation	(1,353)	(9,164)	(346)	-	**(10,863)**
Net carrying amount	**27,657**	**32,977**	**1,126**	**11,098**	**72,858**

21 b) Investment property

Investment property comprises land and buildings at Plot 26 Kyadondo Road, Kampala. This property is held for its rental and capital appreciation. The investment property has been stated on the historical cost basis.

During 2015, the Company resolved to make available for rent to third parties, that part of the property that is not utilised by **dfcu** Bank Limited. Consequently, that part of the property is held for rental purposes and has been reclassified to investment property in the consolidated financial statements as shown below. In the stand alone financial statements of the Company, the entire property is held for rental purposes and is therefore retained as investment property in those financial statements.

The Company has chosen the cost model for its investment property and as a consequence, land which forms part of the property which was previously re-valued has been restated to cost and the related valuation surplus together with deferred income tax thereon have been reversed.

	Group		Company	
	2015 Shs M	2014 Shs M	**2015 Shs M**	2014 Shs M
At start of year	**11,315**	-	**39,615**	35,600
Reclassified from property and equipment	**-**	11,315	**-**	-
Additions at cost	**771**	-	**4,131**	7,415
Accumulated depreciation	**-**	-	**(1,084)**	-
Reversal of revaluation surplus on land	**-**	-	**-**	(3,400)
At end of year	**12,086**	11,315	**42,662**	39,615

22 Intangible assets (Group)

Year ended 31 December 2014	Goodwill Shs M	Other intangible assets Shs M	Customer r/ships Shs M	Total Shs M
Cost				
At 1 January 2014	463	11,550	-	12,013
Additions	-	304	1,939	2,243
At 31 December 2014	463	11,854	1,939	14,256
Amortisation				
At 1 January 2014	-	(7,138)	-	(7,138)
Charge for the year	-	(2,330)	(162)	(2,492)
At 31 December 2014	-	(9,468)	(162)	(9,630)
Net carrying amount	463	2,386	1,777	4,626

Year ended 31 December 2015	Goodwill Shs M	Other intangible assets Shs M	Customer r/ships Shs M	Total Shs M
Cost				
At 1 January 2015	463	11,854	1,939	**14,256**
Additions	-	285	-	**285**
Transfers from work in progress	-	1,645	-	**1,645**
At 31 December 2015	**463**	**13,785**	**1,939**	**16,187**
Amortisation				
At 1 January 2015	-	(9,468)	(162)	**(9,630)**
Charge for the year	-	(1,934)	(388)	**(2,322)**
At 31 December 2015	**-**	**(11,402)**	**(550)**	**(11,952)**
Net carrying amount	**463**	**2,383**	**1,389**	**4,235**

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 2015 (2014: nil). Other intangible assets comprise of software for the Group's core banking systems and fair valuations of customer relationships acquired from Bank of Uganda relating to Global Trust Bank.

23 Customer deposits

	Group 2015 Shs M	Company 2014 Shs M
Demand deposits	**320,803**	284,474
Savings accounts	**198,012**	165,030
Fixed deposit accounts	**396,136**	373,373
	914,951	822,877
Current	**912,598**	822,552
Non current	**2,353**	325

The weighted average effective interest rate on customer deposits as at 31 December 2015 was 3.58% (2014: 3.72%).

24 Deposits due to other banks

Balances due to other banks within 90 days	**98,096**	**54,021**
Current	**98,096**	**54,052**
Non-current	**-**	**-**

The weighted average effective interest rate on deposits due to other banks as at 31 December 2015 was 16.9% (2014: 8%).

