ANNUAL
REPORT
2022

dfcu
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dfcu GROUP ANNUAL REPORT AND FINANCIAL STATEMENTS

2022

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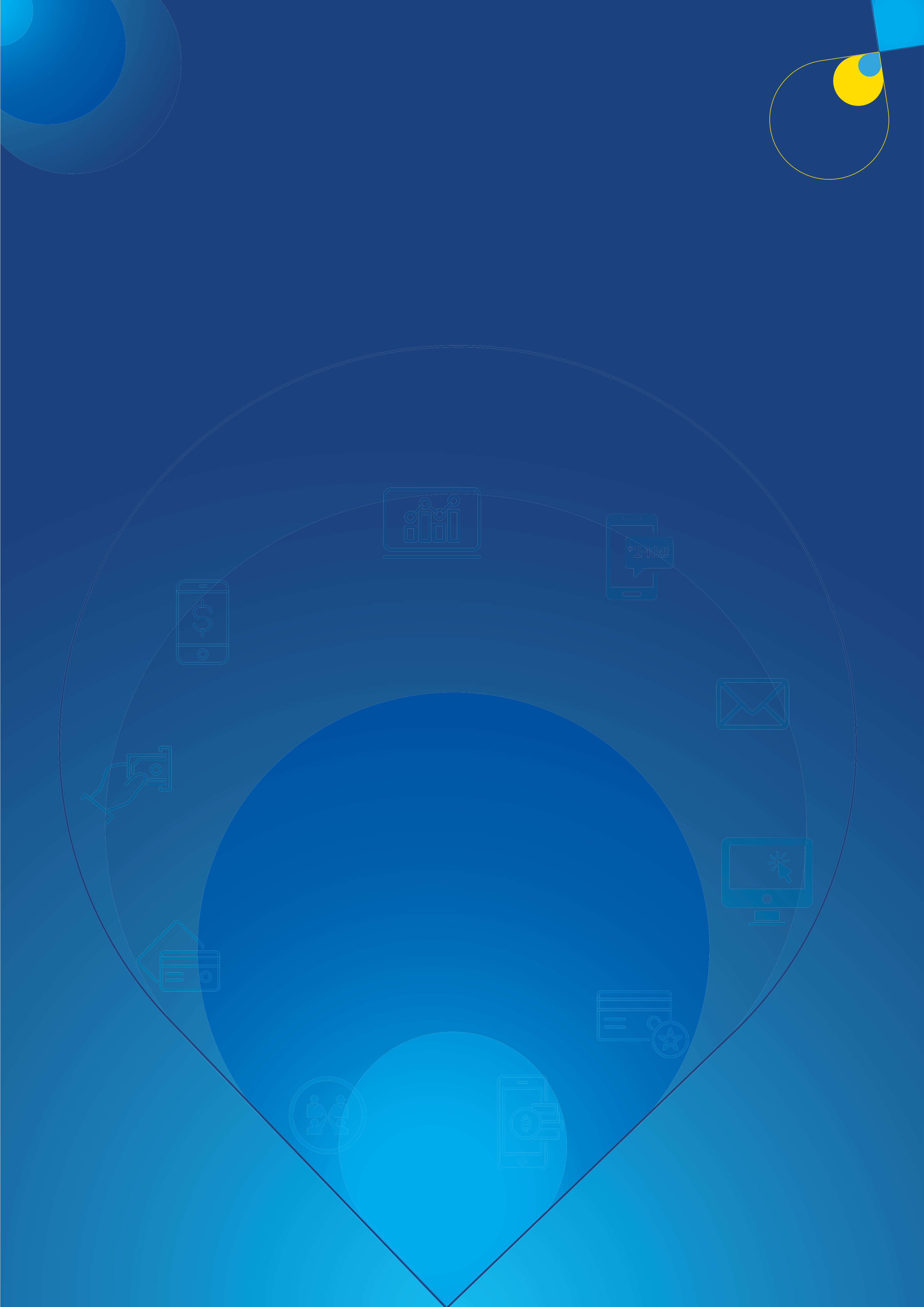
ABC	-	Anti-bribery and Corruption
ADC	-	Agribusiness Development Centre
AGM	-	Annual General Meeting
ALCO	-	Asset and Liability Committee
AML	-	Anti-Money Laundering
ATM	-	Automated Teller Machine
BCP	-	Business Continuity Planning
BIS	-	Bank for International Settlement
BOU	-	Bank of Uganda
CAR	-	Capital Adequacy Ratios
CB	-	Corporate Banking
CDC	-	Common Wealth Development Corporation
CDO	-	Cotton Development Organisation
CSI	-	Corporate Social Investment
CSR	-	Corporate Social Responsibility
EAD	-	Exposure at Default
ECL	-	Expected Credit Loss
FIA	-	Financial Institutions Act (2016)
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
IFC	-	International Finance Corporation (IFC)
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
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	-	Right of Use
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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George Ochom
General Manager **dfcu** Limited

