# ANNUAL REPORT 2018

dfcu
...with pleasure

## Next Starts Now

**dfcu** Group 2018 Annual Report and Financial Statements

55 YEARS OF MAKING MORE POSSIBLE
SINCE 1964

# 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.



# 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.

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

## 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

## 2008
Merged its two businesses (Development Finance and **dfcu** Bank) to create a "one-stop shop" under **dfcu** Bank

## 2012
Established **dfcu** Women Business Advisory Council

## 2013
Realignment of shareholders bringing on board a strategic partner – Rabobank, with significant experience in agribusiness

## 2014
Consolidated all our key operations into our Head Office, **dfcu** Towers

## 2017
- **dfcu** Bank acquired certain assets and assumed certain liabilities of Crane Bank in receivership becoming the 2nd largest Bank in Uganda
- Rabobank and Norfinance A.S. consolidated their stake in **dfcu** Limited into one major shareholder ARISE B.V.

# Our Purpose

Guided by our vision, 'to be the preferred financial institution', and driven by our purpose statement, 'Making More Possible', we aim to:

- Provide innovative financial solutions to our chosen segments
- Maintain the highest level of service standards to our customers
- Enhance the wellbeing of our customers and the society

## Our Values

- Customer focus
- Excellence
- Integrity
- Teamwork
- CSR and sustainable development

## Our Aspirations

Our purpose, vision and values are aligned to strategic aspirations that drive our competitive advantage in a changing business environment.

- Become a market leader
- Transform from a niche player to a universal Bank
- Bank 4.0
- Superior financial performance

# Our Blueprint for Continued Success

Our long-term success is dependent on serving our customers well and generating value for society through our products and services. We provide financial services to personal, business, corporate and institutional customers. Our four main business areas are designed to support the relationship strategy for each specific customer segment.

### Personal Banking

- Tailored financial solutions for individuals
- Savings, transactional, lending, bancassurance
- Multiple touch points: branch, digital and agent banking
- Financial literacy and inclusion

### Business Banking

- Tailored financial solutions for medium and small businesses
- Day to day transaction banking support
- Trade finance expertise
- Relationship management

### Corporate Banking

- Corporate and investment banking services to governments, parastatals, local and multinational corporates, other financial institutions
- Manages top tier relationships in key sectors
- Expertise in transactional banking, structured finance and credit facilities

### Global Financial Markets

- Liquidity management services
- Trading in foreign currencies
- Hedging solutions for forex clients

# **dfcu** Limited Board of Directors and Management

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

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

**Deepak Malik**
Non-Executive Director

Appointed to the Board: November, 2007.
Retired: September 2018.

**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.

**Friedrich Pelser**
Non-Executive Director

Appointed to the Board: October, 2018,

**Michael Alan Turner**
Non-Executive Director

Appointed to the Board: March, 2010.

**George Ochom**
General Manager

Appointed General Manager:
January, 2018.

# **dfcu** Bank Board of Directors


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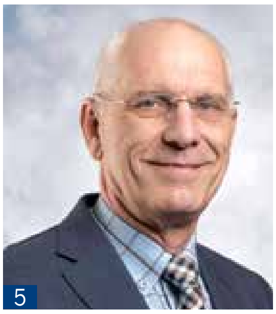
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**1 Jimmy D. Mugerwa**
Non-Executive Director/ Chairman
Appointed Chairman of **dfcu** Bank: September, 2014. Appointed to the Board: August, 2012.

**2 Deepak Malik**
Non-Executive Director
Appointed to the Board: November, 2007.
Retired: 21 September 2018.

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

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

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

**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.
Retired: 31 December 2018.

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

# **dfcu** Women Business Advisory Council

The Women Business Advisory Council continues to support the **dfcu** Women in Business (WiB) program. The program is committed to driving financial inclusion through supporting women with the provision of an enriching banking experience that is cognizant of the women specific needs and challenges.

**Dr. Gudula Naiga Basaza**
Chairperson

Gudula is the Vice Chairperson of Private Sector Foundation Uganda (PSFU), a member of the Board of Trustees Kampala City Traders Association (KACITA) provident fund scheme, a delegate of the Eastern African Women Entrepreneurs Exchange Network (EAWEExN) and a member of the 4th Governing Council of the National Agricultural Research Organisation (NARO). She is a Rotarian and the Proprietor of Gudie leisure farm located in Wakiso.

**Patricia Karugaba Kyazze**
Managing Director, Nina Interiors

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

**Rosemary Mutyabule**
Enterprise Development Specialist

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

**Belinda Namutebi**
Communications professional

Belinda Namutebi is a communications professional with 15 years experience. She is an innovator who is passionate about the power of brands to cause meaningful change; Belinda has a knack for understanding the needs of target audiences and developing innovative campaigns to address challenges and drive change. She is the Founder/ Director of Ondaba World Limited, which is at the forefront of promoting Uganda's local tourism through a social campaign called 'I'm So Uganda #Ondaba.

# dfcu Bank
## Senior Management Team







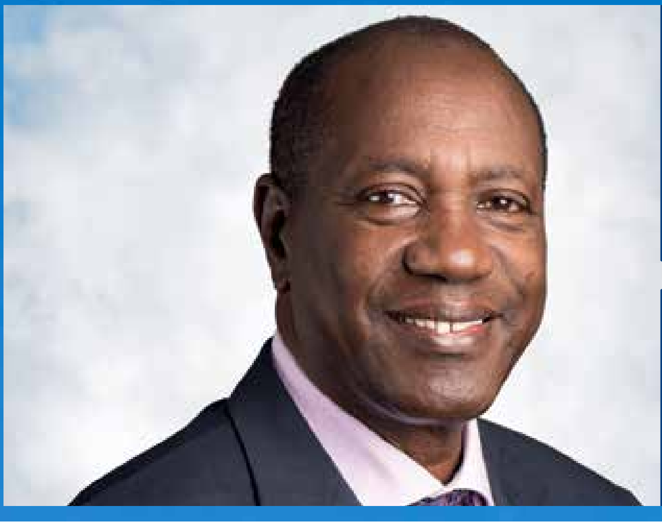

| | |
|---|---|
| **1** | **Juma Kisaame**<br>Chief Executive Officer. |
| **2** | **William Sekabembe**<br>Chief Commercial Officer. |
| **3** | **Kate K. Kiiza**<br>Chief Financial Officer. |
| **4** | **Andrew Kabeera**<br>Chief Operating Officer. |
| **5** | **Agnes Mayanja**<br>Chief Risk Officer. |
| **6** | **Agnes Tibayeita Isharaza**<br>Chief Legal Officer. |
| **7** | **Leonard Byambara**<br>Head, Internal Audit who reports to the Board Audit Committee |

# List of Acronyms:

| | |
|---|---|
| **ABC** | Anti-bribery and Corruption |
| **ADC** | Agribusiness Development Centre |
| **AGM** | Annual General Meeting |
| **ALCO** | Asset and Liability Committee |
| **AML** | Anti-Money Laundering |
| **ATM** | Automated Teller Machine |
| **BCP** | Business Continuity Planning |
| **BIS** | Bank for International Settlement |
| **BOU** | Bank of Uganda |
| **CAR** | Capital Adequacy Ratios |
| **CB** | Corporate Banking |
| **CDO** | Cotton Development Organisation |
| **COSASE** | Committee on Commissions, Statutory Authorities and State Enterprises |
| **CSI** | Corporate Social Investment |
| **CSR** | Corporate Social Responsibility |
| **EAD** | Exposure At Default |
| **ECL** | Expected Credit Loss |
| **FIA** | Financial Institutions Act (2004) |
| **FVOCI** | Fair Value Through Other Comprehensive Income |
| **FVTPL** | Fair Value Through Profit and Loss |
| **ICPAU** | Institute of Certified Public Accountants of Uganda |
| **IEASBA** | International Ethics Standards Board for Accountants |
| **IFRS** | International Financial Reporting Standards. |
| **ISA** | International Standards on Auditing |
| **IT** | Information Technology |
| **GDP** | Gross Domestic Product |
| **GOU** | Government of Uganda |
| **GRI** | Global Reporting Initiative |
| **KPIs** | Key Performance Indicators |
| **KYC** | Know Your Customer |
| **LGD** | Loss Given Default |
| **MUBS** | Makerere University Business School |
| **NPL** | Non Performing Loans |
| **NSSF** | National Social Security Fund |
| **OECD** | Organisation for Economic Co-operation and Development |
| **OCI** | Other Comprehensive Income |
| **PBB** | Personal and Business Banking |
| **PD** | Probability of Default |
| **RoE** | Return on Equity |
| **RoU** | Return of Value |
| **SACCOs** | Savings and Credit Cooperative Organisations |
| **Shs M** | Shillings in Millions |
| **Shs Bn** | Shillings in Billions |
| **Shs Trn** | Shillings in Trillions |
| **SME** | Small and Medium Enterprise |
| **UGX** | Uganda Shillings |
| **ULS** | Uganda Law Society |
| **USE** | Uganda Securities Exchange |
| **USSD** | Unstructured Supplementary Service Data |
| **WiB** | Women in Business |

# Financial Definitions

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



# Chairman's Statement

In 2018, I spoke of the Board's focus on enhancing shareholder value and strengthening our position. I am happy to report that the Group has made good progress.

In spite of the challenging operating environment and sustained malicious media attacks aimed at tainting the Bank's reputation in the second half of 2018, **dfcu** continued to perform strongly. Our performance in 2018 once again demonstrates that we have the right strategy, the right culture and the right geographical footprint in Uganda to deliver consistent and sustained value for our shareholders. It is also a sign of the confidence that our shareholders, customers, staff and other stakeholders have in the **dfcu** Brand.

I am pleased to report that **dfcu** Bank embarked on a transformation process aligning its operating model to the Banks strategic ambitions. As part of the transformation, a leaner and effective organisational structure was implemented, since May 2018. This is a first step towards supporting **dfcu**'s efforts in transitioning into a Universal Bank, delivering an excellent customer experience and achieving operational efficiency.We are optimistic that this transformation is poised to cement **dfcu** Bank's position as a top player in the industry.

The Bank is well positioned for exponential growth and the Board will provide stability and support to management to achieve its next phase of growth.

### A Resilient Financial Performance in a Difficult Operating Environment

Despite the challenging operating environment characteristic of acquisitions, **dfcu** managed to post impressive results.

The Group posted total Profit after tax of UGX 60.9billion, which was lower than the previous year that included a one-off item of UGX119billion which arose from the business combination.

Total assets reduced by 5% from UGX 3.1trillion to UGX2.9trillion due to repayment of borrowed funds and subordinated debt. This resulted in a 39% reduction in interest expense from UGX 44billion in 2017 to UGX 27billion in 2018. It is good for one to settle their debt obligations.

Non-funded income in terms of fees and commissions grew by 29% from UGX 40billion to UGX 51billion as we continued to harness the benefits of the investments in technology and growth in customer numbers.

Net loans and advances to customers grew by 5% as we focused on the asset quality of the consolidated book, which resulted in reduction of impairment expenses by 61% from UGX49billion in 2017 to UGX19billion in 2018.

Customer deposits remained stable at UGX 1.98billion as we focused on our strategy of growing the current and savings deposits that are a more cost-effective source of funding. This resulted in an 11% reduction in interest expense from UGX 88billion in 2017 to UGX 78billion in 2018.

The Board proposed a final dividend of UGX 33.01 per share, down from UGX 68.24 for the prior year. In total, UGX 24.69 billion is being paid out to shareholders as dividends.

### The Economic Environment

The domestic economic conditions improved in 2018 with the economy expected to grow above 6% in 2018/19, supported by recovery in Private Sector Credit and favourable fiscal and monetary policies. However, there are a number of risks to projected growth which include,

Uncertain weather conditions which could affect agriculture in the first planting season and lead to increased food inflation.

- Further delays in oil and gas production.
- Increased domestic borrowing to finance government expenditure.
- Regional security uncertainties, which could negatively impact regional trade and commerce.
- The other Macroeconomic indicators, inflation and interest rates remained relatively stable in 2018.
- The Uganda Shilling depreciated by 2.1% year on year from UGX 3,635 to UGX 3,715 per US dollar mainly on account of the widening current account deficit.
- In 2018, domestic inflation remained controlled, averaging 2.6%. However, external factors such as poor crop harvests, rapid exchange rate depreciation, recovery of international oil prices, and government expenditure could heighten the upward risk to inflation in 2019.
- Commercial bank interest rates remained stable over the period.

### The Banking and Regulatory Environment

The banking sector remains stable and resilient despite the sector coming under the spot light at the end of 2018 and start of 2019 as Parliament investigated closure of some commercial banks.

**dfcu** appeared before the Parliament's Commissions, Statutory Authorities and State Enterprises (COSASE) committee to explain its role in the former Crane Bank resolution by Bank of Uganda. The preliminary report absolved **dfcu** of any wrong doing as the transaction was transparent.

Gradual recovery in Private Sector Credit in 2018, supported by improved economic activity, increased the sectors' appetite for loan growth. A clearer impact of IFRS9 on loan provisioning led to improved underwriting standards and improved Non-Performing Loans (NPL) ratio which stood at an industry average of 3.4% in December 2018 compared to 5.6% in December 2017.

Average growth in Private Sector Credit in the last quarter of 2018 was 11.3% compared to 5.0% in December 2017. The growth in Private Sector Credit is expected to remain strong in the medium term.

2018, saw banks report the full impact of IFRS9 following its implementation in January.

Cyber risk continues to be a major risk in the industry and will call for continued major investments in IT infrastructure.

### Corporate Governance and Board changes

During the year, Mr. Deepak Malik, one of the longest serving members of the board representing the company's major shareholder, Arise B.V, resigned from the board due to increased workload as CEO of Arise BV. He had diligently served the board for over 10 years and was replaced by Mr. Friedrich Christian Pelser, a Senior Investment Manager, Arise.

During the same year, Mr. Juma Kisaame, the long serving Managing Director and Chief Executive Officer of the subsidiary, **dfcu** Bank retired and was replaced by Mr. Mathias Katamba a dynamic, energetic and seasoned banker who we believe will drive the Bank to the next level.

Further details relating to the Board and the conduct of its affairs are set out in the Corporate Governance section on page 34 -39 of this report.

### Community Engagement

We recognise the importance of investing in the communities we serve, and that is why we continue to invest in programs that create a positive social economic impact.

**dfcu** appreciates the gaps in financial literacy and financial inclusion in our society and through initiatives such as Investments clubs continues to play a key role in financial deepening. Over 25,000 people accessed **dfcu** financial literacy programs during the year.

We also continue to provide training opportunities for SME's to create value and build sustainable businesses through sponsorship of the SME Top 100 initiative.

In order to promote best farming practices, agriculture being the backbone of our economy, **dfcu** continues to sponsor the Best Farmer program. To date, UGX 1.2 billion has been invested in this program, reaching and providing knowledge to thousands of farmers.

The Agribusiness Development Centre (ADC) which is funded through a partnership between **dfcu** Bank and Rabo Development continues to support the transformation of farmer based organisations in the areas in which we operate. Over 54 farmer-based organisations comprising 2,298 individuals (Male: 1,324, Female 974) benefited from this partnership in 2018.

The **dfcu** Women in Business (WiB) program continues to provide solutions to meet the unique financial needs of women. In 2018, we introduced 'The Rising Woman Initiative' to recognise and promote a culture of mentorship among women in business in Uganda. Over 800 women entrepreneurs benefited from this initiative.

### 55 years of making more possible

As we celebrate 55 years of existence, we look back with pride at the number of individuals and businesses whose transformation journey we have been a part of through provision of short and long term financing as well as other financing options. We intend to leverage that strength to continue focusing on our winning aspirations of;

- Becoming the market leader,
- Transforming our subsidiary dfcu Bank from a niche player to a universal bank,
- Continuing to invest in the digital space to enable the Group seize opportunities and become a bank of the future and
- Delivering superior financial performance to our share-holders.

### Journey Ahead

Having achieved stability following the business combination in 2017, the group is now well positioned to deliver value to the shareholders.

Besides the key focus areas highlighted in the overview above and our winning aspirations, we shall continue to re-focus on building a sustainable business through,

- Effective cost control by servicing our customers in the cheapest most effective manner through leveraging on technology
- Substantially growing the number of Agents from the current over 800 agents in-order to reduce the foot flow to branches while deepening financial inclusion
- Aggressive push for the use of digital channels
- Active portfolio management to ensure quality asset book.
- Value creation through improved customer relationship management, enhancement of existing and rollout of new customer needs driven products
- Continued diversification of the portfolio to mitigate on shocks from poorly performing sectors of the economy.
- Continued investment in technology to provide stable operating environment, automation of routine tasks and improvement of processes.
- Investment in upskilling of our people to be ready for new challenges in the ever changing business environment.
- Building on our financial strength to write in larger deals, take advantage of emerging opportunities in the oil and gas sector and leverage off the global markets trading opportunities.

All these ongoing initiatives are aimed at delivering on our financial objectives of growing shareholder value and positioning **dfcu** to become the leading financial institution.

### Acknowledgment

In light of the challenges presented over the last twelve months, I would like to extend a heartfelt appreciation to our shareholders for the confidence in the future of our Company; customers and my fellow directors. Finally, none of the progress made in 2018 would have been possible without the dedication of management and staff.

Elly Karuhanga,

Chairman, Board of Directors

# Five Year Overview

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Statement of comprehensive income (Shs' m)** | | | | | |
| Interest income | 325,923 | 347,001 | 217,155 | 182,974 | 163,278 |
| Net interest income | 221,172 | 215,451 | 133,241 | 108,232 | 103,289 |
| Non-interest income | 51,285 | 39,655 | 29,305 | 25,002 | 20,852 |
| Credit impairment charge | 18,836 | 48,652 | 17,830 | 11,690 | 10,490 |
| Operating expenses | 202,213 | 189,520 | 96,900 | 89,531 | 78,309 |
| Profit before tax | 84,469 | 147,816 | 58,363 | 46,922 | 56,561 |
| Profit after tax | 60,908 | 106,892 | 45,325 | 35,290 | 42,109 |
| | | | | | |
| **Statement of financial position (shs'm)** | | | | | |
| Loans and advances | 1,398,162 | 1,334,611 | 842,360 | 808,047 | 680,679 |
| Total assets | 2,915,582 | 3,057,476 | 1,757,725 | 1,651,629 | 1,424,742 |
| Customer deposits | 1,979,093 | 1,987,118 | 1,134,731 | 914,951 | 822,877 |
| Borrowings | 371,006 | 483,446 | 344,584 | 491,914 | 384,023 |
| Shareholders' equity | 521,536 | 532,338 | 249,652 | 215,131 | 191,541 |
| | | | | | |
| **Capital adequacy** | | | | | |
| Core capital ratio | 18% | 19% | 20% | 16% | 19% |
| Total capital ratio | 21% | 23% | 27% | 23% | 27% |
| Risk weighed assets (shs' m) | 2,303,635 | 1,975,505 | 1,059,182 | 1,010,866 | 870,035 |
| | | | | | |
| **Share statistics** | | | | | |
| Number of shares in issue (in millions) | 748 | 748 | 497 | 497 | 497 |
| Earnings per share | 81.41 | 189.33 | 91.16 | 70.98 | 84.69 |
| Dividends per share | 33.01 | 68.24 | 25.19 | 21.73 | 23.53 |

# 2018 Performance Highlights

Loans and advances grew by 5% as we focused on the asset quality of our consolidated book, which resulted in reduction in the impairment expenses by 61% from UGX 49 billion to UGX 19 billion.

Customer deposits remained stable at UGX 1.9 trillion as we focused on our strategy of growing the current and savings deposits that are a more cost-effective source of funding, which resulted in a 11% reduction in the interest expense from UGX 88 billion to UGX 78 billion.

Total assets reduced by 5% from UGX 3.1 trillion to UGX 2.9 trillion due to repayment of borrowed funds and subordinated debt. This resulted in a 39% reduction in our interest expense from UGX 44 billion to UGX 27 billion.

Non-funded income in terms of fees and commissions grew by 29% from UGX 40 billion to UGX 51 billion as we continue to harness the benefits of the investments in technology and growth in the customer base.

The Group posted total profit after tax of UGX 60.9 billion, which was lower than the previous year that included a one-off item of UGX 119 billion which arose from the business combination.

Loans and Advances
**Shs 1,398 bn**
5% 2017: Shs 1,334 bn

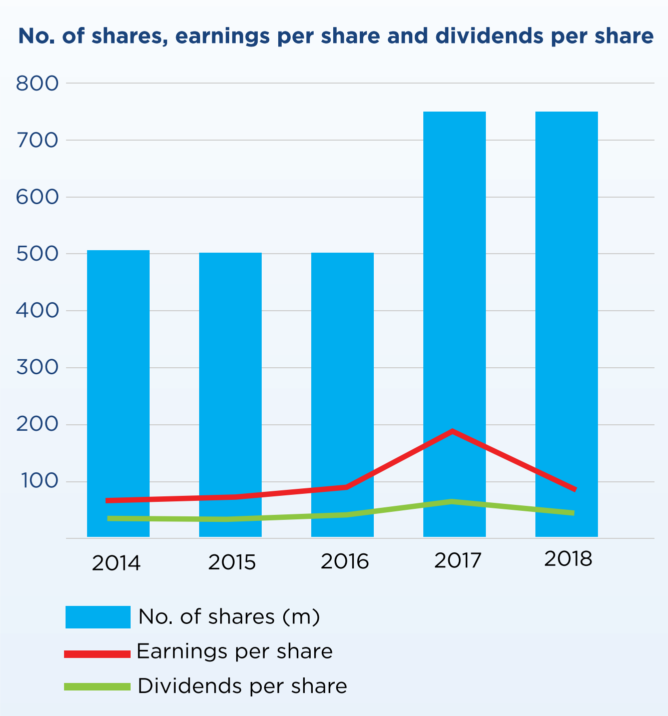
Customer deposits
**Shs 1,979 bn**
0% 2017: Shs 1,987 bn

Total Assets
**Shs 2,915 bn**
5% 2017: Shs 3,057 bn

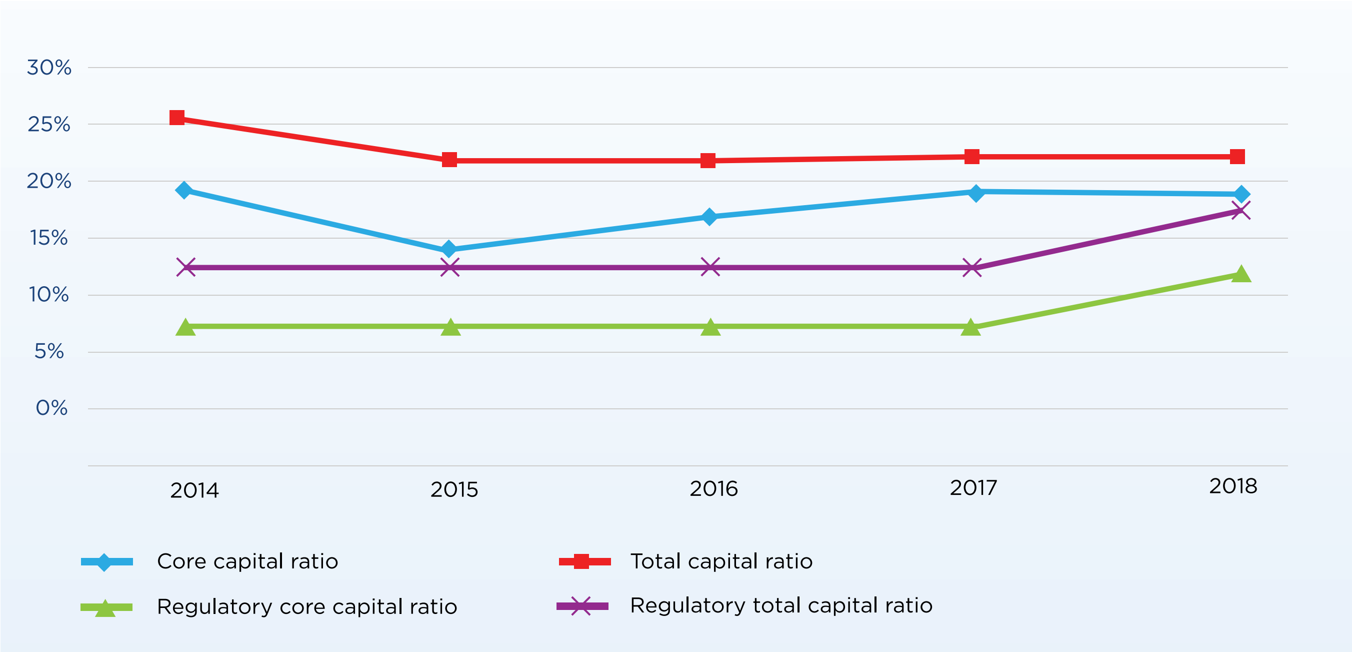
Non - funded income
**Shs 51 bn**
29% 2017: Shs 40 bn

Profit after tax
**Shs 60.9 bn**
43% 2017: Shs 106.9 bn

# Key Performance Indicators







The Group remains heavily capitalised with the prudential capital ratios above the regulatory requirements as per the Financial Institutions Act (2004).

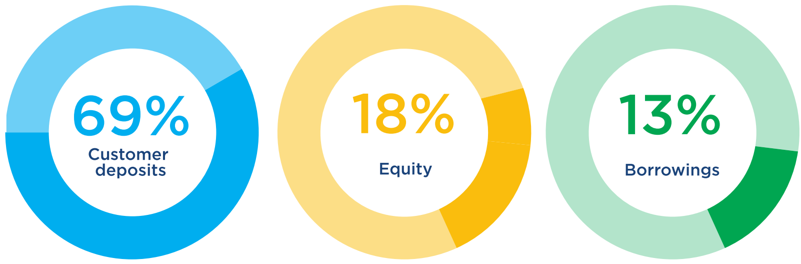
### Assets Composition

| | Amount (shs M) |
|---|---|
| Liquid assets | 1,103,655 |
| Advances to customers | 1,398,162 |
| Other assets | 413,765 |
| Total assets | 2,915,582 |


The Group has a strong liquidity base which forms 38% of the total assets. The highest composition of the total assets are advances to customers with 48% which is the core business of the Group.

### Funding Mix

| | Amount (shs M) |
|---|---|
| Customer deposits | 1,979,093 |
| Borrowings | 371,006 |
| Equity | 521,536 |




The assets are primarily funded by the deposits from customers which form 69% of the funding mix. The strategic focus for the Group during the year was to grow the current and savings deposits which are more cost-effective source of funding. This resulted in the decrease in the interest expense by 11%. In addition, the Group repaid its borrowings and subordinated debt during the year in a bid to reduce on its interest expense. The result was a 39% reduction.

| Statement of comprehensive income item | Percentage movement | Key driver(s) |
|---|---|---|
| Net interest income | ↑ 3% | • Increase in interest income as a result of increase in advances to customers.<br>• Strategic focus on the cost effective deposits. |
| Non-funded income | ↑ 29% | • Growth in customer base.<br>• Investment in technology that eased transactional banking and customer engagements. |
| Credit impairment charges | ↓ 61% | • Increased portfolio quality with credit loss ratio decreasing to 1.8% 2018 from 2.9% in 2017. |
| Operating expenses | ↑ 7% | • Increased investment in technology and digital financial inclusion products.<br>• Business expansion. |

# Strategic Snapshot

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

| Aspiration | Strategic imperative | Key Performance Indicators (KPIs) | Future Actions |
|---|---|---|---|
| Superior financial performance | Maintaining and enhancing our strength of the financial position | Our total assets reduced by 5% in 2018 (2017: increased by 74%) due to the business combination in 2017, loan portfolio grew by 5% (2017: 58%) and net interest income grew by 3% (2017: 62%) | • Stabilisation of the upgraded core banking system to enhance productivity<br>• Establish more 24/7 automated banking centres and branches at identified locations.<br>• Further improve centralized approval process and loan disbursement process.<br>• Stabilisation of the QuickBanking mobile platform. |
| | Driving operational excellence through cost management | Cost to income ratio was 66% (2017: 49%) | |
| | Management of credit impairment losses | Credit loss ratio in 2018 was 1.8% (2017: 2.9%). | |
| Become a market leader | Wealth creation | Wealth created in 2018 was Shs 165,157 (2017: Shs 196,468). The branch network reduced to 62 branches (2017: 63 branches). | • Maximise profits while managing substantial growth in the lending portfolio and maintaining a quality loan book.<br>• Encourage branches to carry out local campaigns with special focus on mega and micro savings<br>• Introduce more micro-savings products.<br>• Continue improving communication platforms to promote the wide range of deposit products. |
| | Consolidate our position as a key player in the SME market segment | Maintained our support to SMEs. SMEs form 64% of the total loan book. | |
| | | | |
| Transform from a niche player to a universal bank | Supporting the Government of Uganda's National Development Plan Primary Growth Sectors (Agriculture, tourism, mining, oil & gas, manufacturing, information communications development, housing development) | Our lending to the primary growth sectors was 60% of our loan book (2017: 56%). | • Improve on agricultural and micro-financing lending and to continue capacity building programs for targeted sectors.<br>• Continue to adhere to the Bank of Uganda Financial Consumer Protection Guidelines.<br>• Engage within identified projects with sustained positive impact to the communities.<br>• Enhance the managerial competencies of all executive officers based on identified leadership competencies.<br>• Maintain effective management of the performance appraisal system and the variable pay plan.<br>• 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. |
| | 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. | |
| | Becoming an employer of choice through best practice in people management | 1,156 employees in 2017 (2016: 756). Labour turnover in 2017 was 5% (2016: 8%). | |
| | | | |
| Bank 3.0/4.0 | Seamless customer transactions | Mobile Banking with an app and USSD code. Over 800 Agents countrywide. Internet banking for corporates and retail | • Continued investment and upgrade in the IT applications.<br>• Development of an investment club app. |

## Our financial goals

| Goal | Target | 2018 | 2017 |
|---|---|---|---|
| Return on equity | 21% | 12% | 20% |
| Core capital | 18% | 18% | 19% |
| Total capital | 19% | 21% | 23% |
| Cost to income ratio | 56% | 66% | 49% |
| Loans to deposit ratio | 59% | 70% | 67% |
| Asset quality (non-performing assets ratio) | 5% | 4% | 5% |

# Business Unit Review

## Corporate Banking

Our Corporate Banking (CB) business unit services the large corporate, government and institutional client base with funding, working capital product offerings, cash management and transaction banking solutions.

