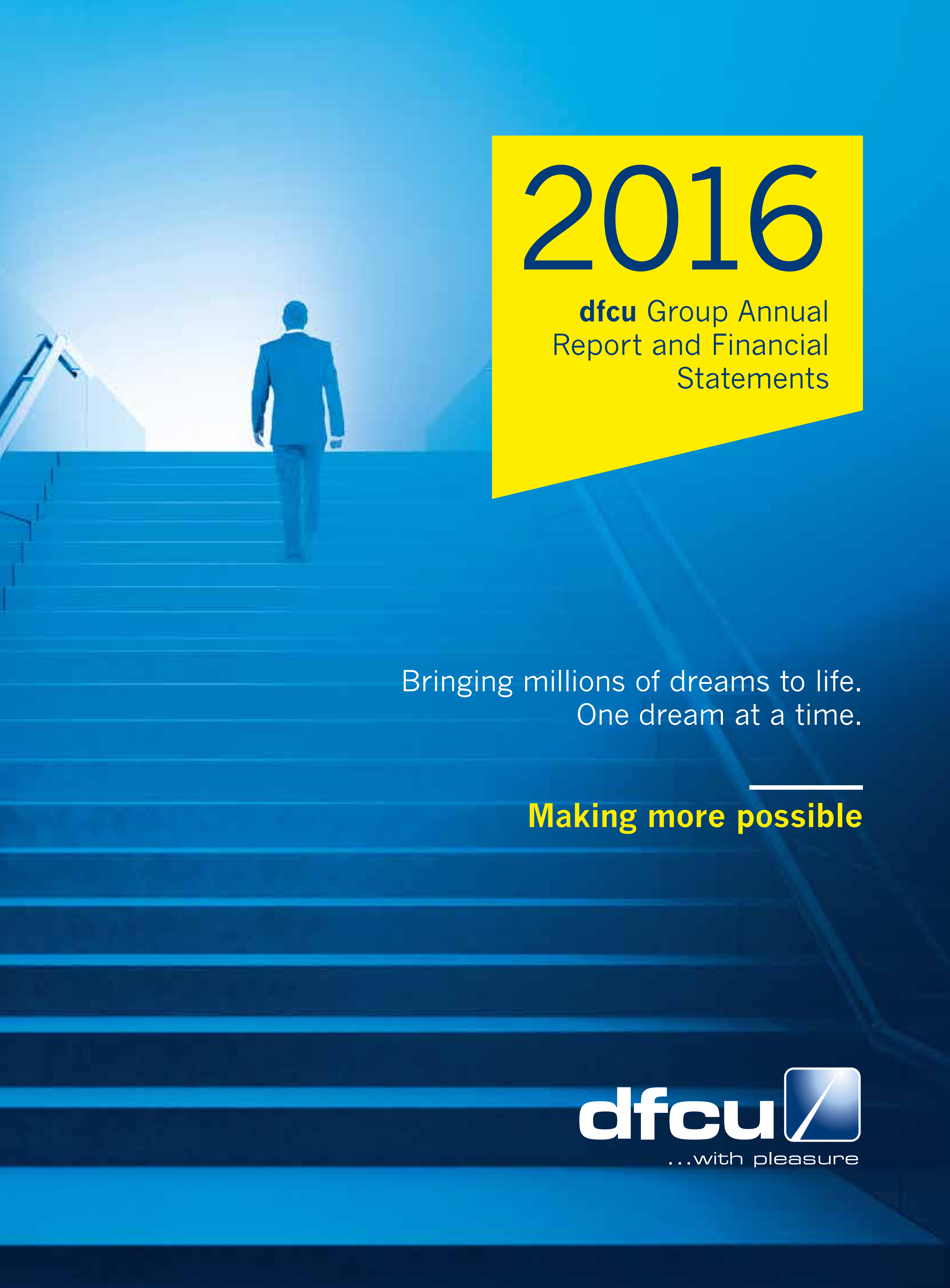

2016

dfcu Group Annual Report and Financial Statements

Bringing millions of dreams to life.
One dream at a time.

Making more possible

...with pleasure

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Our mission

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

Our vision

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

Our values

1. Customer focus
2. Excellence
3. Teamwork
4. Integrity
5. Corporate Social Responsibility and sustainable Development

Culture competencies

1. Focus on staff and customers
2. Courage
3. Transparency
4. Stewardship
5. Collective effort
6. Decisiveness
7. Pride and Passion

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.

1964

dfcu Limited was established

1999

Bought Uganda Leasing Company and renamed it **dfcu** Leasing

2000

Bought Gold Trust Bank, renamed it **dfcu** Bank, and started commercial banking

2004

dfcu Limited was listed on the Uganda Securities Exchange

dfcu Bank channels

- Convenient access and payments using Visa
- Connected to Interswitch giving customers access to a network of over 420 ATMs countrywide
- Offers banking through the Internet and mobile phone channels
- A network of 67 branches spread countrywide

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.

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

Merged its two businesses (Development Finance and **dfcu** Bank) to create a "one-stop shop" under **dfcu** Bank

2008

2012

Established **dfcu** Women Business Advisory Council

Realignment of shareholders bringing on board a strategic partner – Rabobank, with significant experience in agribusiness

2013

2014

Consolidated all our key operations into our Head Office, **dfcu** Towers

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 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.

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.

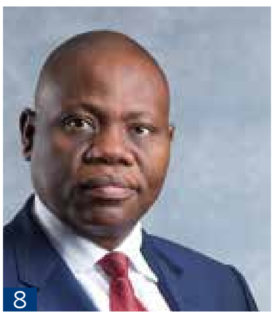
Michael Alan Turner
Non-Executive Director

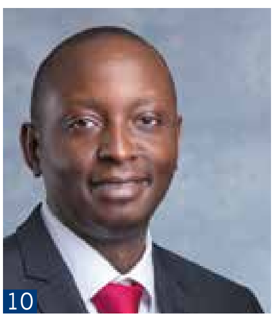
Appointed to the Board:
March, 2010.

James Mugabi
Company Secretary

Appointed: April, 2015.

dfcu Bank
Board of Directors





1 **Jimmy D. Mugerwa**
Non-Executive Director/ Chairman
Appointed Chairman of **dfcu** Bank: September, 2014.
Appointed to the Board: August, 2012.

2 **Deepak Malik**
Non-Executive Director
Appointed to the Board: November, 2007.

3 **Michael Alan Turner**
Non-Executive Director
Appointed to the Board: March, 2010.

4 **Albert Jonkergouw**
Non-Executive Director
Appointed to the Board: December, 2013.

5 **Stephen Caley**
Non-Executive Director
Appointed to the Board: June, 2016.

6 **Ola Rinnan**
Non-Executive Director
Appointed to the Board: June, 2016.

7 **Willem Cramer**
Non-Executive Director
Appointed to the Board: June, 2016.

8 **Juma Kisaame**
Managing Director.
Managing Director since 2007.

9 **Paul van Apeldoorn**
Executive Director
For the period October, 2013 - June, 2016.

10 **William Sekabembe**
Executive Director
Since August, 2016.

11 **Agnes Tibayeita Isharaza**
Company Secretary
Appointed: March, 2006.

Meet the dfcu Women Business Advisory Council

The **dfcu** Women Business Advisory Council (WBAC) 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, **dfcu** Women Business Advisory Council; Chairperson, Uganda Women Entrepreneurs Association Limited (UWEAL)

"We commit as **dfcu** to be your number one Bank. We understood the collateral bottleneck to the growth of your business hence created unsecured lending products for you. We have the first of its kind Women in Business (WiB) Centre. We are pleased to be your one stop shop for all your banking solutions."

Rosemary Mutyabule

Enterprise Development Specialist

"Entrepreneurship is a very lonely journey which can be made more exciting and rewarding by joining the **dfcu** WiB program where you will meet women with the same goals to support you and help you grow your business."

Olive Birungi Lumonya

Country Director SOS Children's villages Uganda; Marketing and Communications Specialist

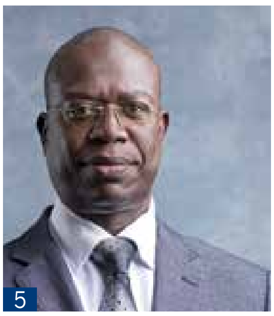
"The **dfcu** WiB program inspires positive changes in women through the various stages of their life, and across all levels of society – from the young graduate just starting out, the established woman entrepreneur or the woman involved in agriculture in the country side."

Patricia Karugaba Kyazze

Managing Director, Nina Interiors Ltd.

"We have progressed from a time when access to finance was a challenge for women. Today women are recognised independently as valuable contributors to Uganda's economy. **dfcu** through its WiB Program gives women more than just access to financing. You benefit from training, mentoring and the consultants available to guide and support you in your business."

dfcu Bank
Senior Management Team



1	**Juma Kisaame** Managing Director.
2	**William Sekabembe** Executive Director and Chief of Business.
3	**Paul van Apeldoorn** Chief Transformation Officer.
4	**Kate K. Kiiza** Chief Financial Officer.
5	**George Ochom** Head, Treasury.
6	**Denis Kibukamusoke** Head, Consumer Banking.
7	**Agnes Mayanja** Head, Credit.
8	**Agnes Tibayeita Isharaza** Head, Legal.
9	**Harriet Musoke** Head, Human Resources.
10	**Chris Sserunkuma** Head, Risk and Compliance.
11	**Leonard Byambara** Ag. Head, Internal Audit.

List of Acronyms

AGM – Annual General Meeting
AML – Anti-Money Laundering
ATM – Automated Teller Machine
BCP – Business Continuity Planning
BIS – Bank for International Settlement
BOU – Bank of Uganda
BPR – Business Process Re-engineering
CAR – Capital Adequacy Ratios
CB – Consumer Banking
CBR – Central Bank Rate
CM – Chairman
CSR – Corporate Social Responsibility
DIB – Development and Institutional Banking
EXCO – Executive Committee
FIA – Financial Institutions Act (2004)
FY – Financial Year
GDP – Gross Domestic Product
GRI – Global Reporting Initiative
H2 – Second half of the year
HRMIS – Human Resource Management Information System
IFRS – International Financial Reporting Standards
KIBP – Kampala Industrial Business Park
KYC – Know Your Customer
M&A – Mergers and Acquisitions
MoU – Memorandum of Understanding
MoWE – Month of the Women Entrepreneur
NPLs – Non-Performing Loans
NSSF – National Social Security Fund
RISCO – Risk Committee
RTGS – Real Time Gross Settlement
Shs M – Shillings in Millions
SME – Small and Medium Enterprises
Ushs – Uganda Shillings
USE – Uganda Securities Exchange
USD – United States Dollars
WBAC – Women Business Advisory Council
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 business income.
Dividend per share	Total ordinary dividends declared per share in respect of the year.
Core capital	Permanent shareholder equity in the form of issued and fully paid up shares plus all disclosed reserves, less goodwill or any other intangible assets.
Supplementary capital	General provisions which are held against future and current unidentified losses that are freely available to meet losses which subsequently materialize and any other form of capital as may be determined from time to time by Bank of Uganda.
Total capital	The sum of core capital and supplementary capital.
Core capital ratio	Core capital divided by the total risk weighted assets.
Total capital ratio	Total capital divided by the total risk weighted assets.

Highlights of the year.

Financial Highlights

	2016	2015	Change (%)
Results for the year (Shs M)			
Income	257,007	222,885	15.31
Profit before taxation	58,363	46,922	24.38
Profit after taxation	45,325	35,290	28.44
Taxes paid to Government	15,730	13,285	18.40
Gross dividends	12,510	10,804	15.79
Shareholders' funds (Capital and Reserves)	249,652	215,131	16.05
Deposits	1,134,731	914,951	24.02
Net loans and advances	842,360	808,047	4.25
Total assets	1,757,725	1,651,408	6.42
Information per ordinary shares (Shs)			
Earnings (Basic)	91.16	70.98	28.43
Earnings (Diluted)	91.16	70.98	28.43
Dividends-cash	12,510	10,804	15.79
Dividends-shares	-	-	-
Ratios			
Return on average shareholders' funds (%)	19.5	16.4	18.90
Return on average assets (%)	2.65	2.14	23.83
Cost to income ratio (%)	55	60	(8.33)
Statutory Ratios			
Capital Adequacy Ratios:			
Tier I (%) - Minimum Requirement 8%	21	17	23.21
Tier I & II (%) - Minimum Requirement 12%	28	24	17.55

Financial Goals and Achievements

	Goal	Achievement				
Financial Indicators		**2016**	**2015**	**2014**	**2013**	**2012**
Return on average assets (%)	3	2.65	2.14	2.96	2.82	3.05
Return on average shareholders' funds (%)	24.5	19.5	16.4	22.0	21.5	25.0
Cost to income ratio	56.8	55	60	54	52	52
Capital adequacy ratios:						
Tier I (%)	12	21	17	19	18	17
Tier I & II (%)	15	28	24	27	25	19

Non-Financial Indicators		**2016**	**2015**	**2014**	**2013**	**2012**
Customers	Number of customers	239,245	255,796	253,716	175,420	121,543
	Number of Customer Touch Points:					
	Number of branches	43	45	45	36	31
	Number of ATMs	42	45	45	35	30
Employees	Total number of employees	756	723	718	501	470
	Employee turnover ratio (%)	8	8	12	9	10
Government Institutions	Taxes to Government (Shs M)	15,730	13,285	14,452	10,564	9,709
Community	Donations (Shs M)	251	308	305	335	223

Transforming women entrepreneurs through the **dfcu** Women in Business Program

dfcu established the Women in Business program (**dfcu** WiB) in 2007 to support Ugandan women entrepreneurs to achieve their full potential. The program was motivated by a number of factors including the fact that despite women being 52% of the population of Uganda, this was not proportionate to the ratio of women who are banked.

The key challenges women face with formal banking include gender blind bank products and policies especially those that demand for land titles as security yet women own only 10% of the titled land. Majority of women tend to have low financial literacy levels and therefore have challenges documenting their business, articulating their plans and projections, yet these are key in assessing bank credit.

In 2012, **dfcu** Bank established the Women Business Advisory Council to support the WiB program. The program is committed to supporting women to grow through provision of an enriching banking experience that is cognizant of the women specific needs and challenges.

To achieve this role, **dfcu** WiB has done the following;

1. Segmented the women customers into the professional, trader and agribusiness to enable tailor made products for each category.
2. To address the key barrier of financial literacy, **dfcu** WiB runs an annual training calendar. In addition, a WiB Centre was opened in 2015 to give one to one counselling and advice for business women.
3. **dfcu** WiB in partnership with the Cherie Blair foundation runs a mentorship program for business women for practical training.
4. **dfcu** WiB has a Memorandum of Understanding (MOU) with Uganda Industrial Research Institute to facilitate practical study tours.
5. Plans are underway to establish regional agricultural centres to support the agribusiness customers.
6. **dfcu** WiB recognizes the lonely journey that women entrepreneurs trek and has thus provided networking and partnership opportunities in order to foster business growth. Apart from training sessions, **dfcu** has facilitated exposure tours to countries like Turkey and Netherlands, the annual WiB Expo, business to business visits and participation in the Month of the Women Entrepreneur (MOWE).
7. **dfcu** has developed products to serve women in their peculiar circumstances. These include among others;
   - Investment clubs (savings as security)
   - Unsecured lending up to USD 10,000 mainly for traders
   - Save for loan (agribusiness)
   - Discounted interest rates on loans
   - Contract financing

Enabling Women through dfcu Women in Business Advisory Services

For **dfcu**, helping women to overcome financial barriers while supporting them in their quest for growth is not just a business proposition; it is in fact an obligation because we value the role of women in the economic transformation of society. That is why **dfcu** partnered with Makerere University Business School (MUBS), Uganda Law Society (ULS) and the Institute of Certified Public Accountants of Uganda (ICPAU) to offer business and financial advisory services to thousands of women, especially those engaged in productive economic activity, at no cost.

The main objective of the partnership is to enhance financial management and entrepreneurial skills, create business linkages for the women entrepreneurs and help them grow. The advisory services are offered at the **dfcu** WiB Centre and through regular customized workshops with our partners. Services offered at the Centre include the following;

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

Why women entrepreneurs?

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 two million people. This translates into considerable direct and indirect contribution to the Gross Domestic Product.
In spite 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

Celebrating Women Entrepreneurs

November was designated as the National Entrepreneurship Month, a time to celebrate the women who have the courage to take smart risks in business, enriching and innovating our lives with the results of their efforts. **dfcu** WiB commemorated our Women in Business' achievements with a number of activities including;

Mentorship Workshop

The women entrepreneurs' mentorship forum was aimed at "boosting and ensuring that women entrepreneurs sustain their businesses while maintaining ideal finance principles". The forum was held on 9th November, 2016 and moderated by the Institute of Certified Public Accountants of Uganda (ICPAU). The one day mentorship forum was a free event for all the **dfcu** Women in Business members and other women interested in learning financial management.

dfcu WiB Day celebrations

This special day celebrates the contribution that women make in the business world and focuses on ways to give women more equality. The **dfcu** Women in Business Day was celebrated across the **dfcu** branch network with the main objective of recruiting and creating more awareness of the WiB proposition.

dfcu Power Breakfast

dfcu celebrated the Women Entrepreneurs with a power breakfast under the theme 'Know and grow your net worth'. Panelists included; Mrs. Jessica Kayanja, Ms. Rosemary Mutyabule (Enterprise Uganda and member of **dfcu** WBAC) and Dr. Gudula Basaza (Chairperson of **dfcu** WBAC).

dfcu WiB Business training facilitated by Makerere University Business School
The training session was facilitated by Professor Wasswa Balunywa and enabled the **dfcu** WiB program members to gain strategic thinking skills, envision the future of their businesses and come up with business plans. This in turn will help with the continuous improvement of the Women's businesses to increase their profitably.

dfcu WiB Achievements

over **12,000**
Members currently registered on the **dfcu** WiB program

Women have benefited from the capacity building sessions
6,000

3,000
Women have benefited from the **dfcu** WiB loans

Women Business Advisory Council introduced
2012

2015
Opened the Women Business Advisory Centre

Supporting the future of Agriculture

The agriculture sector is recording tremendous growth. This growth is partly attributable to a series of institutional reforms designed to modernise the sector and increase productivity.

The result of these reforms has been increased private investment. However, some gaps remain that reduce efficiency and production output.
Through partnerships with processors and community organisations, **dfcu** is unlocking market access opportunities for farmers. This is done through value chain financing and out grower schemes, in combination with funds for capacity building availed through private public partnerships.

dfcu is moving into the retail space as well and is supporting individual small scale farmers to commercialize. We have developed products to support this agenda for example the Farmers Group savings accounts and the "save for loan" product where we lend to farmer groups that are saving with us.

Using digital platforms like mobile banking, **dfcu** is improving access to banking services for farmers in far flag areas. It is cheaper, convenient and more efficient for them to access our services, without coming to the branch.

In partnership with Rabo Foundation, **dfcu** is setting up a Centre that will support the development of the agribusiness sector. The Centre will deal with "soft issues" for small holder farmers like basic book keeping, best farming practices, agri marketing, among others. In addition, the Centre will also support agri - related social responsibility activities.

During the year, **dfcu** continued supporting "The Best Farmer Competition", which is a great platform to highlight our ambitions in the sector. 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 the competition have helped farmers to broaden their view on agriculture as a viable and profitable economic activity.

Driving efficiency through Business Process Re-engineering

Business Process Re-engineering (BPR) is one of the key **dfcu** business transformation projects. The project aims to deliver leaner, faster, highly efficient and effective processes leading to superior customer experience and staff productivity, ultimately improving our bottom line.

The project has been approached in two phases:

- Phase 1- Business Process Mapping
- Phase 2- Process Automation

Phase 1 of the BPR has been completed and involved the following:

- Documenting and confirming existing (As-Is) processes
- Identification of areas of improvement, eliminating duplication and waste, streamlining
- Designing the "To-Be" processes

The highly participative process which started in January 2016 involved 15 BPR champions, all Executive Committee members (who are the process owners), the entire Risk department (Quality, Compliance and Controls) and over 200 process participants.
Implementing the recommendations will have a far reaching positive impact on every area, including Structure, Systems and Processes, Staffing, Skills, Style (Culture) and Shared Values.