25 Other liabilities

	Group		Company	
	2015 Shs M	2014 Shs M	2015 Shs M	2014 Shs M
Bills payable	**485**	523	**-**	-
Unclaimed balances	**2,275**	1,877	**102**	102
Other liabilities	**8,110**	6,966	**964**	-
Deferred fees and commission	**8,897**	10,279	**2,783**	4,722
Accrued expenses	**5,526**	2,630	**184**	185
	25,293	22,275	**4,033**	5,009

26 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2014: 30%), except for interest receivable on treasury bills and bonds where the enacted rate is 15% (2014: 15%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2015 Shs M	**2014 Shs M**	**2015 Shs M**	**2014 Shs M**
At start of year	**(175)**	(283)	**82**	872
Charge to income statement	**-**	230	**-**	230
Deferred tax in respect of reversal of revaluation gain	**-**	(1,020)	**-**	(1,020)
Charge/(credit) to income statement	**(1,967)**	898	**(621)**	-
Net deferred income tax liability/(asset)	**(2,142)**	(175)	**(539)**	82

Group:	**At start of year Shs M**	**Charged/ (credited) to income statement Shs M**	**Charged through equity Shs M**	**At end of year Shs M**
As at 31 December 2014				
Deferred income tax liabilities				
Property and equipment	1,981	183	-	2,164
Land revaluation surplus	1,020	-	(1,020)	-
	3,001	183	(1,020)	2,164
Deferred income tax assets				
Provision for loan impairment	(1,878)	529	-	(1,349)
Deferred income	(1,052)	(514)	-	(1,566)
Tax losses carried forward	(131)	(267)		(398)
Securities held for trading	(223)	664	-	441
Customer relationships	-	533	-	533
	(3,284)	945	-	(2,339)
Net deferred income tax (asset)/liability	(283)	1,128	(1,020)	(175)

26 Deferred income tax (continued)

Group:	At start of year Shs M	Charged/ (credited) to income statement Shs M	Charged through equity Shs M	At end of year Shs M
As at 31 December 2015				
Deferred income tax liabilities				
Property and equipment	2,164	(851)	-	**1,313**
Deferred income tax assets				
Provision for loan impairment	(1,349)	(542)	-	**(1,891)**
Deferred income	(1,566)	(256)	-	**(1,822)**
Tax losses carried forward	(398)	(141)	-	**(539)**
Securities held for trading	441	(61)	-	**380**
Customer relationships	533	(116)	-	**417**
	(2,339)	(1,116)	-	**(3,455)**
Net deferred income tax asset	**(175)**	**(1,967)**	**-**	**(2,142)**
Company				
As at 31 December 2014				
Deferred income tax (assets)/liabilities				
Property and equipment	(17)	496	-	480
Tax losses	(131)	(267)	-	(398)
Land revaluation surplus	1,020	-	(1,020)	-
Net deferred income tax (asset)/liabilities	872	230	(1,020)	82
As at 31 December 2015				
Deferred income tax (assets)/liabilities				
Property and equipment	480	(480)	-	-
Tax losses	(398)	(141)	-	(539)
Net deferred income tax (asset)/liabilities	**82**	**(621)**	**-**	**(539)**

27 Borrowed funds

	Group		Company	
	2015 Shs M	2014 Shs M	2015 Shs M	2014 Shs M
European Investment Bank Apex IV	-	647	-	-
Uganda Government (KFW II loan)	696	696	-	-
Uganda Government (KFW III loan)	1,984	1,984	-	-
Uganda Government (KFW V loan)	17,831	17,196	-	-
Bank of Uganda	10,830	12,109	-	-
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	81,546	47,400	-	-
International Finance Corporation	-	1,975	-	-
The OPEC Fund for International Development	-	27,650	-	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	9,113	11,544	-	-
FMO USD	61,700	70,620	-	-
European Investment Bank – PEFF II	33,664	43,156	-	-
European Investment Bank – Microfinance	13,481	16,177	-	-
Norwegian Investment Fund for Developing Countries (NORFUND)	8,786	12,300	-	-
East African Development Bank	21,782	7,825	3,432	7,825
UN Habitat	786	867	-	-
Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) Senior loan	60,444	-	-	-
Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) Subordinated debt	33,580	27,650	-	-
CDC Group Plc Subordinated debt	33,580	27,650	-	-
Jubilee Insurance	2,307	848	2,307	848
	392,110	328,294	5,739	8,673

Included in borrowings is a subordinated debt from 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.