During the year, we grew our trade finance business by bringing new names on board. Corporate lending growth was less than optimal reflecting moderate corporate borrowing demand. Lending margins were largely stable despite noticeable aggressive pricing from some of our peers.

The Corporate banking unit was reorganized into four customer focused segments to strengthen our customer engagement activities and enhance relationship management. These business segments include: Multi-National Companies and Large Corporates, Public Sector, Local Corporates and Transaction Banking & Specialised products.

**2019 Priorities**

- Continue to focus on the most attractive market segments where we are well positioned. This means strengthening domestic deposits, payments, lending and supporting client transactional activity. New customer value propositions will be developed and rolled out to the identified growth sectors.
- Strong focus on driving efficiency and strengthening customer experience. We will continue to drive activity that speaks to our customers' needs and improve the customer experience through digitisation and responsive turnaround times.
- Strengthen transaction banking capabilities to drive cheap deposits growth. Increase collaboration and build partnerships within the payments eco system to sustain growth.
- Continue to invest in our people through professional development, training and empowerment to embrace a winning culture.

**Business Growth**
- Focus on priority growth segments
- New customer value propostions
- Strengthen transaction banking capabilities

**Customer Centricity**
- Drive efficiency through digitalisation and automation
- Customer engagement and partnership

**People Dedication**
- Training and professional development
- Empowerment at all levels
- Attract and retain best talent

# Personal and Business Banking

Personal and Business Banking (PBB) remains a key business unit as we concentrate our efforts on dominating our chosen market segments.  We continued to focus on improving the customer experience at all touch points. To this end we improved system stability and added new functionalities to our digital banking platforms.

During the year, we rolled out tailored Bancassurance products namely Edusure for education, Twilight and Medcover for Investment Clubs/SACCOS, and embedded life policies for the informal segments.

As part of our channel strategy, we introduced Agent Banking to increase access to banking services. This service will be extensively rolled out to all regions in 2019.

Adapting a relationship management model to manage for value, the business banking unit was reorganised into two segments: Commercial banking and Enterprise banking respectively. Commercial banking manages the larger SMEs and Enterprise banking services the smaller businesses.

We also took on a more visible and active presence on all social media platforms from which we received real time and first-hand customer feedback about our products and services. This has improved efficiency of complaint handling and resolution.

### 2019 Priorities

- Accelerated new business acquisition: roll out instant account opening, partnerships and co-creation to increase penetration in chosen segments.
- Channel optimisation: Deploy enhancements on digital platforms, commercialisation of agent banking and optimisation of branch network.
- Roll out new customer value propositions to the identified growth sectors and customer segments.
- Reduce cost to serve: Leverage cost efficient digital touch points for service, further automate and simplify processes.

**Business Growth**

- Business partnering and co-creation
- New customer value propositions for growth sectors
- Agent banking commercialisation and instant account opening

**Enrich Customer Experience**

- Maintain system stability and process improvements
- Improve quality of relationship management
- Customer engagements for feedback
- Automated tracking of service standards

**Channel Optimisation**

- Drive utilisation of digital channels
- Optimisation of branch network
- Out bound Call Centre to support customer onboarding

# Global Financial Markets

Global Financial Markets (GFM) serves customers through a team of product specialists, who work with relationship managers in Corporate, Personal and Business Banking to build a comprehensive understanding of each client's financial needs. Our specialty is in foreign exchange, fixed income and money markets trading as well as research.

2018 was a watershed year in which we reorganised the business to position for growth. Some of the highlights are listed below;

- Separated Financial Markets (Sales, Trading & Research) from Treasury (Liquidity and Capital Management).
- Split the teams into Sales (Client Facing) and Trading (Market Making) functions for greater focus and coverage.)
- Hired new talent in both functions.
- Revamped our value propositions in key sectors such as NGOs, Commodities and Infrastructure.

## 2019 Priorities

In 2019, the focus will be on the following:

- Continued investment in technology to make our processes simpler and faster.
- Managing risk, especially interest rate risk and foreign exchange risk, prudently.
- Keeping the customer at the center of everything we do.
- Endeavouring to generate superior returns for our share holders
- Doing the right business, the right way.
- Taking care of our people.

# Our 2019 Focus Areas

In 2019, we will focus on staying ahead of a rapidly changing market. Our annual goals are based three priorities to keep the momentum on the delivery of our strategic plan.

**1**

### Increase Business Momentum

Realise the full potential of our business model and large balance sheet.

- Focus on new customer acquisition
- Entrench cross selling model
- Transaction banking capabilities
- New/enhanced Products and CVPs
- Drive new income streams

**2**

### Enrich Customer Experience

Simpler, seamless interactions across the customer journey.

- Enhance quality of relationship management
- Drive operational efficiency initiatives · Instant account opening, instant PIN,

  straight through processing.
- Improve system stability across channels
- Consistent customer engagements

**3**

### Digitalisation and Channel optimisation

Leverage and continue to invest in digital channels to lower the cost to serve.

- Internet and Mobile banking enhancements
- Customer Utilisation campaigns
- Agent Banking Commercialisation
- Dedicated innovations team

Farmer now
Exporter next
Take your farm to the next level with dfcu Agribusiness. Let's partner with you, to grow to the next level.
#NextStartsNow
dfcu Bank is regulated by the Central Bank of Uganda
Call Centre: 0414 351000 Toll Free:0800 222000
Email:customercare@dfcugroup.com
dfcugroup
+256 776 760760
dfcubank
55 YEARS OF MAKING MORE POSSIBLE
SINCE 1964
dfcu
...with pleasure

# Contribution To The Community

Corporate Social Investment (CS1) is fundamental to the way **dfcu** does business. In line with our purpose of 'making more possible', one of our key focus is programs that promote financial literacy. We continued to support the entrepreneurial spirit, enhanced the stability of families and provided a sustainable approach to promoting the savings culture through training sessions, peer education and provision of relevant solutions. Our interventions in the various customer groups reached 41,754 beneficiaries directly, and over 10.6 million benefited indirectly from media educational programs with our partners.

**dfcu** also supported a wide variety of initiatives in form of donations under the areas of child and maternal health, community development and emergency interventions.

**2018 Contribution**

| Category | Total Investment (Ushs) | Number Reached (Direct and Indirect) |
|---|---:|---:|
| CSI Strategic Partnerships and Projects | 1,390,620,710 | 10,670,000 |
| Donations and Humanitarian Interventions | 234,507,500 | 462,610 |
| **Total** | **1,625,128,210** | **11,132,610** |

# Transforming Women Entrepreneurs Through the dfcu Women in Business Program

Women entrepreneurship plays a key role in creating jobs and driving economic growth. We firmly believe that creating equal opportunities for women in business is not only a question of gender equality, but also an economic priority.

## Our Involvement

The **dfcu** Women in Business (WiB) program provides solutions to meet the unique financial needs of women – the young professionals, those carrying out formal and informal Business and the woman involved in agri-business. From accessing finance to business advice, we are supporting women-led small and medium-sized businesses in gaining the skills, knowledge and resources necessary to take their trade to the next level.

### Access to Finance

Securing finance is one of the greatest challenges faced by small and medium-sized businesses. The greatest hurdle for women entrepreneurs is collateral to secure loans. To address this, we offer unsecured financing solutions at discounted rates to help women entrepreneurs access the finance they need to invest and grow.

### Business Advice and Training

With our partners - Makerere University Business School (MUBS), Uganda Law Society (ULS) and the Institute of Certified Public Accountants of Uganda (ICPAU), **dfcu** offers business and financial advisory services to women entrepreneurs, regardless of the size of the business, at no cost. The services offered include the following:

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

### Rising Woman Initiative

The Rising Woman Initiative was launched in 2018 to recognize and promote a culture of mentorship among women in business in Uganda. Several activities were conducted across the different regions of the country to identify and associate with the best women entrepreneurs. The year-long activities culminated into a Women in Business Expo. As part of this initiative the entrepreneurs were required to submit and defend their business ideas in a competition that saw the top 10 women go on an all -expenses study excursion to Nairobi. The top three submissions won a total cash prize of UGX 30m.

## Impact

**230,000+**
Women are registered on the WiB

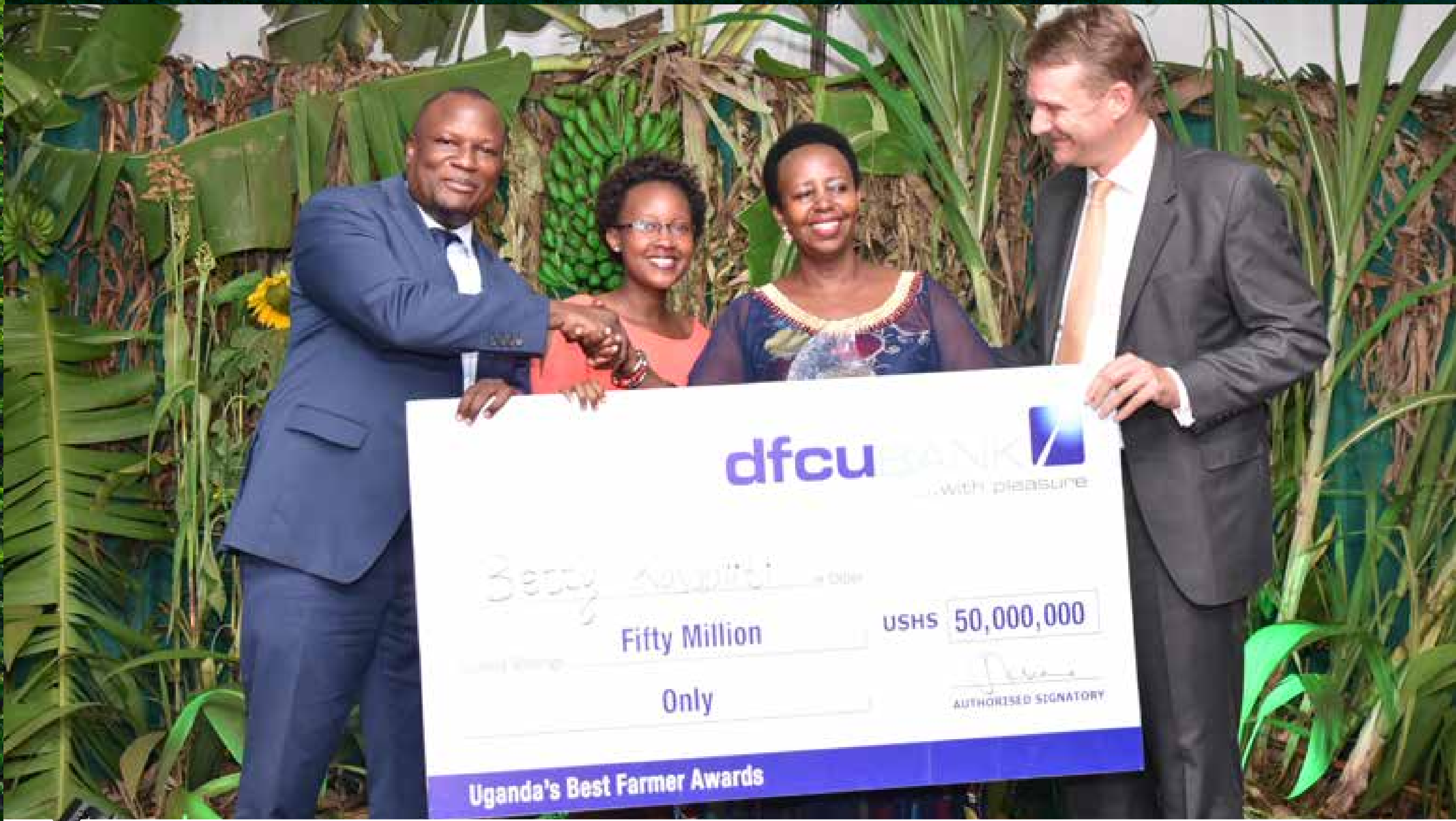
**25,000+**
Women have benefited from the capacity building sessions

**6,000+**
Women have benefited from the dfcu WiB loans

**800+**
Women entrepreneurs benefited from the 'Rising Woman' initiative

**100+**
Women entrepreneurs participated in the WiB Expo

# Supporting Agriculture Transformation




The Netherlands Ambassador to Uganda Henk Jan Bakker and **dfcu's** then incoming CEO Mathias Katamba Congratulate Betty Mbazira, the overall winner of the 2018 Best Farmer Competition.

The Agriculture sector employs over 70% of the population, contributing at least 23% of Uganda's GDP. Over 85% of the farmers are smallholders, and any transformative interventions need to address the challenges faced by the smallholder to significantly impact on the sector.

## Our Involvement

**dfcu** continues to promote best farming practices through the Best Farmer program. To date, UGX 1.2 Billion has been invested in this program, reaching and providing knowledge to thousands of farmers.

The Agribusiness Development Centre (ADC) which is funded through a partnership between **dfcu** and Rabo Development is supporting the transformation of Farmer Based Organisations in the areas where we operate. Over 2,500 farmers have benefited from technical support provided by the ADC.

**dfcu** also continues to provide innovative tailored financial services covering banking, insurance, credit and access through mobile, agency and branch channels. Products such as the Farmer Group Savings, have enabled small holder farmers who have no collateral, to access loan facilities to expand, grow and transform their enterprises.

In the agri business sector, **dfcu** is supporting financial intermediation for certain value chains with far-reaching impact on the Ugandan economy. The value chain financing schemes cover major commodities such as: Tea, Coffee, Oilseeds, Maize, Poultry, Sugar, Sorghum, Barley, Rice, Poultry and Diary.

## Impact

**2500+**

**farmers have benefited from technical support provided by the ADC.**

**UGX 1.2 bn**

**has been invested in the Best farmer program, reaching and providing knowledge to thousands of farmers.**

# Supporting Sustainable Business Growth for SMEs


William Sekabembe, Chief Commercial Officer and Executive Director (center) speaks during the SME Top 100 launch.

Small and Medium Enterprises (SMEs) face major challenges when it comes to accessing finance. The major barriers include; lack of appropriate formalisation, quality of management, as well as compliance and governance challenges.

## Our Involvement

Our sponsorship of the Top 100 Medium Sized Company Survey (SME Top 100) creates a platform to provide opportunities for businesses to create value and build sustainable businesses. Through this initiative, hundreds of businesses learn from each other; engage policymakers on their contribution to the economy, benchmark against other business operations and much more.

## Impact

The program has boosted the skillset of the participating companies, translating into improved business practices and increased profitability.


The **dfcu** Bank Board Chairman, Jimmy D. Mugerwa, then incoming CEO Mathias Katamba, Peter Charles Mayiga, Katikiro of Buganda and the former CEO Juma Kisaame pose with the top 10 Investment Club Battle for Cash winners at the grand finale of season two.

# Deepening Financial Inclusion

Financial inclusion enables convenient access to appropriate financial products and services including transactions, payments, savings, credit and insurance, at an affordable cost, in a fair and transparent manner.

## Our Involvement

**dfcu** has been at the forefront of driving the financial inclusion agenda and implemented the following interventions in 2018:

Improving Access: During the year, **dfcu** rolled out solutions to improve access to banking services. Mobile Banking was enhanced with the **dfcu** mobile App and a USSD channel for the lower segment. By the end of 2018, Agent Banking was rolled out with over 400 agents countrywide.

Promoting Savings: The **dfcu** Investment Club program provides a conducive platform to foster group savings where four or more like minded individuals come together to diligently grow their savings and ultimately pool resources to spur investment. The program supported the growth of strong successful Investment Clubs across all market segments.

Extending Financial literacy: Together with our partners we continued to extend tailored financial literacy programs to the various customer groups through the year.

Launched Bancassurance: Insurances services can now be accessed at any **dfcu** Bank branch across the country. A number of tailored **dfcu** insurance products including Edusure, MedCover and Twilight Cover were introduced to our customers.

## Impact

**100,000+**

**customers have access to affordable life insurance covers imbedded in bank products**

**25,000+**

**Investment Clubs with a total savings turnover of in excess of UGX 950 Billion**

**40,000+**

**benefited directly from dfcu financial literacy programs during the year**

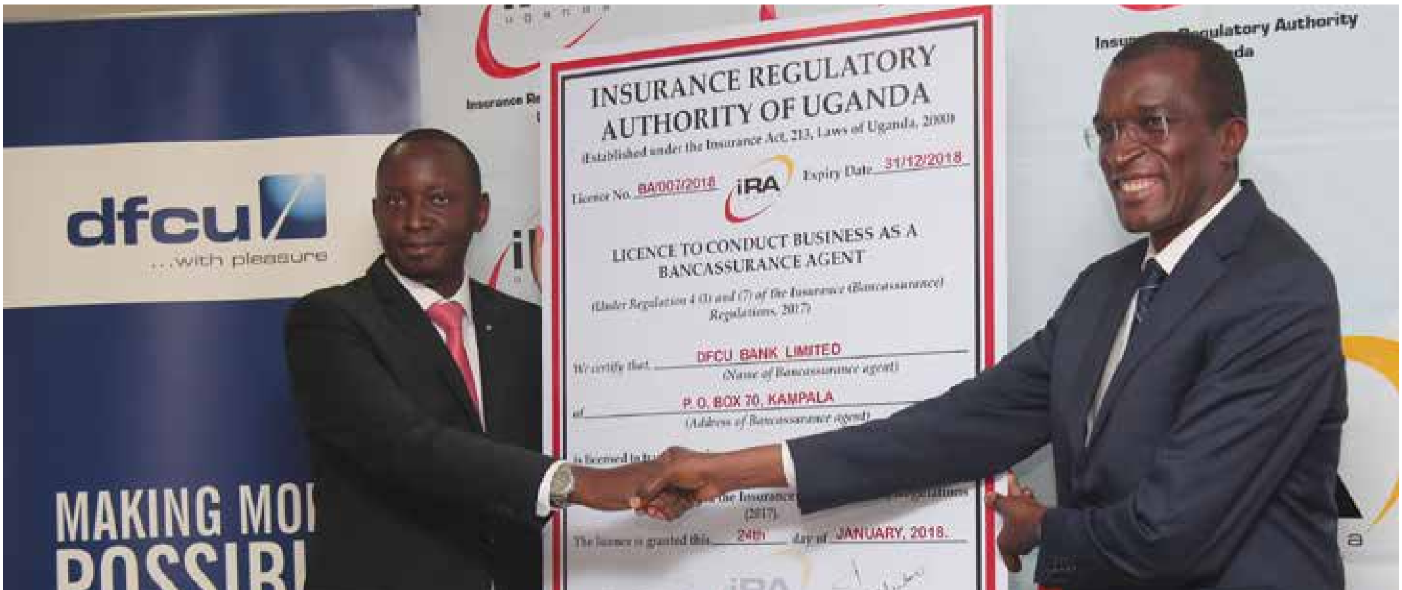
# Other Business Highlights

Best performing Branch Managers that made it to the Billionaires Club in the first half of the year.

The British High Commissioner, Peter West C.M.G. and **dfcu** Women Business Advisory member, Rosemary Mutyabule recognize one of the five exceptional **dfcu** WiB customers during the 2018 CHOGM celebrations in Kampala.

In partnership with the Kenya Association of Investment Groups, a workshop with the higher net worth Investment Clubs was held to share knowledge on investment opportunities and best practice using Kenya as a case study.


**dfcu** signs a partnership with Propaco that will see SMEs benefit from long-term lending




**dfcu** Bank receives license to offer Insurance Products

Over 150 NGOs attend a conversation on how they can develop a mindset of an entrepreneur.

# Risk Management

A business with a size and complexity like **dfcu**'s requires successful management of existing and emerging risks to ensure growth and sustainability.

While we remain committed to increasing shareholder value by developing and growing our business within our board-determined risk appetite, we are mindful of achieving this objective in line with the interests of all stakeholders.

We aim for an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment.

Limiting adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite is a priority. Our risk management approach includes minimizing concentrations of exposure, limiting potential losses from stress events and ensuring the continued adequacy of all our financial resources. The **dfcu** risk management processes continued to prove effective throughout the year of reporting (2018), despite a tough economic environment.

Executive management remained closely involved in important risk management initiatives, which focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolios.

The Group's methodology to risk management, underpinned by our Risk Appetite 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.

## 2.0 Risk Management Framework

### 2.1 Governance

The Board of Directors determines the strategic direction of the Group and agrees the nature and extent of the risks it is willing to take to achieve its strategic objectives.

To ensure that the strategic direction recommended by the business represents the best of the strategic options open to it, the Board is supported by the Group's Senior Management. Senior Management facilitates and informs the Board's assessment of the risk landscape and development of potential strategies by which it can drive long-term shareholder value.

The ultimate responsibility for the Group's risk management rests with the Board. Having determined and communicated the appropriate level of risk for the business, the Board establishes and maintains a risk management system to identify, assess, manage and monitor risks which could threaten the existence of the company or have a significant impact on the achievement of its strategic objectives.

This risk management system includes an internally-published risk management policy which helps to reinforce the tone set from the top on risk. It promotes and instils an appropriate risk culture in the organization where employees are expected to be risk aware, control minded and 'do the right thing'. The policy provides a formal structure for risk management embedded in the fabric of the business.

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.

### Three lines of defence

The business is viewed as the first line of responsibility. Operational managers own and manage risks. They are also responsible for implementing corrective actions to address processes and control deficiencies. Risk management serves as a second line and ensures control effectiveness. In this way, the business remains at all levels responsible for the risks taken. This ensures that the Group's culture of risk awareness is widely held and respected across the whole organisation. The third line of defense is Internal Audit, which validates the overall effectiveness of the framework.

### 2.2 Approach

The group's approach to risk management is based on well-established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances strong corporate oversight at all levels, beginning with proactive participation by the Executive Management in all significant risk matters, with an independent risk management function charged with the overall oversight for risk management.

Business unit heads are primarily responsible for managing risk within each of their businesses and for ensuring that appropriate, adequately designed and effective risk management frameworks are in place, and that these frameworks are compliant with the group's risk governance standards.

To ensure independence and appropriate segregation of responsibilities between business and risk management, the risk department reports to the Chief Executive Officer and indirectly to the Board Risk and Credit Committee.

### 2.3 Risk governance standards, policies and procedures

The group has developed a set of risk governance standards for each major risk type to which it is exposed. The standards set, ensure alignment and consistency in the way we deal with major risk types across the group, from identification to reporting.

All standards are applied consistently across the group and are approved by the Board. It is the responsibility of management in each business unit to ensure that the risk governance standards, as well as supporting policies and procedures, are implemented and monitored.

Compliance with risk standards is controlled through Unit periodic self-assessments conducted by business units, assurance by the risk team and reviewed independently by the group internal auditors.

### 2.4 Risk appetite

Risk appetite is the maximum level of residual risk that the group is prepared to accept to deliver its business objectives. The group has developed a robust framework that is used to articulate risk appetite throughout the group and to external stakeholders.

Risk appetite articulates the level of risk a company is prepared to accept to achieve its strategic objectives. Risk appetite frameworks help management understand a company's risk profile, find an optimal balance between risk and return, and nurture a healthy risk culture in the organisation. It explains the risk tolerance of the company both qualitatively and quantitatively. Qualitative measures specify major business strategies and business goals that set up the direction of the business and outline favorable risks. Quantitative measures provide concrete levels of risk tolerance and risk limits, critical in implementing effective risk management. Risk appetite represents the willingness and the ability to take risk. Due to the sophisticated nature of financial institutions, it requires a lot of effort to fully understand the constraints and the ability to assume risk.

The Group implements risk appetite in terms of various limits, thresholds risk adjusted performance measures on a number of indicators to determine its risk profile.

The board establishes the group's parameters for risk appetite by:

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts, under both normal and stressed conditions, for the group; and
- regularly reviewing and monitoring the group's risk performance through quarterly board reports.

The board delegates the determination of risk appetite to the Board Risk and Credit Committee and ensures that risk appetite is in line with group strategy and the group's desired balance between risk and reward.

### 2.5 Stress testing

The group's overall stress testing program is a key management tool within the organization and facilitates a forward-looking perspective on risk management and business performance. Stress testing involves identifying possible events or future changes in economic conditions that could have an impact on the group.

Stress tests are used in proactively managing the group's risk profile, capital planning and management, strategic business planning and setting of capital buffers. Stress testing is an integral component of the group's internal capital adequacy assessment process and is used to assess and manage the adequacy of regulatory capital.

Executive management considers the outcomes of stress testing on earnings and capital adequacy in determining an appropriate risk appetite, to ensure that these remain above the group's minimum capital requirements. Management reviews the outcomes of stress tests and, where necessary, determines appropriate mitigating actions to minimise and manage the risks induced by potential stresses.

Stress tests are conducted frequently to enable early and proactive management of the potential impact of stress scenarios on the group's risk profile.

### 3.0 Risk Categories

Below, we list some of the major risks that the Group is exposed to. It must be noted that we have in place adequate controls, processes and procedures to mitigate each risk type by either reducing the likelihood of the event occurring and / or minimising the impact if it does materialise.

### 3.1 Strategic Risk

Strategic risk means the risk of current or prospective impact on an organisation's earnings, capital or reputation arising from changes in the environment the organisation operates in and from adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic or technological changes.

Strategic Risk may arise from changes to the competitive landscape or regulatory framework or ineffective positioning in the macroeconomic environment. The Group has in place strategic risk key performance indicators which are measured and reviewed on a monthly basis by the Management Risk Committee and presented to the Board on a quarterly basis.

### 3.2 Credit Risk

Credit risk is the possibility that the Group will suffer a financial loss from counterparty's failure to pay interest, repay capital or meet a commitment as it falls due. The group's credit risk arises mainly from its lending activities to customers but also from interbank lending and investment in securities. The bank's Credit risk comprises of default risk, industry risk, product risk and country risk.

#### Measurement and Management of Credit Risk

- The Group has independent Credit Approval and Credit risk management teams that drive consistency in credit principles, policies, decisions, standards and processes.
- Client credit due diligence is the critical pillar for client risk grading and selection. The bank maintains underwriting standards aimed at mitigating credit losses at counterparty and portfolio level.
- We endeavour to secure client's exposures as a fallback position in the event that their cash flows become insufficient to meet obligations.
- The bank sets concentration thresholds for clients, sectors and products to manage undue concentration risk and currently holds a diversified portfolio.
- All new credit requests and proposed changes to the terms for existing credit facilities must be processed through the mandated approval authority.
- In line with regulatory requirements, the group monitors and consolidates related party exposures through client groups. This allows for global oversight of exposures to a single group and contributes towards management of concentration.

### 3.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The operational risk appetite as set by the board supports effective decision making and is central to embedding risk management in business decisions and reporting. The objective in managing operational risk is to establish sound control practices to increase the efficiency and effectiveness of the group's resources, minimise losses and utilise opportunities.

#### Measurement and Management of Operational Risk

Operational risk management forms part of the day-to-day responsibilities of management at all levels. Qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

These tools include:

- a loss database of operational risk events categorized according to the Basel II business lines and operational risk event types;
- a risk and control self-assessment process to analyse business activities and identify operational risks that could affect the achievement of business objectives. An effective risk and control self-assessment process is a key component of developing a risk profile and understanding the residual risk; and
- key risk indicators which are used to manage operational risk on an ongoing basis. Key risk indicators contribute to an assessment of the operational risk profile. The main purpose is to assist management by providing an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.

### 3.3.1 Business Continuity

Business continuity management is an integral component of the Group's risk management framework. The various business units are continually exposed to deployment of updated methodologies as well as testing and training to ensure increased capability to deal with interruptions to business. This is achieved through active assessment of the changing business environment, reference to and incorporation of updated and emerging best practice standards worldwide, pre-planned simulation and desktop assessments and interrogation of identified risks and threats to the operational continuity of the Group.

Contingency and recovery plans for core services, key systems and priority business processes have been developed and are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant. The Group's business continuity strategy is structured to ensure strong central monitoring and reporting and decentralised execution, and is supported by a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

### 3.4 Market risk

Market risk refers to the risk of losses in the group's trading and banking books due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market.

One of the primary objectives of Market Risk Management, a part of our independent Risk function, is to ensure that our business units' risk exposure is within the approved appetite commensurate with the Group's defined strategy. To achieve this objective, Market Risk Management works closely together with the risk takers ("the business units") and other control and support functions. This is aimed at ensuring timely identification, measurement, mitigation and reporting of Market risks to minimise losses.

#### Measurement and Management of Market Risk

Throughout the year, the Group maintained its trading and banking book positions within the approved risk appetite and tolerance limits.

- Market Risk Management governance is designed and established to promote oversight of all market risks, effective decision-making and timely escalation to senior management

- We aim to accurately measure all types of market risks by a comprehensive set of risk metrics embedding accounting, economic and regulatory considerations. We measure market risks by several internally developed key risk metrics and prudential regulatory defined market risk approaches.

- We also have policies in place for both Interest rate and foreign exchange risk that clearly set out the guidelines and responsibilities of all stakeholders in market risk management.

### 3.5 Liquidity risk

Liquidity risk is the risk that the group 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.

#### Management of Liquidity risk

The Group manages liquidity in accordance with applicable regulations and international best practice. As part of a consistent liquidity management process, the group challenges itself to:

- maintain a sufficiently large liquidity buffer;
- ensure a structurally sound statement of financial position;
- manage short- and long-term cash flow;
- manage foreign currency liquidity;
- preserve a diversified funding base;
- undertake regular liquidity stress testing and scenario analysis; and
- maintain adequate contingency funding plans.

The cumulative impact of these elements is monitored by Group ALCO and the process is underpinned by a system of extensive controls.

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.

### 3.6 Compliance Risk

Compliance is an independent key risk management function that the Board and Management has prioritised in lieu of the group being subject to extensive dynamic supervisory and regulatory regimes. Strategically, the compliance framework is directly supervised at the Executive Level by the Chief Executive Officer and the function for its independence has a reporting requirement to the Board. The Bank's compliance risk framework is implemented through a centralised compliance risk management structure. This is a specialised unit that grants oversight on all compliance related matters providing leadership and guidance on compliance with all relevant laws, coordinating the combating of money laundering, sanctions and terrorist financing activities, coordinating internal policy compliance and any other emerging legislative developments.