Next Steps
In Phase 2 the focus shifts to implementation of the "To-Be" processes. Process improvements will be rolled out in a phased manner through various means including:

- Implementing the "quick wins"
- Amendments to policies to streamline and harmonise certain requirements
- Process Automation through the following:
    - » E-Banking upgrade
    - » Finacle Upgrade
    - » HRMIS enhancements
    - » Auto Reconciliation enhancements
    - » AML enhancements
    - » STP (straight-through-processing), E-Utilities and similar internally developed enhancements
    - » I-Credit (Loan origination) enhancements
    - » Document Management System (DMS)
    - » Business Process Management (BPM) tools

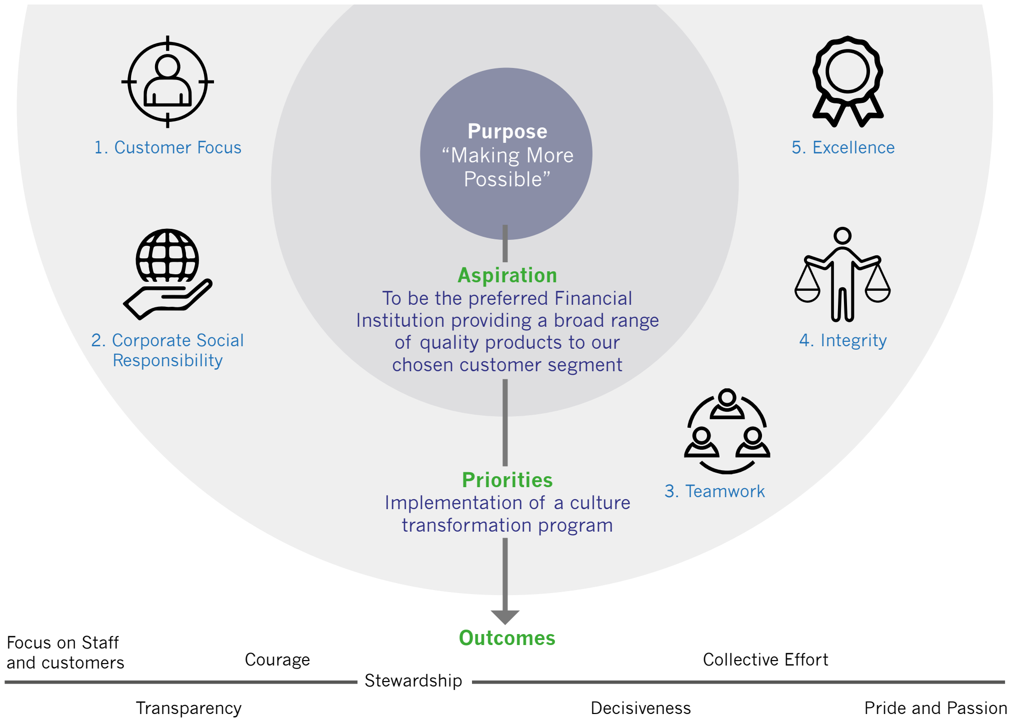
Upon full implementation, the BPR project will unlock **dfcu**'s potential to achieve the key strategic objectives much faster.

Organisational Culture Transformation:
dfcu launches Blue Thunder Culture

The impact of culture on how business gets done can no longer be ignored. Creating a high performing culture will not only provide **dfcu** with a competitive advantage in the chosen markets, but also the agility necessary to meet all stakeholders' needs. Culture is an enabler of strategy. While it starts with leaders, it must stick with all the employees. Culture is not an academic concept – it drives ability to execute strategy.

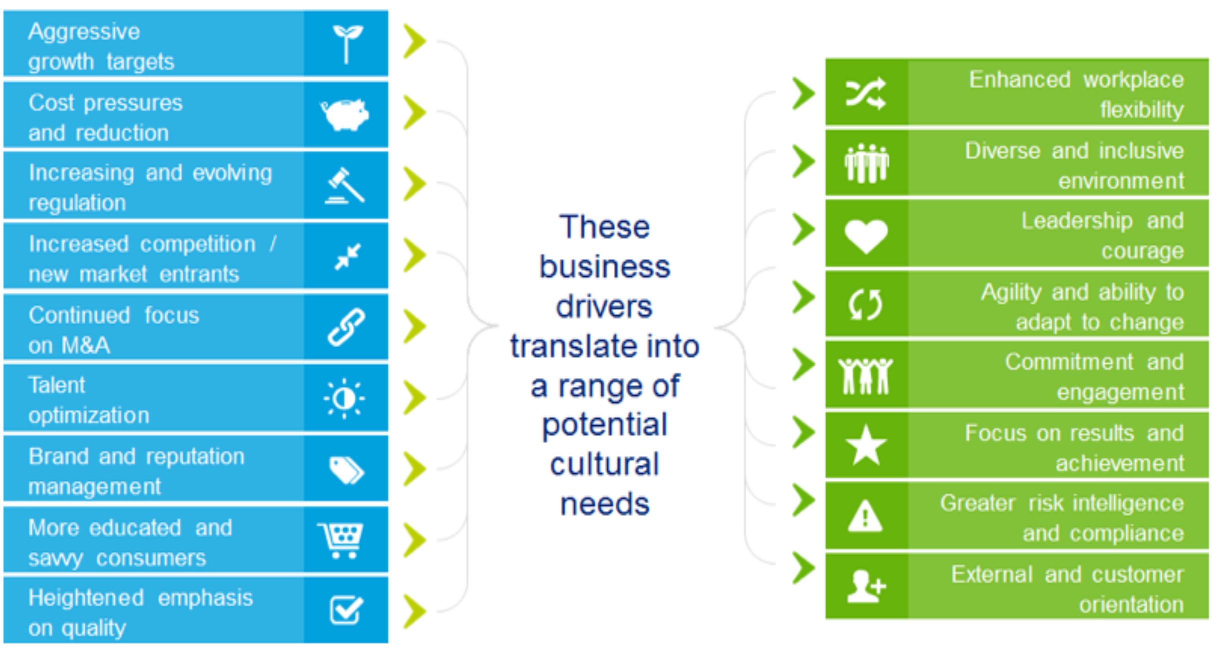
With this in mind, **dfcu** Bank engaged Deloitte to assess its current organisational culture and create a culture transformation program that will lead to the development of a high performance culture.

In light of the recent changes within the Bank, there was need to put in place an articulate system of values, beliefs, and behaviors that will shape how real work gets done within **dfcu**. In December 2016, a new culture tagged "Blue Thunder" was launched. A part of the culture program involved creating a purpose statement to complement our vision, mission and core values. Our purpose statement "Making More Possible" provides clarity with regard to how we create a more high-impact shareholder, employee and customer experience; and how we continue to be consistent in our execution.



Why is Culture so Important to dfcu?

The macro-business issues that today’s organisations face have clear culture implications that can help or hinder strategic objectives. By undertaking the culture transformation program, **dfcu** is now able to articulate culture imperatives and identify capabilities that support the execution of a market differentiation strategy.



Our new truly inclusive culture will drive stronger performance, higher staff productivity, customer loyalty and sustainable business benefits. In addition, the new culture also supports the implementation other **dfcu** transformation projects.

Other Business Highlights

dfcu introduces Visa Debit Card

dfcu launched the **dfcu** Visa Gold and Classic debit cards in October 2016. The introduction of Visa is an essential part of our retail strategy and a critical step in making our services and offerings convenient and accessible 24/7. Our customers now have a range of payment solutions including using their **dfcu** debit cards, in addition to our already existing mobile and internet banking channels.

The **dfcu** Visa Debit card isn't just for withdrawing cash from the ATM. It can be used every day to pay for shopping, at petrol stations, settling bills and even making purchases on line. It can be used anywhere in the world, 24 hours a day; so **dfcu** customers do not need to withdraw large amounts of cash anymore.

The "Chip & PIN" feature on the **dfcu** Visa debit card is designed to protect card users against fraud.

The card also gives customers access to their money anytime at any ATM carrying a Visa logo. It can also be used at any **dfcu** ATM to obtain account balances and mini-statements.

Corporate customer engagements

dfcu hosted its Corporate and Institutional customers to a series of business engagements ranging from national budget analysis to specific sector reviews. These engagements are part of **dfcu**'s objective of creating lasting partnerships with its customers.
A total of four engagements were held during the year.

Pinnacle customer networking activities

The **dfcu** Pinnacle proposition targets our high value Retail customers. One on the unique selling points is the Business Networking sessions that are offered to customers at no additional cost. In 2016, two networking activities were arranged for pinnacle customers. The interactive sessions covered the following areas: packages from **dfcu** Pinnacle alliance Partners, analysis of the macro-economic environment; managing personal finances and healthy living, among others.

dfcu Bank wins NSSF Best employer award

dfcu Bank emerged the overall winner of the 2016 National Social Security Fund (NSSF) Best Employer Awards during the 4th annual members' meeting held on 12th October 2016. To be the best employer, **dfcu** fulfilled its obligations to remit social security contributions for all the employees and passed the NSSF's 360 degrees test that included: payment of contributions on time, payment of the right contributions, payment of contributions for all employees and a clean record with the Fund with no arrears. In 2016, **dfcu** total net contributions were Ushs 4.4 billion.

Ushs 4.4bn

In net contributions for the year 2016

Investing in our Community

In addition to fulfilling our mandate of supporting individuals and businesses directly, we also look for ways to make a positive contribution beyond our core business. In particular, we are committed to operating sustainably and to supporting the communities in which we operate through a range of education and community investment focused initiatives.

As one of the top tier financial institutions in Uganda, we continued to play a key role in the financial education and inclusion of the community. We have invested over Ushs 350 million in the development of new tools to support this agenda. Our Women in Business program continued to support the entrepreneurial spirit and enhance the stability of families, while our Investment Clubs provided a sustainable approach to promoting the savings culture in the community through trainings, peer education and provision of relevant solutions. In 2016 alone, 372 financial inclusion workshops and trainings were extended to over 4000 groups.

We continued to support the "Uganda's Best Farmer Program" in collaboration with our partners; the Dutch Embassy, Vision Group and KLM Airlines. For the past three years, we have contributed over Ushs 675 million towards this program, which is playing a key role in improving the quality of farming practices in Uganda through educative farm tours, trainings and farmer exchange programs in the Netherlands.

675m
contributed towards the support of "Uganda's Best Farmer Program" in collaboration with our partners.

4,000
groups received financial inclusion workshops and trainings in 2016 alone.

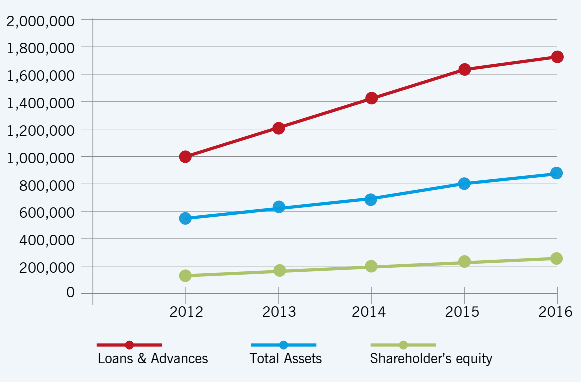
350m
invested in the development of new tools to support financial literacy.

Financial Overview 2016

dfcu Group has established its presence in most parts of Uganda. Propelled forward by the momentum from past achievements, we moved into 2016 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 2016 financial performance.
All financial disclosures herein are based on the International Financial Reporting Standards (IFRS), and the guidelines of the Financial Institutions Act (2004).

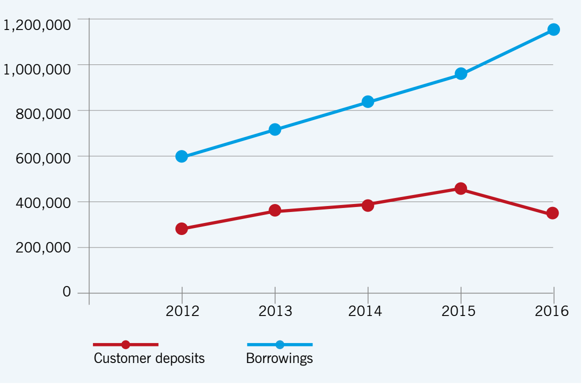
Total Assets

Total assets grew by 6% during the year from Shs 1,651,408 million in 2015 to Shs 1,757,725 million in 2016. Loans and advances increased by 4% representing 48% of the total assets. Total liabilities increased by 5% whereas customer deposits increased by 24% representing 75% of the total liabilities. Shareholders' equity grew by 16% 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.



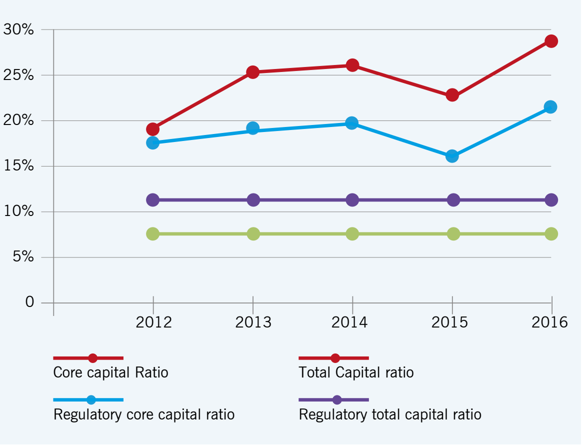
Funding mix

Customer deposits continued to be the major source of funding for the year representing 75% of the total liabilities of the Group in 2016 compared to 64% in 2015. However, customer deposits registered 24% growth in 2016. The Group also has access to funding in terms of borrowings and these reduced by 30% from Shs 491,914 million in 2015 to Shs 344,584 million in 2016.



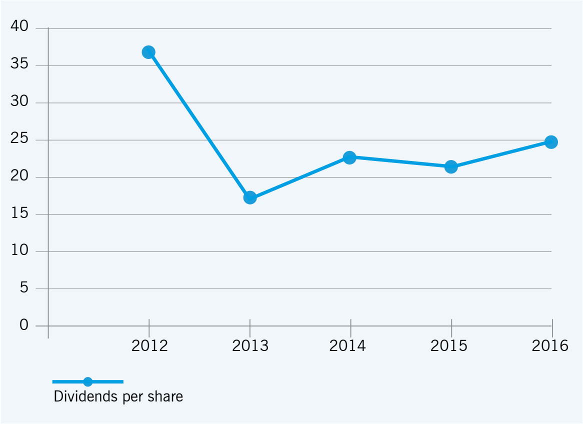
Capital adequacy

dfcu Group monitors its capital adequacy ratios (CAR) using the ratios established by the Bank for International Settlement (BIS) as approved by Bank of Uganda. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, off-statement of financial position commitments and market and other risk positions at weighted amount to reflect their relative risk. As at 31 December 2016, the Group's total capital base was 28% (2015: 24%) of the risk weighted assets, with core capital at 21% (2015: 17%). The capital adequacy remains above the stipulated regulatory minimums of 12% and 8% for total capital and core capital respectively.



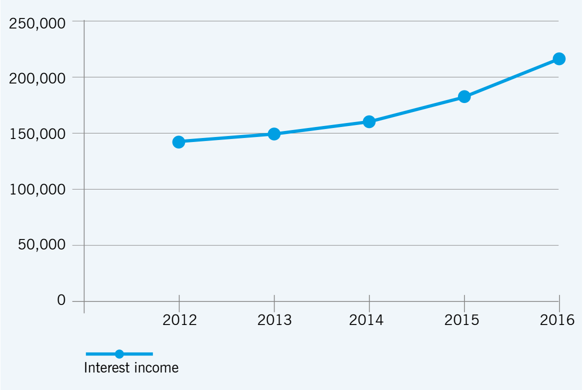
Dividend

dfcu Group's dividend policy is designed to address multiple objectives. The main considerations were to maximize shareholder wealth, increase market capitalization, ploughing back of additional profits for business expansion and maintaining consistent stream of dividend to shareholders. **dfcu** Group paid a total dividend of Shs 21.73 per share to ordinary shareholders for the year ended 31 December 2015. The board of directors of the Group are recommending a total dividend of Shs 25.19 per share. The payment is subject to approval from the shareholders during the Annual General Meeting (AGM).



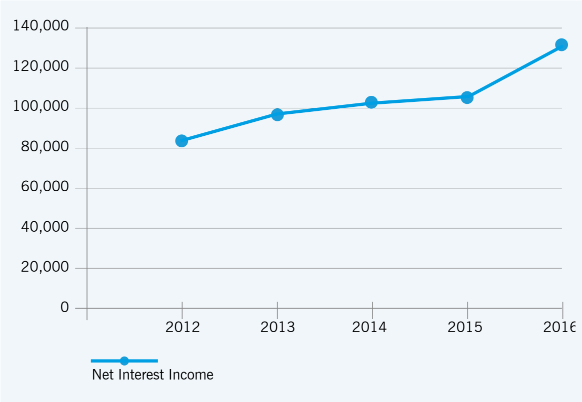
Interest income

dfcu Group had an increase in the interest income of 19% from Shs 182,974 million in 2015 to Shs 217,155 million in 2016. This was due to the 4% increase in the lending portfolio and other earning assets like investment securities.



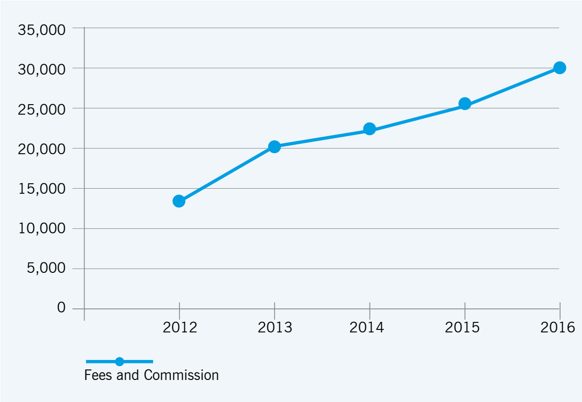
Net interest income

Net interest income-the principal source of income from the Group's operations reached Shs 133,241 million, registering a 23% increase from Shs 108,232 million in 2015. This was driven by a 4% growth in the lending portfolio and interest from other earning assets like investment securities.



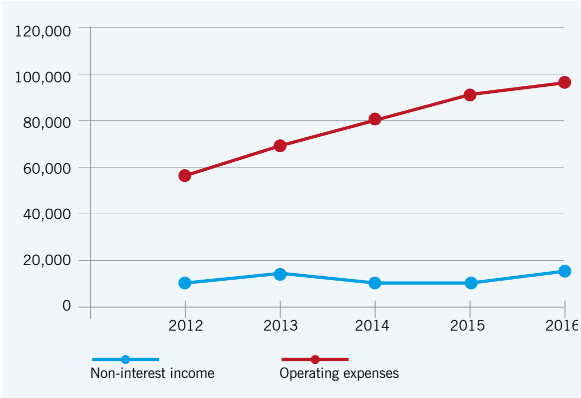
Fees and Commission

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. Fees and commission income grew by 17% from Shs 25,002 million in 2015 to 29,305 million in 2016. The growth was driven by higher transaction volumes arising out of increased customer base during the deposit mobilisation campaigns.



Expenses

The net loan loss provision charged to the consolidated statement of comprehensive income for the year increased by 53% from Shs 11,690 million in 2015 to Shs 17,830 million in 2016. Operating expenses increased by 8% from Shs 89,531 million in 2015 to Shs 96,900 million in 2016. The increment was mainly due to depreciating shilling, inflationary pressures during the period and business expansions. However management was able to register a reduction in the cost to income ratio from 60% in 2015 to 55% in 2016.



	2016	2015	2014	2013	2012
Statement of comprehensive income (Shs' m)					
Interest income	217,155	182,974	163,278	150,604	140,066
Net interest income	133,241	108,232	103,289	96,163	83,505
Fees and commission	29,305	25,002	20,852	20,116	14,055
Net loan loss provision	17,830	11,690	10,490	13,414	11,336
Operating expenses	96,900	89,531	78,309	64,381	54,108
Profit before tax	58,363	46,922	56,561	45,070	40,326
Profit after tax	45,325	35,290	42,109	34,601	30,617
Statement of financial position (Shs' m)					
Loans and advances	842,360	808,047	680,679	623,800	555,411
Total assets	1,757,725	1,651,408	1,424,742	1,226,062	1,001,339
Customer deposits	1,134,731	914,951	822,877	700,285	591,280
Borrowings	344,584	491,914	384,023	340,489	259,939
Shareholders' equity	249,652	215,131	191,541	161,160	135,781
Capital adequacy					
Core capital ratio	21%	17%	19%	18%	17%
Total capital ratio	28%	24%	27%	25%	19%
Risk weighed assets (Shs' m)	1,088,159	1,039,082	870,035	814,983	695,867
Share statistics					
Number of shares in issue (in millions)	497	497	497	497	249
Earnings per share	91.16	70.98	84.69	69.59	123.16
Dividends per share	25.19	21.73	23.53	17.84	37.1

Chairman's Statement

I am delighted to report the turnaround in the company's profitability, having endured a difficult two years as an industry. The continued execution of our strategic plan, focused on driving growth in our chosen market segments, customer satisfaction, innovation and operational excellence, ensured that the Group delivered a strong performance in 2016.