The fair values of borrowing at fixed rates as at 31 December 2015 is estimated at Shs 327,994 million compared to their carrying value of Shs 392,110 million.

27 Borrowed funds (continued)

The terms and conditions relating to borrowings are tabulated below:

	Tenure (years)	Interest rate	Fixed / variable	Currency
European Investment Bank Apex IV	5	8.900%	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)	7	3.750%	Variable	USD
International Finance Corporation	7	3.320%	Variable	USD
The OPEC Fund for International Development	1	3.8203%	Variable	USD
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	7	12.670%	Variable	Shs
FMO - USD	7	3.580%	Variable	USD
European Investment Bank-PEFF USD	10	5.230%	Fixed	USD
European Investment Bank-PEFF UGX	10	11.930%	Fixed	Shs
NORFUND Senior loan 1	10	18.77%	Variable	
East African Development Bank	7	12.000%	Fixed	
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Subordinated debt	7	5.670%	Variable	USD
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Senior loan	5	3.697%	Variable	USD
CDC Group Plc	7	4.8454%	Variable	USD
UN Habitat	15	2.000%	Fixed	Shs
Jubilee Insurance Company Limited	3	5.25%	Variable	USD

28 Special funds

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

	KFW IV & V	Total 2015	Total 2014
	Shs million	Shs million	Shs million
At start and end of year	1,708	1,708	1,708

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

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

29 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 were Shs 27 million as at 31 December 2015 (2014: Shs 25 million).

(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.

30 Share capital and share premium

	Number of issued ordinary shares	Share capital Shs M	Share premium Shs M	Total Shs M
As at 31 December 2015	**497,201,822**	**9,464**	**2,878**	**12,342**
As at 31 December 2014	497,201,822	9,464	2,878	12,342

The total authorised number of ordinary shares is 1,250,000,000 with a par value of Shs 20 per share. All issued shares are fully paid.

31 Revaluation reserves – Group and company

	2015 Shs M	2014 Shs M
At start of year	-	2,380
Written off during the year	-	(2,380)
Carried forward	-	-

32 Regulatory reserve - Group

At start of year	11,435	8,218
Increase/(decrease)	12,768	3,217
At end of year	24,203	11,435

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 exceed those determined in accordance with IFRS. These amounts are appropriated from retained earnings in accordance with accounting policy 2.11.

33 Cash and cash equivalents

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

	Group 2015 Shs M	Group 2014 Shs M
Cash in hand and balances with Bank of Uganda	194,977	178,386
Less: Cash reserve requirement	(71,430)	(64,370)
Deposits and balances due from banks (note 17)	128,733	132,165
	252,280	246,181

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 **dfcu** Bank Limited'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 2015, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Shs 1,115 million (2014: Shs 1,035 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 2015 the Group contributed Shs 3,195 million (2014: Shs 2,338 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 2.7 billion (2014: Shs 2.1 billion). Based on independent legal advice, management has determined that total expected losses to the Bank are Shs 1,780 million (2014: 644 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 balances were held with related parties:

	Group		Company	
	2015 Shs M	2014 Shs M	2015 Shs M	2014 Shs M
(a) Amounts due to group companies				
dfcu Bank Limited – Overdraft and term finance	-	-	12,507	7,160
Umeme Limited – Demand deposits	2,497	3,304	2,497	3,304
National Social Security Fund (NSSF) – Fixed deposits	14,309	65,069	14,309	65,069

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 demand and fixed deposits held with **dfcu** Bank Limited which earn interest at the prevailing market rates.