Core to the compliance functions is also the provision of requisite training and awareness on regulatory developments.

### 3.6.1 Money laundering control and Anti - Terrorism Financing

Legislation on money laundering and terrorism financing is becoming more stringent with regulators focusing on how supervised entities are managing the associated risks. The group is committed to building and maintaining robust defences to combat money laundering, terrorist financing, sanctions compliance breaches, bribery, and other forms of corruption. Over time, we have implemented compliance risk management activities, which include adherence to anti-money laundering and sanctions policies and the application of core controls such as client due-diligence screening and monitoring, led by a dedicated Anti-Money Laundering & Due Diligence team.

We continue to play an active role in shaping the legislative environment around money laundering, sanctions and terrorism financing in close collaboration with Bank of Uganda through the Uganda Bankers Association and the Financial Intelligence Authority.

### 3.7 Reputational Risk

Reputational risk results from damage to the group's image among stakeholders, which may impair its ability to retain and generate business. Reputational risk relates to stakeholder perceptions whether fact-based or otherwise. Stakeholders' expectations change constantly therefore reputational risk is dynamic and varies between groups and individuals.

The Group is committed to operating at the highest standards possible that we set for ourselves.

Any lapse in standards of integrity, compliance customer service or operating efficiency represents a potential reputational risk.

Reputational risk is measured by reference to our reputation as indicated by our dealings with all relevant stakeholders including media, regulators, customers and employees; and by reference to identified metrics, incident assessments, regulatory feedback and judgement and assessment by the risk management team.

Reputational risk is monitored through our reputational risk assessments and metrics, the results of the second line of defense that is integrated into the Group's broader risk management framework.

Safeguarding the Group's reputation is of paramount importance to its continued success and is the responsibility of every member of staff. The Group strives to minimize reputational damage at all times. The shared values provide guidance on acceptable behaviour for all staff members, and provide structure and guidance for non-quantifiable decision making, thereby assisting in the management of the Group's reputation.

### 3.8 Environmental and Social Governance 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.

### 3.9 Whistle Blowing, 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.

Our anti-bribery and corruption (ABC) policies aim to prevent colleagues, or third parties working on our behalf, from participating in active or passive bribery and or corruption, or from making facilitation payments. We have a zero tolerance to acts of bribery and corruption in all our dealings with the staff, customers and suppliers among others. The ABC program has evolved over time to include;

- Transparency to gifts and hospitality management,
- oversight on implementation of the program through Management Risk Committee and Board Audit Committee,
- setting clear governance principles which includes policies,
- Setting due diligence controls and standards including risk assessments,
- Embedding ABC principles in third party engagements / approval,
- Clear lines of communication and training to staff with better knowledge, skills and tools to manage and oversee ABC risk mitigation activities.,
- independent testing / review of processes.

**dfcu** has set up clear channels within which staff and other stake holders are encouraged to flag any acts of misconduct that affect the operations of **dfcu** Bank. The Bank has a whistleblowing Policy adhered to by all staff and the internal channels set up are complimented by an external Channel managed by Deloitte Tip-offs anonymous who provide an anonymous reporting channel for unethical behaviour in the workplace. The completely independent, confidential whistleblowing channel offered by Deloitte gives staff the ability to raise concerns on unethical behaviour.

Key developments

In the year of reporting, the Group had tremendous steps made in terms of risk management as mentioned below;

- Successful implementation of the IFRS9 standard thus ensuring that the relevant expected credit losses have been appropriately recognized.
- The Group has developed a model risk governance framework to guide the development and validation of all risk models thus mitigating risks arising out of fundamental errors in the design of the model, misuse of the model and the model outcomes.
- Structural re-organisation to create efficiencies while enabling better risk management.

# Corporate Governance Statement

## Introduction

The **dfcu** Board of Directors understands that sound corporate governance is critical to the sustainability of the Company. The Board ensures that the Company's operations are governed by clearly defined principles that support good corporate 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 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, 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 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.

## Board of Directors

The Board is collectively responsible to the shareholders of the Company for its performance, strategic direction and provides the leadership necessary for the Company to meet its performance.

The Board which is comprised of multi-skilled directors, is 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:

- protecting the interests of shareholders and other stakeholders of the Company, and to take these into account in directing the affairs of the Company;
- determining the aims of the Company by providing input into and approving business plans, strategy, structures, policies and investments;
- ensuring achievement of the Company's objectives;
- providing oversight to and supervise management of the Company, operations and ensure the establishment of effective internal control systems;
- ensuring 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;

## Appointment of Directors

In selecting directors, the Company seeks individuals who are of high integrity and with passion for the sectors the Company is involved with. Attention is given to the need to attract suitably qualified individuals with an appropriate balance of skills and exposure (both local and international) in various areas including financial, operational, risk management, digital and corporate governance, amongst others. More information about the directors skills and experience may be accessed from the Company website : www.**dfcu**group.com

The appointment of directors is governed by the Company's Memorandum and Articles of Association. Directors are appointed by shareholders in a General Meeting. The Board may fill vacancies on the Board pending the General Meeting. Such directors are required to retire and submit themselves to election by the next General Meeting. The General Meeting is availed with the required particulars about directors due for election to guide its decision. These particulars include the nominee director's qualifications amongst others. Nominee directors must declare any conflicts of interest for due consideration. The Board members' nominee identification and vetting process is conducted by the Board's Nominations Committee.

Nominee directors of the subsidiary, **dfcu** Bank, are appointed through a similar process as outlined above, but in addition, are required by law to be cleared by the Central Bank which conducts a rigorous vetting process including a "fit and proper test" prior to issuance of its no objection to the appointment.

As at the end of 2018, the Board of Directors of **dfcu** Limited comprised six (6) non-executive directors including the Chairman.

On the other hand, at the end of 2018, **dfcu** Bank Limited, which is a fully owned subsidiary of **dfcu** Limited had eight (8) directors, six (6) of whom were non-executive directors and two (2) were executive directors. One (1) non-executive director resigned in September 2018.

The Directors who served on the **dfcu** Limited Board during the year under review are listed on Page 6 whilst those who served on the Bank Board are listed on Page7.

## Changes in the Board Composition:

### Exits:

The following ceased to be directors of **dfcu** in 2018: -

1. Mr. Deepak Malik, a Non-Executive Director, whose resignation took effect on 21st September 2018
2. Mr. Juma Kisaame, the Managing Director of **dfcu** Bank Limited, who retired with effect from 1st January 2019.

The shareholders, directors, management and staff of **dfcu** thank the above directors for the contribution made towards the Company.

### Appointments:

The Board of Directors appointed Mr. Fred Pelser in September 2018 to fill a casual vacancy following the resignation of Mr. Deepak Malik. Mr. Pelser's confirmation as a director is to be made by the Shareholders during the Annual General Meeting.

Mr. Mathias Katamba was appointed Managing Director of **dfcu** Bank Limited with effect from 1st January 2019.

## Board Meetings

The Board has an annual programme of meetings to monitor and review the Company's strategy. The strategic priorities for 2019 are highlighted in the Chairman's Statement.

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. As a matter of course, all directors are required to declare any conflicts of interest prior to the commencement of each meeting for due consideration, if any.

The Board meetings are held on a quarterly basis. During the year of review, the Board of directors of **dfcu** Limited and its subsidiary **dfcu** Bank Limited held four meetings during the year. The Board meetings follow a pre-agreed calendar, but in addition ad hoc meetings may be convened as and when the need arises.

The Board comprised the following persons, whose attendance of meetings during the year 2018 was as follows:

### (a) **dfcu** Limited

| Name | 22nd Mar | 6th Jun | 21st Sept | 29th Nov |
|---|---|---|---|---|
| Mr. Elly Karuhanga ( CM ) | √ | √ | √ | √ |
| Mr. Deepak Malik | √ | A | √ | N |
| Mr. Michael Turner | √ | √ | √ | A |
| Mr. Kironde Lule | √ | √ | √ | √ |
| Mr. Albert Jonkergouw | √ | √ | A | √ |
| Dr. Winifred Tarinyeba Kiryabwire | √ | √ | A | √ |
| Mr. Fred Pelser | x | x | x | √ |

### (b) dfcu Bank Limited

| Name | 21st Mar | 6th Jun | 20th Sept | 27th Nov | 29th Nov |
|---|---|---|---|---|---|
| Mr. Jimmy D. Mugerwa (CM) | √ | √ | √ | √ | √ |
| Mr. Deepak Malik | √ | A | √ | N | N |
| Mr. Michael Turner | √ | √ | √ | √ | A |
| Mr. Albert Jonkergouw | √ | √ | √ | √ | √ |
| Mr. Willem Cramer | √ | √ | √ | √ | √ |
| Mr. Ola Mørkved Rinnan | √ | √ | √ | √ | A |
| Mr. Stephen John Caley | √ | √ | √ | √ | √ |
| Mr. Juma Kisaame | √ | √ | √ | √ | √ |
| Mr. William Sekabembe | √ | √ | √ | √ | √ |

A – Absent with Apologies

N- Ceased to be a Board member on 21st September 2018

X- Was not yet appointed as a member of the Board of Directors

## Board Committees

To give more detailed attention to key aspects of the Company business, the Board delegates some of its functions to committees that subsequently avail feedback on the deliberations held. The Directors' attendance of Board Committee Meetings for the year 2018 was as follows:

### (a) dfcu Limited

The Board of Directors of dfcu Limited delegated some of its roles to the Audit Committee, and all matters other than the ones attended to by the Audit Committee are discussed at the full Board.

The dfcu Limited Board Audit Committee comprised the following persons, whose attendance of meetings during the year 2018 was as follows:

| Name | 22nd Mar | 6th Jun | 21st Sep | 29th Nov |
|---|---|---|---|---|
| Mr. Kironde Lule ( CM ) | √ | √ | √ | √ |
| Mr. Deepak Malik | √ | A | √ | N |
| Mr. Michael Turner | √ | √ | √ | A |
| Mr. Fred Pelser | x | x | x | √ |

A – Absent with apologies

N- Ceased to be a Board member on 21st September 2018

X- Was not yet appointed as a member of the Board of Directors

### (b) dfcu Bank Limited

The **dfcu** Bank Limited Board has delegated its authority to six (6) Board Committees as shown below:

### 1. Nominations Committee

The Committee is, amongst other responsibilities, charged with identifying suitable candidates to fill board vacancies, review and determine board remuneration, ensure evaluation of the board including the Managing Director's annual performance review, and other board matters. In 2018, the Committee was comprised of Mr. Michael Turner (Chairman), Mr. Deepak Malik, Mr. Albert Jonkergouw and Mr. Jimmy D. Mugerwa.

The Board Nomination Committee's attendance for the year 2018 was as follows;

| Name | 20th Mar | 6th Jun | 20th Sept | 28th Nov |
|---|---|---|---|---|
| Mr. Michael Turner (CM) | √ | √ | √ | √ |
| Mr. Jimmy D. Mugerwa | √ | √ | √ | √ |
| Mr. Deepak Malik | √ | A | √ | N |
| Mr. Albert Jonkergouw | √ | √ | √ | √ |

A – Absent with apologies
N - Ceased to be a Board member on 21st September 2018

### 2. Board Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibility for prudent 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 2018 were Mr. Stephen John Caley (Chairman), Mr. Michael Turner, and Mr. Ola Rinnan.

The Board Audit Committee's attendance for the year 2018 was as follows;

| Name | 21st Mar | 5th Jun | 19th Sept | 27th Nov |
|---|---|---|---|---|
| Mr. Steve Caley (CM) | √ | √ | √ | √ |
| Mr. Michael Turner | √ | √ | √ | √ |
| Mr. Ola Rinnan | √ | √ | √ | √ |

### 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 2018 were Willem Cramer (Chairman), Albert Jonkergouw, Ola Rinnan, Stephen John Caley.

The Board Risk and Credit Committee's attendance for the year 2018 was as follows:

| Name | 20th Mar | 5th Jun | 19th Aug | 28th Nov |
|---|---|---|---|---|
| Mr. Willem Cramer(CM) | √ | √ | √ | √ |
| Mr. Ola M. Rinnan | √ | √ | √ | √ |
| Mr. Stephen John Caley | √ | √ | √ | √ |
| Mr. Albert Jonkergouw | √ | √ | √ | √ |

### 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 2018 were Deepak Malik, Michael Turner and Albert Jonkergouw (CM).

The Board Remuneration Committee's attendance for the year 2018 was as follows;

| Name | 20th Mar | 5th Jun | 19th Aug | 28th Nov |
|---|---|---|---|---|
| Mr. Albert Jonkergouw(CM) | √ | √ | √ | √ |
| Mr. Deepak Malik | √ | A | √ | N |
| Mr. Michael Turner | √ | √ | √ | √ |

A – Absent with Apologies

N – Ceased to be a Board member on 21st September 2018

### 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 2018 were Deepak Malik (Chairman), Albert Jonkergouw and Willem Cramer (Chairman with effect from September 2018).

The Board Assets and Liabilities Committee's attendance for the year 2018 was as follows;

| Name | 20th March | 5th June | 19th August | 28th November |
|---|---|---|---|---|
| Mr. Deepak Malik ( CM) | √ | A | √ | N |
| Mr. Albert Jonkergouw | √ | √ | √ | √ |
| Mr. Willem Cramer | √ | √ | √ | √ (Ag. Chairman) |

A – Absent with Apologies

N – Ceased to be a Board member on 21st September 2018

## 6. Board Business Development Committee

The Committee is responsible for offering strategic oversight to the Bank's key projects and business development. The Committee had its inaugural meeting in September 2018.

The Committee members for the year 2018 were Albert Jonkergouw, Ola Rinnan (Chairman).

The Board Business Development Committee's attendance for the year 2018 was as follows;

| Name | 18th Sept | 28th Nov |
|---|---|---|
| Mr. Ola Rinnan | √ | √ |
| Mr. Albert Jonkergouw | √ | √ |

### Board Trainings:

The Board participated in various trainings for purposes of keeping abreast with market trends. Some of the trainings undertaken by the Board of **dfcu** Bank in 2018 included the Mini Leadership Accelerator program that covered the following topics: financial services, cyber security and future leadership and a workshop on "Recent Regulatory changes and Emerging Issues in the Uganda Banking Sector" as organized by the Bank of Uganda, among others.

### Board Remuneration

Non-executive directors receive fixed fees for their services on the Board and its Committees. These fees comprise of an annual retainer and sitting allowance, which are approved by the shareholders at the Annual General Meeting.

For the year 2018, the directors received fees as follows:

### Annual Retainer

Board Chairmen – USD 25,000

Board Non-Executive Directors - USD 12,500

### Sitting Allowances (per meeting):

Chairmen – USD 950

Non-Executive Directors – USD 700

### Note:

All fees are gross.

Incidental costs (transport, accommodation) are met by the Company.

The aggregate amount of emoluments received by directors is shown under note **47 (e) on page 149** of the financial statements.

### Company Secretary

The Company Secretary ensures that the Company complies with the statutory requirements and that the board procedures are followed and regularly reviewed.

The Company Secretary for **dfcu** Limited for the year ended 2018 was Ligomarc Advocates while the Company Secretary for the subsidiary **dfcu** Bank Mrs. Agnes Tibayeita Isharaza. Mrs. Agnes Tibayeita Isharaza has since resigned from **dfcu** Bank, and Ms. Carol Luwaga appointed Acting Company Secretary.

## Management of the Company

The Management structure of the Company and the subsidiary is clearly segregated and in each case has been structured in a manner that takes cognizance of the volume and complexity of the operations of the respective entities.

The day to day management of the operations of **dfcu** limited is conducted by a General Manager appointed by the Board.

The operations of **dfcu** bank, the Company's subsidiary is overseen by a Managing Director/ Chief Executive Officer who is supported by an Executive Director in line with the regulatory requirements. As part of his oversight of the daily operations of the Company, the Managing Director is assisted by an Executive Committee comprising of the senior executives, that are internally referred to as Chiefs, responsible for the critical functions of the Company.

## Separation of the role of the Chairman and Executive Officers

### dfcu Limited

There is a clear separation of the roles and responsibilities of the Chairman and the General Manager. The General Manager is responsible for effectively implementing the strategy of the company, as approved by the Board and reports to the Board on a quarterly basis. The Chairman provides leadership to the Board in the execution of its mandate.

### dfcu Bank

The Managing Director is responsible for the day-to-day leadership of the Company's business affairs and ensures the execution of the long term objectives and Board strategy. The Chairman's primary role is to guide and ensure that the Board is effective in implementing the Company's strategy.

The separation of powers is to promote accountability, facilitate division of responsibilities as well as ensure a balance of power and authority such that no one individual has unfettered powers of decision making.

## Shareholder Engagements

The company values the continuous support it receives from the shareholders and keeps shareholders abreast with company matters through timely publication of events relating to the company. Subsequent to publication of half and full year results, the company circulates an investors note explaining group performance to all shareholders with known e-mail addresses. The same information together with the accounts is uploaded to the company website: www.dfculimited.com. The company also arranges conference calls with some major off-shore shareholders. Other investor queries are expeditiously handled through the office of the General Manager, Company Secretary and Registrar or can be sent to the e-mail address: queries@dfcugroup.com

## BRIEF SHAREHOLDER ANALYSIS

Directors' interest in the shares of the Company as at 31st December 2018

| Name | Number of shares held |
|---|---|
| Mary Winifred Tarinyeba | 3,000 |

**Distribution of dfcu Limited shareholders as at 31st December 2018**

| | Description | No. of Investors | No Of Shares Held | Percent Holding |
|---|---|---|---|---|
| 1 | Between 1 and 1,000 Shares | 1,790 | 747,813 | 0.10% |
| 2 | Between 1,001 and 5,000 Shares | 1,277 | 3,306,350 | 0.44% |
| 3 | Between 5,001 and 10,000 Shares | 208 | 1,516,823 | 0.20% |
| 4 | Between 10,001 and 100,000 Shares | 447 | 12,158,499 | 1.63% |
| 5 | Above 100,001 Shares | 105 | 730,414,548 | 97.63% |
| | | 3,827 | 748,144,033 | 100.00% |

**List of the 20 Largest Shareholders of dfcu Limited as at 31st December 2018**

| Investor Name | Shares Held | Percentage |
|---|---|---|
| ARISE B.V | 439,176,097 | 58.70% |
| SCB MAURITIUS A/C CDC GROUP PLC | 74,580,276 | 9.97% |
| NATIONAL SOCIAL SECURITY FUNDS | 55,803,416 | 7.46% |
| KIMBERLITE FRONTIER AFRICA NASTER FUND,L.P.-RCKM | 54,958,626 | 7.35% |
| SSB RUSSELL INVESTMENT COMPANY PLC FUND NAS5 | 14,428,700 | 1.93% |
| NATIONAL SOCIAL SECURITY FUND-PINEBRIDGE | 9,828,437 | 1.31% |
| VANDERBILT UNIVERSITY VANDERBILT UNIVERSITY | 7,359,482 | 0.98% |
| SSB-CONRAD N HILTON FOUNDATION -00FG | 7,255,064 | 0.97% |
| JUBILEE INVESTMENT COMPANY LIMITED | 5,695,259 | 0.76% |
| BANK OF UGANDA STAFF RETIREMENT BENEFIT SCHEME AIG | 4,481,491 | 0.60% |
| BANK OF UGANDA STAFF RETIREMENT BENEFIT SCH-SIM | 4,443,245 | 0.59% |
| THE PARLIAMENTARY PENSION SCHEME-STANLIB | 2,924,455 | 0.39% |
| UGANDA REVENUE AUTHORITY STAFF RETIREMENT BENEFITS | 2,850,292 | 0.38% |
| CERUDEB STAFF DEFINED CONTRIBUTORY SCHEME-AIG | 2,806,087 | 0.38% |
| MAKERERE UNIVERSITY RETIREMENT BENEFITS SCHEME- MU | 2,335,330 | 0.31% |
| MR. SUDHIR RUPARELIA | 2,165,575 | 0.29% |
| MR RAKESH GADANI | 1,977,748 | 0.26% |
| UAP INSURANCE CO. LIMITED | 1,636,146 | 0.22% |
| THE JUBILEE INSUARANCE COMPANY OF UGANDA | 1,601,080 | 0.21% |
| HOUSING FINANCE BANK/ UAP INSURANCE- GEN LIFE FUND | 1,557,256 | 0.21% |
| OTHER 3807 SHAREHOLDERS | 50,279,971 | 6.72% |
| | | |
| | **748,144,033** | **100.00%** |

# Sustainability Report

## Report Scope

This report covers the economic, social and environmental performance of **dfcu** Group for the year ended 31 December 2018. 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 Investment (CSI) initiatives undertaken, which are designed to foster greater prosperity in the communities where we operate and to promote a healthier natural environment.

### Report content and Materiality

In drawing up content for this report, we have taken into account the topics that can have a material impact on our business, including risks, opportunities, regulations and sector trends. As a Group involved in the banking business, we recognise that we have a direct economic, social and environmental impact, but also a significant indirect impact through our lending and investment activities. **dfcu** Groups non-financial data reporting protocol describes key performance indicators related to our material topics. We report data on these and other relevant key performance indicators in the value creation model section below. We continuously listen to our stakeholders and adapt our strategy and reporting to meet their evolving expectations. As part of our materiality analysis in 2018, we consulted key stakeholder groups - retail customers, business clients, investors, financial regulators, employees and senior management – in a qualitative and quantitative engagement process. The results of our materiality analysis were used to define the content of this report.

### 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.

### Assurance

We value the accuracy and reliability of all information and data in this report, both financial and non-financial. Therefore, assurance for the non-financial information in this report is drawn from published material from our regulators. KPMG audited the financial statements of **dfcu** Group for the year 2018.

### 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 Prioritisation

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

1. The importance of the aspect to our pursuit of **dfcu** Group's strategies and objectives (set out in the Strategic Plan), as we fulfill our responsibilities to the economy, natural environment and society as a whole.
2. The importance of the aspect of specific stakeholder groups, and the influence it could have on how they assess their relationship with **dfcu** Group.

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

| | | Aspect Boundary | | | | | Materiality | |
|---|---|---|---|---|---|---|---|---|
| | | Internal | External | | | | | |
| **Aspect** | **Significance to dfcu Group's Operations** | **Staff, Board of Directors, Management** | **Customers** | **Communities** | **Suppliers** | **Shareholders** | **To dfcu Group** | **To the stakeholders** |
| **Economic** | | | | | | | | |
| 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:

(i) To conduct activities with regard to health and safety, environmental, and social aspects of its banking and lending activities, and the principles of environmentally sound and sustainable development.

(ii) Alignment of **dfcu**'s lending strategy to comply with the exclusion lists (both internal and those of our funding partners).

(iii) 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.

(iv) **dfcu** reviews and monitors its loans and reports periodically to its stakeholders about the activities of its sub-borrowers in the areas of health and safety, environmental and social performance.

### The Social Policy

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

### The Environmental Policy

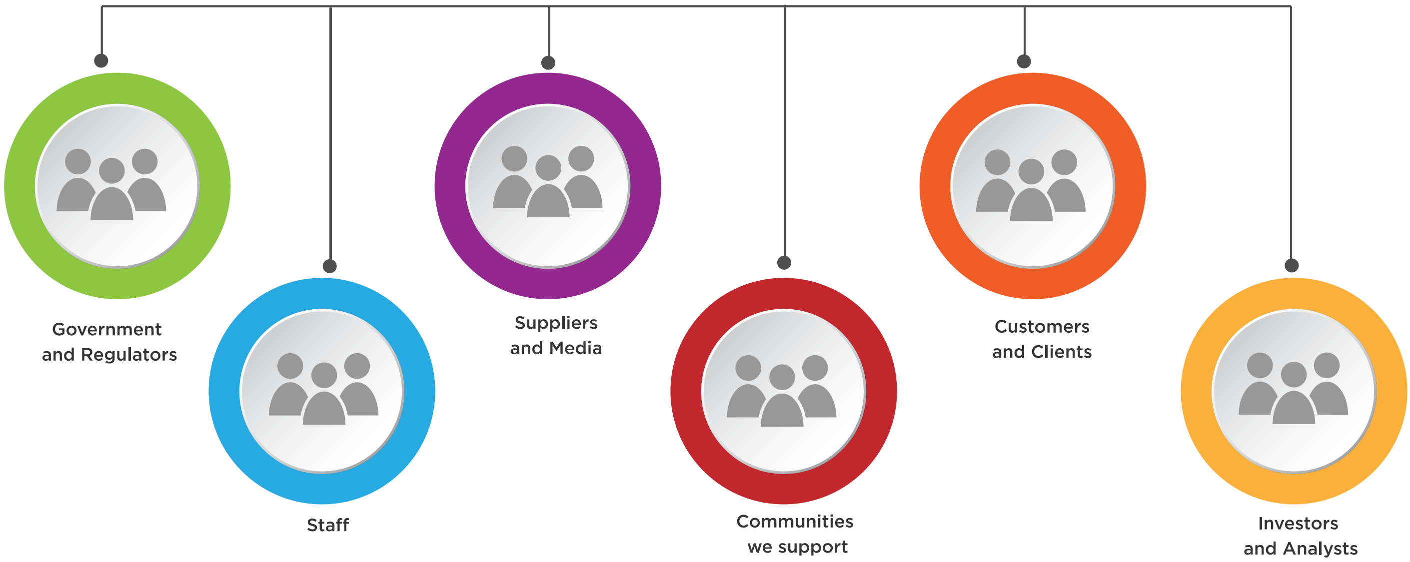
**dfcu** recognises that environmental risks should be part of the normal risk assessment procedures. As part of the credit process, **dfcu** seeks to ensure that the environmental effects of the activities it supports are assessed and monitored in the planning, implementation and operational stages. **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 (2017: 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 & 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;



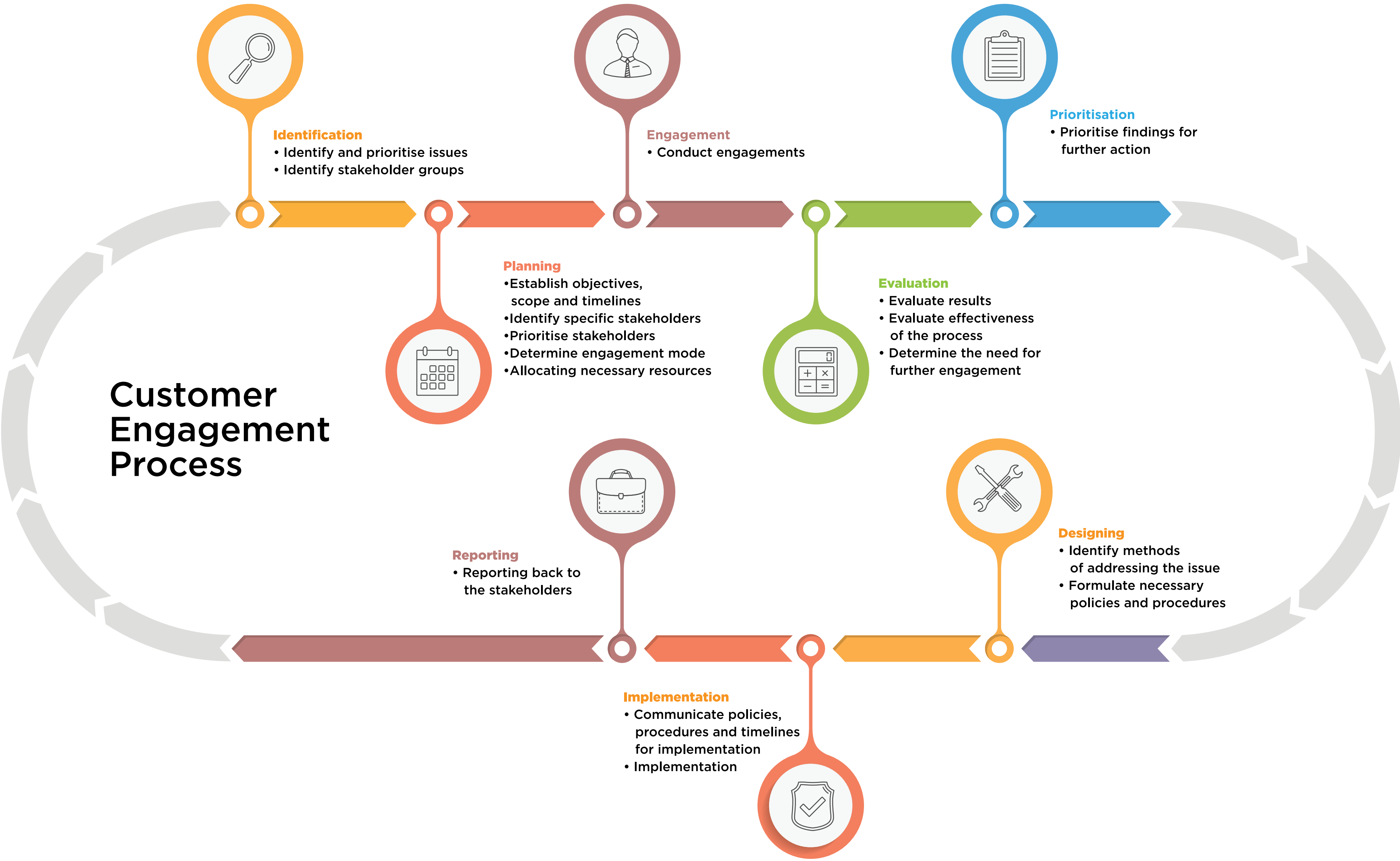

The governance structure of **dfcu** Group demands active engagement with stakeholders to achieve our strategy. A constructive dialogue with stakeholders helps us understand their expectations so we can better manage risk, innovation and process improvements. Maintaining an on-going conversation also 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 2018 and 2017.