The Group registered a 28% growth in after tax Profit on the back of strong interest income arising from our loan book and cautious management of mobilised customer deposits deployed in short term liquid assets. Earnings per share grew by 28.4% to Ushs 91.16 (Ushs 70.98 in 2015). The group net worth grew by 16% as such setting the pace for 2017 and beyond.

dfcu continued to deliver innovative financial solutions for our customers who depend on us for their financial transformation. In 2016 we added VISA to our payment solutions, and this allows our customers to conduct business worldwide without having to go through the traditional methods of money transfer services. VISA enabled cards are a must own by all our customers and shareholders as the card provides extra security features and has helped the industry to curb electronic fraud, as such making banking safer.

28.4%

growth registered in after tax profit

The “Quantum Leap” Transformation program continues to deliver efficiencies and enabled the Group to process over Ushs 7 trillion worth of customer transactions during the year.

The Group’s performance could not have been possible without our team of 756 dedicated staff. Indeed **dfcu** was awarded the NSSF Best Employer of year 2016. At a macro level, **dfcu** provided incomes of over Ushs 91.6 billion to suppliers and Ushs 15.7 billion in total tax payments, and made a significant contribution to the health of the financial sector and the Ugandan economy.

Our efforts are guided by our passion for customer service excellence. This principle is manifested in our Customer Net Promoter Score (NPS) which has consistently been over the 10% mark compared to the industry average of 5%. This means more customers are happy to recommend **dfcu** to others.

The Economic and Regulatory Environment
2016 was a challenging year with the domestic economy registering suboptimal GDP growth projected at 4.5%. This weakened performance was a result of pressures associated with the political election cycle in Uganda, the ongoing conflict in Southern Sudan – a key trade partner, drought which ravaged the agricultural sector; and a sluggish global economy.

During the year, headline inflation declined from 7.3% in January 2016 to 5.7% by year-end, while core inflation declined from 6.7% to 5.9%. However over the same period, the Uganda Shilling continued to weaken, depreciating by 7% against the United States Dollar. This was mainly driven by strengthening of the major currencies as well as the weak domestic inflows as a result of the growing current account deficit.

The private sector continued to compete with the Government of Uganda (GoU) for credit, as also exhibited by growth of domestic public sector credit surpassing the levels of private sector credit.

A number of customers participating in the oil sector suffered as government postponed the development of the refinery while realignment in ownership further affected key developments in the sector.

Conflicts on the African continent continued to result into an inward looking developed world with donor fatigue affecting budget subsidies that contributed to the expansion in the local economy. As the developed economies recover from recession, funds have continued their outward movement to markets with lower risk. This together with delayed oil sector activities affected foreign direct investments, thus contributing to inflation, a weaker shilling and high domestic rates.

At the global level there was a splintering of consensus around how countries and economies should be managed. This resulted in outcomes that diverge from what had come to be considered the norm, such as Britain deciding to leave the European Union. While it is still too early to assess the full impact of these on going global disruptive actions, the local economy could be affected by declining foreign direct investments, reduced foreign currency remittances and declining bi lateral trade relations.

On the regulatory front, amendments to the Financial Institutions Act 2004 (under the Financial Institutions (amendment) Bill 2016) were passed to introduce three new products: Islamic Banking, Bancassurance and Agent Banking; to Uganda’s banking sector. These additions are expected to contribute further to the financial inclusion agenda. Under the auspices of the Uganda Bankers Association, there is an ongoing effort to form a single Agent Banking platform to be shared by all the banks. This is expected to be launched in the second half of 2017. We are already finalising our own plans in readiness for roll out as soon as the implementation guidelines are issued by the Central Bank.
The Anti - Money Laundering Act, 2013 was passed to control illicit money transfers. The Financial Intelligence Authority was created to monitor anti-money laundering activities in the country.

The Banking Environment
The effects of a challenging operating environment on the Banking sector continued through the year leading to a major Bank going into statutory management and ending up collapsing in 2017. However, the banking system remained sound, with bank liquidity and capital buffers well above the minimum requirement. Bank funding conditions remained stable, and customer deposits contributed more than 80 per cent of the total funding for the sector.

Private sector credit growth, a leading indicator of the financial sector's contribution to economic activity, slowed during the year, partly due to the high interest environment. The first half of 2016 saw a continued rise in non-performing loans (NPLs), reaching a high of 8.31% of industry gross loans in FY 2015/16 compared to 3.97% in FY 2014/15. This in part manifested in the preventive actions by the Central Bank in the form of successive reductions in the Central Bank Rate (CBR), leading to the subsequent easing of lending rates by commercial banks.

The financial services sector embraced a number of technological advances with a continued drive for digitalisation so as to optimise efficiency in back office functions as well as providing new financial solutions to the customers. To this end we witnessed a number of developments during the year:

- Increasing competition from Mobile Network Operators (MNOs) and Financial Technology Companies (FinTechs) in providing payment solutions.
- Increasing collaboration between Banks, MNOs and FinTechs to offer convenient and affordable services mainly targeting the mass market, for example, "Mo-Kash" loan facility.
- More banks joined the Interswitch shared ATM switch with the total number of 17 financial institutions and over 420 ATMs now connected to this infrastructure.
- Banks continued to invest substantially in digitalisation driven by mobile banking.

Operating and financial results

The Group delivered a solid performance for the year. Net profit after tax was Ushs 45.32 billion, registering a double digit growth of 28.4% over 2015. In line with the positive performance total revenues for the year were Ushs 257 billion, a growth of 15.3% compared to 2015.

Earnings per share grew by 28.4% on the prior year to Ushs 91.16 per share. Return on equity was 18.2%.

The Group's total assets increased by 6.4% to Ushs 1.758 trillion, with customer deposits surging by 24.02% to Ushs 1.135 trillion.
Loans and advances grew marginally to Ushs 842.36 billion as a result of a cautious lending strategy due to economic slowdown.

The directors have proposed a final dividend of Ushs 25.19 (Ushs 21.73) per share for 2016.

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

Our Strategy

In April 2016, we carried out a review of our Strategy in light of the changing environment. Overall, our strategy remains consistent and relevant in a constantly changing market environment.

Our market growth ambitions will continue to be driven by the following strategic priorities:

- Expansion of our retail operation whilst maintaining special attention to the high value sub segments for profitable growth.
- Consolidation of our position as a key player in the SME market segment.
- Continued investment in the digital agenda so that the Group is positioned to seize the opportunities of the future.
- Becoming a leading player in the Agribusiness sector.

We have already begun to reap from this strategy. Our Consumer Banking business is for the first time contributing significantly to the bottom line.

In order to serve our segments better, we created a dedicated Business Banking stream under Consumer Banking to ensure a focused approach to our SME customers, the growth engine of our Company.

Despite the successes we have achieved to date, we need to keep raising the bar, in a market where we have strong, well-run competitors.

Strong capital, funding and liquidity positions

Our capacity to support our customers is directly related to the strength of our balance sheet.
During the financial year, we responded to increased regulatory capital requirements for our subsidiary, **dfcu** Bank. As a result of strong organic capital growth, we substantially boosted our capital position and our Bank is among the well capitalised in the sector.

Our funding and liquidity positions were similarly strong, driven by a 24% growth in customer deposits during the year, which now represent 75% of Group funding. However, the cost of funds continued to be sticky at a high level, impacting negatively on our profitability.

Creating value for our shareholders

In 2015, **dfcu** broke ground at Kampala Industrial Business Park (KIBP) at Namanve to build a Financial Services Centre to serve the several businesses that are establishing themselves within the industrial park. KIBP is located 11Km East of Kampala along Jinja- Kampala Highway. When fully occupied KIBP will become a home to major manufacturing entities involved in steel, plastics, cement, agro processing as well as other companies engaged in transport and storage, and franchises like Toyota.

The Centre will also act as a Disaster Recovery and Training facility for our subsidiary **dfcu** Bank as well as host a branch to serve customers. This project will be completed in 2017, costing US Dollars 2.1 million. It is an addition to the flagship **dfcu** Head office building.

Driving productivity and efficiency

At the heart of our approach to productivity and efficiency is a commitment to continuous improvement for better customer experience. The emphasis on productivity is evident in our behind-the-scenes processes, with our teams working collaboratively to fully understand processes end-to-end, and being accountable and empowered to take steps towards making improvements.

To support the productivity agenda, a Business Process Re-engineering (BPR) project was initiated in 2016. BPR aims to overhaul and streamline processes to deliver leaner, simpler, easier, faster, highly efficient and effective methods of work leading to superior customer experience and staff productivity. Once implemented fully, the BPR project will improve the cost to income ratios and the bottom line.

The Group also recognizes that improving productivity and efficiency also requires continuous investment in the improvement of the staff skills set. During 2016, an average of 2.5 man days per staff were spent on trainings.

Simplifying customer experience

We continue to prioritise digitalisation and technology to transform the customer experience. This is a core pillar of the Bank's retail growth strategy.

The Group is investing in an upgraded core banking system for its subsidiary **dfcu** Bank, which will deliver market-leading advantages able to support our digital banking agenda and related functionality on integrated, real time systems. The upgraded core banking platform will give us a firm base upon which to expand, innovate and increase automation of end - to - end customer journeys.

We are also using our investment in technology to achieve the broader goal of financial inclusion within the community. This means accelerating our deployment of digital and mobile capabilities to make our products and services easily accessible.

> We believe that creating a high performing culture does not only provide **dfcu** with competitive advantage in our chosen markets, but also the agility necessary to meet all of our stakeholders' needs.

Culture transformation

The strength of our performance is entirely a reflection of the commitment and dedication our people show to their customers. This is reflected in our values that are hinged on five pillars, Customer service, Integrity, Teamwork, Excellence and Corporate Social Responsibility.

We believe that creating a high performing culture does not only provide **dfcu** with competitive advantage in our chosen markets, but also the agility necessary to meet all of our stakeholders' needs. With this in mind, **dfcu** embarked on a culture transformation program in 2016, aimed at driving high staff performance and efficiency.

One of the outcomes of our culture program was the **dfcu** purpose statement "Making More Possible" to support our vision, mission and core values.

To support the purpose statement, a number of culture competencies were also developed. The next step focuses on embedding the **dfcu** culture competencies into our ways of working, and we are incorporating into all staff performance reviews, an assessment of how they have demonstrated the high performance culture we are determined to achieve.

Corporate Governance and Board appointments

A critical goal of the Board is to ensure the Group is trusted and achieves the highest ethical standards, so that we continue to best serve our customers, shareholders and the broader community. As Chairman, I seek to advance the sustainable performance of your company by bringing the experience, skills and insights of Board members to bear, and when combined, enable the Board to challenge management effectively whilst providing guidance on the strategic direction.

The breadth and diversity allows the Board to exercise its judgement and to appropriately fulfil its role for shareholders. In this regard, the Board of our subsidiary company **dfcu** Bank underwent some changes during the year, bringing in the skills and experience of Mr. Steve John Caley, Mr. Ola Mørkved Rinnan and Mr. Willem Fredrik Crammer respectively.

We welcome the depth and breadth of knowledge Steve brings to the board deliberations in the areas of Risk management, Controls, Credit and Corporate Banking.

An experienced banker at executive and international level, Willem offers valuable experience gained from various board positions he holds at different entities. His experience with different supervision regimes, both in regulated industries such as banking and at publically listed companies, will support the Board in the areas of corporate governance and compliance.

Ola brings a wealth of experience from a number of senior roles and directorships across a range of companies. This knowledge is vital as we continue to drive a customer focused organisation.

At the executive level, Mr. William Sekabembe, formerly the Head of Development and Institutional Banking for our Subsidiary, **dfcu** Bank, was appointed the Executive Director and Chief of Business.

William has over 17 years of banking experience with extensive knowledge in Retail and Business Banking, Credit risk management and Product Development. He is in charge of managing and directing the overall business growth of the Bank as well as providing strategic business leadership.

I am very grateful to all my colleagues on the Board for the effort and hard work they put into performing their duties, which requires extreme dedication.

Our commitment to the community

In addition to fulfilling our responsibility to support individuals and businesses directly, we also look for ways to make a positive contribution beyond our core business. Business sustainability is key to our existence. In particular, we are committed to developing together with the communities where we operate.

As one of the top tier financial institutions in Uganda, we continued to play a key role in the financial education and inclusion of the community. We have invested over Ushs 350 million in the development of new tools to support this agenda. Our Women in Business program continued to support the entrepreneurial spirit and enhance the stability of families, while our Investment Clubs have support through training and peer education, to instill a savings culture in our communities and in return growing the SME base. In 2016 alone, 372 workshops and trainings were given to over 4,000 groups.

We continued to sponsor "Uganda's Best Farmer Program" in collaboration with our partners; the Dutch Embassy, Vision Group and KLM Airlines. Over the past three years, this initiative has been instrumental in raising public interest in agriculture and has played a key role in improving the quality of farming practices in Uganda through educative farm tours, trainings and farmer exchange programs in the Netherlands.

Recent Developments
Towards the end of 2016, our banking subsidiary participated in a bid to acquire assets of a Bank in distress. Your two Boards were presented with this opportunity and supported the Management team to conclude the transaction. I'm glad to report that **dfcu** Bank came out as the most suited Bank to manage the stability of the industry resulting in the acquisition of some of the Assets and Liabilities of the former Crane Bank in receivership.

I am happy to note that the tireless effort of both the Board and Management of the Bank has yielded a smooth integration of more than 500,000 customers into the **dfcu** family. This acquisition was no mean fit and compliments our strategy of becoming a significant player in the retail banking space. It has transformed **dfcu** into a larger institution able to compete better in the market to underwrite larger transactions for our corporate customers while having a large reach for our SME and Agri Business customers. We are grateful to our shareholders who continue to fulfil their promise of supporting the financial institutions across the continent through capacity building and financial intermediation. We are confident that this acquisition will enhance shareholder value and create an institution which can play a key role in the development of the country.

As announced on 19 April 2017, two of our major shareholders – Norfinance and Rabo Development, together with FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.), combined their resources into a new company ARISE B.V., with assets of over US Dollars 600 million and operations in over 20 countries on the continent, whose objective is strengthening the financial services providers. As part of this commitment, ARISE extended a bridging financing facility of US Dollars 50 million which enabled **dfcu** Limited to strengthen the capital base of the Bank and its stability.

My gratitude goes to our Board and Staff who did a great job to support the stability of the banking sector. In this way, not only did **dfcu** once again show that it is a pillar for stability in the sector but also its ambition to grow shareholder value.

Outlook for the future
The current operating environment has its challenges. However, we remain cautiously positive about the economy, whose future prospects are underpinned by the implementation of several major infrastructure projects and a renewed momentum in the oil and gas sector.

The ability to realise the full potential however, is greatly dependent on the supporting environment. Stable and well-communicated policy settings are necessary to ensure that businesses have the confidence to invest for growth.

As a Group, we need to go further on cost reduction and faster on digital transformation. We are not alone in searching for efficiency gains and investing in digital capability, but the unique strength of the Group lies in the fact that we have a diverse business profile, with reasonable scale in all of our chosen markets.

We will continue to focus on growth in the strategic segments without comprising on risk. To this end we have reviewed the Customer Value Propositions (CVPs) for the priority segments and created a full-fledged Business Banking unit to consolidate our position in the SME sector.

In line with our basic responsibility of fostering economic transformation, we will also continue to support the economic activities that we believe are critical to our common future, including the traditional sectors like agriculture which need to adapt modern methods to prosper.

Acknowledgment
I would like to thank everyone in the Group for their continuing hard work and commitment to our vision and values, and express my appreciation to our shareholders for their confidence in the future of our Company. I also recognize the confidence that customers place in **dfcu** and commit that we will continue to put you first as we invest in our future mutual success.

Elly Karuhanga,
Chairman, Board of Directors

Risk Management and Control

dfcu is exposed to a diversity of risks that can have financial, operational and compliance bearings on our business performance, reputation and license to operate.

The board is cognisant of the fact that creating shareholder returns is the reward for taking and accepting risk. The effective management of risk is therefore critical to supporting the delivery of the Group's strategic objectives.

The Group's methodology to risk management, underpinned by our Risk framework, is aimed at embedding a risk-aware culture in all decision-making, and a pledge to managing risk in a proactive and effective manner. This includes the early identification and evaluation of risks, the management and mitigation of risks before they crystalize, and dealing with them effectively in the event they manifest. Accountability for risk management is clear throughout the Group and is a key performance area for management and staff.

To support risk understanding and management at all levels, the Risk function provides the necessary infrastructure to support the management and reporting of substantial risks within the Group, and escalates key issues through the management team and eventually to the Board where suitable, in its assessment of risk.

The process for identifying, evaluating and managing the material business risks is intended to manage, rather than eliminate, risk and where appropriate accept risk to realize earnings. Certain risks, for example natural disasters, cannot be managed using internal controls. Such bigger risks are transferred to third parties such as insurance companies, to the extent considered fitting.

Risk Management Framework

Sound risk management is essential to the triumph of **dfcu** and is recognised 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 maximise 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

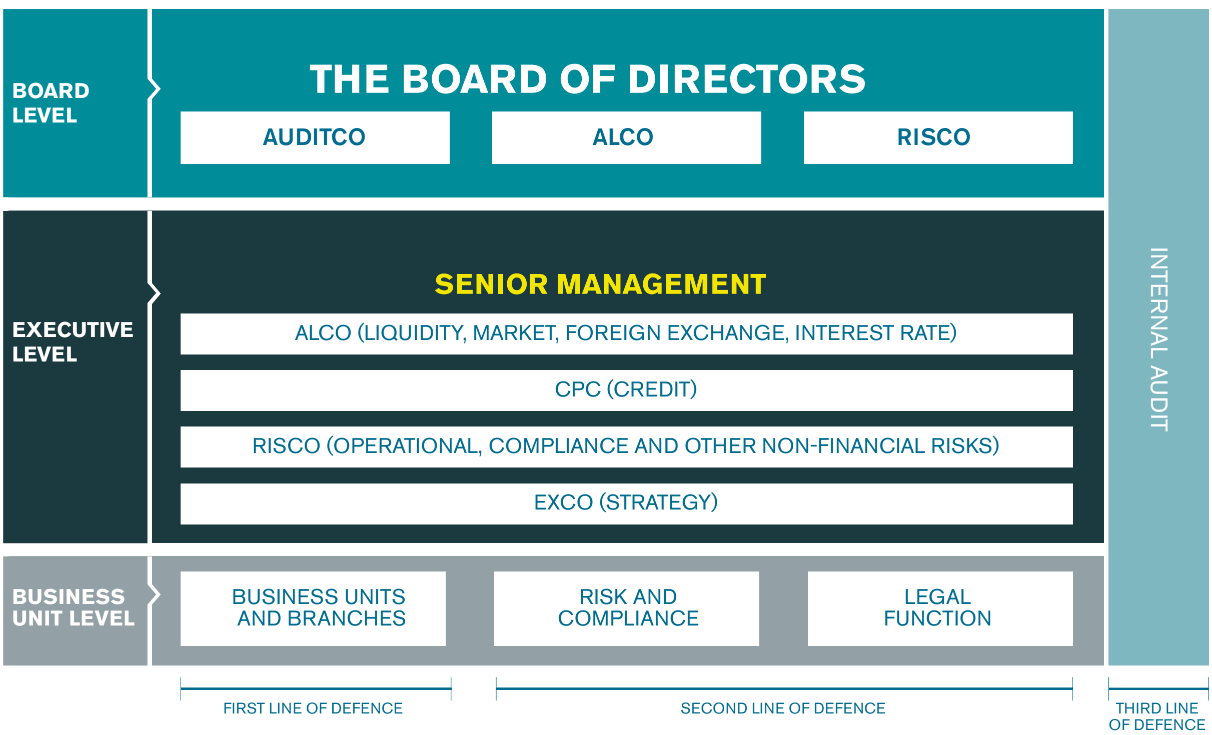
The Board has ultimate responsibility for risk management and internal control, including the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives, and ensuring that a suitable culture has been embedded throughout the organisation.

The Board and Management discuss the quarterly reports with the relevant business unit managers in formal quarterly meetings. Specifically, the Bank reports are subsequently discussed with the Central Bank / the Regulator.

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.

RISK GOVERNANCE FRAMEWORK



The Board of Directors sets the tone at the top, the risk appetite, approves policies, tolerance limits and ensures that the Company's risk management framework and internal controls are effectively implemented.

The Board delegates its risk-related responsibilities primarily to specialised committees which then focus on different aspects of risk management, and it receives regular updates on the key risks of the Company in comparison to risk appetite and 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.

Management of risk is the responsibility of all 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.

The Internal Audit function and external auditors independently audit the adequacy and effectiveness of the Company's risk management framework and provide independent assurance on the same to the Audit Committee of the Board.

Risk Appetite

This is the combined level of risk that **dfcu** is prepared to accept within its capacity to achieve its strategic goals and objectives as defined. Risk Appetite is a key component of our risk management. Effective risk management involves 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 a regularly reviewed and updated 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 senior management risk committees and ultimately the Board of Directors.