Who we are

dfcu Limited was established in 1964 as a development finance institution. In 2000, **dfcu** diversified into commercial banking and established **dfcu** Bank to extend universal banking services alongside the pre-existing equity finance, long term development finance, leasing and working capital finance.

Over the years **dfcu** has been associated with many success stories in Uganda's economy in various sectors including transport, education, floricultural, agricultural, manufacturing and agro-processing.

dfcu Limited is incorporated "domiciled" in Uganda as a public limited liability company. The company is listed on the Uganda Securities Exchange (USE) since 2004. The major shareholders of **dfcu** Limited with their shareholdings are as below:

arise Investing In Africa's Local Prosperity	58.70%
IFU INVESTMENT FUND FOR DEVELOPING COUNTRIES	9.97%
NSSF a better life	7.46%
	23.87%

What we do

Real Estate and Property Management

- dfcu Tower
- dfcu Financial Center
- Plot 36, Jinja Road, Mukono
- Plot 7, Luthuli lane, Bugolobi
- Plot 1, MacKinnon Road, Nakasero

dfcu Bank

- Corporate Banking
- Business Banking
- Personal Banking
- Global Financial Markets
- Bancassurance

Investor Relationships

- Shareholder Engagements
- Regulatory Compliance

Agriculture Development Centre

Non-profit arm providing Financial Literacy to Small and Medium farmer based organisations.

Our Journey

1964 Established

dfcu Limited established by CDC & GOU

1999/2000 Banking

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

Acquired Gold Trust Bank and renamed it **dfcu** Bank

2004 Listed

Listed on Uganda Securities Exchange

2008 Consolidation

All Financial Services were consolidated into the Bank.

Merged the two businesses (Development Finance Bank and dfcu Bank) to create a “one-stop shop” under **dfcu** Bank.

2013 Agribiz

Strategic Partner Rabobank with significant experience in Agribusiness

2014/2015 Building

Moved Head Office to **dfcu** Towers

Acquired Global Trust Bank

2017/19 Acquisition

Rabobank and Norfinance consolidate their stake in **dfcu** as Arise

Acquired some assets and liabilities of Crane Bank

IFU acquires stake in **dfcu** as CDC exits

Our Business

Our Vision

→ Transforming lives and businesses through innovative solutions and empowered people.

Our Mission

→ Grow shareholder value while playing a key role in transforming the economy and enhancing the well-being of our people.

Our Strategic Aspirations

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

Our Values

→ We are guided by:
- Professionalism
- Integrity
- Customer focus
- Courage
- Transparency

Our Business Areas

→ Our execution priorities are:
- Embed Customer Obsession with winning propositions
- Become a Digital and Data driven organization
- Build a High-performance Culture

MARKET STANDING

Customer Reach

- **55** Branches
- **1,751** Active Agents
- **72** Cash Deposit ATMs
- **VISA** Contactless Credit and Debit Cards
- **SAVINGS** App
- **450** ATM points (including Interswitch)
- **OMNI** Online Banking Platform Internet, Mobile and App

Our Business

MARKET STANDING

Financial Strength

DEPOSIT
FUNDING OF
70%

TIER 1
CAPITAL RATIO OF
19%

Talent

1,174
employees

54%
female staff

Reaching and Serving millions of Ugandans with 55 branches and over 100 ATMs, countrywide.