**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:<br>• Interim and annual results<br>• Plans to improve key performance indicators<br>• Business expansion plans<br>• Liquidity management<br>• Proposals for further enhance services offered by the Group<br>• Sustainable growth.<br><br>Concerns raised:<br>• Quality of assets<br>• 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.**dfcu**group.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:**<br>• Innovation in products and services<br>• Interest rate trends, securities, terms and conditions<br>• Fees and charges<br>• Branch openings/ relocations<br>• Services available through mobile platforms and online banking<br><br>**Concerns raised:**<br>• Customer service lapses<br>• Amicable resolution of disputes. | • Opinions and multiple expectations of customers gathered through various forms of engagement are considered in developing new products and services.<br>• There is a fully fledged customer service department dedicated to handling all customer issues.<br>• **dfcu** Group conducts customer surveys to obtain feedback on satisfaction levels and areas of potential improvement in existing services.<br>• 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.**dfcu**limited.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:**<br>• Aligning values with corporate structure<br>• Compliance with Ugandan regulations<br>• Future plans<br>• Whistle-blowing mechanism<br><br>**Concerns raised:**<br>• Remuneration, including compensation based on performance<br>• 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.<br>• 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**:<br>• Central Bank of Uganda regulations pertaining to licensed commercial banks<br>• Compliance with codes of best practices of corporate governance<br>• Compliance with anti-money laundering (AML) and Know your customer (KYC) requirements<br>• 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:**<br>• Responsible procurement opportunities offered by **dfcu** Group<br><br>**Concerns raised:**<br>• 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:**<br>• Corporate responsibility initiatives<br>• Providing access to fair and affordable banking<br>• Community investment<br>• Recognition of excellence by various external parties<br><br>**Concerns raised:**<br>• Staff recruitment<br>• 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, Agencies, Mobile App, Click Banking 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 Center | Continuous | | |
| Press conferences and media releases | As required | | |
| Corporate Social Responsibility activities | As required | | |
| Company website: www.**dfcu**limited.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 – Personal and Business Banking (PBB), 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 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 entire 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.

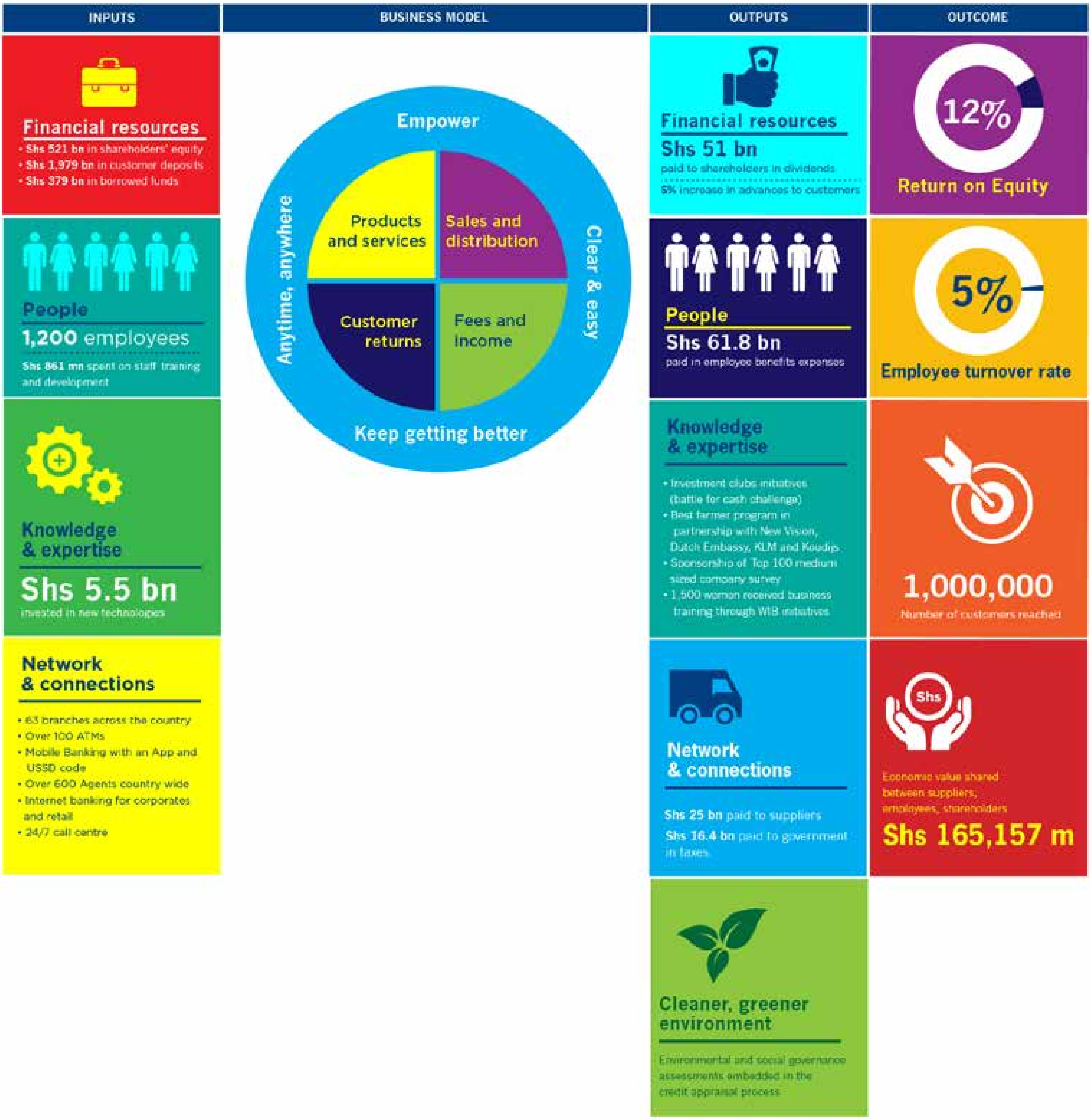
### Our Economic Impact:

**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 2018. 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 creation model:

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. Below is **dfcu** Group's value creation model;



The total wealth created by the Group in 2018 was Shs 165,157 million (2017: 196,468 million) as shown in the statement below.

| Value added statement: | 2018 Shs. M | % of wealth created | 2017 Shs. M | % of wealth created |
|---|---|---|---|---|
| Interest income | 325,923 | | 347,001 | |
| Fees and commission income | 51,285 | | 39,655 | |
| Net trading and other income | 19,219 | | 11,581 | |
| Net income from other financial instruments at FVTPL | 13,842 | | - | |
| Gain arising from business combination | - | | 119,301 | |
| Interest expense | (104,751) | | (131,550) | |
| Operating expenses | (140,361) | | (189,520) | |
| **Wealth created** | **165,157** | | **196,468** | |
| | | | | |
| Distribution of wealth | | | | |
| Employees | 61,852 | 37% | 58,217 | 30% |
| Government | 16,488 | 10% | 41,165 | 21% |
| Dividends to shareholders | 51,054 | 31% | 12,510 | 6% |
| Corporate social responsibility | 1,625 | 1% | 273 | 1% |
| Retentions to support future business growth | 34,138 | | 84,303 | |
| **Wealth distributed** | **165,157** | | **196,468** | |

The value added statement above shows that **dfcu** Group is a positive contributor to the society of Uganda. Of the total wealth created in 2017, the following is the total flow of capital among some key stakeholders;

- Shs 61,852 million was distributed to the employees as remuneration benefits (2017: Shs 58,217million)
- Shs 16,488 million was distributed to the Government of Uganda in form of taxes (2017: 41,165 million)
- Shs 51,054 million was paid to the shareholders as dividends (2017: 12,510 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.

## Procurement

**dfcu** Group subscribes to principles of openness, integrity and fairness in its drive to implement international procurement best practices. We endeavour to give as many suppliers as possible an opportunity to tender. The Group is committed to excellent corporate governance and to a very high standard of ethics. In general, **dfcu** Group supports the purchase of goods and services on the local market. Whereas the Group applies standard procurement terms and conditions to all procurements, the Group strongly encourages protection of the environment and considers suppliers' commitment to environmental issues. Our influence on the local economy goes beyond direct jobs and payment of wages and taxes. **dfcu** Group also proactively supports local suppliers in the economy. By supporting local business in the supply chain, we play a role in attracting additional investment to the local economy. The proportion of local spending is also an important factor in contributing to the local economy and maintaining community relations. Our procurement policy gives priority to local suppliers, while at the same time ensuring alignment to the Group's standards for solution quality, sustainability and commercial viability.

### Summary of procurement spend:

| | | 2018 | 2017 |
|---|---|---|---|
| Total procurement spend | Shs M | 96,366 | 121,003 |
| Amount spent on local suppliers | Shs M | 84,657 | 112,533 |
| Amount spent on foreign suppliers | Shs M | 11,709 | 8,470 |
| Percentage spent on local suppliers | | 89% | 93% |

### Our Employees

**dfcu** Group employed 1,200 employees (2017: 1,156) of which 51% are female (2017: 51%). The Group ensures that all staff train at least once in a calendar year to enhance skills and productivity. The Group allocated a budget of Shs 1,507 million (2017: Shs 856 million) and spent a total of Shs 861 million (2017: Shs 875 million). The employee turnover remained stable at 5%. The revenue per staff decreased from Shs 448 million in 2017 to Shs 341 million in 2017. Below are the staff highlights

| | 2018 | 2017 |
|---|---|---|
| Total employees (number) | 1,200 | 1,158 |
| Total staff costs (Shs M) | 61,852 | 58,217 |
| Staff composition (Female : Male) | 51% : 49% | 51% : 49% |
| Staff turn over | 5% | 5% |
| Revenue per staff (Shs M) | 341 | 448 |
| Cost per staff (Shs M) | 51 | 50 |
| Staff training spend (Shs M) | 861 | 875 |

### Performance Measurement

In order to monitor an employee's contribution, **dfcu** Group developed a performance measurement tool which has a cycle that involves goal setting, performance monitoring conversations and performance reviews for the teams and all individuals. It's an inclusive, two-way process that creates feedback and considers future capability requirements of the Bank, and personal development needs and aspirations. The performance measurement is done twice a year.

### Staff Feedback:

**dfcu** Group has regular online surveys through which staff views, ideas and value adding input is sought. This is done to track and evaluate progress made in identified employee work related challenges and risks. In addition, each department is allocation a human resource business partner to help coordinate the challenges identified by employees in that particular department.

### Talent management and succession planning

**dfcu** Group's people management philosophy is to progressively build its own talent pool to effectively support its growth. Branch successor pools including; Branch Managers, Credit Managers, Credit Administrators and Branch Operation Managers are updated and approved by management. Development interventions for the identified staff are incorporated in the training budget and plan.

## GRI Indicators' Report

Below are the indicators from the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines;

| Performance Indicators | Topic | Disclosure pages | Description |
|---|---|---|---|
| **1.1 and 1.2** | Vision, Mission and Ownership | 3-4 | Vision and Mission statement |

### Profile:

| Performance Indicators | Topic | Disclosure pages | Description |
|---|---|---|---|
| **2.1** | Name of reporting organisation | 4 | **dfcu** Group Limited |
| **2.2** | Major products or services, including brands if applicable | 5 | Financial products and services |
| **2.3** | Operational structure of the organisation | 34-40 | Corporate governance, Board of Directors |
| **2.4** | Description of major divisions, operating companies, subsidiaries and joint ventures | 5 | Business updates |
| **2.5** | Counties in which the organization is located | 5 | Contact and general information |
| **2.6** | Nature of ownership | 40 | List of shareholders |
| **2.7** | Nature of markets served | 99 | Sectors financed |
| **2.8** | Scale of the reporting organization: Number of employees, products produced/ services offered | 51 | Our employees, products and services offered. |

### Governance structure and management systems

| Performance Indicators | Topic | Disclosure pages | Description |
|---|---|---|---|
| **3.1 – 3.6** | Governance structure of the organization, including major committees under the board of directors that are responsible for strategy and oversight | 34-40 | Corporate governance |

### Economic performance indicators

| Performance Indicators | Topic | Disclosure pages | Description |
|---|---|---|---|
| **EC1** | Net sales and increase in retained earnings | 64-71 | Statement of comprehensive income, statement of changes in equity, financial overview |
| **EC3** | Geographic breakdown of markets | 5 | Branch network |
| **EC3** | Cost of all goods and services purchased, total employee remuneration | 51 | Value added statement |
| **EC8** | Total taxes of all types paid | 50 | Value added statement |

### Social Labour performance indicators

| Performance Indicators | Topic | Disclosure pages | Description |
|---|---|---|---|
| **LA1** | Breakdown of workforce | 51 | Staff highlights |
| **LA3** | Retention rates | 51 | Staff highlights |
| **LA4** | Policies/procedures on negotiations with employees over changes in operations | 51 | Employee engagement |
| **LA5** | Health and safety committees | 51 | Occupational health and safety |
| **LA6** | Occupational accidents and diseases | 51 | Occupational health and safety |
| **LA8** | Policies and Programmes on HIV/AIDS | 51 | Staff welfare issues |
| **LA9** | Average hours of training per employee | 51 | Staff highlights |




# dfcu Limited

# CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2018**



**GROUP INFORMATION**

# Directors

| | |
|---|---|
| E. Karuhanga* | Chairman |
| D. Malik**** | Non-executive Director<br>(Retired 21 September 2018) |
| M. Turner*** | Non-executive Director |
| L. Kironde* | Non-executive Director |
| AJM. Jonkergouw** | Non-executive Director |
| WT. Kiryabwire* | Non-executive Director |
| Fred Pelser***** | Non-executive Director<br>(Appointed 22 October 2018) |

*Ugandan
**Dutch
***British
****Indian
*****South African

# Corporation Secretary

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

# Auditors

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

REGISTERED OFFICE

Plot 26 Kyadondo Road
P O Box 2767
Kampala, Uganda

# 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
Sandton, South Africa

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

**Kenya Commercial Bank (KCB)**
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
Plot 1 Lourdel Road, Ground Floor Lourdel Towers,
P O Box 2658
Kampala, Uganda

**Karuhanga, Tabaro & Associates**
Solicitors & Advocates
Ground Floor Esami House 52 Bombo Rd
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
4 Jinja Road
P O Box 8230
Kampala, Uganda

**KSMO Advocates**
5th Floor Crested Towers,
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 2018, 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).

The Group's balance sheet closed at Ushs 2.9 trillion in 2018 (2017: Ushs 3.1 trillion), net loans and advances remained flat at Ushs 1.398 trillion (2017: 1.334 trillion) and customer deposits remained relatively stable at Ushs 1.979 trillion (2017: Ushs 1.987 trillion).

## FUTURE OUTLOOK

The Group's focus in the next three years is to;

- Optimise benefits from the acquisition;
- Complete the business process re-engineering;
- Aggressively pursue the Group strategy to digitize our operations to the benefit of its customers;
- Diversify the deposit mix with the focus on growing cheap liabilities;
- Grow and diversify quality loan portfolio; and
- Complete the cultural change program to enhance staff productivity and brand equity.

## RESULTS AND DIVIDEND

The Group's profit for the year was Ushs 60.9 billion (2017: Ushs 106.9 billion). The directors recommend payment of dividends for the year ended 31 December 2018 of Ushs 24.7 billion (2017: Ushs 51.1 billion) or Ushs 33.01 per share (2017: Ushs 68.24 per share).

## DIRECTORS

During the financial year and up to the date of this report, other than as disclosed in Note 47 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 47 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 1.

## 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, being eligible for re-appointment 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 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The consolidated and separate financial statements were authorised for issue in accordance with a resolution of the directors dated 26 March, 2019.

By order of the Board

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

COMPANY SECRETARY

Date: 26 March, 2019

# dfcu Limited
# Statement of Directors' Responsibilities

The Group's directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view of the consolidated and separate financial position of **dfcu** Limited, comprising the consolidated and separate statement of financial position as at 31 December 2018, 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 consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the Companies Act of Uganda and Financial Institutions Act 2004 (as amended 2016).

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

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

The auditors are responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the International Financial Reporting Standards, the Financial Institutions Act 2004 (as amended 2016) and Companies Act of Uganda.

### Approval of the consolidated and separate financial statements

The consolidated and separate financial statements of **dfcu** Limited, as identified in the first paragraph, were approved by the Board of Directors on 26 March, 2019 and were signed on its behalf by:

.................................... ....................................

Director Director

....................................

Secretary

# 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 ( the "Group and Company"), set out on pages 64 to 150, which comprise the consolidated and separate statement of financial position as at 31 December 2018, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.In our opinion, the accompanying 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 2018, 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).

### 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 Auditor's 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 judgment, 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. These key audit matters are applicableto the consolidated financial statements.

**Impairment of loans and advances to customers**

**Refer to Notes 5(l), 6B and 24 of the consolidated financial statements**

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| On 1 January 2018, the Group adopted IFRS 9, resulting in impairment charges being recognised when losses are expected rather than when they are incurred. Impairment of loans and advances to customers is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. Management has disclosed information regarding the transitional effect of this new and complex standard in note 25, and accounting policy note 5g(vii).<br><br>**Subjective estimate**<br><br>The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's implementation of IFRS 9 are:<br><br>**Economic scenarios**<br><br>IFRS 9 requires the Group to measure Expected Credit Loss (ECL) on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them and the associated impact on ECL.<br><br>**Significant Increase in Credit Risk ('SICR')**<br><br>For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.<br><br>**Model estimations**<br><br>Inherently, judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL). | Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans to customers and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.<br><br>**Our audit procedures in this area included, among others:**<br><br>• Involving our own data and analytics specialists in evaluating the appropriateness of the Group's IFRS 9 impairment methodologies and independently assessing the accuracy of probability of default, loss given default and exposure at default computations and assumptions.<br>• Involving our own financial risk management specialists in: assessing the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them; assessing the economic variables used which included agreeing them to independent external sources; and assessing the overall reasonableness of the economic forecasts applied by the Group; and reviewing management considerations of the ECL impact of economic uncertainty in the market.<br>• Selecting a sample of facilities from the Group's loan book and carring out tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS;<br>• Testing of a sample of key data inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts and PD assumptions applied;<br>• Evaluating the appropriateness of the Group's IFRS 9 methodologies including the SICR criteria used;<br>• Testing the impairment calculations to check if the correct parameters – Probability of Default (PDs, Loss Given Default (LGDs), and Exposure at Default (EADs) were determined by considering local economic/portfolio factors; and<br>• Assessing whether the disclosures appropriately disclose the key judgements and assumptions used in determining the expected credit losses. |

| Information technology systems and controls | |
|---|---|
| **Key audit matter** | **How the matter was addressed in our audit** |
| The Group is dependent on IT systems to (1) serve customers, (2) support business processes, (3) ensure complete and accurate processing of financial transactions and (4) support the overall internal control framework. Many of the Group's internal controls over financial reporting are dependent upon automated application controls and completeness and integrity of reports generated by the IT systems.<br><br>The Group has multiple systems that interface with the core Banking system to run its day to day operations.<br><br>Given the complexity of the infrastructure of the multiple systems that interface with the core Banking system and a high dependency on technology, we considered this to be a key audit matter for our audit. | Our audit procedures in this area included, amongst others;<br>• Examining the governance framework over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required;<br>• Assessing and testing the design and operating effectiveness of the controls over the continued integrity of the system that were relevant to the Group's operations during the year. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access management and segregation of duties;<br>• Re-performing selected automated computations and comparing our results with those from the system and the general ledger;<br>• Testing the significant system interfaces to ensure the accuracy and completeness of the data transfer. Our procedures included assessing and testing the General IT control environment, including IT access and segregation of duties, as well as IT dependent controls within critical business processes; and<br>• Assessing and testing controls specifically established over the implementation process and migration of key financial data from the legacy to the new operating system, and performing walk through tests to collaborate this. |

## Other information

The directors are responsible for the other information. The other information comprises the information included in Group information, the Director's report, Statement of Directors' responsibility and Supplementary Information. The other information does not include the consolidated and separate financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report and the annual report, which is expected to be made available to us after that date.

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.

## Directors' responsibilities for the consolidated and separate financial statements

As stated on page 5, 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 and in the manner required by 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 misstatements, whether due to fraud or error.

## Directors' responsibilities for the consolidated and separate financial statements (continued)

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. The directors are responsible for overseeing the Group's financial reporting process.

## 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 auditor's 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 auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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.

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.

### Auditors' responsibilities for the audit of the consolidated and separate financial statements (continued)

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 auditor's 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:

I. 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;
II. In our opinion, proper books of account have been kept by the Group, so far as appears from our examination of those books; and
III. The Group'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 Stephen Ineget - P0401.

………………………………

KPMG

Certified Public Accountants

3rd Floor, Rwenzori courts

Plot 2 & 4A, Nakasero Road

P O Box 3509

Kampala, Uganda

Date: 26 March, 2019

## Consolidated statement of comprehensive income for the year ended 31 December

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | Ushs M | Ushs M |
| | | | |
| Interest and similar income | 10 | **325,923** | 347,001 |
| Interest and similar expenses | 11 | **(104,751)** | (131,550) |
| **Net interest income** | | **221,172** | 215,451 |
| | | | |
| Fees and commission income | 14 | **51,285** | 39,655 |
| Net trading and other income | 12 | **19,219** | 11,581 |
| Net income from other financial instruments at FVTPL | 13 | **13,842** | - |
| Gain arising from business combination | 15 | **-** | 119,301 |
| **Total operating income** | | **305,518** | 385,988 |
| | | | |
| Operating expenses | 16 | **(202,213)** | (189,520) |
| Impairment of loans and advances | 24 | **(18,836)** | (48,652) |
| **Profit before tax** | | **84,469** | 147,816 |
| | | | |
| Income tax expense | 21(a) | **(23,561)** | (40,924) |
| **Profit after tax for the year** | | **60,908** | 106,892 |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| Profit for the year | | **60,908** | 106,892 |
| | | | |
| Other comprehensive income | | **-** | - |
| FVOCI financial assets net of tax | 42 | **(169)** | - |
| Fair value reserve | 42 | **36** | - |
| **Total other comprehensive income** | | **(133)** | |
| | | | |
| **Total comprehensive income for the year** | | **60,775** | 106,892 |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the Company | | **60,775** | 106,892 |
| Non-controlling interest | | **-** | - |
| | | **60,775** | 106,892 |
| **Earnings per share:** | | | |
| | | | |
| Basic earnings per share | 20 | **81.41** | 189.33 |
| | | | |
| Diluted earnings per share | 20 | **81.41** | 189.33 |

The accounting policies and notes on pages 72 to 150 form an integral part of these consolidated and separate financial statements.

## Company statement of comprehensive income for the year ended 31 December

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | Ushs M | Ushs M |
| | | | |
| Interest income | 10 | 785 | 392 |
| Interest expense | 11 | (2,329) | (20,669) |
| Net interest income | | **(1,544)** | **(20,277)** |
| | | | |
| Fees and commissions | 14 | 249 | 290 |
| Dividend income | | 51,054 | 18,509 |
| Other income | 12 | 5,630 | 4,064 |
| **Operating income** | | **55,389** | **2,586** |
| | | | |
| Operating expenses | 16 | (4,266) | (4,163) |
| Loans and advances – Bad debts recovery | | - | 50 |
| | | | |
| **Profit/(loss) before tax** | | **51,123** | **(1,527)** |
| | | | |
| Tax credit | 21(a) | (896) | 502 |
| | | | |
| **Profit/(Loss) for the year** | | **50,227** | **(1,025)** |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| Profit for the year | | 50,227 | (1,025) |
| | | | |
| Other comprehensive income | | - | - |
| | | | |
| **Total comprehensive income for the year** | | **50,227** | **(1,025)** |

The accounting policies and notes on pages 72 to 150 form an integral part of these consolidated and separate financial statements.

## Consolidated statement of financial position as at 31 December

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | Ushs M | Ushs M |
| **Assets** | | | |
| Cash and balances with Bank of Uganda | 22 | **356,041** | 362,263 |
| Government securities: | | | |
| Trading asset | 27 | **41,116** | 217,826 |
| Investment securities | 26 | **515,412** | 453,766 |
| Deposits and balances due from banks | 23 | **191,086** | 229,447 |
| Loans and advances to customers | 24 | **1,398,162** | 1,334,611 |
| Equity Investments at fair value through profit and loss | 25 | **11,411** | 13,746 |
| Other assets | 28 | **220,745** | 239,545 |
| Deferred income tax asset | 32 | **2,198** | 2,111 |
| Current income tax recoverable | 21 (d) | **3** | - |
| Property and equipment | 30 | **125,998** | 142,642 |
| Investment property | 29 | **10,758** | 11,144 |
| Intangible assets | 31 | **42,652** | 50,375 |
| **Total Assets** | | **2,915,582** | 3,057,476 |
| | | | |
| **Liabilities** | | | |
| Customer deposits | 34 | **1,979,093** | 1,987,118 |
| Deposits due to other banks | 35 | **-** | 255 |
| Other liabilities | 36 | **43,947** | 52,853 |
| Current income tax payable | 21(d) | **-** | 1,466 |
| Borrowed funds | 39 | **369,566** | 481,738 |
| Special funds | 38 | **1,440** | 1,708 |
| **Total liabilities** | | **2,394,046** | 2,525,138 |
| | | | |
| Share capital | 40 | **14,963** | 14,963 |
| Share premium | 40 | **185,683** | 185,683 |
| Retained earnings | | **276,192** | 257,412 |
| Other reserves | | **12,113** | 12,113 |
| Regulatory credit risk reserve | 41 | **8,024** | 11,113 |
| FVOCI Reserve | 42 | **(133)** | - |
| Proposed dividends | 19 | **24,694** | 51,054 |
| **Total equity** | | **521,536** | 532,338 |
| **Total equity and liabilities** | | **2,915,582** | 3,057,476 |

The consolidated and separate financial statements on pages 64 to 150 were approved for issue by the Board of Directors on 26 March, 2019 and signed on its behalf by:

.............................................
Director

.............................................
Director

.............................................
Secretary

# Company statement of financial position as at 31 December

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | **Ushs M** | **Ushs M** |
| Assets | | | |
| Other assets | 28 | **16** | 12 |
| Investment in subsidiaries | 33 | **203,293** | 203,293 |
| Amounts due from Group companies | 47 (b) | **780** | 1,546 |
| Current Income tax recoverable | 21 (d) | **1,519** | 1,519 |
| Deferred income tax asset | 32 | **550** | 1,446 |
| Investment property | 29 | **48,091** | 47,777 |
| | | | |
| **Total assets** | | **254,249** | 255,593 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Other liabilities | 36 | **5,280** | 6,961 |
| Amounts due to Group companies | 47 (a) | **17,313** | 17,321 |
| Borrowed funds | 39 | **4,867** | 3,695 |
| **Total liabilities** | | **27,460** | 27,977 |
| **Equity** | | | |
| Share capital | 40 | **14,963** | 14,963 |
| Share premium | 40 | **185,683** | 185,683 |
| Retained earnings | | **(10,664)** | (36,197) |
| Proposed dividends | 19 | **24,694** | 51,054 |
| Other reserves | | **12,113** | 12,113 |
| | | | |
| **Total equity** | | **226,789** | 227,616 |
| | | | |
| **Total equity and liabilities** | | **254,249** | 255,593 |

The consolidated and separate financial statements on pages 64 to 150 were approved for issue by the Board of Directors on 26 March, 2019 and signed on its behalf by:

.............................................
Director

.............................................
Director

.............................................
Secretary

The accounting policies and notes on pages 72 to 150 form an integral part of these consolidated and separate 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 | FVOCI Revaluation reserve | Proposed dividends | Attributable to equity holders of the parent | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| At 1 January 2017 | | 9,464 | 2,878 | 208,614 | 12,113 | 4,073 | - | 12,510 | 249,652 | 249,652 |
| Profit for the year | | - | - | 106,892 | - | - | - | - | 106,892 | 106,892 |
| **Transactions with shareholders** | | | | | | | | | | |
| Addition to share capital | | 5,499 | 182,805 | - | - | - | - | - | 188,304 | 188,304 |
| Transfers from the regulatory reserve | 41 | - | - | (7,040) | - | 7,040 | - | - | - | - |
| Dividends paid | | - | - | - | - | - | - | (12,510) | (12,510) | (12,510) |
| Dividends proposed | 19 | - | - | (51,054) | - | - | - | 51,054 | - | - |
| **At 31 December 2017** | | **14,963** | **185,683** | **257,412** | **12,113** | **11,113** | **-** | **51,054** | **532,338** | **532,338** |
| Adjustment on initial application of IFRS 9 net of tax | | - | - | (20,523) | - | - | - | - | (20,523) | (20,523) |
| **Restated balance as at 1 January 2018** | | **14,963** | **185,683** | **236,889** | **12,113** | **11,113** | **-** | **51,054** | **511,815** | **511,815** |
| Profit for the year | | - | - | **60,908** | **-** | **-** | **-** | **-** | **60,908** | **60,908** |
| Transfers from the regulatory reserve | 41 | - | - | 3,089 | - | (3,089) | - | - | - | - |
| FVOCI Revaluation | | - | - | - | - | - | (169) | - | (169) | (169) |
| Loss allowance FV OCI | | - | - | - | - | - | 36 | - | 36 | 36 |
| Transactions with shareholders | | | | | | | | | | |
| Dividends paid | | - | - | - | - | - | - | (51,054) | (51,054) | (51,054) |
| Dividends proposed | 19 | - | - | (24,694) | - | - | - | 24,694 | - | - |
| **At 31 December 2018** | | **14,963** | **185,683** | **276,192** | **12,113** | **8,024** | **(133)** | **24,694** | **521,536** | **521,536** |

The accounting policies and notes on pages 72 to 150 form an integral part of these consolidated and separate 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 |
|---|---|---|---|---|---|---|---|
| | | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| | | | | | | | |
| **At 1 January 2017** | | 9,464 | 2,878 | 15,882 | 12,510 | 12,113 | 52,847 |
| | | | | | | | |
| Profit for the year | | - | - | (1,025) | - | - | (1,025) |
| **Transactions with shareholders** | | | | | | | |
| Addition to share capital | | 5,499 | 182,805 | - | - | - | 188,304 |
| Proposed dividends | 19 | - | - | (51,054) | 51,054 | - | - |
| Dividends paid | | - | - | - | (12,510) | - | (12,510) |
| | | | | | | | |
| **At 31 December 2017** | | 14,963 | 185,683 | (36,197) | 51,054 | 12,113 | 227,616 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **At 1 January 2018** | | **14,963** | **185,683** | **(36,197)** | **51,054** | **12,113** | **227,616** |
| | | | | | | | |
| Profit for the year | | **-** | **-** | **50,227** | **-** | **-** | **50,227** |
| Transactions with shareholders | | | | | | | |
| Proposed dividends | 19 | **-** | **-** | **(24,694)** | **24,694** | **-** | **-** |
| Dividends paid | | **-** | **-** | **-** | **(51,054)** | **-** | **(51,054)** |
| At 31 December 2018 | | **14,963** | **185,683** | **(10,664)** | **24,694** | **12,113** | **226,789** |

The accounting policies and notes on pages 72 to 150 form an integral part of these consolidated and separate financial statement.