Key Risks faced by the Company

Strategic risk

Strategic risk management is a process for identifying, assessing and managing risks and uncertainties, affected by internal and external events or scenarios, that could inhibit an organization's ability to achieve its strategy and strategic objectives with the ultimate goal of creating and protecting shareholder and stakeholder value. **dfcu**'s focus sectors are heterogeneous and often grow dissimilarly. Our main customer groups are corporates, multinationals, SMEs, local governments, or associated institutions such as parastatals, private operators and individuals. Other customer types are contractors, insurance companies, infrastructure and real estate project developers and farmers.

Despite the positive long-term growth prospects for our markets, in the short to medium term this can be impacted by some factors outside our control such as general or regional geopolitical developments, such as political unrest, drought, government-imposed trade policies and volatility in the liquidity and commodities markets. In recent years, in particular the latter has strongly manifested itself in terms of substantially lower commodity prices. **dfcu** aims to respond as effectively as possible to both positive and negative developments in individual markets, through awareness sessions, capacity building, advisory services and partnership with other development partners. **dfcu** deals with several competitors in the financial sector and such competitors vary from large, internationally operating institutions to regional and local competitors.

A large part of our revenue is derived from provision of commercial banking and credit to various customers, with competition often being customer service (turn-around time), product differentiation and then pricing.

Proper decision-making processes have been put in place to ensure further service improvement and that the risks associated with the execution and delivery of the strategy are systematically identified, assessed and mitigated. However, factors – such as cash flow adequacy, key sector focus, social and environmental practices, compliance with the regulations as well as the financial resilience of the customers are regularly taken into consideration in our dealings.
To achieve the anticipated results, **dfcu** attaches great importance to properly integrating all its activities to ensure creation of value for our stakeholders and retaining key personnel which are important elements in this process.

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 as it falls due.

The Company's credit risk arises mainly from its lending activities to customers but also from interbank lending and investment in securities. However, **dfcu** has a robust framework of policies and processes in place including a strong appraisal process to measure, manage and mitigate credit risks emanating from the various counterparties. The Group's credit policy is to maintain a diversified portfolio, avoiding large risk concentrations while maintaining stringent internal risk/return guidelines and controls. Other than in the case of very strong, creditworthy clients with an undisputed credit history, all substantial credit risks are normally covered by means of credit insurance, bank guarantees and/or advance payments, and other forms of collaterals like landed property, machine and equipment, debentures, personal guarantees, etc.

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 recognizes that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value. Our financial assets and liabilities are based on a combination of variable and fixed short term / long-term interest rates, as such our exposure to interest rate fluctuations are managed by matching the resultant interest rates on such assets and liabilities
The above is governed by policies updated and 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 cash and cash equivalents 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 management include, but are not limited to: Setting liquidity risk strategy for the Group; Reviewing and enforcing **dfcu**'s funding and liquidity policy; Reviewing and monitoring **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. **dfcu**'s funding policy is aimed at maintaining a solid financial position. Solid balance sheet ratios and the use of diversified sources of funding provide for ample capacity to absorb liquidity risks and the constant creation of adequate borrowing capacity.

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.

Operational risk
Operational risk is the risk of loss arising from inadequate controls and procedures, unauthorized activities, outsourcing, human error, systems failure and business continuity. It is inherent in every business organization 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.

For effective management of Operational Risk, **dfcu** has categorized the operational risk event types as follows:

1. Internal Fraud: The risk resulting from dishonesty of personnel within the Company, such as forgery of documents, embezzlement, bribery, etc.
2. External Fraud: The risk resulting from dishonesty of individuals outside the Company such as forgery of financial documents, fraud, etc.
3. Clients, Products and Business Practices: The risk resulting from business practice, the introduction of a product, and the accessing of a customer's information that is inappropriate or noncompliant with regulations or rules, such as unauthorized transactions, unapproved dealings, money laundering activities, or the misuse of confidential customer information, etc.
4. Business Disruption and System Failures: The risk resulting from anomalies in the system or the failure of the system in various aspects, such as inconsistency, disparity arising from combining operations, defects in the computer system or network system, or the usage of outdated or substandard technological tools. Information security is the practice of defending information from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. It is a general term that can be used regardless of the form the data may take (electronic, physical, etc.)
   Information Assurance: We have put in place systems to ensure information integrity including but not limited to disaster recovery programs, database monitoring systems, etc.
5. Employment Practices and Workplace Safety: The risk resulting from the inappropriate hiring of employees, unjust practices and compensation, or the mistreatment of employees, producing workplace consequences such as litigation, resignation, or demonstration. This risk is ably handled by our staff teams through robust Human Resource management policies, processes and monitoring mechanisms.

Recognizing 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

Integrating a strong compliance risk management programme, 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 to reputation **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. The unit 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. Compliance risk reports are regularly discussed by management and as applicable escalated to Board of Directors for appropriate guidance.

Reputational Risk

This risk emanates from an adverse perception of the Company on the part of any stakeholder arising from an event or transaction of, or related to, the organization. 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 Risk department regularly monitors and reports to management and Board any acts that may lead to reputation damage for appropriate redress. Directors and employees are made aware of their role in maintaining the Company's reputation, and of their responsibilities and duties from a customer service, regulatory and ethical perspective. New products are critically reviewed 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.

Environmental and Social Risk

dfcu is committed to conducting business in accordance with the highest ethical standards and regard to health and safety, environmental, social and governance aspects of its banking and lending activities, and the principles of environmentally sound and sustainable development.

The nature of most of our activities means that we have an impact on society and the environment. In many cases this impact will be positive, for example when we are involved in financing projects beneficial to society e.g education, infrastructure, hospitality, health, manufacturing, among others. However, a potential negative impact during the execution of some projects by our customers cannot be ruled out. Environmental risks include the impact on vulnerability on ecosystems.

dfcu has an Environmental social and governance (ESG) policy updated from time to time that provides guidance to the staff and clients on how to manage aspects related to the ESG and ensure that the projects are compliant.

The extent to which our activities have a social impact directly or indirectly through our clients is highly dependent on the type and/or location of a given project. Where relevant, we implement or ask our clients to implement a social impact program and work with our clients to mitigate the impact created by our / clients' activities.

Bribery and Corruption

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

The Company has zero tolerance to acts of bribery and corruption in all its dealings with the staff, customers and suppliers among others. The ABC program embodies this principle; the program includes oversight and governance, risk management processes, communication and training, reviews, due diligence, preapproval 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 and results into consequence management that may lead to termination.

dfcu encourages staff and all other stakeholders to use its whistleblowing channels to report any such acts of bribery /corruption for management's further action.

Corporate Governance

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

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

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 Standards (including the Commonwealth Association of Corporate Governance Principles and the OECD Principles as well as the Capital Markets (Corporate Governance) Guidelines, 2003, the Companies Act 2012, and the Financial Institutions Act, 2004, among others.

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

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

dfcu Group Board of Directors
The Board is 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 Companies Act.

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

- to protect the interests of shareholders and other stakeholders of the Company, and to 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;
- to provide oversight to and supervise management of the Company, operations and ensure the establishment of effective internal control systems; and
- 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 and with passion for the sectors the Company is involved with.

As at the end of 2016, the Board of Directors of dfcu Limited comprised 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 nine (9) Directors, seven of whom are non-executive and two executive directors.

The Directors who served on the dfcu Limited Board during the year under review are listed on Page X. The Bank Board appointed three new directors; Mr. Steve John Caley, Mr. Ola Mørkved Rinnan and Mr. Willem Fredrik Crammer during the year.

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

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

The Directors' attendance of Board Meetings for the year 2016 is as follows:
(a). **dfcu** Limited

Name	March	June	September	November
Mr. Elly Karuhanga (CM)	√	√	√	√
Mr. Deepak Malik	√	A	√	√
Mr. Michael Turner	√	√	√	√
Mr. Kironde Lule	√	√	√	√
Mr. Albert Jonkergouw	√	√	√	√
Dr. Winifred Tarinyeba Kiryabwire	√	√	√	√

A - Absent with apologies

(b). dfcu Bank Limited

Name	March	June	September	November
Mr. Jimmy Mugerwa (CM)	√	√	√	√
Mr. Deepak Malik	√	A	√	√
Mr. Michael Turner	√	√	√	√
Mr. Albert Jonkergouw	√	√	A	√
Mr. Terje Vareberg	√	N/A	N/A	N/A
Mr. Willem Cramer	N/A	√	√	√
Mr. Ola Mørkved Rinnan	N/A	√	√	√
Mr. Steve Caley	N/A	√	√	√
Mr. Juma Kisaame	√	√	√	√
Mr. Paul van Apeldoorn	√	√	N/A	N/A
Mr. William Sekabembe	N/A	N/A	√	√

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

Board Committees
The Board delegates some of its functions to sub committees.
The Directors' attendance of Board Committee Meetings for the year 2016 was follows:

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

The **dfcu** Limited Board Audit Committee members for the year 2016 were Mr. Kironde Lule (Chairman), Michael Turner, Mr. Deepak Malik.

The **dfcu** Limited Board Audit Committee attendance for the year 2016 was as follows:

Name	March	June	September	November
Mr. Kironde Lule (CM)	√	√	√	√
Mr. Deepak Malik	√	A	√	√
Mr. Michael Turner	√	√	√	√

A – Absent with apologies

b). dfcu Bank Limited
The dfcu Bank Limited Board has delegated its authority to five (5) board Committees as shown below:

1. Nominations Committee
The Committee is, amongst other responsibilities, charged with identifying suitable candidates to fill board vacancies as well as review and determine board remuneration, and other board matters. In 2016 the Committee was comprised of Mr. Jimmy Mugerwa (Chairman), Mr. Deepak Malik, Mr. Albert Jonkergouw and. Mr. Michael Turner.

The Board Nominations Committee's attendance for the year 2016 was as follows:

Name	March	June	September	November
Mr. Jimmy Mugerwa (CM)	√	√	√	√
Mr. Michael Turner	√	√	√	√
Mr. Deepak Malik	√	A	√	√
Mr. Albert Jonkergouw	√	√	A	√

A – Absent with apologies

2. 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 members for the year were Mr. Michael Turner (Chairman), Mr. Terje Vareberg, Mr. Steve Caley and Mr. Ola Rinnan.

The Board Audit Committee's attendance for the year 2016 was as follows;

Name	March	June	September	November
Mr. Michael Turner (CM)	√	√	√	√
Mr. Terje Vareberg	√	N/A	N/A	N/A
Mr. Steve Caley	N/A	√	√	√
Mr. Ola Rinnan	N/A	√	√	√

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

3. 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 2016 were Mr. Albert Jonkergouw (Chairman), Mr. Terje Vareberg, Mr. Ola Rinnan, Mr. Deepak Malik, Mr. Willem Cramer and Mr. Steve Caley.

The Board Risk and Credit Committee's attendance for the year 2016 was as follows:

Name	March	June	September	November
Mr. Albert Jonkergouw (CM up to September 2016)	√	√	A	√
Mr. Deepak Malik	√	A	N/A	N/A
Mr. Terje Vareberg	√	N/A	N/A	N/A
Mr. Ola Rinnan	N/A	√	√	√
Mr. Steve Caley (CM after September 2016)	N/A	√	√	√
Mr. Willem Cramer	N/A	N/A	√	√

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

4. Board Remuneration Committee

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

The Committee's members for the year 2016 were Mr. Deepak Malik, Mr. Michael Turner, Mr. Albert Jonkergouw and Mr. Jimmy Mugerwa (up to June 2016).

The Board Remuneration Committee's attendance for the year 2016 was as follows;

Name	March	June	September	November
Mr. Albert Jonkergouw (CM from June 2016)	√	√	A	√
Mr. Jimmy Mugerwa	√ (Ag. CM)	N/A	N/A	N/A
Mr. Deepak Malik	√	A	√ (Ag. CM)	√
Mr. Michael Turner	√	√	√	√

A – Absent with apologies
N/A – Not applicable (was not a member of the Committee at the time of the meeting)
Ag.CM – Acting Chairman

5. 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 2016 were Deepak Malik (Chairman), Albert Jonkergouw and Willem Cramer.

The Board Assets and Liabilities Committee's attendance for the year 2016 was as follows;

Name	March	June	September	November
Mr. Deepak Malik (CM)	√	A	√	√
Mr. Albert Jonkergouw	√	√ (Ag. CM)	A	√
Mr. Willem Cramer	N/A	√	√	√

A – Absent with apologies
N/A – Not Applicable (was not a member of the Committee at the time of the meeting)
Ag.CM – Acting Chairman

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 2016, the directors received fees as follows:

Annual Retainer

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

Sitting Allowances (per meeting):

Chairman	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 **37(g)** of the financial statements.

Brief shareholder analysis

Directors' interest in the shares of the Company as at 31st December 2016

Name	Number of shares held
Mary Winifred Tarinyeba	3,000

Distribution of dfcu Limited shareholders as at 31st December 2016

Description	No. of Investors	No. of Shares Held	Percent Holding
Between 1 and 1,000 Shares	1,685	712,236	0.14%
Between 1,001 and 5,000 Shares	1,254	3,261,098	0.66%
Between 5,001 and 10,000 Shares	184	1,388,342	0.28%
Between 10,001 and 100,000 Shares	451	12,227,900	2.46%
Above 100,001 Shares	97	479,612,246	96.46%
	3,671	**497,201,822**	**100.00%**

List of the 20 largest shareholders as at 31st December 2016

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	29,324,090	5.90
National Social Security Fund - Pinebridge	5,435,580	1.09
SCBM Pictet and Cie (Europe) S.A Blakeney LP	5,169,849	1.04
SSB - Conrad N Hilton Foundation	4,741,872	0.95
Vanderbilt University	4,427,165	0.89
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
Parliamentary Pension Scheme	1,911,409	0.38
URA Retirement Benefit Scheme - Pinebridge	1,862,936	0.37
Centenary Bank Staff Defined Contributory Scheme	1,834,044	0.37
UAP Insurance Co. Ltd	1,786,893	0.36
SCBM Pictet and Cie (Europe) S.A Heviben LP	1,640,250	0.33
Central Bank of Kenya Pension Fund	1,601,632	0.32
Makerere University Retirement Benefit Scheme	1,526,360	0.31
Crane Bank Limited	1,444,208	0.29
Gadani	1,292,646	0.26
	447,649,178	**90.03**
Others	**49,552,644**	**9.97**
	497,201,822	**100.00**

Sustainability Report

dfcu is exposed to a diversity of risks that can have financial, operational and compliance bearings on our business performance, reputation and license to operate.

Report Scope

This report covers the economic, social and environmental performance of **dfcu** Group for the year ended 31 December 2016. 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.

Report Quality

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

- **Completeness:** We include key material sustainability impacts within and under the direct control of Statutory regulations, impacts outside the organization that are indirectly influenced through our engagement with stakeholders; and broader sustainability initiatives undertaken through the CSR programs and other groups.
- **Comparability:** We provide results from both current and previous reporting periods.
- **Accuracy and consistency:** Our information-gathering process includes verification by internal authorities and external assurance providers.
- **Clarity:** We provide both quantitative and qualitative information accompanied by tables and graphs where appropriate.
- **Balance:** We report all relevant information; nothing is withheld.
- **Credibility and Reliability:** We seek external confirmation from reputed assurance providers.

Precautionary Approach

dfcu Group manages the social and environmental impacts in its products and services through the Credit Bureau department and also 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 impact 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		Staff, Board of Directors, Management	Customers	Communities	Suppliers	Shareholders	To dfcu Group	To the stake-holders
Economic								
1. Economic performance	High	*					High	High
2. Market presence	High	*					High	High
3. Procurement practices	High	*					High	High
Environment								
4. Energy	High	*					High	Moderate
5. Water	Low	*						
6. Emissions	Low	*						
7. Effluents and waste	Moderate	*			*		Moderate	High
8. Products and services	Moderate	*	*				High	High
9. Compliance	Low							
Social: Labour Practices and Decent Work								
10. Employment	High	*					High	High
11. Occupational health and safety	Moderate	*					High	High
12. Training and education	High	*					High	High
13. Equal remuneration for women and men	High	*					High	High
14. Labour practice grievance mechanisms	High	*					High	High
Social: Human Rights								
15. Non-discrimination	High	*					High	High
16. Freedom of association and collective bargaining	High	*					High	High
17. Child Labour	High	*					High	High
18. Forced or compulsory labour	High	*					High	High
19. Security practices	High	*					High	High
Social: Society								
20. Local communities	High	*		*		*	High	High
21. Anti-corruption, anti-bribery and anti-money laundering	High	*	*				High	High
22. Compliance	High	*					High	High
Social: Product Responsibility								
23. Customer health and safety	High	*	*				High	High
24. Product and service labelling	High	*	*				High	High
25. Customer privacy	High	*	*				High	High
Other Topics								
26. 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:

1. 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.
2. Alignment of **dfcu**'s lending strategy to comply with the exclusion lists (both internal and those of our funding partners).
3. Companies to which **dfcu** lends comply, at a minimum, with Uganda's Employment laws (the Employment Act, the NSSF Act, Income Tax Act, the Workers' Compensation Act, and Trade Unions Act), the National Environmental Act, regulations and standards.
4. **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 & 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 (2015: 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 affect by **dfcu** Group's activities or their engagement with our organization. We build and maintain strategic relationships with a broad range of stakeholders, to enable proactive engagement, manage social expectations, minimise reputational risk and influence the business environment. We employ a range of channels and mechanisms to gather stakeholder feedback. The frequency of engagement varies according to the stakeholder group and the particular issue. 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, prompting effective action. **dfcu** Group did not encounter any critical stakeholder concerns during 2016.

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 enhance services offered by the Group • Sustainable growth. **Concerns raised:** • Quality of assets • Sensitivity analysis	Concerns of existing and prospective shareholders are addressed (provided they are not related to commercial secrets) during the engagement process. Transparency, accountability and regular communications are among our top priorities.
Annual General Meeting	Annually		
Interim financial statements	Semi-annually		
Press conferences and media releases	As required		
Investor presentations	Annually		
Announcements made on the Uganda Securities Exchange	As required		
One-on-one discussions	As required		
Company website: *www.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 fair and affordable banking • Community investment • Recognition of excellence by various external parties **Concerns raised:** • Staff recruitment • Financial inclusion	• We contribute to local economic development through the full range of banking activities, from deposit taking and investments to personal lending and commercial finance, delivered via the **dfcu** Bank's nationwide branches and ATM network. Committed to being transparent in our activities, we keep the public informed of our sustainable performance and other relevant developments. We also support local communities and some of the neediest members of society through sponsorships and CSR initiatives.
Public events	As required		
Call 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 – Consumer 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 which support them in their efforts and to ensure good governance. These committees are in turn backed by several other management committees headed by the Managing Director. The proceedings of these Board Committees are duly communicated to the Board.

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

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

Our economic impact

dfcu Group recognises the role played by the private sector in the development of Uganda. As a business, we were able to contribute to the investments required to stimulate economic development and mitigate risks posed by global challenges. The value added statement below shows the economic foot print of our operations in Uganda in 2016. It shows our impact on the economic conditions of our stakeholders and throughout the society.

The most fundamental contribution of **dfcu** Group to the society in which we operate is by maintaining a robust business.

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

Value 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 2016 was Shs 76,913 million (2015: 58,612 million) as shown in the statement below.

Value added statement	2016	% of wealth created	2015	% of wealth created
	Shs M		Shs M	
Interest income	217,155		182,974	
Fees and commission income	29,305		25,002	
Net trading and other income	10,547		14,909	
Interest expense	(83,914)		(74,742)	
Operating expenses	(96,900)		(89,531)	
Wealth created	**76,913**		**58,612**	
Distribution of wealth				
Employees	35,391	46%	31,835	54%
Government	15,730	20%	13,285	23%
Dividends to shareholders	10,804	14%	11,700	20%
Corporate social responsibility	251	1%	360	1%
Retentions to support future business growth	14,737		1,432	
Wealth distributed	**76,913**		**58,612**	

The value added statement above shows that **dfcu** Group is a positive contributor to the society of Uganda. Of the total wealth created in 2016, the following is the total flow of capital among some key stakeholders:

- Shs 35,391 million was distributed to the employees as remuneration benefits (2015: Shs 31,835 million)
- Shs 15,730 million was distributed to the Government of Uganda in form of taxes (2015: 13,285 million)
- Shs 10,804 million was paid to the shareholders as dividends (2015: 11,700 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 6% in 2016 (2015: 16%), loan portfolio grew by 4% (2015: 19%) and net interest income grew by 23% (2015: 20%)	Upgrade the core banking system to enhance productivity. • Establish more 24/7 automated banking centres and branches at identified locations. • Further improve centralized approval process and loan disbursement process. • Further upgrade the mobile banking platform and click banking.
	Driving operational excellence through cost management	Cost to income ratio was 55% (2015: 60%). Key contributions to the cost to income ratio are higher interest charges, depreciating shilling, inflationary pressures and business expansion.	
	Management of credit impairment losses	Credit loss ratio in 2016 was 1.7% (2015: 1.5%).	
Building a robust retail operation	Wealth creation	Wealth created in 2016 was Shs 76,193 (2014: Shs 58,612). The branch network was rationalised to 43 (2015: 45 branches) as two branches were merged with the existing branches. This was done to improve the overall business efficiency and cost optimisation.	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. • 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 6% during 2016. SMEs form 80% of the total loan book in 2016 (2015: 74%)	

	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 54% of our loan book (2015: 51%).	
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 priotise 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 fairly 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.	756 employees in 2016 (2015: 723). Labour turnover in 2016 was 8% (2015: 8%).	
	Growing leadership capability	Training spend was Shs 410 million in 2016 (2015: Shs 665 million).	