(b) Amounts due from group companies

	Group		Company	
	2015	2014	2015	2014
	Shs M	Shs M	Shs M	Shs M
Due from **dfcu** Bank Limited	-	-	839	4,292

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 and related entities

	2015	2014
	Shs M	Shs M
Norwegian Investment Fund for Developing Countries (NORFUND)	8,786	12,300
CDC Group Plc (CDC)	33,580	27,650

(d) Loans to directors and connected persons

	2015	2014
	Shs M	Shs M
At start of year	95	183
Loan repayments received	(95)	(88)
At end of year	-	95

(e) Deposits to directors

At start of year	1,102	894
Net increase	(981)	208
At end of year	121	1,102

(f) Key management compensation

Salaries and other short-term employment benefits	5,043	4,219
Post-employment benefits	550	497
	5,593	4,716

g) Directors' remuneration

Fees	608	572
Other emoluments: Short-term benefits (included in key management compensation above)	228	225
	836	797

37 Contingent liabilities and commitments

The Company's subsidiary, **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.

	2015 Shs M	2014 Shs M
Contingent liabilities		
Acceptances and letters of credit	-	-
Guarantee and performance bonds	67,573	51,305
	67,573	51,305
Undrawn formal stand-by facilities, credit lines and other commitments to lend	20,572	21,690
	88,146	72,995

38 Subsequent events

There were no significant events to report.

Principal shareholders and share distribution

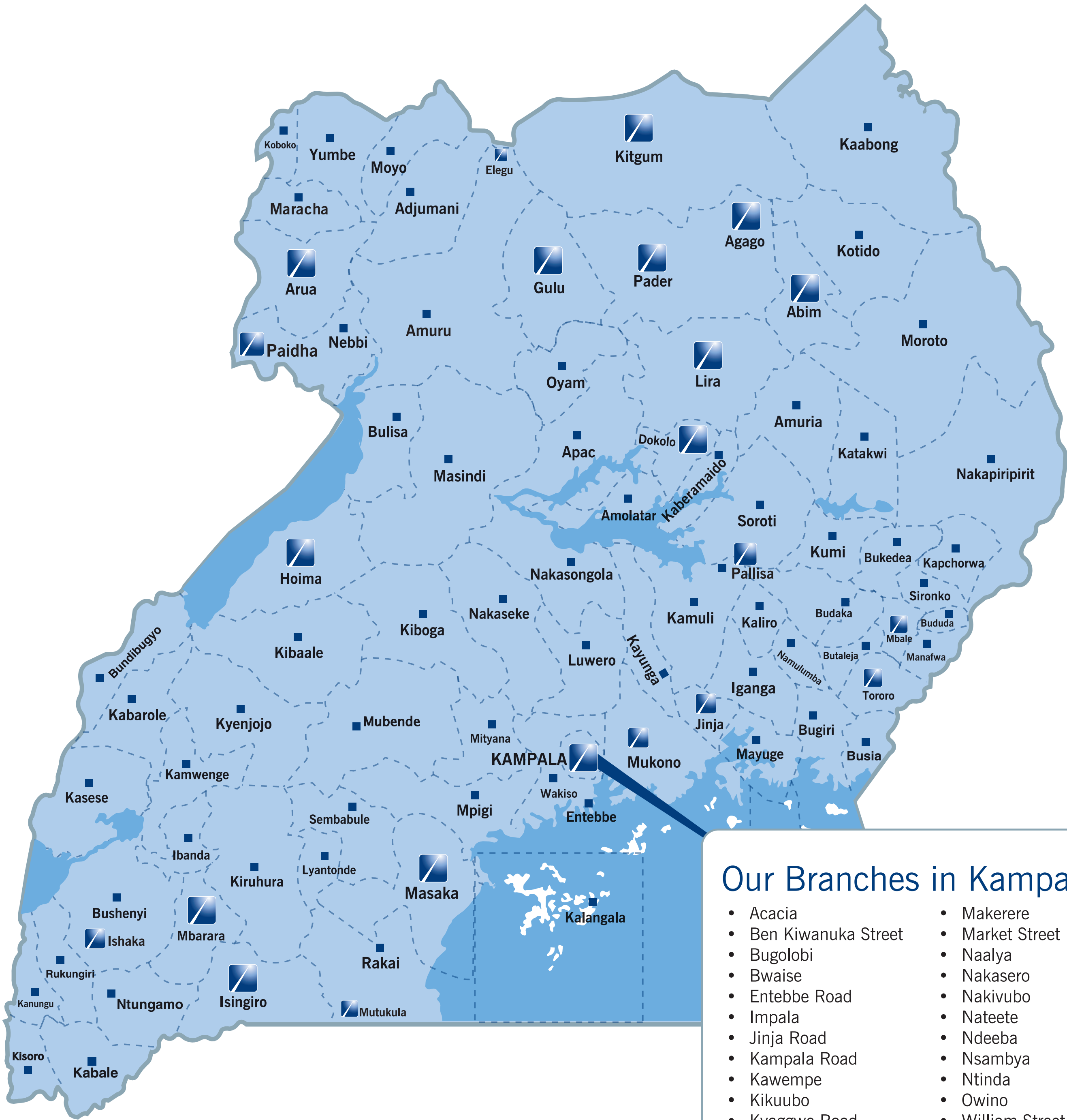
The major shareholders of **dfcu** Limited together with their shareholdings are:

Investor Name	2015 Shares Held	2015 Percentage (%)
Rabo Development B.V	136,923,594	27.54
NORFINANCE AS	136,923,594	27.54
CDC Group Plc	74,580,276	15.00
National Social Security Fund	29,487,658	5.93
Kimberlite Frontier Africa Naster Fund	18,685,286	3.76
SCBM PICTET AND CIE (EUROPE) S.A BLAKENEY LP.	10,094,713	2.03
National Social Security Fund-Pinebridge	5,435,580	1.09
Vanderbilt University	3,691,755	0.74
SSB-Conrad N Hilton Foundation	3,503,808	0.70
SCBM PICTET AND CIE (EUROPE) S.A HEVIBEN LP.	3,300,000	0.66
Parliamentary Pension Scheme	3,185,682	0.64
Bank of Uganda Staff Retirement Benefit Scheme-SIMS	2,904,082	0.58
Bank of Uganda Staff Retirement Benefit Scheme-AIG	2,831,040	0.57
SCBM PICTET AND CIE (EUROPE) S.A. BLAKENEY INVESTORS	2,700,000	0.54
URA Retirement Benefit Scheme-Pinebridge	2,062,936	0.41
Centenary Bank Staff Defined Contributory Scheme	1,934,044	0.39
SCBM PICTET AND CIE (EUROPE) S.A.-AUSTIN ALPHA LP	1,800,000	0.36
UAP Insurance Co. Ltd	1,786,893	0.36
Central Bank of Kenya Pension Fund	1,601,632	0.32
Makerere University Retirement Benefit Scheme	1,526,360	0.31
Others	52,242,889	10.51
	497,201,822	**100.00**

Company statement of comprehensive income

	2015 Shs M	2014 Shs M
Interest income	**293**	355
Interest expense	**(3,161)**	-
Net interest income/(expense)	**(2,868)**	355
Fees and commission income	**246**	614
	(2,622)	969
Dividend income	**12,628**	17,840
Other income	**3,176**	711
Operating income	**13,182**	19,520
Operating expenses	**(2,895)**	(955)
Net recoveries on loans, advances and leases	**-**	44
	(2,895)	(911)
Profit before income tax	**10,287**	18,609
Income tax credit/(expense)	**622**	(231)
Profit for the year	**10,909**	18,378

45 Branches and counting.



Our Branches in Kampala

- Acacia
- Ben Kiwanuka Street
- Bugolobi
- Bwaise
- Entebbe Road
- Impala
- Jinja Road
- Kampala Road
- Kawempe
- Kikuubo
- Kyaggwe Road
- Lugogo
- Makerere
- Market Street
- Naalya
- Nakasero
- Nakivubo
- Nateete
- Ndeeba
- Nsambya
- Ntinda
- Owino
- William Street
- Wilson Lane

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

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