## Consolidated statement of cash flows for the year ended 31 December

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | **Ushs M** | **Ushs M** |
| **Operating activities** | | | |
| Interest receipts | | **325,923** | 347,001 |
| Interest payments | | **(104,751)** | (131,550) |
| Fee and commission receipts | | **51,285** | 158,956 |
| Net foreign exchange and other income received | | **19,219** | 11,581 |
| Recoveries from other assets measured at FVTPL | 13 | **13,842** | - |
| Recoveries on loans previously written off | 24 | **962** | 7,073 |
| Cash payments to employees and suppliers | | **(215,178)** | (162,993) |
| Income tax paid | 21 (d) | **(16,488)** | (41,165) |
| **Cash from operating activities before changes in operating assets and liabilities** | | **74,814** | 188,903 |
| Changes in operating assets and liabilities | | | |
| Decrease/(increase) in government and other securities | | **115,064** | (182,409) |
| Increase in Bank of Uganda cash reserve requirement | | **(3,310)** | (63,080) |
| Decrease/(Increase) in investments in shares | | **2,335** | (13,746) |
| Increase in loans and advances to customers | | **(63,552)** | (555,509) |
| Decrease/(Increase) in other assets | | **18,800** | (224,733) |
| (Decrease)/Increase in customer deposits | | **(8,025)** | 852,387 |
| (Decrease)/Increase in other liabilities | | **(8,906)** | 34,424 |
| Decrease in balances due to other banks | | **(255)** | (11,250) |
| | | | |
| **Net cash flows from operating activities** | | **126,965** | 24,987 |
| | | | |
| Investing activities | | | |
| Purchase of property and equipment | 30 | **(6,233)** | (93,467) |
| Purchase of investment property | 29 | **-** | (33) |
| Purchase of intangible assets | 31 | **(5,476)** | (51,445) |
| Proceeds from sale of property and equipment | | **344** | 1,840 |
| **Net cash flows used in investing activities** | | **(11,365)** | (143,105) |
| | | | |
| **Financing activities** | | | |
| Net (decrease)/increase in borrowings | | **(112,172)** | 154,919 |
| Decrease in special funds | | **(268)** | - |
| Increase in share capital | | **-** | 5,499 |
| Increase in share premium | | **-** | 182,805 |
| Dividends paid to shareholders | | **(51,054)** | (12,510) |
| **Net cash flows generated from financing activities** | | **(163,494)** | 330,713 |
| | | | |
| **Net increase in cash and cash equivalents** | | **(47,894)** | 212,595 |
| Cash and cash equivalents at start of year | | **440,541** | 227,946 |
| **Cash and cash equivalents at end of year** | 46 | **392,647** | 440,541 |

The accounting policies and notes on pages 72 to 150 form an integral part of these consolidated and separate financial statements.

## Company statement of cash flows for the year ended 31 December

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | Ushs M | Ushs M |
| **Operating activities** | | | |
| Interest receipts | | **785** | 392 |
| Interest payments | | **(2,329)** | (20,669) |
| Dividend income | | **51,054** | 18,509 |
| Net foreign exchange and other income received | | **5,879** | 4,064 |
| Recoveries on loans previously written off | | **-** | 50 |
| Cash payments to employees and suppliers | | **(2,085)** | (2,339) |
| **Cash from operating activities before changes in operating assets and liabilities** | | **53,304** | 7 |
| **Changes in operating assets and liabilities** | | | |
| Decrease)/Increase in amounts due to group companies | | **(8)** | 2,419 |
| Decrease in loans and advances to customers | | **-** | 575 |
| (Increase)/decrease in other assets | | **(4)** | 266 |
| (Decrease)/Increase in other liabilities | | **(1,681)** | 4,708 |
| | | | |
| **Net cash flows from operating activities** | | **51,611** | 7,975 |
| | | | |
| **Investing activities** | | | |
| Purchase of investment property | 29 | **(2,495)** | (5,033) |
| **Net cash flows used in investing activities** | | **(2,495)** | (5,033) |
| | | | |
| **Financing activities** | | | |
| Net increase/ (decrease) in borrowings | | **1,172** | (1,531) |
| Increase in share capital | | **-** | 5,499 |
| Increase in share premium | | **-** | 182,805 |
| Increase in investments in subsidiaries | | **-** | (176,500) |
| Dividends paid to shareholders | | **(51,054)** | (12,510) |
| **Net cash flows from financing activities** | | **(49,882)** | (2,237) |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **(766)** | 705 |
| Cash and cash equivalents at start of year | | **1,546** | 841 |
| Cash and cash equivalents at end of year | 46 | **780** | 1,546 |

The accounting policies and notes on pages 72 to 150 form an integral part of these consolidated and separate financial statements.

# 1. 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 consolidated and separate financial statements.

# 2. Basis Of Preparation

The consolidated and separate financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS). They were authorised for issue by the Group's board of directors on 26 March, 2019. Details of the Group's accounting policies are included in Note 4 and 5.

The consolidated and separate financial statements are presented in Uganda Shillings (Ushs), which is the Group's functional currency. All amounts have been rounded to the nearest million (Ushs M), unless otherwise indicated.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies included in Note 4 and 5.

The preparation of the consolidated and separate 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 the following notes;

# 3. Standards Issued but not Yet Effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated and separate financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a significant impact on the Group's consolidated and separate financial statements in the period of initial application.

### a) IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated and separate financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first consolidated and separate financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

### i) Leases in which the Group is a lessee

The Group has completed an initial assessment of the potential impact on its consolidated and separate financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the consolidated and separate financial statements in the period of initial application will depend on future economic conditions, the development of the Group's lease portfolio, the Group's assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The Group will recognise new assets and liabilities for its operating leases of branch and office premises. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The standard will be applied using the modified retrospective approach. The impact on the annual consolidated and separate financial statements as at 1 January, 2019 is shown below:

| | Ushs M |
|---|---|
| Right of Use Asset (ROU) | **40,274** |
| Lease liability | **(40,274)** |

No significant impact is expected for the Group's finance leases.

### ii) Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

### b) Other standards

The following amended standards are not expected to have a significant impact on the Group's consolidated and separate financial statements.

| Standard/Interpretation | | Effective date<br>Periods beginning on or after |
|---|---|---|
| IFRS 9 | *Prepayment Features with Negative Compensation (Amendments to IFRS 9)* | *1 January 2019* |
| IFRIC 23 | *Uncertainty over Income Tax Treatments* | *1 January 2019* |
| IAS 28 | *Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)* | *1 January 2019* |
| IAS 19 | *Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)* | *1 January 2019* |
| | *Amendments to References to Conceptual Framework in IFRS Standards* | *1 January 2020* |
| IFRS 3 | *Definition of a Business (Amendments to IFRS 3)* | *1 January 2020* |
| IAS 1 and IAS 8 | *Definition of Material (Amendments to IAS 1 and IAS 8)* | *1 January 2020* |
| IFRS 17 | *Insurance contracts* | *1 January 2021* |

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

IAS 28 and IFRS 17 are not applicable to the business of the entity and will therefore have no impact on future consolidated and separate financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

#### *IFRIC 23 Uncertainty over Income Tax Treatments*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the consolidated and separate financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:
- judgements made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

The interpretation is not expected to have a significant impact on the consolidated and separate financial statements of the Group.

#### *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

The amendment is not expected to have a significant impact on the consolidated and separate financial statements of the Group.

#### *Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)*

The IASB's amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments clarify that:
- On amendment, curtailment or settlement of a defined benefit plan, it is now mandatory for entities to use the updated actuarial assumptions to determine the current service cost and net interest for the period; and
- The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

The amendments should be applied prospectively to plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted.

The amendment is not expected to have a significant impact on the consolidated and separate financial statements of the Group.

#### *Amendments to References to Conceptual Framework in IFRS Standards*

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:
- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions of an asset and a liability, and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

The amendment is not expected to have a significant impact on the consolidated and separate financial statements of the Group.

#### *Definition of a Business (Amendments to IFRS 3)*

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

- Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs.
- Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

The amendment is not expected to have a significant impact on the consolidated and separate financial statements of the Group

### *Definition of Material (Amendments to IAS 1 and IAS 8)*

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.

The amendment is not expected to have a significant impact on the consolidated and separate financial statements of the Group

## 4. Changes in Accounting Policies

The Group has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective for annual periods beginning after 1 January 2018 but they do not have a material effect on the Group's consolidated and separate financial statements.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financials statements has not generally been restated to reflect its requirements.

The adoption of the IFRS 15 did not impact on the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following;

- An increase in impairment losses recognised on financial assets (see Note 7);
- Additional disclosures related to IFRS 9 (see Notes 5(I), 6(B) and 7; and
- Additional disclosures related to IFRS 15 (see Note 14) Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 7 to all periods presented in these consolidated and separate financial statements.

### a) IFRS 9 Financial Instruments

IFRS 9 sets out requirement for recognising and measuring financial assets, financial liabilities ad some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change in IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1: Presentation of Financial Statements, which require separate presentation in the statement of profit and loss and OCI of interest revenue calculated using the effective interest method. Previously, the Group disclosed this amount in the notes to the consolidated and separate financial statements.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 7.

### Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classified financial assets under IFRS 9, see Note 7.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in profit and loss.

For explanation of how the Group classifies financial liabilities under IFRS 9, see Note 5(I).

**Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 5(I).

**Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

  The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI, the Group has reclassified comparative interest income on finance leases to 'other interest income' and changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see note 7

**b) IFRS 15 Revenue from Contracts with Customers.**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group initially applied IFRS 15 on 1January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 14).

# 5. Summary of Significant Accounting Policies

## ▪ A Consolidation

The consolidated financial statements comprise the financial statements of **dfcu** Limited and its subsidiary, **dfcu** Bank Limited as at 31 December 2018.

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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement 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 re-measured, 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.

## ▪ B 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.

## ▪ C Operating income

### *i. Interest income and expense*

### *Policy applicable from 1 January 2018*

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

### Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 5(I)(vii).

### Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

### *Policy applicable before 1 January 2018*

#### a) Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate. The Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

#### b) Interest income and expense

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI includes: financial liabilities measured at amortised cost;

Interest income and expense on all trading assets and liabilities were considered to be incidental to the Group's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities carried at FVTPL were presented in net income from other financial instruments at FVTPL.

## B Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated and separate financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Other income

Other income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

## C Net trading income

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

## D Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and, from 1 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

## E Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

From 1 January 2018, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

## 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 Uganda Shillings which is the Group's functional currency. Foreign currency transactions are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency 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 and initial measurement*

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*

Financial assets - Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

*Business model assessment*

- The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

*Assessment of whether contractual cash flows are solely payments of principal and interest*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration RE the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

*Non-recourse loans*

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgement in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically de fines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

*Contractually linked instruments*

The Group has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

*Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

*Financial assets* - Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
  - held-for-trading; or
  - designated as at FVTPL.

**Financial liabilities**

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

### *iii. Derecognition*

**Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in (0). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities. Before 1 January 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

**Financial liabilities**

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

### *iv. Modifications of financial assets and financial liabilities*

*Policy applicable from 1 January 2018*

**Financial assets**

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

**Financial liabilities**

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

*Policy applicable before 1 January 2018*

**Financial assets**

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

**Financial liabilities**

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

### *v. Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

### *vi. 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 one is 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 on 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 on 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 for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on 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 the particular risk exposure. Portfolio-level adjustments- e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - 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 financial liability with a demand feature (e.g. 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.

### *vii. Impairment*

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

### *Measurement of ECL*

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

### *Restructured financial assets*

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

### *Credit-impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

## Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the EGL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

### *Write-off*

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

### *Non-integral financial guarantee contracts*

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

*Policy applicable before 1 January 2018*

### *Objective evidence of impairment*

At each reporting date, the Group assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Group considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Group considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and advances and held-to maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

In making an assessment of whether an investment in sovereign debt was impaired, the Group considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfil the required criteria.

### *Individual or collective assessment*

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

### *Measurement of impairment*

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

### *Reversal of impairment*

- For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

- For available-for-sale debt security: If. in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

### Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

### Write-off

The Group wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determined that there was no realistic prospect of recovery.

### *viii. Designation at fair value through profit or loss*

**Financial assets**

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before 1 January 2018, the Group also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

**Financial liabilities**

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 7 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

## *Ugandan Financial Institutions Act 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:

  a) substandard assets with arrears period between 90 and 179 days – 20%;
  b) doubtful assets with arrears period between 180 days and 364 days – 50%;
  c) loss assets with arrears period over 365 days – 100%.

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

i) 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 recognised in profit or loss.

*i.* 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.

## ▪ I 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 |
| Computer equipment | 6 – 7 years |
| Computer equipment | 3 – 5 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.

## D Intangible assets

### *i. Recognition and measurement*

#### a Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it recognised in profit or loss as incurred. Subsequent to initial recognition development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

#### b) Other intangible assets

**Goodwill:** that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

**Software:** acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate: that the product is technically feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

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 capitalised 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 capitalised 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 amortised 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.

### *iv. Derecognition*

An item of intangible assets is derecognised 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 recognised profit or loss when the asset is derecognised.

### E 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 judgements about future events. New information may become available that causes the Group to change its judgement 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.

### D Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk changes in fair value, and are used by the Group in management is its short-term commitments. Cash and cash equivalents excludes the cash reserves requirement held with the central Bank.

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

### N . Employee benefits

#### *(i) Retirement benefit obligations*

The Group makes contributions to a defined contribution benefit scheme for its eligible employees. A defined contribution benefit scheme is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (fund). 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 assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Group and employees. 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 scheme are charged to profit or loss in the year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

#### *(ii) Termination benefits*

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

#### *(iii) 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.

### O . Leases

#### *i. The Group is the lessee*

**a Operating lease**

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### b Finance lease

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The leases entered into by the Group are primarily operating leases.

#### i. *The Group is the lessor*

Where the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

## P. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to 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.

## Q. 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.

## 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. Loans and advances

*Policy applicable from 1 January 2018*

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset} at a fixed price on a future date (reverse repo or stock borrowing}, the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's consolidated and separate financial statements.

*Policy applicable before 1 January 2018*

'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term.

Loans and advances to banks were classified as loans and receivables. Loans and advances to customers included:

- those classified as loans and receivables;
- those designated as at FVTPL; and
- finance lease receivables.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Group chose to designate the loans and advances as measured at FVTPL as described in (J)(viii), they were measured at fair value with face value changes recognised immediately in profit or loss.

Loans and advances also included finance lease receivables in which the Group was the lessor.

When the Group purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement was accounted for as a loan or advance, and the underlying asset was not recognised in the Group's consolidated and separate financial statements.

## T. Financial guarantees and loan commitments

**Loan commitments**

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- before 1 January 2018: at the higher of the amount representing the initial fair value amortised over the

life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- from 1 January 2018: the Group recognises a loss allowance;
- before 1 January 2018: the Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions

**Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off 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 and separate 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 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.

## 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 . Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's consolidated and separate financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's redeemable preference shares bear non-discretionary coupons and are redeemable at the option of the holder, and are therefore included within subordinated liabilities.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at FVTPL.

From 1 January 2018, when the Group designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in fair value of the related instruments.

Deposits and Borrowings are the Group's sources of debt funding.

Deposits and borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowing using the effective interest rate method.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

## X . 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.

## Y . Investment securities

*Policy applicable from 1 January 2018*

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

### *i. Held-to-maturity*

'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 as at FVTPL or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

### *ii. Fair value through profit or loss*

The Group designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss as described in (J)(viii).

### *iii. Available-for-sale*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available-for-sale.

## Z . Share capital and reserves

### *i. Share issue costs*

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

### *ii. Retained earnings*

Retained earnings relates to accumulated prior year earnings adjusted for profit for the year, proposed dividend and transfers to and from the regulatory credit risk reserves.

## AA . Comparatives

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

## 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 and separate 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.

# 6. Financial Risk Management

The Group's financial assets are classified as amortised cost, fair value through profit and loss, and fair value through other comprehensive income 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

| | 2018 | 2017 |
|---|---|---|
| **Financial assets** | **Ushs M** | **Ushs M** |
| | | |
| **Amortised cost** | | |
| Cash and balances with Bank of Uganda | **356,041** | 362,263 |
| Loans and advances to other banks | **191,086** | 229,447 |
| Loans and advances to customers | **1,398,162** | 1,334,611 |
| Trading assets | **41,116** | 217,826 |
| Investment securities: Measured at amortised cost | **483,393** | 453,766 |
| Other assets: Measured at amortised cost excluding prepayments | **14,871** | 11,608 |
| | **2,484,669** | **2,609,521** |
| **FVOCI** | | |
| Investment securities: Measured at fair value | **32,019** | - |
| | **32,019** | - |
| **FVTPL** | | |
| Equity Investments | **11,411** | 13,746 |
| Other assets: Measured at fair value | **192,466** | 215,992 |
| | **203,877** | 229,738 |
| | | |
| | **2,720,565** | **2,839,259** |
| **Financial liabilities** | | |
| | | |
| Measured at amortised cost: | | |
| Customer deposits | **1,979,093** | 1,987,118 |
| Balances due to other banks | **-** | 255 |
| Borrowed funds | **369,566** | 481,738 |
| Special Funds | **1,440** | 1,708 |
| Other financial liabilities excluding deferred income | **43,527** | 48,354 |
| | **2,393,626** | **2,519,173** |

## 6A 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-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 net trading and other 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.

## 6B 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-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 c4ollateral held**

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Balances with Bank of Uganda (note 22) | **217,219** | 214,722 |
| Loans and advances to banks (note 23) | **191,086** | 229,447 |
| Loans and advances to customers (note 24) | **1,398,162** | 1,334,611 |
| Government securities (notes 26 and 27) | **556,528** | 671,592 |
| Equity investments at fair value through profit and loss (note 25) | **11,411** | 13,746 |
| Other assets excluding prepayments (note 28) | **207,337** | 227,600 |
| Credit risk exposures on off-statement of financial position items (note 43) | | |
| • Acceptances and letters of credit | **-** | 718 |
| • Guarantee and performance bonds | **294,830** | 162,973 |
| • Commitments to lend | **48,289** | 34,321 |
| | **2,924,862** | 2,889,730 |

The above represents the worst case scenario of the Group's credit risk exposure as at 31 December 2018 and 2017, without taking account collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 54% of the total maximum exposure is derived from loans and advances to banks and customers (2017: 54%), whilst 19% represents investments in government securities (2017: 23%).

Loans and advances to major corporate borrowers and to individuals borrowing more than Ushs 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;
- 89% 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: | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Neither past due nor impaired | **1,242,674** | 1,258,250 |
| Past due but not impaired | **107,689** | 47,835 |
| Impaired | **80,828** | 96,676 |
| Gross | **1,431,191** | 1,402,761 |
| Less: Allowance for impairment (note 24) | **(33,029)** | (68,150) |
| Net carrying amount | **1,398,162** | 1,334,611 |

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:

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| | | |
| Standard | 1,242,674 | 1,258,250 |

**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:

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Past due up to 30 days | **73,654** | 23,554 |
| Past due 31 – 60 days | **28,105** | 12,224 |
| Past due 61 – 89 days | **5,930** | 12,057 |
| | **107,689** | 47,835 |

**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 2018, the gross carrying amount of impaired loans and advances to customers amounted to Ushs 80,828 million (2017: Ushs 96,676 million) and the value of identifiable collateral held against those loans and advances amounted to Ushs 67,068 million (2017: Ushs 27,659 million).

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

| | Loans | | Overdrafts | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Loans and advances | **76,369** | 90,248 | **4,459** | 6,428 |
| Fair value of collateral | **53,672** | 24,247 | **13,396** | 3,412 |

### *i. Credit quality analysis*

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

### Loans and advances to customers at amortised cost

| | 2018 Ushs M | | | | | 2017 Ushs M |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Total |
| Grades 1-6 Low-fair risk | 1,292,198 | 58,165 | - | - | 1,350,363 | 1,306,085 |
| Grades 7-9 Higher risk | - | - | - | - | - | - |
| Grade 10: Sub standard | - | - | 26,373 | - | 26,373 | 12,999 |
| Grade 11: Doubtful | - | - | 48,399 | - | 48,399 | 32,573 |
| Grade 12: Loss | - | - | 6,056 | - | 6,056 | 51,104 |
| | 1,292,198 | 58,165 | 80,828 | - | 1,431,191 | 1,402,761 |
| Loss allowance | (10,900) | (2,843) | (19,286) | - | (33,029) | (68,150) |
| Carrying amount | 1,281,298 | 55,322 | 61,542 | - | 1,398,162 | 1,334,611 |

### Balances with Bank of Uganda

| | 2018 Ushs M | | | | 2017 Ushs M |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| Grades 1-6 Low-fare risk | 217,706 | - | - | 217,706 | - |
| Loss Allowance | (487) | - | - | (487) | - |
| Carrying amount | 217,219 | - | - | 217,219 | - |

### Loans and advances to other banks

| | 2018 Ushs M | | | | | 2017 Ushs M |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Total |
| Grades 1-6 Low-fair risk | 191,130 | - | 178 | - | 191,308 | - |
| Grades 7-9 Higher risk | - | - | - | - | - | - |
| Grade 10: Sub standard | - | - | - | - | - | - |
| Grade 11: Doubtful | - | - | - | - | - | - |
| Grade 12: Loss | - | - | - | - | - | - |
| | 191,130 | - | 178 | - | 191,308 | - |
| Loss allowance | (44) | - | (178) | - | (222) | - |
| Carrying amount | 191,086 | - | - | - | 191,086 | - |

### Other Assets: Receivables excluding prepayments

| | ECL not credit impaired | Credit impaired | Total | Total |
|---|---|---|---|---|
| Grades 1-6 Low-fair risk | 207,453 | - | 207,453 | - |
| Grades 7-9 Higher risk | - | - | - | - |
| Grade 10-12: Credit Impaired | - | - | - | - |
| | 207,453 | - | 207,453 | - |
| Loss allowance | (116) | - | (116) | - |
| Carrying amount | 207,337 | - | 207,337 | - |

### Investment securities at amortised cost (2017: held-to-maturity)

| | 2018 Ushs M | | | | 2017 Ushs M |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| Grades 1-6 Low-fare risk | 484,389 | - | - | 484,389 | - |
| Loss Allowance | (996) | - | - | (996) | - |
| Carrying amount | 483,393 | - | - | 483,393 | - |

### Investment securities measured at FVOCI

The expected credit loss relating to investment securities measured at FVOCI amounted to Ushs 52 million and is recorded in the OCI. (See note 42)

### Cash and cash equivalents

The Group held cash and cash equivalents of Ushs 392,647 million at 31 December 2018 (2017: Ushs 440,541 million). The cash and cash equivalents are held with central bank of Uganda and financial institution counterparties that are rated at least AA-to AA+, based on Moody's ratings.

### Collateral held and other credit enhancements

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

| | Note | 31-Dec-18 | 31-Dec-17 | Principal type of collateral held |
|---|---|---|---|---|
| | | Ushs M | Ushs M | |
| Balances with Bank of Uganda | 22 | 217,219 | 214,722 | - |
| Loans and advances to banks | 23 | 191,086 | 229,447 | - |
| Loans and advances to retail customers: | 24 | | | |
| Mortgage lending | | 241,061 | 370,202 | Residential property |
| Personal loans | | 103,267 | 84,333 | - |
| Loans and advances to corporate customers: | 24 | | | |
| Finance leases | | 36,075 | 51,599 | Property and equipment |
| Others | | 1,017,759 | 828,477 | Commercial property, floating charges over corporate assets |
| Equity Investments at fair value through profit and loss | 25 | 11,411 | 13,746 | - |
| Trading assets | 27 | 41,116 | 217,826 | - |
| Investment debt securities | 26 | 515,412 | 453,766 | - |
| Other assets excluding prepayments | 28 | 207,337 | 227,600 | - |

### Loans and advances to corporate customers

The general creditworthiness of a corporate 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 corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Group's focus on corporate customers' creditworthiness. The Group does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Group obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 December 2018, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to Ushs 59,257 million (2017: Ushs 948,226 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Ushs 47,441 million (2017: Ushs 25,521 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Other types of collateral and credit enhancements

In addition to the collateral included in the tables above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

### *ii. Amounts arising from ECL*

### Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 5(I)(vii).

### *Significant increase in credit risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

### *Credit risk grades*

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

| Corporate exposures | Retail exposures | All exposures |
|---|---|---|
| Information obtained during periodic review of customer files-e.g. audited consolidated and separate financial statements, management accounts, budgets and projections.<br><br>Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes, data from credit reference agencies, press articles, changes in external credit ratings, actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities. | Internally collected data on customer behavior- e.g. utilisation of credit card facilities<br><br>Affordability metrics<br><br>External data from credit reference agencies, including industry-standard credit scores | Payment record - this includes overdue status as well as a range of variables about payment ratios<br><br>Utilisation of the granted limit<br><br>Requests for and granting of forbearance<br><br>Existing and forecast changes in business, financial and economic conditions |

### Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for corporate exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if;

- Quantitative; the counterparty is past due for more than 30 days
- Qualitative; the account has been restructured for financial distress reasons
- Qualitative; Poor outlook for the specific sector or industry and any other relevant available information such as Credit Bureau data

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

### Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);

- the borrower is more than 90 days past due on any material credit obligation to the Group.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

### *Incorporation of forward-looking information*

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario reflecting a most-likely outcome, and two less likely scenarios, one upside and one downside. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting.

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Group's senior management.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key driver for credit risk for the portfolio, retail unsecured and corporate models is the consumer price index.

### *Modified financial assets*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 5(I)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

### *Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading, 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- loan amount
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

| | | External benchmarks used | |
|---|---|---|---|
| | | Moody's rating | S&P rating |
| | Exposure Ushs | PD | LGD |
| Government securities – Amortised cost | 484 bn | 2.8% - 21.4% | 6% |
| Government securities - FVOCI | 32 bn | 2.8% - 21.4% | 6% |

### *i. Impaired financial assets – Comparative information under IAS 39*

### *Loans with renegotiated terms*

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Loans and investment debt securities that were past due but not impaired

Loans and investment debt securities that were 'past due but not impaired' are those for which contractual interest or principal payments were past due but the Group believed that impairment was not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at FVTPL.

### *ii. Concentrations of credit risk*

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances and credit commitments is shown below.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Loans and advances** | **Credit Commitments** | **Loans and advances** | **Credit Commitments** |
| **As at 31 December 2018** | | | | |
| Agriculture | 21% | 4% | 20% | 20% |
| Manufacturing | 9% | 6% | 12% | 8% |
| Trade and commerce | 17% | 13% | 13% | 21% |
| Transport and communications | 3% | 0% | 2% | 6% |
| Mining and quarrying | 0% | 0% | 1% | 0% |
| Building and construction | 18% | 0% | 13% | 24% |
| Leisure, hotels and accommodation | 5% | 0% | 8% | 1% |
| Home loans | 3% | 0% | 4% | 0% |
| Non-bank financial institutions | 0% | 0% | 1% | 0% |
| Private individual | 8% | 3% | 7% | 1% |
| Real estate | 8% | 1% | 10% | 6% |
| Schools | 5% | 4% | 5% | 4% |
| Other | 3% | 69% | 4% | 9% |
| | 100% | 100% | 100% | 100% |

As at 31 December 2018 and 2017, the Group had no exposures to a single borrower or group of related borrowers exceeding 25% of the core capital of the Group.