The Journey Ahead

The financial services industry continues to evolve rapidly driven by a number of factors including: rapid technological developments led by financial technology companies (fintechs), changing customer expectations and intensified competition.

These developments create many opportunities for us to strengthen our position and deliver long-term value for all our stakeholders, not least our shareholders. While we made progress in 2016, we remain committed to continuing the execution of our strategy and realising our vision of becoming the preferred financial solutions provider in the market segments where we operate.

In 2017, our focus will be on continuing to improve the customer experience through innovation and digitalisation, strengthening our position in the priority customer segments to drive sustainable growth and becoming more efficient.

Innovation and digitalisation

Digitalisation continues to transform the financial sector and to offer opportunities for **dfcu** to deliver on our retail strategy. We are investing substantial resources in innovation to stay competitive and relevant to our customers as well as respond to new competitive forces. As part of our strategy, we will also continue to explore mutual partnerships to accelerate our efforts within the digital space.

Priority customer segments

The Group will continue to focus on consolidating and growing our position in the priority segments. To this end, we are revamping our Customer Value Propositions (CVPs) to bring them closer to the segments that we serve. We will implement a dedicated Business Banking stream to ensure a focused approach to our SME customers, who are the future growth engine of our company.

Becoming more efficient

Making our existing processes more efficient, with an end-to-end perspective, will both improve the customer experience and reduce costs. In 2017, the focus will be on implementing the second phase of the Business Process Re-engineering (BPR) project to achieve leaner, simpler and faster processes.

The Group is also investing in an upgraded core banking system for its subsidiary **dfcu** Bank, which will support the digital banking agenda and related functionality on integrated, real time systems.

People and culture

Ensuring a high–performing, agile organisation with the skill set needed to match increasing customer expectations and the changing environment in which we operate remains a key priority. While we will continue to develop existing capabilities, we also need to build new areas of expertise and attract new talent.

We will embed the new **dfcu** culture competencies into our ways of work. This will ultimately inculcate a culture that drives high performance and long-term value creation.

dfcu Group Directors' report and Consolidated Financial Statements

for the year ended
31st December 2016

Contents

Main Correspondent Banks

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

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

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

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

Kenya Commercial Bank
Kencom House, Moi Avenue,
Nairobi, Kenya

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

Group's Solicitors

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

Karuhanga, Tabaro & Associates
Solicitors & Advocates
Ground Floor, Esami House
Plot 52, Bombo Road
P.O. Box 37366,
Kampala, Uganda

Kabayiza, Kavuma, Mugerwa & Ali Advocates
Plot 11, Bandali Close, Bugolobi
P.O. Box 36362,
Kampala, Uganda

AF Mpanga
4th Floor, dfcu Towers
Plot 26, Kyadondo Road, Nakasero
P.O. Box 1520,
Kampala, Uganda

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

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

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

dfcu Limited
Directors' report

The directors submit their report together with the audited consolidated and separate financial statements of **dfcu** Limited ("the Company") and its subsidiary, **dfcu** Bank Limited (together "the Group") for the year ended 31 December 2016, which disclose the state of affairs of the Group and of the Company. The Group's parent company is **dfcu** Limited ("the Company"), which owns 100% of the ordinary shares of **dfcu** Bank Limited.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The Group's profit for the year was Shs 45,325 million (2015: Shs 35,290 million). The directors recommend payment of dividends for the year ended 31 December 2016 of Shs 12,510 million (2015: Shs 10,804 million) or Shs 25.19 per share (2015: Shs 21.73 per share).

DIRECTORS

During the financial year and up to the date of this report, other than as disclosed in Note 37 to the consolidated and separate financial statements, no director has received or become entitled to receive any benefit other than directors' fees and amounts received under employment contracts for executive directors. The aggregate amount of emoluments for directors' services rendered in the financial year is disclosed in Note 37 of the consolidated and separate financial statements.

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

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

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

AUDITORS

The external auditors, KPMG were appointed during the year and have expressed willingness to continue in office in accordance with Section 167(2) of the Companies Act of Uganda and Section 62(1) of the Financial Institutions Act 2004 (as amended 2016).

ISSUE OF FINANCIAL STATEMENTS

The consolidated and separate financial statements were authorised for issue in accordance with a resolution of the directors dated 20 March, 2017.

By order of the Board

James Mugabi
COMPANY SECRETARY
Date: 20 March, 2017.

dfcu Limited
Statement of Directors' Responsibilities

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

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the Companies Act of Uganda, the directors are required to prepare consolidated and separate financial statements for each year that give a true and fair view of the state of affairs of the Group and company as at the end of the financial year and of the operating results of the Group and Company for that year. It also requires the directors to ensure the Group and Company keep proper accounting records that disclose with reasonable accuracy the financial position of the Group and Company.

The directors accept responsibility for the consolidated and separate financial statements set out on pages 9 to 71 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, the Financial Institutions Act 2004 (as amended 2016) and Ugandan Companies Act. The directors are of the opinion that the consolidated and separate financial statements give a true and fair view of the state of the financial affairs and the profit and cash flows for the year ended 31 December 2016. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors have made an assessment of the Group's and Company's ability to continue as a going concern and have no reason to believe the business will not be a going concern for the next twelve months from the date of this statement.

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements, as indicated above, were approved by the board of directors on 20 March, 2017 and were signed on its behalf by:

Director	Director

Independent auditors' report to the members of **dfcu Limited**

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of **dfcu** Limited (Group and Company), which comprise the consolidated and separate statement of financial position as at 31 December 2016, the consolidated and separate statement of comprehensive income, the consolidated and separate statement changes in equity and the consolidated and separate statement cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, set out on pages 9 to 71.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of **dfcu** Limited as at 31 December 2016, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act of Uganda and the Financial Institutions Act, 2004 (as amended 2016).

UGX
45,325m
Profit for the year

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

There are no key audit matters reported for the separate financial statements. This key audit matter is applicable to the consolidated financial statements.

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">Impairment of loans and advances to customers</td></tr>
<tr><td colspan="2">Refer to note 2G, 3B and 17, to the financial statements</td></tr>
<tr><td>The Group has recognised impairment allowances on loans and advances amounting to Ushs 28,652 million.

The estimation of the impairment allowance on an individual account basis requires management to apply significant judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and expected future cash flows.

In addition the collective impairment allowance relates to loan losses incurred but not yet identified on other loans.

Impairment of loans and advances to customers is a key audit matter due to the significance of this balance, the significant judgement applied by management and the work effort by the audit team.</td><td>Our audit procedures in this area included, amongst others;

Individual impairment
• Assessing and testing the design and operating effectiveness of the controls over the Group's loan impairment process;
• Testing whether management considered all loans and advances with indicators of impairment in their impairment assessment by;
  • performing credit file inspections,
  • inspecting the non-performing loans list,
  • considering minutes of the internal credit committee and
  • considering general economic conditions in which the customers of the Group operate.
• Challenging the appropriateness of the assumptions applied by management to the key inputs included in the projected cash flows and evaluating the expected settlement date by the customer given the economic circumstances of the customer.
• Testing the reasonableness of the period of the sale of collateral, which included comparing the inputs used by management, with externally derived data and our own assessments based on our knowledge of the Group and the industry;
• Re-performing the impairment calculation to determine whether the present value of future expected cash flows have been determined correctly and

Collective impairment
• Re-performing the collective impairment calculation, which included:
  • assessing the reasonableness of the Group's historical loan loss ratio used in this calculation, and
  • assessing whether the historical loan loss ratio has been applied correctly to the loans; which are not individually impaired; to calculate the collective impairment.

Assessing whether the impairment losses and disclosures in the consolidated financial statements appropriately reflect the Group's exposure to credit.</td></tr>
</table>

Other Information

The directors are responsible for the other information set out on pages i to lxii. The other information comprises all the information included in the Annual Report, but does not include the consolidated and separate financial statements and our auditors report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or Company to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Continued)

Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
As required by the Companies Act of Uganda we report to you, based on our audit, that:
1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
2. In our opinion, proper books of account have been kept by the Group and Company, so far as appears from our examination of those books; and
3. The Group's and Company's statements of financial position and comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Benson Ndung'u - P0116.

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

Date: 20 March, 2017.

dfcu Limited
Financial Statements

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2016 Shs M	2015 Shs M
Interest and similar income	6	**217,155**	182,974
Interest and similar expenses	7	**(83,914)**	(74,742)
Net interest income		**133,241**	**108,232**
Fees and commission income	8	**29,305**	25,002
		162,546	133,234
Net trading and other income	9	**10,547**	14,909
Total income		**173,093**	**148,143**
Operating expenses	10	**(96,900)**	(89,531)
Impairment of loans and advances	17	**(17,830)**	(11,690)
Profit before tax		**58,363**	**46,922**
Income tax expense	13	**(13,038)**	(11,632)
Profit after tax		**45,325**	**35,290**
Other comprehensive income			
Profit for the year		**45,325**	**35,290**
Other comprehensive income		**-**	-
Total comprehensive income for the year		**45,325**	**35,290**
Attributable to:			
Equity holders of the Company		**45,325**	35,290
Non-controlling interest		**-**	-
		45,325	35,290
Earnings per share:			
Basic earnings per share	12	**91.16**	70.98
Diluted earnings per share	12	**91.16**	70.98

The accounting policies and notes on pages 16 to 71 form an integral part of these financial statements.

Company statement of comprehensive income for the year ended 31 December

	Note	2016 Shs M	2015 Shs M
Interest income	6	**345**	293
Interest expense	7	**(3,143)**	(3,161)
		(2,798)	(2,868)
Fees and commissions	8	**455**	246
Dividend income		**14,804**	12,628
Other income	9	**5,176**	3,176
		20,435	16,050
Total income		**17,637**	**13,182**
Operating expenses	10	**(3,786)**	(2,895)
Impairment of loans and advances		**(399)**	-
Total expenses		**(4,185)**	**(2,895)**
Profit before tax		**13,452**	**10,287**
Tax credit	13	**405**	622
Profit after tax		**13,857**	**10,909**
Other comprehensive income			
Profit for the year		**13,857**	10,909
Other comprehensive income		**-**	-
Total comprehensive income for the year		**13,857**	**10,909**

The accounting policies and notes on pages 16 to 71 form an integral part of these financial statements.

Consolidated statement of financial position as at 31 December

	Note	2016 Shs M	2015 Shs M
Assets			
Cash and balances with Bank of Uganda	15	**176,565**	194,977
Government securities	18	**489,183**	407,695
Deposits and balances due from banks	16	**139,471**	128,733
Loans and advances to customers	17	**842,360**	808,047
Other assets	19	**19,364**	21,128
Deferred income tax asset	23	**3,290**	1,650
Property and equipment	20	**67,069**	69,301
Investment property	21	**11,560**	12,086
Intangible assets	22	**8,863**	7,791
Total assets		**1,757,725**	**1,651,408**
Liabilities and Equity			
Liabilities			
Customer deposits	25	**1,134,731**	914,951
Deposits due to other banks	26	**11,505**	98,096
Other liabilities	27	**25,962**	25,564
Current income tax payable	13	**2,796**	3,848
Borrowed funds	30	**331,371**	392,110
Special funds	29	**1,708**	1,708
Total liabilities		**1,508,073**	**1,436,277**
Equity			
Share capital	31	**9,464**	9,464
Share premium	31	**2,878**	2,878
Retained earnings		**208,614**	155,669
Other reserves		**12,113**	12,113
Regulatory reserve	32	**4,073**	24,203
Proposed dividends	14	**12,510**	10,804
Total equity		**249,652**	**215,131**
Total equity and liabilities		**1,757,725**	**1,651,408**

The consolidated and separate financial statements on pages 9 to 71 were approved for issue by the Board of Directors on 20 March, 2017 and signed on its behalf by:

Director　　　　　　　　　　　　Director

The accounting policies and notes on pages 16 to 71 form an integral part of these financial statements.

Company statement of financial position as at 31 December

	Note	2016 Shs M	2015 Shs M
Assets			
Deposits and balances due from banks	16	**-**	195
Loans and advances to customers	17	**-**	469
Other assets	19	**278**	273
Investment in subsidiaries	24	**26,793**	26,793
Amounts due from Group companies	37(b)	**841**	839
Current income tax recoverable	13	**1,609**	574
Deferred income tax asset	23	**944**	539
Investment property	21	**44,762**	42,662
Total assets		**75,227**	72,344
Equity and Liabilities			
Liabilities			
Other liabilities	27	**2,252**	4,304
Amounts due to Group companies	37(a)	**14,902**	12,507
Borrowed funds	30	**5,226**	5,739
Total liabilities		**22,380**	22,550
Equity			
Share capital	31	**9,464**	9,464
Share premium	31	**2,878**	2,878
Retained earnings		**15,882**	14,535
Proposed dividends	14	**12,510**	10,804
Other reserves		**12,113**	12,113
Total equity		**52,847**	49,794
Total equity and liabilities		**75,227**	**72,344**

The consolidated and separate financial statements on pages 9 to 71 were approved for issue by the Board of Directors on 20 March, 2017 and signed on its behalf by:

Director

Director

The accounting policies and notes on pages 16 to 71 form an integral part of these financial statements.

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

	Note	Share capital	Share premium	Retained earnings	Other reserves	Regulatory reserve	Proposed dividends	Attributable to equity holders of the parent	Total
		Shs M	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M
At 1 January 2015		**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
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income		**-**	**-**	**35,290**	**-**	**-**	**-**	**35,290**	**35,290**
Transactions with shareholders									
Transfer to the regulatory reserve	32	-	-	(12,768)	-	12,768	-	-	-
Dividends paid		-	-	-	-	-	(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 31 December 2015		**9,464**	**2,878**	**155,669**	**12,113**	**24,203**	**10,804**	**215,131**	**215,131**
At 1 January 2016		9,464	2,878	155,669	12,113	24,203	10,804	215,131	215,131
Comprehensive income									
Profit for the year		-	-	45,325	-	-	-	45,325	45,325
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income		-	-	45,325	-	-	-	45,325	45,325
Transactions with shareholders									
Transfer from the regulatory reserve	32	-	-	20,130	-	(20,130)	-	-	-
Dividends paid		-	-	-	-	-	(10,804)	(10,804)	(10,804)
Dividends proposed	14	-	-	(12,510)	-	-	12,510	-	-
Total transactions with shareholders		-	-	7,620	-	(20,130)	1,706	(10,804)	(10,804)
At 31 December 2016		**9,464**	**2,878**	**208,614**	**12,113**	**4,073**	**12,510**	**249,652**	**249,652**

The accounting policies and notes on pages 16 to 71 form an integral part of these financial statements.

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

	Note	Share capital	Share premium	Retained earnings	Proposed dividends	Other reserves	Total
		Shs M	Shs M	Shs M	Shs M	Shs M	Shs M
At 1 January 2015		**9,464**	**2,878**	**14,430**	**11,700**	**12,113**	**50,585**
Comprehensive income							
Profit for the year		-	-	10,909	-	-	10,909
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		**-**	**-**	**10,909**	**-**	**-**	**10,909**
Transactions with shareholders							
Proposed dividends	14	-	-	(10,804)	10,804	-	-
Dividends paid		-	-	-	(11,700)	-	(11,700)
Total transactions with shareholders		**-**	**-**	**(10,804)**	**(896)**	**-**	**(11,700)**
At 31 December 2015		**9,464**	**2,878**	**14,535**	**10,804**	**12,113**	**49,794**
At 1 January 2016		**9,464**	**2,878**	**14,535**	**10,804**	**12,113**	**49,794**
Comprehensive income							
Profit for the year		-	-	13,857	-	-	13,857
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	13,857	-	-	13,857
Transactions with shareholders							
Proposed dividends	14	-	-	(12,510)	12,510	-	-
Dividends paid		-	-	-	(10,804)	-	(10,804)
Total transactions with shareholders		**-**	**-**	**(12,510)**	**1,706**	**-**	**(10,804)**
At 31 December 2016		**9,464**	**2,878**	**15,882**	**12,510**	**12,113**	**52,847**

The accounting policies and notes on pages 16 to 71 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December

	Note	2016 Shs M	2015 Shs M
Operating activities			
Interest receipts		**217,155**	182,123
Interest payments		**(83,914)**	(74,742)
Fee and commission receipts		**24,163**	19,656
Net foreign exchange and other income received		**7,540**	13,281
Recoveries on loans previously written off	17	**908**	1,889
Cash payments to employees and suppliers		**(92,094)**	(81,569)
Income tax paid	13	**(15,730)**	(13,285)
Cash from operating activities before changes in operating assets and liabilities		**58,028**	47,353
Changes in operating assets and liabilities			
Increase in government and other securities		**(81,488)**	(75,601)
Increase in Bank of Uganda cash reserve requirement		**(16,660)**	(7,060)
Increase in loans and advances to customers		**(53,050)**	(141,085)
Increase in other assets		**(2,316)**	(207)
Increase in customer deposits		**219,780**	97,564
Increase in other liabilities		**18,577**	5,460
(Decrease)/increase in balances due to other banks		**(86,591)**	44,075
Net cash flows from operating activities		**56,280**	(29,501)
Investing activities			
Purchase of property and equipment	20	**(6,627)**	(11,152)
Purchase of investment property	21	**(22)**	(771)
Purchase of intangible assets	22	**(2,421)**	(2,343)
Proceeds from sale of property and equipment		**-**	10
Net cash flows used in investing activities		**(9,070)**	(14,256)
Financing activities			
Net increase in borrowings		**(60,740)**	60,931
Dividends paid to shareholders		**(10,804)**	(11,700)
Net cash flows generated from financing activities		**(71,544)**	49,231
Net increase in cash and cash equivalents		**(24,334)**	5,474
Cash and cash equivalents at 1 January		**252,280**	246,181
Unrealised exchange gain		**-**	625
Cash and cash equivalents at 31 December	36	**227,946**	252,280

The accounting policies and notes on pages 16 to 71 form an integral part of these financial statements.

01 General information

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

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

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

The directors submit their report together with the audited consolidated and separate financial statements of **dfcu** Limited ("the Company") and its subsidiary, **dfcu** Bank Limited (together "the Group") for the year ended 31 December 2016, 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. References to the Group in the accounting policies, refer to the Group and Company where relevant.

02 Summary of significant accounting policies

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

A. Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS).

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

The consolidated and separate financial statements are presented in Uganda Shillings (Shs), rounded to the nearest million (Shs M). The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated and separate financial statements, are disclosed in Note 4.

B. Changes in accounting policies and disclosures

i). New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

Amendments to IFRS 11:
Accounting for acquisitions of interests in Joint Operations.

This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance of IFRS 11. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendment did not have a significant effect on the Group's financial statements.

Amendments to IAS 16 and IAS 38:
Clarification of acceptable methods of depreciation and amortisation

IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The objective of the amendments is to ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets.
This is because a revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset. The Group has applied the amendment and there has been no significant impact on the Group's financial statements as a result.

Amendments to IAS 16 and IAS 41: Bearer plants

IAS 41 currently requires all biological plants related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. A subset of biological assets known as Bearer plants are used solely to grow produce over several periods. The IASB have decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16, because their operation is similar to that of manufacturing. While bearer plants will be accounted for under IAS 16, the produce that grows on them will continue to be accounted for under IAS 41. The amendment has no impact on the Group as it has no biological assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments to IAS 27 permit the use of the equity method in separate financial statements, and apply to the accounting for subsidiaries, joint ventures and associates. When an entity prepares separate financial statements, it shall now account for subsidiaries, joint ventures and associates using either of the three following methods: which must be applied by the entity for each category of investment:

1. Cost;
2. In accordance with IFRS 9 / IAS 39; or
3. Using the equity method as described in IAS 28.

The entity must apply the same accounting treatment for each category of investment
Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not material to the Group. The Group has applied the amendment and there has been no significant impact on the Group's financial statements as a result.