## 6C 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 key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers and short-term funding. For this purpose, 'net liquid assets' includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market divided by any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows.

| | 2018 | 2017 |
|---|---|---|
| At 31 December | 22.0% | 23.7% |
| Average for the period | 22.6% | 23.7% |
| Maximum for the period | 24.2% | 24.7% |
| Minimum for the period | 18.9% | 21.2% |

The table below summarises the net position as at 31 December 2018 and 31 December 2017 based on contractual maturity.

| **Net position as at 31 December 2018** | | | | |
|---|---|---|---|---|
| **Months** | **Up to 1 month** | **1-3 months** | **3-12 months** | **>1 Year** |
| Long / (short) Gap | (410,067) | (22,908) | 21,905 | 728,083 |
| Long / (short) Cumulative Gap | (410,067) | (432,975) | (411,070) | 317,013 |
| Cumulative Gap / Total Assets | (14%) | (15%) | (14%) | 11% |

| **Net position as at 31 December 2017** | | | | |
|---|---|---|---|---|
| **Months** | **Up to 1 month** | **1-3 months** | **3-12 months** | **>1 Year** |
| Long / (short) Gap | (404,904) | (94,684) | 252,624 | 563,065 |
| Long / (short) Cumulative Gap | (404,904) | (499,588) | (246,964) | 316,101 |
| Cumulative Gap / Total Assets | (14%) | (16%) | (8%) | 11% |

The following are the remaining contractual maturities financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

| | Contractual Cash flows | | | | | |
|---|---|---|---|---|---|---|
| | Carrying | Gross nominal | Up to | 1-3 | 3 – 12 | Over |
| **2018** | Amount | inflow/ (outflow) | 1 month | months | months | 1 year |
| | | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| **Financial liability by type** | | | | | | |
| Customer deposits | **1,979,093** | 1,993,580 | 1,349,472 | 215,556 | 416,636 | 11,916 |
| Other liabilities excluding deferred income | **43,527** | 43,527 | 14,647 | 1,953 | 20,106 | 6,821 |
| Borrowed funds | **369,566** | 408,245 | 1,070 | 20,118 | 61,873 | 325,184 |
| Special funds | **1,440** | 1,440 | 1,440 | - | - | - |
| | | | | | | |
| **Total liabilities** | **2,393,626** | **2,446,792** | **1,366,629** | **237,627** | **498,615** | **343,921** |
| | | | | | | |
| **Financial assets by type** | | | | | | |
| Cash and balances with Bank of Uganda | **356,041** | 356,041 | 356,041 | - | - | - |
| Loans and advances to other banks | **191,086** | 191,086 | 191,086 | - | - | - |
| Loans and advances to customers | **1,398,162** | 2,023,564 | 204,042 | 181,994 | 291,818 | 1,345,710 |
| Government and other securities | **556,528** | 557,524 | 57,083 | 36,996 | 101,895 | 361,550 |
| Equity Investments at fair value through profit and loss | **11,411** | 11,411 | 11,411 | - | - | - |
| Other assets excluding prepayments | **207,337** | 207,337 | 5,192 | 3,895 | 36,757 | 161,493 |
| **Total assets** | **2,720,565** | **3,346,963** | **824,855** | **222,885** | **430,470** | **1,868,753** |
| | | | | | | |
| **2017** | | | | | | |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | **1,987,118** | 2,031,464 | 1,291,080 | 288,578 | 421,767 | 30,039 |
| Other liabilities excluding deferred income | **48,354** | 48,354 | 43,062 | 2,292 | 2,476 | 524 |
| Balances due to other banks | **255** | 255 | 255 | - | - | - |
| Borrowed funds | **481,738** | 569,851 | 1,971 | 11,479 | 102,591 | 453,810 |
| Special funds | **1,708** | 1,708 | 1,708 | - | - | - |
| | | | | | | |
| **Total liabilities** | **2,519,173** | **2,651,632** | **1,338,076** | **302,349** | **526,834** | **484,373** |
| Financial assets by type | | | | | | |
| Cash and balances with Bank of Uganda | **362,263** | 362,263 | 362,263 | - | - | - |
| Loans and advances to other banks | **229,447** | 229,447 | 229,447 | - | - | - |
| Loans and advances to customers | **1,334,611** | 2,498,888 | 253,412 | 124,310 | 555,048 | 1,566,118 |
| Government and other securities | **671,592** | 671,592 | 44,175 | 63,051 | 183,024 | 381,342 |
| Equity Investments at fair value through profit and loss | **13,746** | 13,746 | 13,746 | - | - | - |
| Other assets excluding prepayments | **227,600** | 227,600 | 17,609 | 75,598 | 134,393 | - |
| **Total assets** | **2,839,259** | **4,003,536** | **920,652** | **262,959** | **872,465** | **1,947,460** |

The table below analyses assets and liabilities into relevant maturity groupings based on the carrying amount as at 31 December. All figures are in millions of Uganda Shillings.

| As at 31 December 2018 | Up to 1 month | 1-3 months | 3 – 12 months | Over 1 year | Non -liquid items | Non -financial items | Total |
|---|---|---|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| **Assets** | | | | | | | |
| Cash and balances with Bank of Uganda | 356,041 | - | - | - | - | - | 356,041 |
| Deposits and balances due from other banks | 191,086 | - | - | - | - | - | 191,086 |
| Loans and advances to customers | 414,656 | 178,280 | 368,296 | 436,930 | - | - | 1,398,162 |
| Government and other securities | 56,087 | 36,996 | 101,895 | 361,550 | - | - | 556,528 |
| Investment in shares | 11,411 | - | - | - | - | - | 11,411 |
| Other assets | 2,625 | 3,895 | 36,757 | 154,134 | 9,926 | 13,408 | 220,745 |
| Current income tax recoverable | - | - | - | - | - | 3 | 3 |
| Deferred income tax asset | - | - | - | - | - | 2,198 | 2,198 |
| Property and equipment | - | - | - | - | - | 125,998 | 125,998 |
| Investment property | - | - | - | - | - | 10,758 | 10,758 |
| Intangible assets | - | - | - | - | - | 42,652 | 42,652 |
| **Total assets** | **1,031,906** | **219,171** | **506,948** | **952,614** | **9,926** | **195,017** | **2,915,582** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Customer deposits | 1,331,367 | 214,193 | 403,943 | 29,590 | - | - | 1,979,093 |
| Other liabilities | 14,648 | 1,953 | 20,526 | 6,400 | - | 420 | 43,947 |
| Borrowed funds | 94,518 | 25,933 | 60,574 | 188,541 | - | - | 369,566 |
| Special funds | 1,440 | - | - | - | - | - | 1,440 |
| | | | | | | | |
| Total liabilities | 1,441,973 | 242,079 | 485,043 | 224,531 | - | 420 | 2,394,046 |
| | | | | | | | |
| Net liquidity gap | (410,067) | (22,908) | 21,905 | 728,083 | 9,926 | 194,597 | 521,536 |
| Net off-statement of financial position items | (107,475) | (71,335) | (104,822) | (59,487) | - | - | (343,119) |
| **Overall liquidity position** | **(517,542)** | **(94,243)** | **(82,917)** | **668,596** | **9,926** | **194,597** | **178,417** |

| As at 31 December 2017 | Up to 1 month | 1-3 months | 3 – 12 months | Over 1 year | Non -liquid items | Non -financial items | Total |
|---|---|---|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| **Assets** | | | | | | | |
| Cash and balances with Bank of Uganda | 362,263 | - | - | - | - | - | 362,263 |
| Loans and advances to other banks | 229,447 | - | - | - | - | - | 229,447 |
| Government and other securities | 44,175 | 63,051 | 183,024 | 381,342 | - | - | 671,592 |
| Equity investments | 13,746 | - | - | - | - | - | 13,746 |
| Other assets | 19,044 | 17,609 | 79,761 | 107,201 | 3,985 | 11,945 | 239,545 |
| Loans and advances to customers | 248,850 | 119,913 | 476,436 | 489,412 | - | - | 1,334,611 |
| Property and equipment | - | - | - | - | - | 142,642 | 142,642 |
| Investment property | - | - | - | - | - | 11,144 | 11,144 |
| Intangible asset | - | - | - | - | - | 50,375 | 50,375 |
| Deferred income tax asset | - | - | - | - | - | 2,111 | 2,111 |
| **Total assets** | **917,525** | **200,573** | **739,221** | **977,955** | **3,985** | **218,217** | **3,057,476** |
| | | | | | | | |
| Liabilities | | | | | | | |
| Customer deposits | 1,281,644 | 284,390 | 395,556 | 25,528 | - | - | 1,987,118 |
| Other liabilities | 38,433 | 2,292 | 2,478 | 5,151 | - | 4,499 | 52,853 |
| Balances due to other banks | 255 | - | - | - | - | - | 255 |
| Borrowed funds | 389 | 8,575 | 88,563 | 384,211 | - | - | 481,738 |
| Special funds | 1,708 | - | - | - | - | - | 1,708 |
| Current income tax payable | - | - | - | - | - | 1,466 | 1,466 |
| Total liabilities | 1,322,429 | 295,257 | 486,597 | 414,890 | - | 5,965 | 2,525,138 |
| | | | | | | | |
| Net liquidity gap | (404,904) | (94,684) | 252,624 | 563,065 | 3,985 | 212,252 | 532,338 |
| Net off-statement of financial position items | (60,756) | (26,696) | (46,263) | (64,297) | - | - | (198,012) |
| Overall liquidity position | (465,660) | (121,380) | 206,361 | 498,768 | 3,985 | 212,252 | 334,326 |

## 6D 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 optimising 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.

### Currency Risk

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 2018, the Group had a net foreign exchange position of Ushs 17,583 million (2017: Ushs 29,430 million).

The Group's profit before income tax/ equity would decrease/ increase by Ushs 3,517 million (2017: Ushs 5,886 million) were the Ushs: US$ foreign exchange rate to change by 20% (2017: 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 2018. Included in the table are the Group's assets and liabilities categorised by currency. All figures are in millions of Uganda Shillings.

| As at 31 December 2018 | USD | GBP | EURO | USHS | Non -financial items | Total |
|---|---|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| **Assets** | | | | | | |
| Cash and balances with Bank of Uganda | 89,922 | 4,710 | 9,677 | 251,732 | - | 356,041 |
| Loans and advances to other banks | 164,406 | 123 | 10,090 | 16,467 | - | 191,086 |
| Loans and advances to customers | 544,886 | 21 | 51 | 853,204 | - | 1,398,162 |
| Other assets | 631 | - | - | 206,706 | 13,408 | 220,745 |
| Equity investments | - | - | - | 11,411 | - | 11,411 |
| Government and other securities | - | - | - | 556,528 | - | 556,528 |
| Current income tax recoverable | - | - | - | - | 3 | 3 |
| Property and equipment | - | - | - | - | 125,998 | 125,998 |
| Investment property | - | - | - | - | 10,758 | 10,758 |
| Intangible assets | - | - | - | - | 42,652 | 42,652 |
| Deferred income tax asset | - | - | - | - | 2,198 | 2,198 |
| **Total assets** | **799,845** | **4,854** | **19,818** | **1,896,048** | **195,017** | **2,915,582** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 562,710 | 5,307 | 15,922 | 1,395,154 | - | 1,979,093 |
| Other liabilities | 10,491 | 747 | 3,776 | 28,513 | 420 | 43,947 |
| Borrowed funds | 209,061 | - | - | 160,505 | - | 369,566 |
| Special funds | - | - | - | 1,440 | - | 1,440 |
| **Total liabilities** | **782,262** | **6,054** | **19,698** | **1,585,612** | **420** | **2,394,046** |
| **Net on-statement of financial position items** | **17,583** | **(1,200)** | **120** | **310,436** | **194,597** | **521,536** |
| Net off-statement of financial position items | (157,341) | - | - | (185,778) | - | (343,119) |
| **Overall open position** | **(139,758)** | **(1,200)** | **120** | **124,658** | **194,597** | **178,417** |

| As at 31 December 2017 | USD | GBP | EURO | USHS | Non -financial items | Total |
|---|---|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| **Assets** | | | | | | |
| Cash and balances with Bank of Uganda | 53,288 | 5,525 | 10,456 | 292,994 | - | 362,263 |
| Loans and advances to other banks | 204,021 | 1,239 | 2,344 | 21,843 | - | 229,447 |
| Government and other securities | - | - | - | 671,592 | - | 671,592 |
| Equity investments | - | - | - | 13,746 | - | 13,746 |
| Other assets | 529 | 1 | - | 227,070 | 11,945 | 239,545 |
| Loans and advances to customers | 629,525 | 6 | 9 | 705,071 | - | 1,334,611 |
| Property and equipment | - | - | - | - | 142,642 | 142,642 |
| Investment property | - | - | - | - | 11,144 | 11,144 |
| Intangible assets | - | - | - | - | 50,375 | 50,375 |
| Deferred income tax asset | - | - | - | - | 2,111 | 2,111 |
| **Total assets** | **887,363** | **6,771** | **12,809** | **1,932,316** | **218,217** | **3,057,476** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 564,027 | 4,033 | 11,140 | 1,407,918 | - | 1,987,118 |
| Balance due to other banks | - | - | - | 255 | - | 255 |
| Other liabilities | 18,519 | 182 | 2,026 | 27,627 | 4,499 | 52,853 |
| Borrowed funds | 275,388 | - | - | 206,350 | - | 481,738 |
| Special funds | - | - | - | 1,708 | - | 1,708 |
| Current income tax payable | - | - | - | - | 1,466 | 1,466 |
| **Total liabilities** | **857,934** | **4,215** | **13,166** | **1,643,858** | **5,965** | **2,525,138** |
| **Net on-statement of financial position items** | **29,429** | **2,556** | **(357)** | **288,458** | **212,252** | **532,338** |
| Net off-statement of financial position items | (50,621) | - | - | (147,391) | - | (198,012) |
| **Overall open position** | **(21,192)** | **2,556** | **(357)** | **141,067** | **212,252** | **334,326** |

## 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 2018 assuming a market interest rate decrease of 3% from the rates ruling at year-end (2017: 3%). This would have an impact on the profit before income tax of the Group as follows:

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Fair value interest rate risk | **65** | 1,725 |
| Cash flow interest rate risk | **2,089** | 55,772 |
| | **2,154** | 57,497 |

The tables below summarise the Group's exposure to interest rate risk as at 31 December 2018 and 31 December 2017. 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-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 2018 | Up to 1 month | 1 – 3 months | 3 – 12 months | Over 1 year | Non - interest bearing | Non -financial items | Total |
|---|---|---|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| **Interest bearing assets** | | | | | | | |
| Cash and balances with Bank of Uganda | - | - | - | - | 356,041 | - | 356,041 |
| Deposits and balances due from other banks | 37,672 | - | - | - | 153,414 | - | 191,086 |
| Loans and advances to customers | 414,656 | 178,280 | 266,401 | 571,854 | (33,029) | - | 1,398,162 |
| Government and other securities | 56,090 | 36,996 | 101,895 | 361,547 | - | - | 556,528 |
| Investment in shares | - | - | - | - | 11,411 | - | 11,411 |
| Other assets | - | - | - | - | 207,337 | 13,408 | 220,745 |
| Current income tax recov-erable | - | - | - | - | - | 3 | 3 |
| Deferred income tax asset | - | - | - | - | - | 2,198 | 2,198 |
| Property and equipment | - | - | - | - | - | 125,998 | 125,998 |
| Investment property | - | - | - | - | - | 10,758 | 10,758 |
| Intangible assets | - | - | - | - | - | 42,652 | 42,652 |
| **Total interest bearing assets** | **508,418** | **215,276** | **368,296** | **933,401** | **695,174** | **195,017** | **2,915,582** |
| | | | | | | | |
| **Interest bearing liabilities** | | | | | | | |
| Customer deposits | 601,719 | 214,193 | 403,944 | 29,590 | 729,647 | - | 1,979,093 |
| Other liabilities | - | - | - | - | 43,527 | 420 | 43,947 |
| Borrowed funds | 389 | 25,933 | 60,574 | 193,649 | 89,021 | - | 369,566 |
| Special funds | - | - | - | - | 1,440 | - | 1,440 |
| **Total interest bearing liabilities** | **602,108** | **240,126** | **464,518** | **223,239** | **863,635** | **420** | **2,394,046** |
| **Interest re-pricing gap** | **(93,690)** | **(24,850)** | **(96,222)** | **710,162** | **(168,461)** | **194,597** | **521,536** |

| As at 31 December 2017 | Up to 1 month | 1 – 3 months | 3 – 12 months | Over 1 year | Non - interest bearing | Non -financial items | Total |
|---|---|---|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| Interest bearing assets | | | | | | | |
| Cash and balances with Bank of Uganda | - | - | - | - | 362,263 | - | 362,263 |
| Government and other securities | 44,175 | 63,051 | 183,024 | 381,342 | - | - | 671,592 |
| Equity investments | - | - | - | - | 13,746 | - | 13,746 |
| Loans and advances to customers | 248,850 | 119,913 | 293,412 | 740,586 | (68,150) | - | 1,334,611 |
| Loans and advances to other banks | 169,267 | - | - | - | 60,180 | - | 229,447 |
| Property and equipment | - | - | - | - | - | 142,642 | 142,642 |
| Investment property | - | - | - | - | - | 11,144 | 11,144 |
| Intangible assets | - | - | - | - | - | 50,375 | 50,375 |
| Other assets | - | - | - | - | 227,600 | 11,945 | 239,545 |
| Deferred income tax asset | - | - | - | - | - | 2,111 | 2,111 |
| **Total interest bearing assets** | **462,292** | **182,964** | **476,436** | **1,121,928** | **595,639** | **218,217** | **3,057,476** |
| Interest bearing liabilities | | | | | | | |
| Customer deposits | 607,603 | 284,390 | 395,556 | 25,528 | 674,041 | - | 1,987,118 |
| Balances due to other banks | 255 | - | - | - | - | - | 255 |
| Borrowed funds | 389 | 8,575 | 89,343 | 236,853 | 146,578 | - | 481,738 |
| Other liabilities | - | - | - | - | 48,354 | 4,499 | 52,853 |
| Current income tax payable | - | - | - | - | - | 1,466 | 1,466 |
| Special funds | - | - | - | - | 1,708 | - | 1,708 |
| **Total interest bearing liabilities** | **608,247** | **292,965** | **484,899** | **262,381** | **870,681** | **5,965** | **2,525,138** |
| **Interest re-pricing gap** | **(145,955)** | **(110,001)** | **(8,463)** | **859,547** | **(275,042)** | **212,252** | **532,338** |

## 6E Fair values of financial assets and liabilities

### *i. Financial instruments measured at fair value*

#### a) Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market and retained interests in securitisations (as discussed below). Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa - e.g. interest rate swaps - fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVAJ when market participants would take this into consideration in pricing the derivatives.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

### *Measurement on the basis of net exposures to risks*

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. These adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, it takes into account any existing arrangements that mitigate the credit risk exposure - e.g. master netting agreements with the counterparty.

### *ii. Valuation framework*

The Group has an established control framework for the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving both Product Control and Group Market Risk;
- quarterly calibration and back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Group Market Risk personnel.

### *iii. Financial instruments measured at fair value - Fair value hierarchy*

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

The following are the financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

| 2018 | Hierarchy | | | Total |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Trading assets – government securities | - | 41,116 | - | 41,116 |
| Government securities at fair value through OCI | - | 32,019 | - | 32,019 |
| Other assets at fair value through profit and loss | - | - | 192,466 | 192,466 |
| Equity investments at fair value through profit and loss | 11,411 | - | - | 11,411 |

| 2017 | Hierarchy | | | Total |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Treasury bills and bonds held-for-trading | - | 217,826 | - | 217,826 |
| Other assets at fair value through profit and loss | - | - | 215,992 | 215,992 |
| Equity investments at fair value through profit and loss | 13,746 | - | - | 13,746 |

During the year ended 31 December 2018, there were no transfers into or out of Level 2 and level 1 fair value measurements.

### *iv. Level 3 fair value measurements*

The following table shows the reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy;

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Balance as at 1 January | 215,992 | 245,521 |
| Fair value gain | 5,568 | - |
| Recoveries through P&L | (13,842) | (18,089) |
| Settlements against the asset | (15,252) | (11,440) |
| **Balance as at 31 December** | **192,466** | **215,992** |

### *v. Unobservable inputs used in measuring fair value*

The following table sets out information about significant un-observable inputs used at 31 December 2018 and 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy;

| Type of financial instrument | Fair value (Ushs M) | | Valuation technique | Significant unobservable input | Range of estimates for unobservable inputs | Fair value measurement sensitivity to unobservable input |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | | | | |
| Other Financial Asset at FVTPL | 192,466 | 215,992 | Discounted cash flows | Expected net cash flows derived from the entity | Investment based | A significant increase in expected net cash flows would result in a higher fair value |

Estimated cash flows are derived from the entity's business plan and historical comparison between plans and actual results.

### *vi. Financial instruments not measured at fair value*

The tables below sets out the fair values of financial assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

| 2018 | Level 1 | Level 2 | Level 3 | Fair value | Carrying amount |
|---|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| Cash and balances with Bank of Uganda | - | 356,041 | - | **356,041** | **356,041** |
| Loans and advances to other banks | - | 191,086 | - | **191,086** | **191,086** |
| Loans and advances to customers | - | - | 1,398,162 | **1,398,162** | **1,398,162** |
| Investment securities at amortised cost | - | 483,393 | - | **483,393** | **483,393** |
| Other assets excluding pre-payments | - | - | 14,871 | **14,871** | **14,871** |
| Customer deposits | - | (1,979,093) | - | **(1,979,093)** | **(1,979,093)** |
| Other liabilities excluding deferred income | - | | (43,527) | **(43,527)** | **(43,527)** |
| Borrowed funds | - | (369,566) | - | **(369,566)** | **(369,566)** |
| Special funds | - | (1,440) | - | **(1,440)** | **(1,440)** |
| | | | | | |
| **2017** | | | | | |
| | | | | | |
| Cash and balances with Bank of Uganda | - | 362,263 | - | **362,263** | **362,263** |
| Loans and advances to other banks | - | 229,447 | - | **229,447** | **229,447** |
| Loans and advances to customers | - | - | 1,334,611 | **1,334,611** | **1,334,611** |
| Investment securities at amortised cost | - | 453,766 | - | **453,766** | **453,766** |
| Other assets excluding pre-payments | - | - | 11,608 | **11,608** | **11,608** |
| Customer deposits | - | (1,987,118) | - | **(1,987,118)** | **(1,987,118)** |
| Balances due to other banks | - | (255) | - | **(255)** | **(255)** |
| Other liabilities excluding deferred income | - | | (48,354) | **(48,354)** | **(48,354)** |
| Borrowed funds | - | (481,738) | - | **(481,738)** | **(481,738)** |
| Special funds | - | (1,708) | - | **(1,708)** | **(1,708)** |

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.

## 6F Capital management

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

- To comply with the capital requirements set by the Financial Institutions Act 2004;
- 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 2018, the Financial Instituitions Capital Adequacy Requirements Regulations 2018 requires each bank to:

a) have a minimum paid up capital unimpaired by losses of Ushs 25 billion;

b) maintain core capital of not less than 10% of the total risk adjusted assets plus risk adjusted off statement of financial position items; and

c) maintain total capital of not less than 12% of the total risk adjusted assets plus risk adjusted off 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-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:

| | **2018** | **2017** |
|---|---|---|
| | **Ushs M** | Ushs M |
| **Before dividend declaration** | | |
| Tier 1 capital | **450,693** | 434,779 |
| Tier 1 + Tier 2 capital | **501,834** | 506,502 |
| | | |
| **After dividend declaration** | | |
| Tier 1 capital | **425,729** | 382,725 |
| Tier 1 + Tier 2 capital | **477,140** | 455,448 |
| | | |
| **Risk weighted assets** | | |
| On-statement of financial position items | **1,843,702** | 1,795,372 |
| Off-statement of financial position items | **318,975** | 180,134 |
| Counterparty and market risk | **140,958** | - |
| **Total risk weighted assets** | **2,303,635** | 1,975,506 |

**Tier 1 capital comprises of the following;**

| | | |
|---|---|---|
| Share capital and reserves | **489,047** | 470,171 |
| Unrealised foreign exchange gains | **(950)** | - |
| Outstanding liability on the BOU loan | **(17,518)** | (33,960) |
| Intangible assets | **(42,652)** | (50,375) |
| Deferred income tax asset | **(2,198)** | (2,111) |
| | | |
| **Tier 1 capital** | **425,729** | **383,725** |
| | | |
| Tier 1 capital | **425,729** | 383,725 |
| General Provisions | **14,291** | 13,531 |
| Subordinated debt | **37,120** | 58,192 |
| | | |
| **Total capital** | **477,140** | 455,448 |

The analysis of the subordinated debt recognised as Tier 2 capital for regulatory capital adequacy purposes of the Group in accordance with Bank of Uganda (BOU) prudential regulations is summarised below.

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| CDC Group Plc | **-** | 21,822 |
| Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) | **37,120** | 36,370 |
| | **37,120** | 58,192 |

| Risk weighted assets comprise of the following: | Statement of financial position/ Nominal amount | | Risk weight | Risk weighted amount | |
|---|---|---|---|---|---|
| | **2018** | 2017 | | **2018** | 2017 |
| | **Ushs M** | Ushs M | **%** | **Ushs M** | Ushs M |
| On-statement of financial position items | | | | | |
| Cash and balances with Bank of Uganda | **356,041** | 362,263 | **0%** | **-** | - |
| Due from commercial banks in Uganda | **37,873** | 169,506 | **20%** | **7,575** | 33,901 |
| Due from banks outside Uganda; | | | | | |
| Rated AAA to AA- | **-** | - | **20%** | **-** | - |
| Rated A+ to A- | **152,278** | 58,090 | **50%** | **76,139** | 29,045 |
| Rated A- and non-rated | **935** | 1,851 | **100%** | **935** | 1,851 |
| Government and other securities | **556,528** | 671,592 | **0%** | **-** | - |
| Equity investments at fair value through profit and loss | **11,411** | 13,746 | **100%** | **11,411** | 13,746 |
| Other assets | **220,745** | 239,545 | **100%** | **220,745** | 239,545 |
| Loans and advances to customers (Regulatory) | **1,390,138** | 1,323,498 | **100%** | **1,390,138** | 1,323,498 |
| Current income tax recoverable | **3** | - | **100%** | **3** | - |
| Deferred income tax asset | **2,198** | 2,111 | **0%** | **-** | - |
| Property, plant and equipment | **125,998** | 142,642 | **100%** | **125,998** | 142,642 |
| Investment property | **10,758** | 11,144 | **100%** | **10,758** | 11,144 |
| Intangible assets | **42,652** | 50,375 | **0%** | **-** | - |
| Total | **2,907,558** | 3,046,363 | | **1,843,702** | 1,795,372 |
| Off-statement of financial position items | | | | | |
| Letters of credit secured by cash collateral | **-** | 718 | **0%** | **-** | - |
| Guarantees and acceptances | **294,830** | 162,973 | **100%** | **294,830** | 162,973 |
| Undrawn facilities | **48,289** | 34,321 | **50%** | **24,145** | 17,161 |
| **Total** | **343,119** | 198,012 | | **318,975** | 180,134 |
| | | | | | |
| **Total** | | | | **2,162,677** | 1,975,506 |
| Counterparty risk | | | | **-** | - |
| Market risk | | | | **140,958** | - |
| **Total risk weighted assets** | | | | **2,303,635** | 1,975,506 |
| | | | | **2018** | 2017 |
| Tier 1 (FIA minimum – 10%) | | | | **19.55%** | 22.01% |
| Tier 1 + Tier 2 (FIA minimum – 12%) | | | | **21.78%** | 25.64% |
| | | | | | |
| FIA ratio (after dividend declaration) | | | | | |
| Tier 1 (FIA minimum – 10%) | | | | **18.48%** | 19.42% |
| Tier 1 + Tier 2 (FIA minimum – 12%) | | | | **20.71%** | 23.05% |

## 6G Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Recognising that operational risk cannot be entirely eliminated, the Group implemented risk mitigation controls including fraud prevention, contingency planning, information security and incident management and continues to enhance the same. Where appropriate, this strategy is further supported by risk transfer mechanisms such as insurance.

Over the past year, the Group has continued to invest heavily in technology/systems to create more digital channels, increase operational efficiency in a bid to leverage on IT to drive its strategy.

The Group underwent two major IT related projects and a major data migration during the year 2017. These included;

### *i. Upgrade of the Core Banking System from Finacle 7 to Finacle 10:*

This was a major project involving the transfer of all data from an older version of Finacle to a higher version (Finacle 10)

### *ii. EbankIT:*

This system is an e-banking platform (Quick banking) that has given the customers (retail and corporate) access to a range of banking services without visiting the branch.

### *iii. Data migration and integration of former Crane Bank Ltd customers:*

In January 2017, following the Group's acquisition of some of assets and assuming some of the liabilities of former Crane Bank Limited, the Group migrated data from Crane Bank's T24 and integrated it to its Core Banking system (Finacle).

As technology continues to evolve, the threat of cyber-attacks is becoming more sophisticated and greater numbers of third-parties seek to access the Group's customers' data and remove it from the safety of the Group's systems and firewalls.

A failure to ensure this information is kept safe and used in a way that regulators and customers expect, may significantly impact relationships with these stakeholders and the broader community.

The Group has put in place measures to address the operational risks as highlighted below;

- The Group has and continues to invest significantly in data, analytics and cyber-security capabilities to better meet evolving customer needs and expectations, and to reduce the potential for data breaches.
- The Group actively engages with regulators to ensure that there is appropriate mutual understanding of the technology space and that evolution in regulation appropriately balances the value of giving customers control of their data, with the Group's duty to protect customers' privacy and security.
- The Group continuously invests in IT system security and identifies and accesses management controls to secure the confidentiality, integrity and availability of the Group's data.
- The employees undergo mandatory training modules to ensure they understand the importance of data security and their obligations in relation to the data they have access to.
- As the second line of defense, the Group's risk department was boosted with officers with IT security skills to monitor the activities of the first line of defense by performing risk assurance reviews, monitoring all user activity on key systems in order to timely detect any irregularity and advise adequate response.