Amendments to IAS 1: Disclosure Initiative

The following narrow scope amendments have been made to IAS 1 under the Disclosure Initiative:

- Materiality and aggregation: clarifies that an entity should not obscure useful information by aggregating or disaggregating information. It also clarifies that materiality considerations apply to the primary financial statements, notes and any other specific requirements in IFRS so that disclosures specifically required by IFRSs are only required where the information is material.
- Consolidated and separate statement of financial position, consolidated and separate statement of profit or loss, consolidated and separate statement of other comprehensive income: clarifies that the line items specified by IAS 1 for these statements can be aggregated or disaggregated as relevant.
- Presentation of items of other comprehensive income: clarifies that an entity's share of other comprehensive income of equity accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not the item will subsequently be reclassified to profit or loss

The Group has applied the amendment and there has been no significant impact on the Group's financial statements as a result.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: exception to consolidation

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value through profit or loss. The amendments also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow an investor, when applying the equity method to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The consequential amendments to IFRS 12 clarify that investment entities that measure their subsidiaries at fair value through profit or loss shall present the disclosures relating to investment entities required by IFRS 12. The Group has applied the amendment and there has been no impact on the Group's financial statements as a result.

ii) Standards issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and earlier application is permitted, however, the Group has not early adopted the following new or amended standards in preparing these financial statements.

Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including, both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. This is regardless of whether the instrument is recovered through sale or by holding it to maturity or whether it is probable that the issuer will pay all contractual cash flows. Entities are therefore required to recognise deferred taxes for temporary differences from unrealised losses of debt instruments measured at fair value if all other recognition criteria for deferred taxes are met.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

IFRS 9 Financial Instruments (2014)

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39's Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Recognition and measurement

The recognition and measurement of financial assets under IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. The recognition of financial liabilities under IFRS 9 carries forward the treatment of IAS 39, except that IFRS 9 does introduce new requirements for the accounting for and presentation of changes in the fair value of an entity's own debt when the entity has chosen to measure the debt at fair value using the fair value option. IFRS 9 requires that the changes in the fair value of an entity's own credit risk should be recognised in other comprehensive income rather than the profit or loss. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model in IAS 39 to an "expected credit loss" model.

Hedge accounting

IFRS 9 introduces a substantial revision to hedge accounting requirements which will allow entities better reflect their risk management activities in their financial statements. The revision was issued in a response to concerns of preparers of financial statements about the difficulty of appropriately reflecting management activities in financial statements, the changes also address concerns raised by users of the financial statements about the difficulty of understanding hedge accounting.

The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). For a Limited period, previous versions of IFRS 9 may be adopted early if not already done so provided the relevant date of initial application is before 1 February 2015. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

The Group is assessing the potential impact on its financial statements the application of this standard.

Clarifications to IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

These amendments to the Revenue Standard, which was issued in 2014, do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to:

- identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a licence should be recognised at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group is assessing the potential impact on its financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

Amendments to IFRS 2: Classification and measurement of share-based payment transactions

The Amendments to IFRS 2: Classification and measurement of share-based payment transactions clarify how to account for certain types of share-based payment transactions.

They specifically provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Once the amendments are applied, the timing and amount of expense recognised for new and outstanding awards could change.

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential impact on its financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts address concerns arising from implementing IFRS 9 before implementing the replacement IFRS 4 standard that is being currently developed by the Board.

The amendments:

- permit companies that issue insurance contracts, the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new IFRS 4 is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.

The amendments are effective for annual periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

IFRS 16: Leases

The changes under IFRS 16 are significant and will predominantly affect lessees, the accounting for which is substantially reformed. The lessor accounting requirements contained in IFRS 16's predecessor, IAS 17 will remain largely unchanged. The main impact on lessees is that almost all leases will go on balance sheet. This is because the balance sheet distinction between operating and finance leases is removed for lessees. Instead, under IFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases. The standard introduces new estimates and judgemental thresholds that affect the identification, classification and measurement of lease transactions. More extensive disclosures, both qualitative and quantitative, are also required. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard. The Group is assessing the potential impact on its financial statements resulting from the amendments.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture

The amendments to IFRS 10 and IAS 28 address an inconsistency between the two standards 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. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are housed in a subsidiary. The amendments were deferred indefinitely (pending outcome of research project on the equity method of accounting).

C. Consolidation

The consolidated financial statements comprise the financial statements of **dfcu** Limited and its subsidiary as at 31 December 2016.

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

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

Acquisition-related costs are expensed as incurred

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is 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.

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.

D. 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.

E. Operating income

i. Interest income and 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.

ii. Fees and commission

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.

F. Foreign currency translation

Items included in the consolidated and separate financial statements are measured using the currency of the primary economic environment in which the entity operates (`the functional currency'). The consolidated and separate financial statements are presented in Ugandan Shillings which is the Group's functional currency. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within `net foreign exchange income'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

G. Financial assets and liabilities

i. Recognition

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. Financial instruments held by the Group include balances with Bank of Uganda, loans and advances, investments in government securities, balances with banks, deposits, derivatives and group balances.
The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial instruments are appropriately classified. The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics.

- Held for trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.
- Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.
- Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Available for sale assets are recognised on the date they are transferred to the Group. There are no available-for-sale financial assets in the Group.
- Loans and advances and amounts due from banks are recognised when cash is advanced to borrowers. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.
- Financial liabilities: The Group classifies its financial liabilities other than guarantees and loan commitments as measured at amortised cost or fair value through profit and loss.

iii.Measurement

Initial measurement of financial instruments

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, which are recorded at fair value.

Subsequent measurement of financial instruments

a.Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment

b. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

iv. De-recognition of financial instruments

a. Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

b. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

v. Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

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:

1. significant financial difficulty of the issuer or obligor;
2. a breach of contract, such as default or delinquency in interest or principal repayments;
3. 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;
4. it becomes probable that the borrower will enter bankruptcy or other financial difficulty;
5. the disappearance of an active market for that financial asset because of financial difficulties.
6. 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:
   - adverse changes in the payment status of borrowers in the group; or
   - 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, advances and receivables or held-to-maturity assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the

use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

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

1. substandard assets with arrears period between 90 and 179 days – 20%;
2. doubtful assets with arrears period between 180 days and 364 days – 50%;
3. loss assets with arrears period over 365 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 provision of at least 1% of their total outstanding credit facilities net of specific provisions.

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

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

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

vi. Renegotiated loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

vii. Offsetting

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

Income and expense are presented on a net basis only when permitted under IFRS or from gains and losses arising from a group of similar transactions such as the Group's trading activity.

viii. Staff loans

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

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

H. Property and equipment

i. Recognition and measurement

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

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

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

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

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

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

ii. Subsequent cost

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

iii. Depreciation

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

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

Buildings	40 years
Furniture, fittings and equipment	6 – 7 years
Computer equipment	3 – 4 years
Motor vehicles	4 years
Work-in-progress	Not depreciated

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

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

I. Intangible assets

i. Recognition and measurement

1. Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losess.

2. Other intangible assets

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

ii. Subsequent expenditure

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

iii. Amortisation

Intangible assets with finite lives are amortized over their useful economic lives using the straight line method and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Amortisation methods, residual values and useful lives are reviewed at each reporting period and adjusted if appropriate. Goodwill is not amortised.

iv. Derecognition

An item of intangible assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized profit or loss when the asset is derecognized.

J. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

i. Current tax

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

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Future taxable profits are determined based on business plans for the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

iii. Tax exposures

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

K. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the consolidated statement of financial position date and include: cash and balances with the Central Bank, treasury bills and other eligible bills. Cash and cash equivalents excludes the cash reserves requirement held with Bank of Uganda.

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

L. Employee benefits

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

The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The Group's contributions to the defined contribution pension scheme are charged to profit or loss in the year to which they relate.

(ii) Other entitlements

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

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

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

M. 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.

i. 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.

ii. 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.

N. 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.

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

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

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

R. Earnings per share
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all any potentially dilutive ordinary shares which comprise share options granted to employees

S. Financial guarantees and loan commitments
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other facilities.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantee liabilities or loan commitments to provide a loan at below market interest rate are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee or commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the guarantee has become probable. Financial guarantees and loan commitments are included within other liabilities.

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

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

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

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

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

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.
The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

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

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

W. 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.

X. Special funds

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

Y. 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.

Z. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

i.Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

ii.Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

iii. Bank levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

AA. 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.

BB. Investment property

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

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

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

Investment property is measured at cost less accumulated depreciation.

CC. Comperatives

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

03 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	**2016 Shs M**	**2015 Shs M**
Held-for-trading:		
Government securities	**102,214**	72,441
Held-to-maturity:		
Government and other securities	**386,969**	335,254
Deposits and balances due from other Banks	**139,471**	128,733
Balances with Bank of Uganda	**95,827**	132,309
	622,267	596,296
Loans and advances and other receivables/financial assets:		
Loans and advances to customers (Net of impairment)	**842,360**	808,047
Other financial assets	**14,275**	13,568
Cash in hand	**80,738**	62,668
	937,373	884,283
Financial liabilities		
Measured at amortised cost:		
Customer deposits	**1,134,731**	914,951
Balances due to other banks	**11,505**	98,096
Borrowed funds	**331,371**	392,110
Special Funds	**1,708**	1,708
Other financial liabilities	**10,831**	10,870
	1,490,146	1,417,735

3A. Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-consolidated statement of financial position loans and advances; the Group also enters into guarantees and other commitments such as letters of credit, and performance and other bonds.

The Group also trades in financial instruments. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

The fair value gains or losses arising from trading in financial instruments are recognised in profit or loss under interest and similar income.

Foreign exchange and interest rate exposures and associated derivatives are normally economically hedged by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

3B. Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Group by failing to pay amounts in full when due. Impairment allowances are provided for losses that have been incurred at the reporting date. Credit risk is the most important risk for the Group's business. Therefore management carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-consolidated statement of financial position financial instruments, such as loan commitments. Credit risk management and control is centralised in the credit risk management team, which reports regularly to management and the Board.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review.

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

Credit related commitments:

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group makes such commitments at market rates. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk before collateral held

	2016 Shs M	2015 Shs M
Deposits and balances due from banks (note 16)	**139,471**	128,733
Loans and advances to customers (note 17)	**842,360**	808,047
Government and other securities (note 18)	**489,183**	407,695
Other assets (note 19)	**19,364**	21,128
Credit risk exposures on off-consolidated statement of financial position items (note 33)		
- Acceptances and letters of credit	**-**	-
- Guarantee and performance bonds	**92,081**	67,573
- Commitments to lend	**27,434**	20,572
	1,609,893	1,453,748

The above represents the worst case scenario of the Group's credit risk exposure as at 31 December 2016 and 2015, without taking account collateral held or other credit enhancements attached. For on-consolidated statement of financial position assets, the exposures set out above are based on carrying amounts as reported in the consolidated statement of financial position.
As shown above, 58% of the total maximum exposure is derived from loans and advances to banks and customers (2015: 59%), whilst 29% represents investments in government securities (2015: 25%).

Loans and advances to major corporate borrowers and to individuals borrowing more 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;
- 85% of the loans and advances portfolio are neither past due nor impaired;
- 96% of the loans and advances portfolio are backed by collateral; and
- 99% of investments in debt securities are government securities and only 1% in a high quality corporate bond.

Loans and advances are summarised as follows:

	2016 Shs M	2015 Shs M
Neither past due nor impaired	**740,802**	688,884
Past due but not impaired	**71,254**	60,965
Impaired	**58,956**	73,119
Gross	**871,012**	822,968
Less: Allowance for impairment (note 17)	**(28,652)**	(14,921)
Net carrying amount	**842,360**	808,047

No other assets are either past due or impaired.

Loans and advances neither past due nor impaired

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

	2016	2015
	Shs M	Shs M
Standard	**740,802**	688,884

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:

	2016	2015
	Shs M	Shs M
Past due up to 30 days	**35,406**	30,294
Past due 31 – 60 days	**19,934**	17,056
Past due 61 – 89 days	**15,914**	13,615
	71,254	60,965

Loans and advances individually impaired

The general credit worthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that borrowers provide it. The Group may take collateral in the form of a first charge over real estate, machinery and equipment, automobiles and other liens and guarantees.

Because of the Group's focus on customers' credit worthiness, the Group does not routinely update the valuation of collateral held against all loans to customers. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely. For impaired loans, the Group obtains appraisals of collateral because the current value of the collateral is an input to the impairment measurement. At 31 December 2016, the net carrying amount of impaired loans and advances to customers amounted to Ushs 58.4bn (2015: Ushs 71.3bn) and the value of identifiable collateral held against those loans and advances amounted to Ushs 41.2bn (2015: Ushs 101.7bn).

Below is a summary of the impaired loans with the respective value of security;

	Loans		Overdrafts	
	2016	2015	2016	2015
	Shs M	Shs M	Shs M	Shs M
Loans and advances	**57,902**	66,284	1,054	6,835
Fair value of collateral	**34,212**	87,796	7,000	13,904

Concentration of credit risk

Economic sector credit risk concentrations within the customer loans and advances portfolio were as follows:

	2016		2015	
	Loans and advances	Credit Commitments	Loans and advances	Credit Commitments
As at 31 December 2016				
Agriculture	**16%**	**18%**	13%	6%
Manufacturing	**7%**	**13%**	9%	12%
Trade and commerce	**14%**	**26%**	19%	40%
Transport and communications	**3%**	**4%**	6%	2%
Mining and quarrying	**2%**	**0%**	2%	0%
Building and construction	**14%**	**27%**	11%	20%
Leisure, hotels and accommodation	**8%**	**2%**	6%	2%
Home loans	**7%**	**0%**	8%	0%
Non bank financial institutions	**0%**	**0%**	0%	0%
Private individual	**8%**	**0%**	7%	2%
Real estate	**11%**	**2%**	9%	1%
Schools	**9%**	**0%**	9%	1%
Other	**1%**	**8%**	1%	14%
	100%	**100%**	100%	100%

As at 31 December 2016 and 2015, the Group had no exposures to a single borrower or group of related borrowers exceeding 25% of the core capital of the Group.

3C. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group's objective to managing liquidity is to ensure that there will always be sufficient liquidity to meet its liabilities and other obligations when they fall due under both normal and stressed conditions in line with the Group's Assets and Liabilities Management (ALM) policies without incurring unacceptable losses or risking damage to the Group's reputation.

ALM policies are approved by the Group's Assets and Liabilities Board Committee (ALCO) and the Board of Directors. The purpose of ALCO is to stipulate and monitor the business philosophy of the Group as to the cost, structure and mix of assets and liabilities to maximise profitability within acceptable set risk limits.

The table below summarises the net position as at 31 December 2016 and 31 December 2015 based on contractual maturity.

Net position as at 31 December 2016

Months	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**>1 year**
Long / (short) Gap	**(351,382)**	**(69,968)**	120,215	338,660
Long / (short) Cumulative Gap	**(351,382)**	**(421,350)**	(301,135)	37,525
Cumulative Gap / Total Assets	**(20%)**	**(24%)**	(17%)	2%

Net position as at 31 December 2015

Months	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**>1 year**
Long / (short) Gap	**(201,469)**	**(31,629)**	41,529	222,625
Long / (short) Cumulative Gap	**(201,469)**	**(233,098)**	(191,569)	31,056
Cumulative Gap / Total Assets	**(12%)**	**(14%)**	(12%)	2%

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

As at 31 December 2016	Up to 1 month	1-3 months	3 - 12 months	Over 1 year	Non-liquid items	Non-financial items	Total
	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M
Assets							
Cash and balances with Bank of Uganda	176,565	-	-	-	-	-	176,565
Loans and advances to other banks	139,471	-	-	-	-	-	139,471
Government and other securities	73,364	51,276	251,493	113,050	-	-	489,183
Other assets	5,848	1,253	3,719	3,918	4,626	-	19,364
Loans and advances to customers	111,600	81,242	191,210	458,308	-	-	842,360
Deferred income tax asset	-	-	-	-	-	3,290	3,290
Property and equipment	-	-	-	-	-	67,069	67,069
Investment Property	-	-	-	-	-	11,560	11,560
Intangible assets	-	-	-	-	-	8,863	8,863
Total assets	**506,848**	**133,771**	**446,422**	**575,276**	**4,626**	**90,782**	**1,757,725**
Liabilities							
Customer deposits	764,180	171,561	182,248	16,742	-	-	1,134,731
Other liabilities	16,814	4,325	1,661	3,162	-	-	25,962
Balances due to other banks	11,505	-	-	-	-	-	11,505
Borrowed funds	29,373	2,522	85,216	214,260	-	-	331,371
Special funds	1,708	-	-	-	-	-	1,708
Current income tax payable	-	-	-	-	-	2,796	2,796
Total liabilities	**823,580**	**178,408**	**269,125**	**234,164**	**-**	**2,796**	**1,508,073**
Net liquidity gap	**(316,732)**	**(44,637)**	**177,297**	**341,112**	**4,626**	**87,986**	**249,652**
Net off-consolidated statement of financial position	(34,650)	(25,331)	(57,082)	(2,452)	-	-	(119,515)
Overall liquidity position	**(351,382)**	**(69,968)**	**120,215**	**338,660**	**4,626**	**87,986**	**130,137**

As at 31 December 2015	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**Over 1 year**	**Non - liquid items**	**Non -financial items**	**Total**
	Shs M	**Shs M**	**Shs M**	**Shs M**	**Shs M**	**Shs M**	**Shs M**
Assets							
Cash and balances with Bank of Uganda	194,977	-	-	-	-	-	194,977
Loans and advances to other banks	128,733	-	-	-	-	-	128,733
Government and other securities	60,175	82,214	182,258	83,048	-	-	407,695
Other assets	2,784	1,404	4,732	1,367	10,841	-	21,128
Loans and advances to customers	106,463	82,030	173,335	446,219	-	-	808,047
Deferred income tax asset	-	-	-	-	-	1,650	1,650
Property and equipment	-	-	-	-	-	69,301	69,301
Investment Property	-	-	-	-	-	12,086	12,086
Intangible assets	-	-	-	-	-	7,791	7,791
Total assets	**493,132**	**165,648**	**360,325**	**530,634**	**10,841**	**90,828**	**1,651,408**
Liabilities							
Customer deposits	558,676	168,625	185,297	2,353	-	-	914,951
Other liabilities	2,760	1,817	16,878	4,109	-	-	25,564
Balances due to other banks	98,096	-	-	-	-	-	98,096
Borrowed funds	3,948	4,262	81,755	296,406	5,739	-	392,110
Special funds	1,708	-	-	-	-	-	1,708
Current income tax payable	-	-	3,848	-	-	-	3,848
Total liabilities	**665,188**	**174,704**	**287,778**	**302,868**	**5,739**	**-**	**1,436,277**
Net liquidity gap	**(172,056)**	**(9,056)**	**72,547**	**227,766**	**5,102**	**90,828**	**215,131**
Net off-consolidated statement of financial position	(29,413)	(22,573)	(31,018)	(5,141)	-	-	(88,145)
Overall liquidity position	**(201,469)**	**(31,629)**	**41,529**	**222,625**	**5,102**	**90,828**	**126,986**

3D. Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates, interest rates and equity prices will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk. Overall responsibility for managing market risks rests with the ALCO. The Treasury Department is responsible for the detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, counter party limits and stop loss limits, which are monitored daily by treasury with senior management oversight. The Group's ALCO reviews on a monthly basis the net foreign exchange position of the Group. As at 31 December 2016, the Group had a net foreign exchange position of Shs 1,320 million (2015: Shs 6,249 million).

The Group's profit before income tax/ equity would decrease/ increase by Shs 264 million (2015: Shs 1,249 million) were the Shs: US$ foreign exchange rate to change by 20% (2015: 20%). This variation in profitability is measured by reference to foreign currency exposures existing at year end. Movements in the foreign exchange rates for GBP and EURO would not have a material impact on the Group's results

The table below summarises the Group's exposure to foreign currency risk as at 31 December 2016. Included in the table are the Group's assets and liabilities categorized by currency. All figures are in millions of Uganda Shillings.