## 7. Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

| 31 December 2018 | Note | Mandatorily at FVTPL | Designated at FVTPL | FVOCI - debt instruments | FVOCI - equity instruments | Amortised cost | Total carrying amount |
|---|---|---|---|---|---|---|---|
| | | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| Cash and balances with Bank of Uganda | 22 | - | - | - | - | 356,041 | 356,041 |
| Loans and advances to other banks | 23 | - | - | - | - | 191,086 | 191,086 |
| Loans and advances to customers | 24 | - | - | - | - | 1,398,162 | 1,398,162 |
| Trading assets | 27 | 41,116 | - | - | - | - | 41,116 |
| ***Investment securities:*** | 26 | | | | | | |
| Measured at fair value | | - | - | 32,019 | - | - | 32,019 |
| Measured at amortised cost | | - | - | - | - | 483,393 | 483,393 |
| Equity Investments | 25 | 11,411 | - | - | - | - | 11,411 |
| Other assets: | 28 | | | | | | |
| Measured at fair value | | - | 192,466 | - | - | - | 192,466 |
| Measured at amortised cost (excluding pre-payments) | | - | - | - | - | 14,871 | 14,871 |
| **Total financial assets** | | **52,527** | **192,466** | **32,019** | | **2,443,553** | **2,720,565** |
| | | | | | | | |
| Customer deposits | 34 | - | - | - | - | 1,979,093 | 1,979,093 |
| Other liabilities (excluding deferred income) | 36 | - | - | - | - | 43,527 | 43,527 |
| Borrowed funds | 39 | - | - | - | - | 369,566 | 369,566 |
| Special funds | 38 | - | - | - | - | 1,440 | 1,440 |
| **Total financial liabilities** | | **-** | **-** | **-** | **-** | **2,393,626** | **2,393,626** |

Classification of financial assets and financial liabilities (continued)

| 31 December 2017 | Note | Trading | Designated at FVTPL | Held to maturity | Loans and Re-ceivables | Available for sale | Other amortised cost | Total carrying amount |
|---|---|---|---|---|---|---|---|---|
| | | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| Cash and balances with Bank of Uganda | 22 | - | - | - | 362,263 | - | - | 362,263 |
| Loans and advances to other banks | 23 | - | - | - | 229,447 | - | - | 229,447 |
| Loans and advances to customers | 24 | - | - | - | 1,334,611 | - | - | 1,334,611 |
| Trading assets | 27 | 217,826 | - | - | - | - | - | 217,826 |
| Investment securities: | 26 | | | | | | | |
| Measured at amortised cost | | - | - | 453,766 | - | - | - | 453,766 |
| Equity Investments | 25 | - | 13,746 | - | - | - | - | 13,746 |
| ***Other assets:*** | 28 | | | | | | | |
| Other assets measured at fair value | | - | 215,992 | - | - | - | - | 215,992 |
| Measured at amortised cost (excluding prepayments) | | - | - | - | 11,608 | - | - | 11,608 |
| **Total financial assets** | | **217,826** | **229,738** | **453,766** | **1,937,929** | **-** | **-** | **2,839,259** |
| | | | | | | | | |
| Customer deposits | 34 | - | - | - | - | - | 1,987,118 | 1,987,118 |
| Balances due to other banks | 35 | - | - | - | - | - | 255 | 255 |
| Other liabilities (excluding deferred income) | 36 | - | - | - | - | - | 48,354 | 48,354 |
| Borrowed funds | 39 | - | - | - | - | - | 481,738 | 481,738 |
| Special funds | 38 | - | - | - | - | - | 1,708 | 1,708 |
| **Total financial liabilities** | | **-** | **-** | **-** | **-** | **-** | **2,519,173** | **2,519,173** |

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

| | Note | Original classification under IAS 39 | New classification under IFRS 9 | Original amount under IAS 39 | New amount under IFRS 9 |
|---|---|---|---|---|---|
| **Financial assets** | | | | **Ushs M** | **Ushs M** |
| Cash and balances with Bank of Uganda | 22 | Loans and receivables | Amortised cost | 362,263 | 362,076 |
| Loans and advances to other banks | 23 | Loans and receivables | Amortised cost | 229,447 | 229,261 |
| Loans and advances to customers | 24 | Loans and receivables | Amortised cost | 1,334,611 | 1,306,912 |
| Trading assets | 27 | Held for trading | FVTPL (mandatory) | 217,826 | 217,826 |
| Investment securities: | 26 | | | | |
| Measured at fair value | | FVTPL (designated) | FVOCI | - | - |
| Measured at amortised cost | | Held-to-maturity investments | Amortised cost | 453,766 | 452,892 |
| Equity Investments | 25 | FVTPL (designated) | FVTPL (mandatory) | 13,746 | 13,746 |
| ***Other assets:*** | 28 | | | | |
| Measured at fair value | | FVTPL (designated) | FVTPL (designated) | 215,992 | 215,992 |
| Measured at amortised cost (excluding prepayments) | | Loans and receivables | Amortised cost | 11,608 | 11,460 |
| **Total financial assets** | | | | **2,839,259** | **2,810,165** |
| | | | | | |
| **Financial liabilities** | | | | | |
| Customer deposits | 34 | Amortised cost | Amortised cost | 1,987,118 | 1,987,118 |
| Balances due to other banks | 35 | Amortised cost | Amortised cost | 255 | 255 |
| Other liabilities (excluding deferred income) | 36 | Amortised cost | Amortised cost | 52,853 | 52,853 |
| Borrowed funds | 39 | Amortised cost | Amortised cost | 481,738 | 481,738 |
| Special funds | 38 | Amortised cost | Amortised cost | 1,708 | 1,708 |
| **Total financial liabilities** | | | | **2,523,672** | **2,523,672** |

The Group's accounting policies on the classification of financial instruments under IFRS 9. The application of these policies resulted in the reclassifications set out in the table above and explained below.

a) Certain loans and advances to customers held by the Group's investment banking business are classified under IFRS 9 as mandatorily measured at FVTPL because they are held within a business model in which they are managed and their performance is evaluated on a fair value basis. Before the adoption of IFRS 9, these loans and advances to customers were designated as at FVTPL because the Group manages them on a fair value basis in accordance with a documented investment strategy. Internal reporting and performance measurement of these loans and advances are on a fair value basis.

b) Before the adoption of IFRS 9, certain trading assets and investment securities were reclassified out of the FVTPL and available-for-sale categories to loans and advances at their then fair values. On the adoption of IFRS 9, the carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

c) Before the adoption of IFRS 9, certain investment securities were designated as at FVTPL because the Group holds related derivatives at FVTPL and this designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under IFRS 9, these assets meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these securities are not SPPI on the principal outstanding.

d) The reclassified assets include certain asset-backed securities whose exposure to credit risk is higher than the exposure to credit risk of the underlying pool of financial assets. Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

e) Certain debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

f) Certain non-trading debt securities are held by the Group Central Treasury in separate portfolios and are managed with an objective of realising cash flows through sale. The Group primarily focuses on fair value information and uses that information to assess the securities' performance and to make decisions. In addition, certain asset-backed securities have contractual cash flows that are not SPPI. These assets are therefore measured at FVTPL under IFRS 9.

g) Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable. IFRS 9 has removed this cost exception.

h) Under IAS 39, debt securities issued were designated as at FVTPL when the Group held related derivatives at FVTPL, and the designation therefore eliminated or significantly reduced an accounting mismatch that would otherwise have arisen. At the date of initial application of IFRS 9, the Group revoked its previous designation made under IAS 39 for some of these securities. This designation has been revoked in these cases because some of the related derivative positions have been closed and there is no longer a significant accounting mismatch arising from the securities.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January2018.

| | IAS 39 carrying amount | Reclassification | Remeasurement | IFRS 9 carrying amount |
|---|---|---|---|---|
| | 31-Dec-2017 Ushs M | Ushs M | Ushs M | 1-Jan-2018 Ushs M |
| **Financial assets** | | | | |
| Cash and balances with Bank of Uganda | 362,263 | - | (187) | 362,076 |
| Loans and advances to other banks | 229,447 | - | (186) | 229,261 |
| Loans and advances to customers | 1,334,611 | - | (27,699) | 1,306,912 |
| Trading assets | 217,826 | - | - | 217,826 |
| ***Investment securities:*** | | | | |
| Measured at fair value | - | - | - | - |
| Measured at amortised cost | 453,766 | - | (874) | 452,892 |
| Equity Investments | 13,746 | - | - | 13,746 |
| ***Other assets:*** | | | | |
| Measured at fair value | 215,992 | - | - | 215,992 |
| Measured at amortised cost excluding prepayments | 11,608 | - | (148) | 11,460 |
| **Total financial assets** | **2,839,259** | **-** | **(29,094)** | **2,810,165** |
| | | | | |
| **Financial liabilities** | | | | |
| Customer deposits | 1,987,118 | - | - | 1,987,118 |
| Balances due to other banks | 255 | - | - | 255 |
| Other liabilities excluding deferred income | 48,354 | - | - | 48,354 |
| Borrowed funds | 481,738 | - | - | 481,738 |
| Special funds | 1,708 | - | - | 1,708 |
| **Total financial liabilities** | **2,519,173** | **-** | **-** | **2,519,173** |

### Impact of IFRS 9 on the opening equity

The following table summarises the impact of transition to IFRS 9 on the opening balance of retained earnings. There is no impact on other components of equity.

| | Ushs M |
|---|---|
| Retained earnings | |
| Closing balance under IAS 39 (31 December 2017) | 257,412 |
| Recognition of expected credit losses under IFRS 9 net of tax | (20,523) |
| **Opening balance under IFRS 9 (1 January 2018)** | **236,889** |

| | On-balance sheet items | Off-balance sheet items | Total |
|---|---|---|---|
| Reconciliation of the opening expected credit losses under IFRS 9 | Ushs M | Ushs M | Ushs M |
| Increase in provision on initial application of IFRS 9 | 29,073 | 21 | 29,094 |
| Deferred tax on initial application of IFRS 9 | (8,565) | (6) | (8,571) |
| **Recognition of expected credit losses under IFRS 9 net of tax (1 January 2018)** | **20,508** | **15** | **20,523** |

# 8. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of consolidated and separate 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 consolidated and separate 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 judgements 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 monthly 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 25 for more information.

### b) Income taxes

The Group is subject to various government taxes under the Ugandan tax laws. Significant estimates and judgements are required in determining the provision for taxes on certain transactions. For these transactions, the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact profit or loss. Refer to note 19 for more information.

### c) Fair value of financial instruments

Where the fair value of the financial assets and financial liabilities recorded in the statement of financial position cannot be determined from active markets, they are determined using valuation techniques including discounted cash flows models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to note 6E for more information.

### d) 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.

# 9. 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 15.97% (2017: 27.8%) of the Group's revenue was earned from Government securities. No other single external customer contributes revenue amounting up to 10% of the Group's revenue.

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

The segment results for the year ended 31 December 2018 were as follows:

| | dfcu Limited | dfcu Bank | Intra-segment items | Group |
|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Fees and commission income and other operating income | 5,879 | 82,748 | (4,281) | **84,346** |
| Income from transactions with operating segments of the same entity | 51,054 | - | (51,054) | **-** |
| Interest income | 785 | 327,834 | (2,696) | **325,923** |
| Interest expense | (2,329) | (105,118) | 2,696 | **(104,751)** |
| Other operating expenses | (4,266) | (221,063) | 4,280 | **(221,049)** |
| | | | | |
| Profit before income tax | 51,123 | 84,401 | (51,055) | **84,469** |
| Income tax credit/ (expense) | (896) | (22,665) | - | **(23,561)** |
| | | | | |
| (Loss)/ Profit for the year | 50,227 | 61,736 | (51,055) | **60,908** |

The segment results for the year ended 31 December 2017 were as follows:

| | dfcu Limited | dfcu Bank | Intra-segment items | Group |
|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Fees and commission income and other operating income | 4,354 | 169,488 | (3,305) | **170,537** |
| Income from transactions with operating segments of the same entity | 18,509 | - | (18,509) | **-** |
| Interest income | 392 | 350,395 | (3,786) | **347,001** |
| Interest expense | (20,669) | (113,401) | 2,520 | **(131,550)** |
| Other operating expenses | (4,113) | (237,420) | 3,361 | **(238,172)** |
| | | | | |
| Profit before income tax | (1,527) | 169,062 | (19,719) | **147,816** |
| Income tax credit/ (expense) | 502 | (41,426) | - | **(40,924)** |
| | | | | |
| (Loss)/ Profit for the year | (1,025) | 127,636 | (19,719) | **106,892** |

| At 31 December 2018 | | | | |
|---|---|---|---|---|
| Total assets | **254,249** | **2,888,274** | **(226,941)** | **2,915,582** |
| Total liabilities | **27,460** | **2,389,479** | **(22,893)** | **2,394,046** |
| Capital expenditure | **2,494** | **50,451** | **-** | **52,945** |

| At 31 December 2017 | | | | |
|---|---|---|---|---|
| Total assets | 255,593 | 3,030,612 | (228,729) | **3,057,476** |
| Total liabilities | 27,977 | 2,521,843 | (24,682) | **2,525,138** |
| Capital expenditure | 5,033 | 141,797 | (1,884) | **144,946** |

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 |
|---|---|---|---|
| | Ushs M | Ushs M | Ushs M |
| Year ended 31 December 2018 | 785 | 327,834 | **325,923** |
| Year ended 31 December 2017 | 392 | 350,395 | **347,001** |

# 10. Interest And Similar Income

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Loans and advances | **248,977** | 228,121 | **-** | - |
| Placements and investments with other banks | **2,057** | 9,014 | **785** | 392 |
| Government and other securities | **65,530** | 98,837 | **-** | - |
| Total interest income calculated using the effective interest method | **316,564** | 335,972 | **785** | 392 |
| Other interest income – interest income of finance leases | **9,359** | 11,029 | **-** | - |
| Total interest income | **325,923** | 347,001 | **785** | 392 |

# 11. Interest And Similar Expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Borrowed funds | 26,736 | 43,933 | 2,329 | 20,669 |
| Customer deposits | 78,015 | 87,617 | - | - |
| | **104,751** | 131,550 | **2,329** | 20,669 |

# 12. Net Trading And Other Income

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Unrealised foreign exchange gain/(loss) | **950** | (1,208) | **15** | (361) |
| Fixed trading income | **16,787** | 11,669 | **-** | - |
| Rental income | **1,386** | 1,119 | **5,519** | 4,424 |
| Other | **96** | 1 | **96** | 1 |
| | **19,219** | 11,581 | **5,630** | 4,064 |

# 13. Net Income From Other Financial Instruments At FVTPL

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Other assets measured at FVTPL | 13,842 | - | - | - |

# 14. Fee And Commission Income

In the table below, fee and commission income from contracts worth customers in the scope of IFRS 15 is disaggregated by major types of services.

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| **Major service lines** | | | | |
| Domestic commissions | **41,416** | 34,191 | 249 | 290 |
| Foreign commissions | **5,762** | 2,632 | - | - |
| **Total fee and commission from contracts with customers** | **47,178** | 36,823 | **249** | 290 |
| Financial Guarantee contracts and loan commitments | **4,107** | 2,832 | - | - |
| **Total fee and commission income** | **51,285** | 39,655 | **249** | 290 |

The Group's fees and commission presented in this note include income of Ushs 935 million (2017: Ushs 847 million) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

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.

## Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

| Type of service | Nature and timing of satisfaction of performance obligations, including significant payment terms 2018 | Revenue recognition under IFRS 15 (applicable from 1 January 2018) |
|---|---|---|
| Category A | These are transactional fees based on revenue that mainly comprise of but not limited to commissions on cheques cashed, statement charges, auxiliary charges, management fees, payments and collection related fees. | • Enforceable arrangement with customer exists.<br>• Performance obligation (PO) – the Group provides account transaction services<br>• Transaction price – monthly fees in line with the contractual agreement.<br>• Allocation of price to PO – single performance obligation, no allocation necessary.<br>• PO satisfied – Revenue is currently recognised at the end of the month, for the services provided during that month (operational efficiency).<br><br>No change in current accounting |
| Category B | Annual Review Charge - It's an annual fee charged basing on the loans held in the year.<br>This revenue is recognised annually on usually DIB loans. | • Enforceable arrangement with customer exists.<br>• Performance obligation (PO) – the Group provides loan review services.<br>• Transaction price – commission received as per agreement with the insurer.<br>• Allocation of price to PO – single performance obligation<br>• PO satisfied – at a point in time in the year when the loan review has been performed.<br>• Revenue should be spread over the period as services are provided before the next payment. This fee is not material therefore no change<br><br>No change to current revenue recognition. |
| Category C | These are fees charged on card related transaction.<br>These comprise of ATM commissions, Express Money commission, Visa Commissions, MoneyGram commissions and issuance fee of debit cards.<br>It's a standard fee | • Enforceable arrangement with customer exists.<br>• Performance obligation (PO) – the Group provides card services at specific points of time and over time.<br>• Transaction price – fee charged in terms of the arrangement with customer at point of transaction.<br>• Allocation of price to PO – single performance obligation for each of the services, no allocation necessary.<br>• PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.<br><br>No change in current accounting |

| Type of service | Nature and timing of satisfaction of performance obligations, including significant payment terms 2018 | Revenue recognition under IFRS 15 (applicable from 1 January 2018) |
|---|---|---|
| Category D | Guarantees and commitment fees<br>This is a transactional based fee on guarantees issued.<br>Timing of revenue for guarantees- Quarterly fee collection/ recognition or upfront fees depending on contract with client. Most CB customers pay quarterly while DIB customers are largely upfront fees for entire tenor of facility.<br>Term / tenor of Guarantees range from 1-5 years | • Enforceable arrangement with customer exists.<br>• Performance obligation (PO) – the Group provides guarantees, custody fees and commitment fees<br>• Transaction price – fee charged in terms of the arrangement with customer<br>• Allocation of price to PO – Each service is a single performance obligation, no allocation necessary.<br>PO satisfied<br>• Commitment fees- Revenue currently recognised upfront<br>• Performance guarantees- Revenue currently recognised upfront<br>• Commitment and Guarantee fees -The performance obligation is satisfied over the term of the guarantee, thus revenue should be deferred over the term of the guarantee<br>• Where drawdown of the facility is not probable, fees should be deferred over the term of the agreement, on a straight-line basis and recognised in NIR. Where drawdown is probable, fees should be deferred and as part of the EIR and recognised in NII<br>The Group recognises the fee and commissions upfront because the difference as a result of deferring is immaterial. |
| Category E | These are fees charged on electronic banking transactions like Money Transfers, Foreign bills, Fx sundries, Telex Transfers | • Enforceable arrangement with customer exists.<br>• Performance obligation (PO) – the Group provides a service (as noted alongside, for electronic banking transactions).<br>• Transaction price – transaction based fees.<br>• Allocation of price to PO – single performance obligation (for each of the service fees listed), no allocation necessary.<br>• PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.<br>No change in current accounting |

| Type of service | Nature and timing of satisfaction of performance obligations, including significant payment terms 2018 | Revenue recognition under IFRS 15 (applicable from 1 January 2018) |
|---|---|---|
| Category F | It's a transactional based fee on Incoming TTs and LCs depending on the transaction amount with a capped maximum amount<br>Letters of credit are usually less than one year | • Enforceable arrangement with customer exists.<br>• Performance obligation (PO) – Group to provide a service, provide inter account transfers that are done by customers and LCs<br>• Transaction price – fee is charged per transaction and LCs depending on the transaction amount with a capped maximum amount<br>• Allocation of price to PO – single performance obligation, no allocation necessary.<br>PO satisfied;<br>• TT's- Revenue recognised at a point in time, when service has been provided<br>• Letters of credit-The performance obligation is satisfied over the term of the LC, thus revenue should be deferred over the term of the loan<br>• Fees are currently recognised upfront. Business to monitor and reassess accounting treatment when amounts become material<br>• Where drawdown of the facility is not probable, fees should be deferred over the term of the agreement, on a straight-line basis and recognised in NIR. Where drawdown is probable, fees should be deferred and as part of the EIR and recognised in NII<br>The Group recognises the fee and commissions upfront because the difference as a result of deferring is immaterial. |
| Category G | Sundries (BOU Chqs, S/O, URA, Mgt fees)<br>KCCA Commission<br>URA Licencing | • Enforceable arrangement with customer exists.<br>• Performance obligation (PO) – Group to provide a service (as noted alongside, for electronic banking transactions).<br>• Transaction price – transaction based fees.<br>• Allocation of price to PO – single performance obligation (for each of the service fees listed), no allocation necessary.<br>• PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.<br>No change in current accounting |

# 15. Gain Arising From Business Combination (Group)

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 some of 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, some of Crane Bank Limited's assets.

All depositor customers 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 increased from 42 to 65 branches country wide.

### Bargain purchase

Gain from the bargain purchase business combination has been determined as follows;

| | Ushs M |
|---|---|
| Fair value of deferred obligation | 148,905 |
| Fair value of identifiable net assets | (268,206) |
| **Gain on bargain purchase** | **(119,301)** |

The transaction resulted in a gain because the net identifiable assets were fair valued and the fair value was in excess of the deferred obligation. This amount has been recorded in the statement of comprehensive income.

# 16. Operating Expenses

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **Ushs M** | **Ushs M** | **Ushs M** | **Ushs M** |
| Employee benefits expenses (note 17) | **61,852** | 58,754 | **529** | 414 |
| Professional services | **13,286** | 11,958 | **284** | 200 |
| Advertising and marketing | **4,550** | 4,507 | **28** | - |
| Office and residential occupancy expenses | **2,790** | 13,887 | **-** | - |
| Communication expenses | **25,841** | 19,781 | **31** | 7 |
| Depreciation of property and equipment (note 30) | **20,766** | 17,468 | **-** | - |
| Depreciation of the investment property (note 29) | **1,086** | - | **2,181** | 2,018 |
| Amortisation of intangible assets (note 31) | **13,190** | 9,933 | **-** | - |
| Auditors' remuneration | **938** | 910 | **117** | 128 |
| Travel expenses | **2,012** | 2,228 | **39** | 20 |
| Printing and stationery | **2,898** | 4,120 | **-** | - |
| Other administrative expenses | **36,629** | 29,307 | **1,057** | 1,376 |
| Operating lease expenses | **16,375** | 16,667 | **-** | - |
| | **202,213** | 189,520 | **4,266** | 4,163 |

## 17. Employee Benefits Expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| The following are included in employee benefits expenses: | | | | |
| Wages and salaries | **54,554** | 52,217 | **450** | 348 |
| Retirement benefit costs | **2,051** | 1,687 | **34** | 37 |
| National Social Security Fund contributions | **5,247** | 4,850 | **45** | 29 |
| | **61,852** | 58,754 | **529** | 414 |

The average number of employees of the company during the year was 1,105 (2017: 680)

## 18. Profit Before Tax

The following items have been charged in arriving at the profit before tax:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Employee benefits expenses (note 17) | **61,852** | 58,754 | **529** | 414 |
| Depreciation of property and equipment (note 29 and 30) | **21,852** | 17,468 | **2,181** | 2,018 |
| Amortisation of intangible assets (note 31) | **13,190** | 9,933 | **-** | - |
| Directors remuneration (note 47) | **1,463** | 1,207 | **379** | 128 |

## 19. Dividends

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Per share | Total | Per share | Total |
| | Ushs | Ushs M | Ushs | Ushs M |
| Proposed dividends | **33.01** | **24,694** | 68.24 | 51,054 |

At the annual general meeting of **dfcu** Limited to be held on 13 June 2019, the Board is recommending a cash dividend of Ushs 33.01 per share payable after deduction of withholding tax where applicable (2017: Ushs 68.24 per share). The shareholder's register will be closed on 12 July 2019 with respect to entitlement to this dividend which will be paid by 31 July 2019.

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

# 20. Earnings Per Share (Group)

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.

| | 2018 | 2017 |
|---|---|---|
| Net profit attributable to equity holders of the Company (Ushs M) | 60,908 | 106,892 |
| Weighted average number of ordinary shares in issue | 748,144,033 | 564,578,087 |
| Basic earnings per share (Ushs) | **81.41** | **189.33** |
| Diluted earnings per share (Ushs) | **81.41** | **189.33** |

Profit Attributable to ordinary shareholders

| | 2018 | 2017 |
|---|---|---|
| Net profit attributable to equity holders of the Company (Ushs M) | 60,908 | 106,892 |
| Dividends on non-redeemable preference shares | - | - |
| Total profit attributable to ordinary shareholders | 60,908 | 106,892 |

There were no potentially dilutive shares outstanding at 31 December 2018 and 2017.

# 21. Income Tax

### a) Income tax expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Current income tax | **15,019** | 39,745 | **-** | - |
| Deferred income tax charge/(credit) (note 32) | **8,542** | 1,179 | **896** | (502) |
| Income tax expense | **23,561** | 40,924 | **896** | (502) |

### b) Amount recognised in OCI (Group)

| | 2018 Ushs M | | |
|---|---|---|---|
| | Before tax | Tax(expense) /benefit | Net of tax |
| Movement in Liability credit reserve | **(242)** | **73** | **(169)** |
| Movement in debt instrument at FVOCI | **52** | **(16)** | **36** |
| | **(190)** | **57** | **(133)** |

### c) Reconciliation of effective tax rate

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

| Group | 2018 | | 2017 | |
|---|---|---|---|---|
| | Effective tax rate % | Ushs M | Effective tax rate % | Ushs M |
| Profit before income tax | | **84,469** | | 147,816 |
| Tax calculated at a tax rate of 30% (2017: 30%) | **30.0** | **25,341** | 30.0 | 44,345 |
| Prior year over provision of corporation tax | **(0.37)** | **(310)** | 2.36 | 3,487 |
| Tax effect of: | | | | |
| · Expenses not deductible for tax purposes | **2.74** | **2,313** | 5.61 | 8,287 |
| · Income taxed at other rates | **(5.63)** | **(3,783)** | (10.28) | (15,195) |
| Income tax expense | **26.74** | **23,561** | 27.69 | 40,924 |

Interest income on government securities of Ushs 65,530 million (2017: Ushs 98,837 million) is subject to withholding tax, which is a final tax of 20% (2017: 20%) after making appropriate deductions.

| Company | 2018 | | 2017 | |
|---|---|---|---|---|
| | Effective tax rate % | Ushs M | Effective tax rate % | Ushs M |
| Profit before income tax | | **51,123** | | (1,527) |
| | | | | |
| Tax calculated at a tax rate of 30% (2017: 30%) | **30.00** | **15,337** | 30.00 | (458) |
| Tax effect of: | | | | |
| · Expenses not deductible for tax purposes | **2.35** | **1,201** | 431.89 | 6,595 |
| · Income taxed at other rates | **(32.49)** | **(15,642)** | (434.77) | (6,639) |
| Income tax expense | **(0.14)** | **896** | 32.87 | (502) |

Further information on deferred income tax is presented in note 32.

### d) Current income tax payable/ (recoverable)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 Ushs M | 2017 Ushs M | 2018 Ushs M | 2017 Ushs M |
| At 1 January | **1,466** | 2,796 | **(1,519)** | (1,609) |
| Current income tax charge for the year | **15,019** | 39,835 | **-** | 90 |
| Income tax paid during year | **(16,488)** | (41,165) | **-** | - |
| At 31 December | **(3)** | 1,466 | **(1,519)** | (1,519) |

## 22. Cash At hand and Balances With Bank of Uganda (Group)

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Cash in hand | **138,822** | 147,541 |
| Balances with Bank of Uganda | **217,706** | 214,722 |
| Expected Credit loss adjustment | **(487)** | - |
| | **356,041** | 362,263 |

## 23. Deposits and Balances Due from Banks (Group)

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Deposits with other banks | **153,434** | 59,940 |
| Placements with other banks | **37,873** | 169,507 |
| Expected Credit loss adjustment | **(221)** | - |
| | **191,086** | 229,447 |

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 11% (2017: 9.8%).

## 24. Loans and Advances To Customers - Group

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Loans and advances to customers at amortised cost | **1,395,115** | 1,347,162 |
| Finance leases | **36,076** | 55,599 |
| Less impairment loss allowance | **(33,029)** | (68,150) |
| | **1,398,162** | 1,334,611 |

| Retail customers | Gross carrying amount 2018 Ushs M | ECL allowance 2018 Ushs M | Carrying amount 2018 Ushs M | Gross carrying amount 2017 Ushs M | Impairment allowance 2017 Ushs M | Carrying amount 2017 Ushs M |
|---|---|---|---|---|---|---|
| **Mortgage lending** | **241,061** | **(2,747)** | **238,314** | 370,202 | (31,177) | 339,025 |
| **Personal loans** | **103,266** | **(2,454)** | **100,812** | 84,333 | (7,008) | 77,325 |
| **Corporate customers** | | | | | | |
| **Others** | **1,086,864** | **(27,828)** | **1,059,036** | 948,226 | (29,965) | 918,261 |
| | **1,431,191** | **(33,029)** | **1,398,162** | 1,402,761 | (68,150) | 1,334,611 |

The weighted average effective interest rate on loans and advances was 21.96% (2017: 22.47%).

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

| | Individually assessed | Collectively assessed | Total |
|---|---|---|---|
| | Ushs M | Ushs M | Ushs M |
| At 1 January 2017 | 20,918 | 7,160 | 28,078 |
| Provisions transferred from Crane Bank Limited | - | 11,561 | 11,561 |
| Increase in allowances for impairment | 81,750 | - | 81,750 |
| Recoveries and allowances no longer required | (20,158) | (5,867) | (26,025) |
| Debts written off during the year | (27,214) | - | (27,214) |
| **At 31 December 2017** | 55,296 | 12,854 | 68,150 |
| **Charge to statement of consolidated comprehensive income (2017)** | | | |
| Increase in allowances for impairment | 81,750 | - | 81,750 |
| Recoveries and allowances no longer required | (20,158) | (5,867) | (26,025) |
| Recoveries of amounts previously written off | (7,073) | - | (7,073) |
| Net charge to profit or loss | 54,519 | (5,867) | 48,652 |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | Ushs M |
| **At 1 January 2018** | **-** | **-** | **68,150** | **68,150** |
| IFRS 9 Adoption | **29,992** | **10,540** | **-** | **40,532** |
| Transfer of collective assessment on adoption of IFRS 9. | **-** | **-** | **(12,854)** | **(12,854)** |
| Increase in allowances for impairment | **-** | **-** | **28,855** | **28,855** |
| Recoveries and allowances no longer required | **-** | **-** | **(9,057)** | **(9,057)** |
| Debts written off during the year | **(19,091)** | **(7,696)** | **(55,810)** | **(82,597)** |
| At 31 December 2018 | **10,901** | **2,844** | **19,284** | **33,029** |
| **Charge to statement of consolidated comprehensive income (2018)** | | | | |
| Increase in allowances for impairment | **-** | **-** | **28,855** | **28,855** |
| Recoveries and allowances no longer required | **-** | **-** | **(9,057)** | **(9,057)** |
| Recoveries of amounts previously written off | **-** | **-** | **(962)** | **(962)** |
| Net charge to profit or loss | **-** | **-** | **18,836** | **18,836** |

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

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Gross investment in finance leases: | | |
| Not later than 1 year | **14,083** | 25,342 |
| Later than 1 year and not later than 5 years | **31,622** | 36,751 |
| Later than 5 years | **370** | 535 |
| | **46,075** | 62,628 |
| Unearned future finance income on finance leases | **(9,999)** | (11,029) |
| Net investment in finance leases | **36,076** | 51,599 |

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

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Not later than 1 year | **11,026** | 20,879 |
| Later than 1 year and not later than 5 years | **24,759** | 30,279 |
| Later than 5 years | **291** | 441 |
| | **36,076** | 51,599 |

Included in the allowance for impairment of loans and advances as at 31 December 2018 is Ushs 2,144 million (2017: Ushs 1,864 million) attributable to impairment of finance lease receivables.

The carrying value of loans and advances to customers is approximately equal to its fair value.