As at 31 December 2016	**USD**	**GBP**	**EURO**	**USHS**	**Non -financial items**	**Total**
	Shs M	**Shs M**	**Shs M**	**Shs M**	**Shs M**	**Shs M**
Assets						
Cash and balances with Bank of Uganda	57,848	2,000	2,872	113,845	-	176,565
Loans and advances to other banks	125,010	1,098	11,146	2,217	-	139,471
Government and other securities	-	-	-	489,183	-	489,183
Other assets	668	-	-	18,696	-	19,364
Loans and advances to customers	411,387	4	2	430,967	-	842,360
Deferred income tax asset	-	-	-	-	3,290	3,290
Property and equipment	-	-	-	-	67,069	67,069
Investment Property	-	-	-	-	11,560	11,560
Intangible assets	-	-	-	-	8,863	8,863
Total assets	**594,913**	**3,102**	**14,020**	**1,054,908**	**90,782**	**1,757,725**
Liabilities						
Customer deposits	340,688	3,092	10,624	780,327	-	1,134,731
Balance due to other banks	-	-	-	11,505	-	11,505
Other liabilities	7,976	7	3,154	14,825	-	25,962
Borrowed funds	246,463	-	-	84,908	-	331,371
Special funds	-	-	-	1,708	-	1,708
Current income tax payable	-	-	-	-	2,796	2,796
Total liabilities	**595,127**	**3,099**	**13,778**	**893,273**	**2,796**	**1,508,073**
Net on-consolidated statement of financial position items	**(214)**	**3**	**242**	**161,635**	**87,986**	**249,652**
Net off-consolidated statement of financial position items	(31,405)	-	-	(88,110)	-	(119,515)
Overall open position	**(31,619)**	**3**	**242**	**73,525**	**87,986**	**130,137**

As at 31 December 2015	**USD**	**GBP**	**EURO**	**USHS**	**Non -financial items**	**Total**
	Shs M	**Shs M**	**Shs M**	**Shs M**	**Shs M**	**Shs M**
Assets						
Cash and balances with Bank of Uganda	41,905	1,343	7,698	144,031	-	194,977
Loans and advances to other banks	114,004	558	9,369	4,802	-	128,733
Government and other securities	-	-	-	407,695	-	407,695
Other assets	803	3	25	20,297	-	21,128
Loans and advances to customers	388,206	5	2	419,834	-	808,047
Deferred income tax asset	-	-	-	-	1,650	1,650
Property and equipment	-	-	-	-	69,301	69,301
Investment Property	-	-	-	-	12,086	12,086
Intangible assets	-	-	-	-	7,791	7,791
Total assets	**544,918**	**1,909**	**17,094**	**996,659**	**90,828**	**1,651,408**
Liabilities						
Customer deposits	256,097	1,463	11,355	646,036	-	914,951
Balance due to other banks	-	-	-	98,096	-	98,096
Other liabilities	3,007	438	4,516	17,603	-	25,564
Borrowed funds	282,508	-	-	109,602	-	392,110
Special funds	-	-	-	1,708	-	1,708
Current income tax payable	-	-	-	-	3,848	3,848
Total liabilities	**541,612**	**1,901**	**15,871**	**873,045**	**3,848**	**1,436,277**
Net on-consolidated statement of financial position items	**3,306**	**8**	**1,223**	**123,614**	**86,980**	**215,131**
Net off-consolidated statement of financial position items	(24,849)	-	-	(63,296)	-	(88,145)
Overall open position	**(21,543)**	**8**	**1,223**	**60,318**	**86,980**	**126,986**

Interest rate risk

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

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

The table below summarises the Group's fair value and cash flow interest rate risks at 31 December 2016 assuming a market interest rate decrease of 3% from the rates ruling at year-end (2015: 3%). The variance has increased to 3% in the current year due to increased volatility of the rates in the period. This would have an impact on the profit before income tax of the Group as follows:

	2016	2015
	Shs M	Shs M
Fair value interest rate risk	582	379
Cash flow interest rate risk	18,816	12,248
	19,398	12,627

The tables below summarise the Group's exposure to interest rate risk as at 31 December 2016 and 31 December 2015. Included in the table is the Group's interest bearing assets and liabilities at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear any interest rate risk on off-consolidated statement of financial position items like commitments to lend, guarantees and letters of credit. All figures are in millions of Uganda Shillings.

As at 31 December 2016	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Over 1 year**	**Non - interest bearing**	**Non financial items**	**Total**
Assets	**Shs M**	**Shs M**	**Shs M**	**Shs M**	**Shs M**	**Shs M**	**Shs M**
Cash and balances with Bank of Uganda	-	-	-	-	176,565	-	176,565
Government and other securities	73,364	51,276	251,493	113,050	-	-	489,183
Loans and advances to customers	111,600	81,242	191,784	486,386	(28,652)	-	842,360
Loans and advances to other banks	92,509	-	-	-	46,962	-	139,471
Deferred income tax asset	-	-	-	-	-	3,290	3,290
Property and equipment	-	-	-	-	-	67,069	67,069
Investment Property	-	-	-	-	-	11,560	11,560
Intangible assets	-	-	-	-	-	8,863	8,863
Other assets	-	-	-	-	19,364	-	19,364
Total assets	**277,473**	**132,518**	**443,277**	**599,436**	**214,239**	**90,782**	**1,757,725**
Liabilities							
Customer deposits	385,372	172,306	182,248	16,742	378,063	-	1,134,731
Balances due to other banks	11,505	-	-	-	-	-	11,505
Borrowed funds	1,529	2,002	81,811	214,258	31,771	-	331,371
Other liabilities	-	-	-	-	25,962	-	25,962
Current income tax payable	-	-	-	-	-	2,796	2,796
Special funds	-	-	-	-	1,708	-	1,708
Total liabilities	**398,406**	**174,308**	**264,059**	**231,000**	**437,504**	**2,796**	**1,508,073**
Interest re-pricing gap	**(120,933)**	**(41,790)**	**179,218**	**368,436**	**(223,265)**	**87,986**	**249,652**

As at 31 December 2015	Up to 1month	1-3 months	3 – 12 months	Over 1 year	Non - interest bearing	Non financial items	Total
Assets							
Cash and balances with Bank of Uganda	-	-	-	-	194,977	-	194,977
Government and other securities	60,175	82,214	182,258	83,048	-	-	407,695
Loans and advances to customers	106,384	82,030	173,335	460,919	(14,621)	-	808,047
Loans and advances to other banks	46,939	-	-	-	81,794	-	128,733
Deferred income tax asset	-	-	-	-	-	1,650	1,650
Property and equipment	-	-	-	-	-	69,301	69,301
Investment Property	-	-	-	-	-	12,086	12,086
Intangible assets	-	-	-	-	-	7,791	7,791
Other assets	-	-	-	-	21,128	-	21,128
Total assets	**213,498**	**164,244**	**355,593**	**543,967**	**283,278**	**90,828**	**1,651,408**
Liabilities							
Customer deposits	226,831	169,311	185,297	2,353	331,159	-	914,951
Balances due to other banks	98,096	-	-	-	-	-	98,096
Borrowed funds	603	4,262	81,755	269,542	35,948	-	392,110
Other liabilities	-	-	-	-	25,564	-	25,564
Current income tax payable	-	-	-	-	-	3,848	3,848
Special funds	-	-	-	-	1,708	-	1,708
Total liabilities	**325,530**	**173,573**	**267,052**	**271,895**	**394,379**	**3,848**	**1,436,277**
Interest re-pricing gap	**(112,032)**	**(9,329)**	**88,541**	**272,072**	**(111,101)**	**86,980**	**215,131**

3E. Fair values of financial assets and liabilities

As at 31 December 2016, the Group had treasury bills and treasury bonds that are held-for-trading and are measured at fair value. Held-for-trading treasury bills fair values are derived from quoted market prices and held-for-trading treasury bonds fair values are derived from discounting expected future cash flows. The discounting rates used for the valuation of treasury 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. The sources of input parameters like government treasury bills yield curve or counterparty credit risk are the Group of Uganda website, Reuters and comparison with similar financial institutions.
- 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 assets measured at fair value:

Hierarchy	2016 Shs M	2015 Shs M
Level 2-Treasury bills and bonds held-for-trading	**102,214**	72,441

During the year ended 31 December 2016, there were no transfers into or out of Level 2 fair value measurements.

The fair values of held-to-maturity securities as at 31 December 2016 is estimated at Shs 121,249 million (2015: Shs 307,645 million) compared to their carrying value of Shs 115,396 million (2015: Shs 335,254 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.

3F. Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the consolidated statement of financial positions, 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.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as adapted and implemented by Bank of Uganda for supervisory purposes under the Financial Institutions Act, 2004 (FIA). The required information on capital adequacy is filed with Bank of Uganda on a quarterly basis.
As of 31 December 2016, Bank of Uganda regulations require each bank to:

1. have a minimum paid up capital unimpaired by losses of Shs 25 billion (2015:Shs 25 billion);
2. maintain core capital of not less than 8% of risk weighted assets and off-consolidated statement of financial position items; and
3. maintain total capital of not less than 12% of risk weighted assets plus risk weighted off-consolidated statement of financial position items.

The Group's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings less goodwill and similar intangible assets, investments in unconsolidated subsidiaries and future income tax benefits.
- Tier 2 capital (supplementary capital): revaluation reserves, general provisions for losses not exceeding 1.25% of risk weighted assets, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with · each asset and counterparty. A similar treatment is adopted for off-consolidated statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses. The table below summarises the composition of regulatory capital and the ratios of the Group:

	2016 Shs M	2015 Shs M
Before dividend declaration		
Core capital	**231,717**	179,599
Total capital	**305,355**	248,028
After dividend declaration		
Core capital	**219,207**	168,795
Total capital	**292,845**	237,224
Risk weighted assets		
On-consolidated statement of financial position items	**982,361**	961,136
Off-consolidated statement of financial position items	**105,798**	77,859
Total risk weighted assets	**1,088,159**	1,038,995
Core capital comprises of the following;		
Share capital and reserves	**233,069**	180,124
Unrealised exchange gains	**-**	(625)
Unrealised fair value gain on securities	**(1,709)**	(1,263)
Intangible assets	**(8,863)**	(7,791)
Deferred income tax asset	**(3,290)**	(1,650)
Core capital	**219,207**	168,795
Core capital	**219,207**	168,795
General Provisions	**8,568**	7,985
Subordinated debt	**65,070**	60,444
Total capital	**292,845**	237,224

The analysis of the subordinated debt recognized as Tier 2 capital for regulatory capital adequacy purposes of the Bank in accordance with Bank of Uganda (BOU) prudential regulations is summarised below. The debt from CDC was discounted by 20% in 2016 and the debt from DEG was discounted by 20% in 2015 in compliance with the BOU prudential regulations.

	2016 Shs M	2015 Shs M
CDC Group Plc	**28,920**	33,580
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG)	**36,150**	26,864
	65,070	60,444

Risk weighted assets comprise of the following:	**Statement of financial position/ Nominal amount**		**Risk weight**	**Risk weighted amount**	
	2016 Shs M	**2015 Shs M**	**%**	**2016 Shs M**	**2015 Shs M**
On-consolidated statement of financial position items					
Cash and balances with Bank of Uganda	**176,565**	194,977	0%	**-**	-
Due from commercial banks in Uganda	**92,509**	45,779	20%	**18,502**	9,156
Due from banks outside Uganda;					
Rated AAA to AA-	**-**		20%	**-**	-
Rated A+ to A-	**46,912**	82,899	50%	**23,456**	41,450
Rated A- and non-rated	**50**	55	100%	**50**	55
Government and other securities	**489,183**	407,695	0%	**-**	-
Other assets	**19,364**	21,128	100%	**19,364**	21,128
Loans and advances to customers	**842,360**	808,047	100%	**842,360**	808,047
Deferred income tax asset	**3,290**	1,650	0%	**-**	-
Property, plant and equipment	**67,069**	69,301	100%	**67,069**	69,301
Investment property	**11,560**	12,086	100%	**11,560**	12,086
Intangible assets	**8,863**	7,791	0%	**-**	-
Total	**1,757,725**	1,651,408		**982,361**	961,223

	2016 Shs M	2015 Shs M	%	2016 Shs M	2015 Shs M
Off-consolidated statement of financial position items;					
Letters of credit secured by cash collateral	**-**	-	0%	**-**	-
Guarantees and acceptances	**92,081**	67,573	100%	**92,081**	67,573
Undrawn facilities	**27,434**	20,572	50%	**13,717**	10,286
Total	**119,515**	88,145		**105,798**	77,859
Total risk weighted assets				**1,088,159**	1,039,0812
Basel Ratio (before dividend declaration)				**2016**	**2015**
Core capital				**21.29%**	17.28%
Total capital				**28.06%**	23.87%
Basel Ratio (after dividend declaration)					
Core capital				**20.14%**	16.24%
Total capital				**26.91%**	22.83%

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

04 Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reported period. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

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

(a). Impairment losses on loans and advances

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

(b). Held-to-maturity investments
The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such assets to maturity. If the Group fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. Refer to note 18 for more information.

(c). Income taxes
The Group is subject to various government taxes under the Ugandan tax laws. Significant estimates and judgments 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 13 for more information.

(d). Fair value of financial instruments
Where the fair value of the financial assets and financial liabilities recorded in the consolidated and seperate 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 judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to note 3E for more information.

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

05 Segment information

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

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

During the year 27.8% (2015: 22.6%) of the Group's revenue was earned from Government securities. No other single external customer contributes revenue amounting up to 10% of the Group's revenue.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which is measured the same as the operating profit or loss in the consolidated financial statements.

The segment results for the year ended 31 December 2016 were as follows:

	dfcu Limited	dfcu Bank	Intra-segment items	Group
	Shs M	Shs M	Shs M	Shs M
Fees and commission income and other operating income	5,631	38,013	(3,792)	**39,852**
Income from transactions with operating segments of the same entity	14,804	-	(14,804)	**-**
Interest income	345	219,310	(2,500)	**217,155**
Interest expense	(3,143)	(83,272)	2,501	**(83,914)**
Other operating expenses	(4,185)	(114,338)	3,793	**(114,730)**
Profit before income tax	13,452	59,713	(14,802)	**58,363**
Income tax expense	405	(13,443)	-	**(13,038)**
Profit for the year	**13,857**	**46,270**	**(14,802)**	**45,325**

The segment results for the year ended 31 December 2015 were as follows:

	dfcu Limited	dfcu Bank	Intra-segment items	Group
	Shs M	Shs M	Shs M	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)	(1)	**(11,632)**
Profit for the year	**10,909**	**37,010**	**(12,628)**	**35,290**

At 31 December 2016				
Total assets	75,227	1,727,341	(44,843)	1,757,725
Total liabilities	22,380	1,504,200	(18,507)	1,508,073
Capital expenditure	3,976	5,094	-	9,070
At 31 December 2015				
Total assets	72,344	1,622,083	(43,019)	1,651,408
Total liabilities	22,550	1,430,408	(16,681)	1,436,277
Capital expenditure	4,131	10,135	-	14,266

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

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

	dfcu Limited	dfcu Bank	Group
	Shs M	Shs M	Shs M
Year ended 31 December 2016	345	219,310	**217,155**
Year ended 31 December 2015	293	184,729	**182,974**

06 Interest and similar income

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
Loans and advances	**141,417**	139,058	**18**	42
Government and other securities	**72,288**	43,628	**-**	-
Other interest income	**3,450**	288	**327**	251
	217,155	182,974	**345**	293

07 Interest and similar expenses

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
Borrowed funds	**27,863**	30,104	**3,143**	3,161
Customer deposits	**56,051**	44,638	**-**	-
	83,914	74,742	**3,143**	3,161

08 Fee and commission income

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
Fees and commission income	**29,305**	25,002	**455**	246

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

09 Net trading and other income

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
Net foreign exchange income/(expense)	**7,540**	14,544	**86**	(82)
Rental income	**1,267**	-	**5,058**	3,258
Other income	**1,740**	365	**32**	-
	10,547	14,909	**5,176**	3,176

10 Operating benefits expenses

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
Profit before income tax is stated after charging the following items:				
Employee benefits expenses (note 11)	**35,391**	31,835	**399**	310
Professional services	**7,597**	6,272	**191**	55
Advertising and marketing	**2,476**	2,611	**-**	-
Office and residential occupancy expenses	**11,405**	10,491	**-**	-
Communication expenses	**10,728**	11,923	**9**	3
Depreciation of property and equipment (note 20)	**8,664**	6,869	**1,876**	1,084
Amortisation of intangible assets (note 22)	**1,349**	2,322	**-**	-
Auditors' remuneration	**608**	468	**124**	130
Travel expenses	**1,182**	1,263	**16**	3
Printing and stationery	**1,296**	1,882	**-**	-
Other administrative expenses	**3,896**	4,130	**1,171**	1,310
Operating lease expenses	**12,308**	9,465	**-**	-
	96,900	89,531	**3,786**	2,895

11 Employee benefits expenses

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
The following are included in employee benefits expenses:				
Wages and salaries	**30,951**	27,525	**340**	259
Retirement benefit costs	**1,413**	1,115	**25**	25
National Social Security Fund contributions	**3,027**	3,195	**34**	26
	35,391	31,835	**399**	310

12 Earnings per share

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 2016	Group 2015
Net profit attributable to equity holders of the Company (Shs M)	**45,324**	35,290
Weighted average number of ordinary shares in issue	**497,201,822**	497,201,822
Basic earnings per share (Shs)	**91.16**	70.98
Diluted earnings per share (Shs)	**91.16**	70.98

There were no potentially dilutive shares outstanding at 31 December 2016 and 2015.

13 Income tax

a). Income tax expense

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
Current income tax	**14,678**	13,107	**-**	-
Deferred income tax credit (note 23)	**(1,640)**	(1,475)	**(405)**	(622)
Income tax expense	**13,038**	11,632	**(405)**	(622)

The tax on the Group's and Company's profit before income tax differs from the theoretical amount that would arise using the basic tax rate of 30% as follows:

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
Profit before income tax	**58,363**	46,922	**13,452**	10,287
Tax calculated at a tax rate of 30% (2015: 30%)	**17,509**	14,077	**3,983**	3,086
Prior year over provision of corporation tax	**159**	81	**-**	-
Tax effect of:				
- Expenses not deductible for tax purposes	**1,324**	1,110	**53**	80
- Income taxed at other rates	**(5,954)**	(3,636)	**(4,441)**	(3,788)
Income tax expense	**13,038**	11,632	**(405)**	(622)

Further information on deferred income tax is presented in note 23.

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

	Group 2016 Shs M	2015 Shs M	Company 2016 Shs M	2015 Shs M
At 1 January	**3,848**	4,026	**(574)**	(90)
Current income tax charge for the year	**14,678**	13,107	**-**	-
Income tax paid during year	**(15,730)**	(13,285)	**(1,035)**	(484)
At 31 December	**2,796**	3,848	**(1,609)**	(574)

14 Dividends

	2016		2015	
	Per share Shs	**Total Shs M**	Per share Shs	Total Shs M
Proposed dividends	**25.19**	**12,510**	21.73	10,804

At the annual general meeting of dfcu Limited to be held on 22 June 2017, the Board is recommending a cash dividend of Shs 25.19 per share payable after deduction of withholding tax where applicable (2015: Shs 21.73 per share). The shareholder's register will be closed on 11 May 2017 with respect to entitlement to this dividend which will be paid by 31 July 2017.

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)

	2016	2015
	Shs M	Shs M
Cash at hand	**80,738**	62,668
Balances with Bank of Uganda	**95,827**	132,309
	176,565	194,977

16 Deposits and balances due from banks

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
Deposits with other banks	**46,962**	82,954	-	160
Placements with other banks	**92,509**	45,779	-	35
	139,471	128,733	-	195

Loans and advances to other banks are short-term deposits made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate on loans and advances to other banks was 1.16% (2015: 1.85%).

17 Loans and advances to customers

	Group		Company	
	2016	2015	2016	2015
	Shs M	Shs M	Shs M	Shs M
Gross advances to customers by type				
Overdrafts	**55,288**	53,553	**-**	-
Commercial loans	**815,724**	769,415	**575**	644
Gross loans and advances	**871,012**	822,968	**575**	644
Less: Allowance for impairment of loans and advances				
Individually assessed	**(21,492)**	(8,615)	**(575)**	(175)
Collectively assessed	**(7,160)**	(6,306)	**-**	-
Net loans and advances	**842,360**	808,047	**-**	469

The weighted average effective interest rate on loans and advances was 23.64% (2015: 23.17%).

Analysis of loans and advances to Customers - Group

Movements in allowance for impairment of loans and advances (Group) are as follows:

Group	Individually assessed	Collectively assessed	Total
	Shs M	Shs M	Shs M
At 1 January 2015	9,110	4,502	13,612
Increase in allowances for impairment	11, 775	1,804	13,579
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 consolidated statement of comprehensive income (2015)			
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
At 1 January 2016	**8,615**	**6,306**	**14,921**
Increase in allowances for impairment	**18,871**	**854**	**19,725**
Recoveries and allowances no longer required	**(987)**	**-**	**(987)**
Net increase in allowances	**17,884**	**854**	**18,738**
Debts written off during the year	**(5,007)**	**-**	**(5,007)**
At 31 December 2016	**21,492**	**7,160**	**28,652**
Charge to consolidated statement of comprehensive income (2016)			
Net increase in allowances above	**17,884**	**854**	**18,738**
Recoveries of amounts previously written off	**(908)**	**-**	**(908)**
Net charge to profit or loss	**16,976**	**854**	**17,830**

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

	2016	2015
	Shs M	Shs M
Gross investment in finance leases:		
Not later than 1 year	**36,717**	39,739
Later than 1 year and not later than 5 years	**29,866**	48,958
Later than 5 years	**216**	100
	66,799	88,797
Unearned future finance income on finance leases	**(12,213)**	(12,451)
Net investment in finance leases	**54,586**	76,346

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

	2016 Shs M	2015 Shs M
Not later than 1 year	**30,004**	34,167
Later than 1 year and not later than 5 years	**24,406**	42,093
Later than 5 years	**176**	86
	54,586	76,346

Included in the allowance for impairment of loans and advances as at 31 December 2016 is Shs 8,391 million (2015: Shs 1,763 million) attributable to impairment of finance lease receivables.