## 25. Equity Investments At Fair Value Through Profit And Loss (Group)

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| New Vision Limited | **122** | 185 |
| Stanbic Bank (U) Limited | **-** | 4,156 |
| Bank of Baroda (U) Limited | **8,750** | 7,063 |
| National Insurance Corporation | **1,387** | 1,189 |
| Kenya Commercial Bank Limited | **14** | 15 |
| Crane Financial Services | **1,138** | 1,138 |
| | **11,411** | 13,746 |

## 26. Investments In Securities – Group

| Investment securities | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Investment securities measured at amortised cost | 484,082 | 453,372 |
| Investment securities measured at FVOCI - debt instruments | 32,019 | - |
| Other bonds | 307 | 394 |
| Expected credit loss adjustment | (996) | - |
| | 515,412 | 453,766 |

Also included in investment securities that are designated as at FVTPL are the Group's equity investments in certain entities. Other bonds include corporate bonds amounting to Ushs 307 million (2017: Ushs 394 million) issued by Stanbic Bank Uganda Limited.

## 27. Trading Assets - Group

| | Trading assets | | Trading liabilities | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Non-derivatives | **41,116** | 217,826 | - | - |
| Derivatives | **-** | - | - | - |
| | **41,116** | 217,826 | - | - |

| Trading assets | Pledged trading asset | Non-pledged trading assets | Total trading assets | Pledged trading asset | Non-pledged trading assets | Total trading assets |
|---|---|---|---|---|---|---|
| | 2018 | 2018 | 2018 | 2017 | 2017 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| Government bonds | - | 7,337 | 7,337 | - | 118,486 | 118,486 |
| Treasury bills | - | 33,779 | 33,779 | - | 99,340 | 99,340 |
| | **-** | **41,116** | **41,116** | **-** | **217,826** | **217,826** |

Treasury bills are debt securities issued by the Government of Uganda, and administered by the Bank of Uganda, for a term of three months, six months, nine months or a year. Treasury bonds are debt securities issued by the Government of Uganda and administered by the Bank of Uganda, for terms of two years, three years, five years, ten years and fifteen years. The weighted average effective interest rate on government securities was 10.9%. (2017: 15.09%)

## 28. Other Assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Other assets at amortised cost | **Ushs M** | **Ushs M** | **Ushs M** | **Ushs M** |
| Prepaid expenses | **13,408** | 11,945 | **-** | - |
| Sundry receivables | **9,926** | 4,658 | **-** | - |
| Other assets | **5,061** | 6,950 | **16** | 12 |
| Expected credit loss adjustment | **(116)** | - | **-** | - |
| | **28,279** | 23,553 | **16** | - |
| **Other assets at FVTPL** | | | | |
| Other financial assets at fair value through profit and loss | **192,466** | 215,992 | **-** | - |
| **Total Other assets** | **220,745** | **239,545** | **16** | **12** |

Other financial assets at fair value through profit and loss relate to the fair valuation of written off and non-performing loans and advances acquired from Crane Bank Limited.

## 29. 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 2018, the Company resolved to make available for rent to third parties, that part of the property that is not utilised by **dfcu** Group 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 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **Ushs M** | **Ushs M** | **Ushs M** | **Ushs M** |
| At 1 January | **11,144** | 11,560 | **47,777** | 44,762 |
| Additions at cost | **-** | 33 | **2,495** | 5,033 |
| Transfer from property and equipment | **700** | - | **-** | - |
| Accumulated depreciation | **(1,086)** | (449) | **(2,181)** | (2,018) |
| At 31 December | **10,758** | 11,144 | **48,091** | 47,777 |
| | | | | |
| Amount allocated to investment property | **10,758** | 11,144 | | |
| Amount allocated to property and equipment | **37,333** | 36,633 | | |
| Total property and equipment | **48,091** | 47,777 | | |

# 30. Property and Equipment (Group)

| | Freehold land and building | Operating lease prepayment | Motor vehicle | Furniture & equipment | Computer equipment | Work in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | **Ushs M** | **Ushs M** | **Ushs M** | **Ushs M** | **Ushs M** | **Ushs M** | **Ushs M** |
| At 1 January 2017 | 28,856 | - | 2,452 | 55,101 | 8,550 | 5,070 | 100,029 |
| Transfers from Crane Bank Limited | 38,433 | 12,804 | 1,099 | 19,400 | 16,994 | 434 | 89,164 |
| Additions | - | - | 226 | 283 | 399 | 3,395 | 4,303 |
| Transfers from WIP | 400 | - | 274 | 584 | 185 | (1,443) | - |
| Disposals | (806) | - | (1,678) | (54) | (115) | - | (2,653) |
| As at 31 December 2017 | 66,883 | 12,804 | 2,373 | 75,314 | 26,013 | 7,456 | 190,843 |
| **Depreciation:** | | | | | | | |
| At 1 January 2017 | 1,122 | - | 1,663 | 22,852 | 7,323 | - | 32,960 |
| Transfers from Crane Bank Limited | - | - | - | - | - | - | - |
| Charge for the year | 1,386 | 283 | 704 | 9,931 | 4,715 | - | 17,019 |
| Disposals | (22) | - | (1,635) | (36) | (85) | - | (1,778) |
| As at 31 December 2017 | 2,486 | 283 | 732 | 32,747 | 11,953 | - | 48,201 |
| **Net carrying amount** | 64,397 | 12,521 | 1,641 | 42,567 | 14,060 | 7,456 | 142,642 |
| At 1 January 2018 | **66,883** | **12,804** | **2,373** | **75,314** | **26,013** | **7,456** | **190,843** |
| Adjustments to align the fixed assets | **(402)** | **1,782** | **473** | **36,403** | **2,981** | **1** | **41,238** |
| Additions | **13** | **-** | **161** | **1,049** | **2,588** | **2,422** | **6,233** |
| Transfer to Investment property | **(700)** | **-** | **-** | **-** | **-** | **-** | **(700)** |
| Disposals | **-** | **-** | **(267)** | **(156)** | **(402)** | **-** | **(825)** |
| As at 31 December 2018 | **65,794** | **14,586** | **2,740** | **112,610** | **31,180** | **9,879** | **236,789** |
| **Depreciation:** | | | | | | | |
| At 1 January 2018 | **2,486** | **283** | **732** | **32,747** | **11,953** | **-** | **48,201** |
| Adjustments to align the fixed assets | **(504)** | **1,693** | **853** | **32,853** | **7,529** | **-** | **42,424** |
| Charge for the year | **838** | **354** | **474** | **13,544** | **5,556** | **-** | **20,766** |
| Disposals | **-** | **-** | **(144)** | **(100)** | **(356)** | **-** | **(600)** |
| As at 31 December 2018 | **2,820** | **2,330** | **1,915** | **79,044** | **24,682** | **-** | **110,791** |
| | | | | | | | |
| **Net carrying amount** | **62,974** | **12,256** | **825** | **33,566** | **6,498** | **9,879** | **125,998** |

Work-In-Progress (WIP) relates to ongoing works in respect of various projects the Group is undertaking. There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (2017: nil). Adjustments to align the fixed assets relates to alignment of the prior year numbers to the verified asset register. The prior year verification exercise was completed during the year.

# 31. Intangible Assets

| | Goodwill | Computer software | Other intangible assets | Work-In-Progress | Total |
|---|---|---|---|---|---|
| | Ushs M | Ushs M | Ushs M | | Ushs M |
| **Cost** | | | | | |
| At 1 January 2017 | 463 | 18,264 | 1,939 | 1,498 | 22,164 |
| Additions | - | 3,206 | 34,982 | 13,257 | 51,445 |
| Transfers from WIP | - | 11,807 | - | (11,807) | - |
| At 31 December 2017 | 463 | 33,277 | 36,921 | 2,948 | 73,609 |
| **Amortisation** | | | | | |
| At 1 January 2017 | - | 12,363 | 938 | - | 13,301 |
| Charge for the year | - | 1,876 | 8,057 | - | 9,933 |
| At 31 December 2017 | - | 14,239 | 8,995 | - | 23,234 |
| **Net carrying amount** | 463 | 19,038 | 27,926 | 2,948 | 50,375 |
| Cost | | | | | |
| At 1 January 2018 | **463** | **33,277** | **36,921** | **2,948** | **73,609** |
| Additions | **-** | **29** | **-** | **5,447** | **5,476** |
| Transfers from WIP | **-** | **5,556** | **-** | **(5,556)** | **-** |
| At 31 December 2018 | **463** | **38,862** | **36,921** | **2,839** | **79,085** |
| **Amortisation** | | | | | |
| At 1 January 2018 | **-** | **14,239** | **8,995** | **-** | **23,234** |
| Adjustment to align the assets | **-** | **9** | **-** | **-** | **9** |
| Charge for the year | **-** | **4,435** | **8,755** | **-** | **13,190** |
| At 31 December 2018 | **-** | **18,683** | **17,750** | **-** | **36,433** |
| **Net carrying amount** | **463** | **20,179** | **19,171** | **2,839** | **42,652** |

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 2018 (2017: nil).

Computer software comprises of software for the Group's core banking systems.

Other intangible assets comprises of fair valuations of customer relationships acquired from Bank of Uganda relating to Global Trust Bank and Crane Bank Limited and fair valuations of customer deposits and ground rent.

Work In-Progress (WIP) relates to ongoing works in respect of the software upgrade.

# 32. 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% (2017: 15%). Deferred tax assets and liabilities and the deferred tax credit as at 31 December 2017 are attributed to the following items:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| At 1 January | **(2,111)** | (3,290) | **(1,446)** | (944) |
| Charge to income statement | **8,542** | 1,179 | **896** | (502) |
| Charge to OCI | **(57)** | - | **-** | - |
| Charge to retained earnings | **(8,572)** | - | **-** | - |
| Deferred tax asset | **(2,198)** | (2,111) | **(550)** | (1,446) |

| | Group | | | | |
|---|---|---|---|---|---|
| **2018** | **At 1 January 2018** | **(Credit)/ Charge to P&L** | **(Credit)/ Charge to OCI** | **Credit)/ Charge to Retained earnings** | **At 31 December 2018** |
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| Property and equipment | **4,997** | **(186)** | **-** | **-** | **4,811** |
| Tax losses carried forward | **(2,614)** | **(1,438)** | **-** | **-** | **(4,052)** |
| Deferred fees and commissions income | **(1,879)** | **37** | **-** | **-** | **(1,842)** |
| Fair value of treasury bills and bonds | **(2,272)** | **2,796** | **-** | **-** | **524** |
| Fair value of customer relationships | **3,622** | **(700)** | **-** | **-** | **2,922** |
| Unrealised foreign exchange gain/(loss) | **(109)** | **109** | **-** | **-** | **-** |
| FVOCI Fair value gain/(loss) | **-** | **-** | **(73)** | **-** | **(73)** |
| Allowance for impairment of loans and advances | **(3,856)** | **7,924** | **16** | **(8,572)** | **(4,488)** |
| **Net deferred tax liability/(asset)** | **(2,111)** | **8,542** | **(57)** | **(8,572)** | **(2,198)** |

| | Company | | |
|---|---|---|---|
| **2018** | **At 1 January 2018** | **(Credit)/ Charge to SOCI** | **At 31 December 2018** |
| | Ushs M | Ushs M | Ushs M |
| Property and equipment | 1,277 | 331 | 1,608 |
| Tax losses carried forward | (2,614) | 456 | (2,158) |
| Unrealised foreign exchange gain/(loss) | (109) | 109 | - |
| **Net deferred tax asset** | **(1,446)** | **896** | **(550)** |

| 2017 | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | At 1 January 2017 | (Credit)/ Charge to SOCI | At 31 December 2017 | At 1 January 2017 | (Credit)/ Charge to SOCI | At 31 December 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| Property and equipment | 3,025 | 1,972 | 4,997 | 1,077 | 200 | 1,277 |
| Allowance for impairment of loans and advances | (2,148) | (1,708) | (3,856) | - | - | - |
| Tax losses carried forward | (2,738) | 124 | (2,614) | (2,037) | (577) | (2,614) |
| Deferred fees and commissions income | (2,260) | 381 | (1,879) | - | - | - |
| Unrealised foreign exchange gain/ (loss) | 16 | (125) | (109) | 16 | (125) | (109) |
| Fair value of treasury bills and bonds | 514 | (2,786) | (2,272) | - | - | - |
| Fair value of customer relationships | 301 | 3,321 | 3,622 | - | - | - |
| **Net deferred tax asset** | **(3,290)** | **1,179** | **(2,111)** | **(944)** | **(502)** | **(1,446)** |

# 33. Investment In Subsidiaries

| | Shareholding | Company | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | Ushs M | Ushs M |
| **dfcu** Bank Limited | 100% | | |
| At 1 January | | **203,293** | 26,793 |
| Additions during the year | | **-** | 176,500 |
| As at 31 December | | **203,293** | 203,293 |

**dfcu** Bank Limited is incorporated in Uganda under the Companies Act of Uganda 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 Group is engaged in the business of banking and the provision of related services and is licensed under the Financial Institutions Act.

# 34. Customer Deposits (Group)

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Demand deposits | **729,752** | 673,826 |
| Savings deposits | **477,232** | 430,066 |
| Fixed deposits | **772,109** | 883,226 |
| | **1,979,093** | 1,987,118 |

The carrying value of customer deposits is approximately equal to its fair value.

## 35. Deposits Due To Other Banks (Group)

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Balances due to other banks within 90 days | - | 255 |

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 carrying value of deposits due to other banks is approximately equal to its fair value.

## 36. Other Liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Bills payable | **447** | 959 | **-** | - |
| Unclaimed balances | **933** | 2,525 | **81** | 81 |
| Other liabilities | **25,224** | 26,042 | **4,549** | 2,152 |
| Managed funds (Note 37) | **197** | 197 | **197** | 197 |
| Deferred rental income | **420** | 4,499 | **420** | 4,499 |
| Accrued expenses and payables | **16,726** | 18,631 | **33** | 32 |
| | **43,947** | 52,853 | **5,280** | 6,961 |

Other liabilities are non-interest bearing and normally settled within 30-90 days. The Group gives no collateral in respect to these payables. The carrying value of other liabilities is approximately equal to its fair value.

## 37. 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 Ushs 2.5 billion in cash, Ushs 720 million worth of tractors and US$ 300,000 to finance leases for cotton farmers in Uganda. Under the terms of the agreement, **dfcu** Limited provides leasing administration and management services only and receives fees in this respect of up to 4% of each lease facility. Interest on the facilities is chargeable to a maximum of 10% and is credited to the fund. No time limit was set for the fund under the terms of the agreement.

### b) 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 Ushs 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.

# 38. Special Funds (Group)

Special funds represent liabilities created under the terms of borrowing agreements with Kreditanstalt Fur Wiederaufbau (KFW). These agreements require the Group to remit repayments of principal and interest due on loans issued out of the proceeds of these borrowings into a special fund controlled by the Government of Uganda to support the financing of SME and microfinance businesses.

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| At 31 December | 1,440 | 1,708 |

The carrying value of special funds is approximately equal to its fair value.

# 39. Borrowed Funds

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Uganda Government (KFW V loan) | **11,878** | 11,878 | **-** | - |
| Bank of Uganda (ACF loan) | **20,532** | 10,059 | **-** | - |
| Bank of Uganda (Other borrowings) | **62,482** | 126,040 | **-** | - |
| Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO) | **65,349** | 54,226 | **-** | - |
| Abi-Finance | **14,718** | 20,902 | **-** | - |
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) | **39,049** | 29,096 | **-** | - |
| European Investment Bank – PEFF | **67,683** | 90,936 | **-** | - |
| European Investment Bank – Microfinance | **5,024** | 8,052 | **-** | - |
| Norwegian Investment Fund for Developing Countries (NORFUND) | **-** | 1,642 | **-** | - |
| East African Development Bank | **18,316** | 16,611 | **263** | 1,319 |
| Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Senior loan | **22,274** | 36,560 | **-** | - |
| Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) | **37,120** | 36,370 | **-** | - |
| CDC Group Plc Subordinated debt | **-** | 36,370 | **-** | - |
| UN Habitat | **537** | 620 | **-** | - |
| Jubilee Insurance | **4,604** | 2,376 | **4,604** | 2,376 |
| | **369,566** | 481,738 | **4,867** | 3,695 |

The maturity analysis for borrowed funds has been disclosed in Note 5C.

Included in borrowings is a subordinated debt from Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) whose tenure is 7 years and is due to mature in 2024. 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 was due to mature in 2020, however an early repayment was made in 2018. 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 Tier 2 Capital.

The terms and conditions relating to borrowings are tabulated below:

| | Tenure (years) | Interest rate | Fixed / variable | Currency |
|---|---|---|---|---|
| Uganda Government (KFW V loan) | 6 | 0.00% | Fixed | Ushs |
| Bank of Uganda (ACF loan) | 8 | 0.00% | Fixed | Ushs |
| Bank of Uganda (other borrowings) | 3 | 0.00% | Fixed | Ushs |
| Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO) | 7 | 5.50% | Variable | USD |
| Abi-Finance Limited | 7 | 12.50% | Fixed | Ushs |
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) | 7 | 12.67% | Variable | Ushs |
| FMO – USD | 7 | 5.50% | Variable | USD |
| European Investment Bank-PEFF USD | 10 | 5.23% | Fixed | USD |
| European Investment Bank-PEFF UGX | 10 | 11.93% | Fixed | Ushs |
| European Investment Bank-Microfinance | 7 | 10.26% | Fixed | Ushs |
| NORFUND Senior loan 1 | 10 | 18.77% | Variable | Ushs |
| East African Development Bank | 7 | 12.00% | Fixed | Ushs |
| Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG) Subordinated debt | 7 | 8.57% | 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 | 5 | 2.00% | Fixed | Ushs |
| **Company** | | | Fixed / variable | Currency |
| East African Development Bank | 7 | 19.50% | Fixed | Ushs |
| Jubilee Insurance | 5 | 6.38% | Fixed | USD |

All the borrowed funds are unsecured.

The carrying value of borrowed funds is approximately equal to its fair value.

# 40. Share Capital And Share Premium

| Group | Number of issued ordinary shares | Share Capital | Share premium | Total |
|---|---|---|---|---|
| | | Ushs M | Ushs M | Ushs M |
| At 1 January and 31 December 2018 | **748,144,033** | **14,963** | **185,683** | **200,646** |
| | | | | |
| At 1 January 2017 | 497,201,822 | 9,464 | 2,878 | 12,342 |
| Shares issued during the year | 250,942,211 | 5,499 | 182,805 | 188,304 |
| At 31 December 2017 | **748,144,033** | **14,963** | **185,683** | **200,646** |

In 2017, the Group received additional capital from its shareholders through a rights issue. The capital was converted into 263.5 million ordinary shares giving rise to additional ordinary share capital of Ushs 5.5 billion and share premium of Ushs 182.8 billion.

# 41. Regulatory Reserve (Group)

| | 2018 | 2017 |
|---|---|---|
| | **Ushs M** | **Ushs M** |
| At 1 January | **11,113** | 4,073 |
| Transfer (to)/from retained earnings during the year | **(3,089)** | 7,040 |
| At 31 December | **8,024** | 11,113 |
| | | |
| The regulatory Credit risk reserve is analysed as follows; | | |
| Provision for impairment of loans and advances as per FIA 2004: | | |
| Specific provisions | **26,762** | 65,732 |
| General provisions | **14,291** | 13,531 |
| | **41,053** | 79,263 |
| Provision for impairment of loans and advances as per IFRS | | |
| Identified impairment (note 25) | **(19,284)** | (55,296) |
| Unidentified impairment (note 25) | **-** | (12,854) |
| Stage 1 | **(10,901)** | - |
| Stage 2 | **(2,844)** | - |
| **At 31 December** | **8,024** | 11,113 |

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 4E (v). The reserve is not distributable.

# 42. Fair Value Reserve (Group)

The fair value reserve comprises;

The cumulative net change in the fair value of equity securities measured at FVOCI (2017: available – for-sale financial assets); and

The cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

| Movement in FVOCI financial assets | 2018 |
|---|---|
| | **Ushs M** |
| At 1 January | - |
| Net movement on revaluation of FVOCI financial assets | **(242)** |
| Deferred tax impact of FVOCI transactions | **73** |
| **At 31 December** | **(169)** |
| | |
| **ECL on FVOCI financial assets** | |
| **At 1 January net of deferred tax** | **-** |
| Increase in ECL | **52** |
| Deferred tax impact of FVOCI transactions | **(16)** |
| **At 31 December** | **36** |
| **Total fair value reserve** | **(133)** |

## 43. 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.

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| **Contingent liabilities** | | |
| Acceptances and letters of credit | - | 718 |
| Guarantee and performance bonds | **294,830** | 162,973 |
| | **294,830** | 163,691 |
| **Commitments** | | |
| Undrawn formal stand-by facilities, credit lines and other commitments to lend | **48,289** | 34,321 |
| | **343,119** | 198,012 |

## 44. Operating Lease Commitments (Group)

The Group leases a number of property where the branches are located under operating leases. The leases run for varying periods with an option to renew the lease after that date. The lease payments are based on market rental values.

At 31 December, the future minimum lease payments under non-cancelable leases were payable as follows:

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| Not later than one year | **21,353** | 608 |
| Between 1 year and 2 years | **2,988** | 6,576 |
| Between 2 years and 5 years | **1,062** | 5,744 |
| Over 5 years | - | 2,050 |
| | **25,403** | 14,978 |

## 45. Other Contingent Liabilities (Group)

The Group is a defendant in various legal actions in the normal course of business. The total estimated contingent liability arising from these cases is Ushs 102 billion (2017: Ushs 2.9 billion). Through legal advice management has determined that total expected losses to the Group are Ushs 4.7 billion (2017: Ushs 3.3 billion) 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.

# 46. Cash And Cash Equivalents

Analysis of cash and cash equivalents as shown in the consolidated statement of cash flows.

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Cash in hand (note 22) | **138,822** | 147,541 | **-** | - |
| Balances with Bank of Uganda (note 22) | **217,219** | 214,722 | **-** | - |
| Less: Cash reserve requirement | **(154,480)** | (151,170) | **-** | - |
| Amounts due from related companies (note 47(b)) | **-** | - | **780** | 1,546 |
| Deposits and balances due from banks (note 23) | **191,086** | 229,448 | **-** | - |
| | **392,647** | 440,541 | **780** | 1,546 |

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 with less than 90 days to maturity from the date of acquisition. Amounts due from related parties relate to cash deposits held in **dfcu** Group Limited which are due on demand.

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

The table below shows a reconciliation of movements of liabilities to cash flows arising from financing activities.

## 2018

| Group | Liabilities | Equity | | | Total |
|---|---|---|---|---|---|
| | Borrowed funds | Share capital | Share premium | Proposed dividends | |
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| **Balance as at 1 January 2018** | 481,738 | 14,963 | 185,683 | 51,054 | **733,438** |
| **Changes from financing cash flows** | | | | | |
| Dividends paid | | - | - | (51,054) | **(51,054)** |
| New borrowings | 65,819 | - | - | - | **65,819** |
| Interest expense | 20,810 | - | - | - | **20,810** |
| Interest and principle paid | (198,801) | - | - | - | **(198,801)** |
| **Total changes from financing cash flows** | **369,566** | **14,963** | **185,683** | **-** | **570,212** |
| **Other changes (equity - related)** | | | | | |
| Proposed Dividends 2018 | - | - | - | 24,694 | **24,694** |
| **Total changes from other changes (equity - related)** | - | - | - | **24,694** | **24,694** |
| **Balance as at 31 December 2018** | **369,566** | **14,963** | **185,683** | **24,694** | **594,906** |
| | | | | | |
| **Company** | | | | | |
| **Balance as at 1 January 2018** | 3,695 | 14,963 | 185,683 | 51,054 | **255,395** |
| **Changes from financing cash flows** | | | | | |
| Dividends paid | - | - | - | (51,054) | **(51,054)** |
| Borrowings acquired | 2,000 | - | - | - | **2,000** |
| Borrowed funds paid | (947) | - | - | - | **(947)** |
| Interest expense | 2,329 | - | - | - | **2,329** |
| Interest paid | (2,210) | - | - | - | **(2,210)** |
| **Total changes from financing cash flows** | **4,867** | **14,963** | **185,683** | **-** | **205,513** |
| Other changes (equity - related) | | | | | |
| Proposed Dividends 2018 | - | - | - | 24,694 | **24,694** |
| Total changes from other changes (equity - related) | - | - | - | 24,694 | **24,694** |
| **Balance as at 31 December 2018** | **4,867** | **14,963** | **185,683** | **24,694** | **230,207** |

## 2017

| Group | Liabilities | Equity | | | Total |
|---|---|---|---|---|---|
| | Borrowed funds | Share capital | Share premium | Proposed dividends | |
| | Ushs M | Ushs M | Ushs M | Ushs M | Ushs M |
| **Balance as at 1 January 2017** | 326,819 | 9,464 | 2,878 | 12,510 | **351,671** |
| **Changes from financing cash flows** | | | | | |
| Proceeds from issue of share capital | - | 5,499 | - | - | **5,499** |
| Proceeds from share premium | - | - | 182,805 | - | **182,805** |
| Dividends paid | - | - | - | (12,510) | **(12,510)** |
| Borrowings acquired | 335,036 | - | - | - | **335,036** |
| Borrowed funds paid | (179,000) | - | - | - | **(179,000)** |
| Interest expense | 43,933 | - | - | - | **43,933** |
| Interest paid | (45,050) | - | - | - | **(45,050)** |
| **Total changes from financing cash flows** | **481,738** | **14,963** | **185,683** | **-** | **682,384** |
| Other changes (equity - related) | | | | | |
| Proposed Dividends 2017 | - | - | - | 51,054 | **51,054** |
| **Total changes from other changes (equity - related)** | - | - | - | 51,054 | **51,054** |
| **Balance as at 31 December 2017** | **481,738** | **14,963** | **185,683** | **51,054** | **733,438** |
| | | | | | |
| **Company** | | | | | |
| **Balance as at 1 January 2017** | 5,226 | 9,464 | 2,878 | 12,510 | **30,078** |
| **Changes from financing cash flows** | | | | | |
| Proceeds from issue of share capital | - | 5,499 | - | - | **5,499** |
| Proceeds from share premium | - | - | 182,805 | - | **182,805** |
| Dividends paid | - | - | - | (12,510) | **(12,510)** |
| Borrowings acquired | 181,500 | - | - | - | **181,500** |
| Borrowed funds paid | (182,000) | - | - | - | **(182,000)** |
| Interest expense | 20,669 | - | - | - | **20,669** |
| Interest paid | (21,770) | - | - | - | **(21,770)** |
| **Total changes from financing cash flows** | **3,625** | **14,963** | **185,683** | **-** | **204,271** |
| Other changes (equity - related) | | | | | |
| Proposed Dividends 2017 | - | - | - | 51,054 | **51,054** |
| **Total changes from other changes (equity - related)** | **-** | **-** | **-** | **51,054** | **51,054** |
| **Balance as at 31 December 2017** | **3,625** | **14,963** | **185,683** | **51,054** | **255,325** |

# 47. 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 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **Ushs M** | **Ushs M** | **Ushs M** | **Ushs M** |
| Jubilee Insurance Company Limited – Fixed and Demand deposits, borrowings | **9,696** | 23,154 | **4,604** | 2,376 |
| **dfcu** Bank Limited – Overdraft and term finance | **-** | - | **17,313** | 17,321 |
| Umeme Limited – Demand deposits | **245** | 8,345 | - | - |
| National Social Security Fund – Fixed deposits | **20,361** | 20,361 | - | - |

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. The loans to related companies are neither past due nor impaired and bear an average interest rate of 17% per annum.

### b) Amounts due from related companies

| | 2018 | 2017 |
|---|---|---|
| | **Ushs M** | **Ushs M** |
| **dfcu** Bank Limited | **780** | **1,546** |
| Umeme Limited | **61,345** | - |

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

| | | |
|---|---|---|
| **Interest expense incurred** | | |
| Interest expense incurred | **785** | 392 |

**Advances to customers include loans to directors and loans to employees as follows:**

- At 31 December 2018, advances to employees amounted to Ushs 24,109 million (2017: Ushs 16,753 million).
- At 31 December 2018, there were no advances to directors and companies controlled by directors or closely connected persons (2017: Ushs Nil).

| | 2018 | 2017 |
|---|---|---|
| | **Ushs M** | **Ushs M** |
| Interest income earned on advances to employees and directors / companies connected to directors | 2,174 | 2,396 |

### c) Borrowings due to shareholders

| | 2018 | 2017 |
|---|---|---|
| | **Ushs M** | **Ushs M** |
| CDC Group Plc (CDC) | **-** | **36,370** |

CDC Group Plc (CDC) holds a 9.80% shareholding in **dfcu** Limited. As at 31 December 2017, there were outstanding borrowings due to CDC.

### d) Deposits by directors (Group)

| | 2018 | 2017 |
|---|---|---|
| | Ushs M | Ushs M |
| At 1 January | 69 | 734 |
| Net increase/(decrease) | (44) | (665) |
| At 31 December | 25 | 69 |
| The interest expense there on is Ushs 0.5 million (2017: Ushs 0.5 million). | | |

### Key management compensation

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Salaries and other short-term employment benefits | 5,614 | 5,196 | 326 | 207 |
| Post-employment benefits | 698 | 621 | 33 | 35 |
| | 6,312 | 5,817 | 359 | 242 |

### e) Directors' remuneration

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Fees for services as directors | 1,463 | 1,207 | 379 | 201 |
| Other emoluments: short-term benefits (included in key management compensation) | - | - | - | - |
| | 1,463 | 1,207 | 379 | 201 |

# 48. 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 2018, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Ushs 2,007 million (2017: Ushs 1,687 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 2018 the Group contributed Ushs 5,258 million (2017: Ushs 5,036 million), which has been charged to profit or loss.

# 49. Capital Commitments

Capital commitments mainly relate to software upgrades and the ongoing construction of Namanve Financial Centre. Capital commitments as at 31 December were;

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Ushs M | Ushs M | Ushs M | Ushs M |
| Authorised but not contracted | - | - | - | - |
| Authorised and contracted | 9,879 | 10,404 | 226 | 8,712 |
| | 9,879 | 10,404 | 226 | 8,712 |

# 50. Subsequent Events

Management has evaluated subsequent events through 25 March 2019, the date the statement of financial position was available to be issued. Based on the evaluation, the Group did not identify any subsequent events that required recognition or disclosure.

# 51. Presentation Currency

These consolidated and separate financial statements are presented in Uganda shillings rounded off to the nearest millions (Ushs M).

dfcu
...with pleasure

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