18 Government and other securities (Group)

	2016 Shs M	2015 Shs M
Treasury bills:		
Held-for-trading		
Maturing within 90 days from the date of reporting	**18,170**	20,698
Maturing after 90 days from the date of reporting	**52,508**	37,159
Held-to-maturity		
Maturing within 90 days from the date of reporting	**100,734**	92,683
Maturing after 90 days from the date of reporting	**146,977**	106,056
Total treasury bills	**318,389**	256,596
Treasury and other bonds :		
Held-for-trading		
Maturing after 90 days from the date of reporting	**31,536**	14,584
Held-to-maturity		
Maturing within 90 days from the date of reporting	**2**	29,009
Maturing after 90 days from the date of reporting	**138,775**	106,938
	138,777	135,947
Other bonds	**481**	568
Total treasury and other bonds	**170,794**	151,099
	489,183	407,695

Treasury bills are debt securities issued by the Government of Uganda, and administered by the Group 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 was 17.09%. (2015: 16.03%)
Other bonds include corporate bonds amounting to Shs 481 million (2015: Shs 568 million) issued by Stanbic Bank Uganda Limited.

19 Other assets

	Group		Company	
	2016	2015	**2016**	2015
	Shs M	**Shs M**	**Shs M**	**Shs M**
Prepaid expenses	**5,206**	7,288	**-**	-
Sundry receivables	**2,982**	2,192	**-**	-
Front-end fees paid on borrowings	**4,552**	3,869	**-**	-
VAT Receivable	**271**	271	**271**	271
Other assets	**6,353**	7,508	**7**	2
	19,364	21,128	**278**	273

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.

20 Property and equipment

	Freehold Land and Buildings Shs M	Motor vehicle Shs M	Furniture, Fittings & Equipment Shs M	Computer equipment Shs M	Work in Progress Shs M	Total Shs M
Cost						
At 1 January 2015	26,306	1,513	25,792	7,532	24,904	86,047
Reclassification adjustment	-	103	(188)	65	-	(20)
Additions	-	-	2,759	602	7,791	11,152
Transfers from work in progress	3,321	818	25,474	267	(29,880)	-
Write offs	-	-	-	-	(477)	(477)
Disposals	-	(65)	(12)	-	-	(77)
At 31 December 2015	29,627	2,369	53,825	8,466	2,338	96,625
Depreciation						
At 1 January 2015	24	895	13,253	6,334	-	20,506
Reclassification adjustment	-	74	(89)	(3)	-	(18)
Charge for the year	817	337	4,887	869	-	6,910
Disposals	-	(65)	(9)	-	-	(74)
At 31 December 2015	841	1,241	18,042	7,200	-	27,324
Net carrying amount	28,786	1,128	35,783	1,266	2,338	69,301
Cost						
At 1 January 2016	**29,627**	**2,369**	**53,825**	**8,466**	**2,338**	**96,625**
Additions	**-**	**-**	**148**	**609**	**5,870**	**6,627**
Transfers from work in progress	**-**	**86**	**3,509**	**254**	**(3,849)**	**-**
Write offs	**-**	**(3)**	**(2,246)**	**(779)**	**(60)**	**(3,088)**
Disposals	**-**	**-**	**(135)**	**-**	**-**	**(135)**
At 31 December 2016	**29,627**	**2,452**	**55,101**	**8,550**	**4,299**	**100,029**
Depreciation						
At 1 January 2016	**841**	**1,241**	**18,042**	**7,200**	**-**	**27,324**
Charge for the year	**281**	**425**	**7,056**	**902**	**-**	**8,664**
Write offs	**-**	**(3)**	**(2,246)**	**(779)**	**-**	**(3,028)**
At 31 December 2016	**1,122**	**1,663**	**22,852**	**7,323**	**-**	**32,960**
Net carrying amount	**28,505**	**789**	**32,249**	**1,227**	**4,299**	**67,069**

Work in progress relates to ongoing works in respect of various projects.

21 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.

	Group		Company	
	2016	**2015**	**2016**	**2015**
	Shs M	**Shs M**	**Shs M**	**Shs M**
At 1 January	**12,086**	11,315	**42,662**	39,615
Additions at cost	**22**	771	**3,976**	4,131
Accumulated depreciation	**(548)**	-	**(1,876)**	(1,084)
At 31 December	**11,560**	12,086	**44,762**	42,662
Amount allocated to investment property			**11,560**	12,086
Amount allocated to property and equipment			**33,202**	30,576
Total property and equipment			**44,762**	42,662

22 Intangible assets (Group)

	Goodwill	Other intangible assets	Customer relationships	Work in progress	Total
	Shs M	Shs M	Shs M	Shs M	Shs M
Cost					
At 1 January 2015	463	11,854	1,939	3,144	17,400
Additions	-	285	-	2,058	2,343
Transfers from work in progress	-	1,645	-	(1,645)	-
At 31 December 2015	463	13,784	1,939	3,557	19,743
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	2,382	1,389	3,557	7,791
Cost					
At 1 January 2016	**463**	**13,784**	**1,939**	**3,557**	**19,743**
Additions	**-**	**570**	**-**	**1,851**	**2,421**
Transfers from work in progress	**-**	**3,910**	**-**	**(3,910)**	**-**
At 31 December 2016	**463**	**18,264**	**1,939**	**1,498**	**22,164**
Amortisation					
At 1 January 2016	**-**	**11,402**	**550**	**-**	**11,952**
Charge for the year	**-**	**961**	**388**	**-**	**1,349**
At 31 December 2016	**-**	**12,363**	**938**	**-**	**13,301**
Net carrying amount	**463**	**5,901**	**1,001**	**1,498**	**8,863**

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 2016 (2015: 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. Work in progress relates to ongoing works in respect of the software upgrade.

23 Deferred income tax

Deferred tax is calculated on all temporary differences under the liability method using the principal tax rate of 30%), except for interest receivable on treasury bills and bonds where the enacted rate is 15% (2015: 15%). Deferred tax assets and liabilities and the deferred tax credit as at 31 December 2016 are attributed to the following items:

	Group 2016 Shs M	Group 2015 Shs M	Company 2016 Shs M	Company 2015 Shs M
At 1 January	**(1,650)**	(175)	**(539)**	83
Credit to income statement (note 13)	**(1,640)**	(1,475)	**(405)**	(622)
At 31 December	**(3,290)**	(1,650)	**(944)**	(539)

	Group			Company		
	At 1 January 2016 Shs M	(Credit)/ Charge to SOCI Shs M	At 31 December 2016 Shs M	At 1 January 2016 Shs M	(Credit)/ Charge to SOCI Shs M	At 31 December 2016 Shs M
Deferred tax liabilities						
Property and equipment	**2,566**	**459**	**3,025**	762	315	1,077
Deferred tax assets						
Allowance for impairment of loans and advances	**(1,891)**	**(257)**	**(2,148)**	-	-	-
Tax losses carried forward	**(1,276)**	**(1,462)**	**(2,738)**	(1,276)	(761)	(2,037)
Deferred fees and commissions income	**(1,821)**	**(439)**	**(2,260)**	-	-	-
Unrealised foreign exchange gain/(loss)	**(25)**	**41**	**16**	-		-
Fair value of treasury bills and bonds	**380**	**134**	**514**	(25)	41	16
Fair value of customer relationships	**417**	**(116)**	**301**	-	-	-
	(4,216)	**(2,099)**	**(6,315)**	(1,301)	(720)	(2,021)
Net deferred tax asset	**(1,650)**	**(1,640)**	**(3,290)**	(539)	(405)	(944)

	Group			Company		
	At 1 January 2015	(Credit)/ Charge to SOCI	At 31 December 2015	At 1 January 2015	(Credit)/ Charge to SOCI	At 31 December 2015
	Shs M	Shs M	Shs M	Shs M	Shs M	Shs M
Deferred tax liabilities						
Property and equipment	1,684	882	2,566	-	762	762
Deferred tax assets						
Allowance for impairment of loans and advances	(1,349)	(542)	(1,891)	-	-	-
Tax losses carried forward	83	(1,359)	(1,276)	83	(1,359)	(1,276)
Unrealised foreign exchange gain/(loss)	-	(25)	(25)	-	(25)	(25)
Deferred fees and commissions income	(1,565)	(256)	(1,821)	-	-	-
Fair value of treasury bills and bonds	441	(61)	380	-	-	-
Fair value of customer relationships	532	(115)	417	-	-	-
	(1,858)	(2,358)	(4,216)	83	(1,384)	(1,301)
Net deferred tax assets	**(174)**	**(1,475)**	**(1,650)**	**83**	**(622)**	**(539)**

24 Investment in subsidiaries

	Shareholding	Company	
		2016	2015
		Shs M	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.

25 Customer deposits (Group)

	2016 Shs M	2015 Shs M
Demand deposits	365,293	320,803
Savings deposits	238,029	198,012
Fixed deposits	531,409	396,136
	1,134,731	914,951

26 Deposits due to other banks (Group)

	2016 Shs M	2015 Shs M
Balances due to other banks within 90 days	**11,505**	98,096

Balances due to other banks are short-term deposits made by other banks for varying periods of between one day and three months, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate on deposits due to other banks was 7.5% (2015: 16.9%).

27 Other liabilities

	Group		Company	
	2016 Shs M	2015 Shs M	2016 Shs M	2015 Shs M
Bills payable	**318**	485	**-**	-
Unclaimed balances	**2,152**	2,275	**81**	102
Other liabilities	**7,490**	8,381	**793**	1,190
Deferred fees and commission income	**7,721**	8,897	**1,342**	2,828
Accrued expenses and payables	**8,281**	5,526	**36**	184
	25,962	25,564	**2,252**	4,304

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

28 Managed funds (Group)

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

(a). CDO/ GOU Fund

During 2004, **dfcu** Limited entered into a tripartite agreement with the Government of Uganda and Cotton Development Organisation (CDO) to set up a revolving fund of Shs 2.5 billion in cash, Shs 720 million worth of tractors and USD 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.

29 Special funds (Group)

Special funds represent liabilities created under the terms of borrowing agreements with Kreditanstalt Fur Wiederaufbau (KFW). 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.

	KFW IV & V	**2016**	2015
	Shs M	**Shs M**	Shs M
At 1 January	**1,708**	**1,708**	1,708
Disbursements	**-**	**-**	-
Repayments	**-**	**-**	-
At 31 December	**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.

30 Borrowed funds

	Group		Company	
	2016	**2015**	**2016**	**2015**
	Shs M	**Shs M**	**Shs M**	**Shs M**
Uganda Government (KFW II loan)	**696**	696	-	-
Uganda Government (KFW III loan)	**1,984**	1,984	-	-
Uganda Government (KFW V loan)	**17,255**	17,831	-	-
Bank of Uganda (ACF loan)	**9,256**	10,830	-	-
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	**70,891**	81,546	-	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	**-**	9,113	-	-
FMO USD	**43,380**	61,700	-	-
European Investment Bank – PEFF	**24,663**	33,664	-	-
European Investment Bank – Microfinance	**10,785**	13,481	-	-
Norwegian Investment Fund for Developing Countries (NORFUND)	**5,272**	8,786	-	-
East African Development Bank	**20,724**	21,782	2,373	3,432
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Senior loan	**50,610**	60,444	-	-
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG)	**36,150**	33,580	-	-
CDC Group Plc Subordinated debt	**36,150**	33,580	-	-
UN Habitat	**703**	786	-	-
Jubilee Insurance	**2,852**	2,307	2,853	2,307
	331,371	392,110	5,226	5,739

Included in borrowings is a subordinated debt from Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) whose tenure is 7 years and is due to mature in 2022. The interest rate on this debt is variable at an aggregate interest rate of 6.6% per annum plus the USD swap rate prevailing at the interest determination date. The other subordinated debt is from CDC Group Plc (CDC) whose tenure is 7 years and 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 Group and recognized by the Group as Total Capital.

The terms and conditions relating to borrowings are tabulated below:

Group	**Tenure (years)**	**Interest rate**	**Fixed / variable**	**Currency**
Uganda Go vernment (KFW II loan)	15	0.00%	Fixed	Shs
Uganda Government (KFW III loan)	15	0.00%	Fixed	Shs
Uganda Government (KFW V loan)	6	7.19%	Fixed	Shs
Bank of Uganda (ACF loan)	8	0.00%	Fixed	Shs
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	7	4.75%	Variable	USD
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	7	12.67%	Variable	Shs
FMO - USD	7	3.58%	Variable	USD
European Investment Bank-PEFF USD	10	5.23%	Fixed	USD
European Investment Bank-PEFF UGX	10	11.93%	Fixed	Shs
NORFUND Senior loan 1	10	18.77%	Variable	Shs
East African Development Bank	7	12.00%	Fixed	Shs
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Subordinated debt	7	7.67%	Variable	USD
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Senior loan	5	3.70%	Variable	USD
CDC Group Plc	7	4.85%	Variable	USD
UN Habitat	15	2.00%	Fixed	Shs
Jubilee Insurance Company Limited	3	5.25%	Variable	USD

Company	**Tenure (years)**	**Interest rate**	**Fixed / variable**	**Currency**
East African Development Bank	7	19.50%	Fixed	Shs

31 Share capital and share premium (Group)

	Number of issued ordinary shares	**Share capital**	**Share premium**	**Total**
		Shs M	**Shs M**	**Shs M**
At 31 December 2016 and 2015	**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.

32 Regulatory reserve (Group)

	2016	2015
	Shs M	Shs M
At 1 January	**24,203**	11,435
Transfer (to)/from retained earnings during the year	**(20,130)**	12,768
At 31 December	**4,073**	24,203

The regulatory credit risk reserve represents amounts by which allowances for impairment of loans and advances determined in accordance with the Financial Institutions Act, 2004 exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated from retained earnings in accordance with accounting policy 2G. The reserve is not distributable.

33 Off-consolidated statement of financial position financial instruments, contingent liabilities and commitments (Group)

In common with other banks, the subsidiary of the Company, dfcu Bank Limited (the Bank), conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

Contingent liabilities and commitments	2016	2015
	Shs M	Shs M
Acceptances and letters of credit	**-**	-
Guarantee and performance bonds	**92,081**	67,573
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**27,434**	20,572
	119,515	88,145

34 Operating lease commitments (Group)

The Group has commitments under operating leases in respect of rented property. The minimum future lease payments were as follows:

	2016	2015
	Shs M	Shs M
Not later than one year	**5,116**	7,718
Later than 1 year and not later than 5 years	**806**	4,992
	5,922	12,710

35 Other contingent liabilities (Group)

The Group is a defendant in various legal actions in the normal course of business. The total estimated exposure arising from these cases is Shs 8.6 billion (2015: Shs 2.2 billion). Through legal advice management has determined that total expected losses to the Group are Shs 1,841 million (2015: Shs 1,789 million) for which a provision has been made in the consolidated financial statements. In the opinion of directors and after taking appropriate legal advice, no significant additional losses are expected to arise from these cases.

	2016	2016
	Shs M	Shs M
Cash at hand (note 15)	**80,738**	62,668
Balances with Bank of Uganda (note 15)	**95,827**	132,309
Less: Cash reserve requirement	**(88,090)**	(71,430)
Deposits and balances due from banks (note 16)	**139,471**	128,733
	227,946	252,280

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

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

37 Related party disclosures

There are other companies that are related to dfcu Limited through common shareholdings or common directorships. Transactions and balances with related parties are shown below:

a). Amounts due to related companies

	Group		Company	
	2016	2015	2016	2015
	Shs M	Shs M	Shs M	Shs M
Jubilee Insurance Company Limited – Fixed and Demand deposits	**6,649**	5,761	**2,853**	2,307
dfcu Bank Limited – Overdraft and term finance	**-**	-	**14,902**	12,507
Umeme Limited – Demand deposits	**2,738**	2,497	**2,738**	2,497
National Social Security Fund – Fixed deposits	**108**	14,309	**108**	14,309

Amounts due to dfcu Bank Limited relate to an overdraft which earns interest at the prevailing market rates. Amounts due to other related companies include borrowings and deposits held with dfcu Limited and dfcu Bank Limited which both accrue interest at the prevailing market rates.

b). Amounts due from related companies

	2016	2015	2016	2015
	Shs M	Shs M	Shs M	Shs M
dfcu Bank Limited	**-**	-	**841**	839

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

c). Borrowings due to shareholders (Group)

	2016	2015
	Shs M	Shs M
Norwegian Investment Fund for Developing Countries (NORFUND)	**5,272**	8,786
CDC Group Plc (CDC)	**36,150**	33,580

The Norwegian Investment Fund for Developing Countries (NORFUND) and CDC Group Plc (CDC) hold a 27.54% and a 15.00% shareholding respectively in dfcu Limited. As at 31 December 2016, there were outstanding borrowings due to NORFUND and CDC.

d). Loans to directors and connected persons (Group)

	2016	2015
	Shs M	Shs M
At 1 January	**-**	95
Repaid during year	**-**	(95)
At 31 December	**-**	-

e). Deposits to directors (Group)

	2016	2015
	Shs M	Shs M
At 1 January	**121**	1,102
Net increase/(decrease)	**613**	(981)
At 31 December	**734**	121

The interest expense there on is Shs 0.5 million (2015: Shs 0.4 million).

f). Key management compensation (Group)

	2016	2015
	Shs M	Shs M
Salaries and other short-term employment benefits	**5,079**	5,043
Post-employment benefits	**579**	550
	5,658	5,593

g). Directors' renumeration (Group)

	2016	2015
	Shs M	Shs M
Fees for services as directors	**889**	608
Other emoluments: short-term benefits (included in key management compensation)	**228**	228
	1,117	836

38 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 2016, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Shs 1,338 million (2015: Shs 1,115 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 2016 the Group contributed Shs 2,993 million (2015: Shs 3,195 million), which has been charged to profit or loss.

39 Capital commitments

During 2016, the Company entered into a contract to complete works on the proposed Namanve Financial Centre for Ushs 3.7 billion. The Group's subsidiary is committed to incur capital expenditure of Ushs 3.3 billion for the upgrade the Bank's core banking system. These commitments are expected to be settled in 2017 and 2018.

	Group		Company	
	2016	2015	2016	2015
	Ushs M	Ushs M	Ushs M	Ushs M
Authorised but not contracted	-	-	-	-
Authorised and contracted	6,928	-	3,674	-
	6,928	-	3,674	-

40 Subsequent events

(a). Acquisition of Crane Bank Limited

On 27th January 2017, Bank of Uganda in exercise of its powers as Receiver, under Section 95(1)(b) of the Financial Institutions Act transferred the liabilities (including the deposits) of Crane Bank Limited to **dfcu** Bank Limited and in consideration of that transfer of liabilities conveyed to **dfcu** Bank Limited, Crane Bank Limited's assets.

All customers and depositors of Crane Bank Limited now have their accounts operated by **dfcu** Bank Limited through the wide spread branch network, which now includes some which were formerly branches of Crane Bank Limited. As a result, the Group's branch network has increased from 42 to 68 branches country wide.

As at the issue date of these financial statements, the integration of the two businesses was still in progress and the full financial impact of the transaction was still being determined. No adjustment relating to this transaction has been recorded in the consolidated financial statements.

(b). Borrowing from Arise B.V

Subsequent to 31 December 2016, **dfcu** Limited concluded an agreement with Arise B.V (an entity owned by Norfinance, Rabobank and FMO) and gave USD 50 million (about Shs 179.5 billion) bridging facility to the Company to support the enhanced capital adequacy requirements of **dfcu** Bank Limited, the Company's wholly owned subsidiary and the funds were received on 24th February 2017.

Notes

Bigger and Stronger with 67 branches and over 100 ATMs

Our Branches in Kampala

- 6th Street, Industrial Area
- Acacia Avenue
- Ben Kiwanuka Street, Hiadar Plaza
- Bugolobi, Bandali Rise
- Bwaise, Sir Apollo Kaggwa Road
- Entebbe Road, Freedom City
- Impala, Kimathi Avenue
- Jinja Road, Crown House
- Kampala Road, Sun City Plaza
- Kampala Road, Crane Chambers
- Kawempe, Bombo Road
- Kikuubo, Sisa Arcade
- Kikuubo, Nambusi Mariam Arcade
- Kireka Trading Centre
- Kisekka Market
- Kyadondo Road
- Kyambogo
- Kyambogo University
- Lugogo, Shoprite Mall
- Makerere University
- Market Street, Aponye Mall
- Naalya, Quality Shopping Village
- Nakivubo, Gagawala Shauliyako
- Nakivubo Place Road
- Nateete Trading Centre
- Ndeeba, Masaka Road
- Nsambya, Ggaba Road
- Ntinda, Capital Shoppers City
- Ntinda Trading Centre
- Owino, Kafumbe Mukasa Road
- Royal Plaza
- William Street
- Wilson Lane

dfcu
...with pleasure

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