Reaching and Serving millions of Ugandans with 55 branches and over 100 ATMs, countrywide.

Kampala

6th Street Branch
116/ 118, Industrial Area

Acacia Branch
Plot 24 B, Acacia Avenue

Banda Branch
Shell Kyambogo, Jinja Road

Bugolobi Branch
Plot 2, Bandali Rise

Bwaise Branch
Plot 975/976, Sir Apollo Kaggwa Road

Entebbe Road Branch
Plot 4010, Namasuba — Entebbe Road
Freedom City Shopping mall

Impala Branch
Plot 13, Kimathi Avenue

Jinja Road Branch
Plot 4A, Crown House, Kampala Road

Kampala Road
Plot 40, Kampala Road

Kawempe Branch
Plot 550, Bombo Road

Kikuubo Branch
Plot 2, Nakivubo Road, Dembe Arcade

Kireka Branch
Plot 395, Isabella Plaza, Kireka

Kyadondo Road Branch
Plot 26, Kyadondo Road

Lugogo Branch
Plot 2 — 8, Lugogo By-Pass
Shoprite Lugogo

Luwum Street
Plot 29, Luwum Street

Makerere Branch
Plot 45, Pool Road

Market Street Branch
Plot 8, Burton Street Aponye City Mall

Naalya Branch
Plot 2435 — 2447, Namugongo Quality Shopping Village

Nabugabo Branch (Gagawala Shauliyako)
Plot 40A, Nakivubo

Nateete Branch
Plot 757, Block 18, Nateete

Ndeeba Branch
Plot 224, Masaka Road

Nsambya Branch
Plot 1207, Nsambya — Gaba Road

Ntinda Branch
Plot 37 & 40-42, Ntinda Stretcher Road — Capital Shoppers, Ntinda

Ntinda II Branch
Ntinda Trading Centre, Plot 1615, Old Kira Road

Owino
Plot 769, Block 12, Mengo Kisenyi Kafumbe Mukasa Road.

William Street Branch
Plot 66, William Street, Kampala

Abayita Ababiri
S&S Mall, Plot 863, 1012 Nkumba

Kyengera Branch
Plot 1530, Shell Kyengera Wakiso

Upcountry

Abim Branch
Plot 8, Lira — Kotido Road

Arua Branch
OB Plaza, Plot 9 &11, Adumi Road

Dokolo Branch
Akeidebe Zone, Bata Road

Entebbe Town
Plot 10, Kampala Road

Gulu Branch
Plot 23, Gulu Avenue

Hoima Branch
Plot 36, Main Street

Ibanda Branch
Plot 82, Kamwenge Road

Iganga Branch
Plot 76, Old Market Street

Ishaka Branch
Plot 45, Block 10, Ishaka Rukungiri Road

Isingiro Branch
Plot 36, Kikagate Road

Jinja Branch
Plot 10, Scindia Road

Kabale Branch
Plot 141, Kabale Kisoro Road

Kisoro Branch
Plot 65/75, North Ward

Kitgum Branch
Plot 19, Janani Luwum Street

Lira Branch
Plot No 48, Lira Avenue

Luwero Branch
Kaludo Complex, Plot 8, Bloc 819, Bulemeezi, Kasana

Lyantonde Branch
Plot 226, Kabula Masaka Road, Lyantonde

Masaka Branch
Plot 22, Kampala Road

Mbale Branch
Plot 2, Court Road — Republic Street.

Mbarara Branch
Plot 14, Masaka Road, Mbarara

Mukono Branch
Plot 36, Jinja Road, Mukono Municipal Council

Ntungamo Branch
Plot 58, Old Kabale Road

Pader Branch
Plot 74, EY Komakech Road

Pallisa Branch
Plot 8, Kasodo Road, Pallisa

Rushere Branch
Plot 68, Police zone Nyabushozi, Rushere

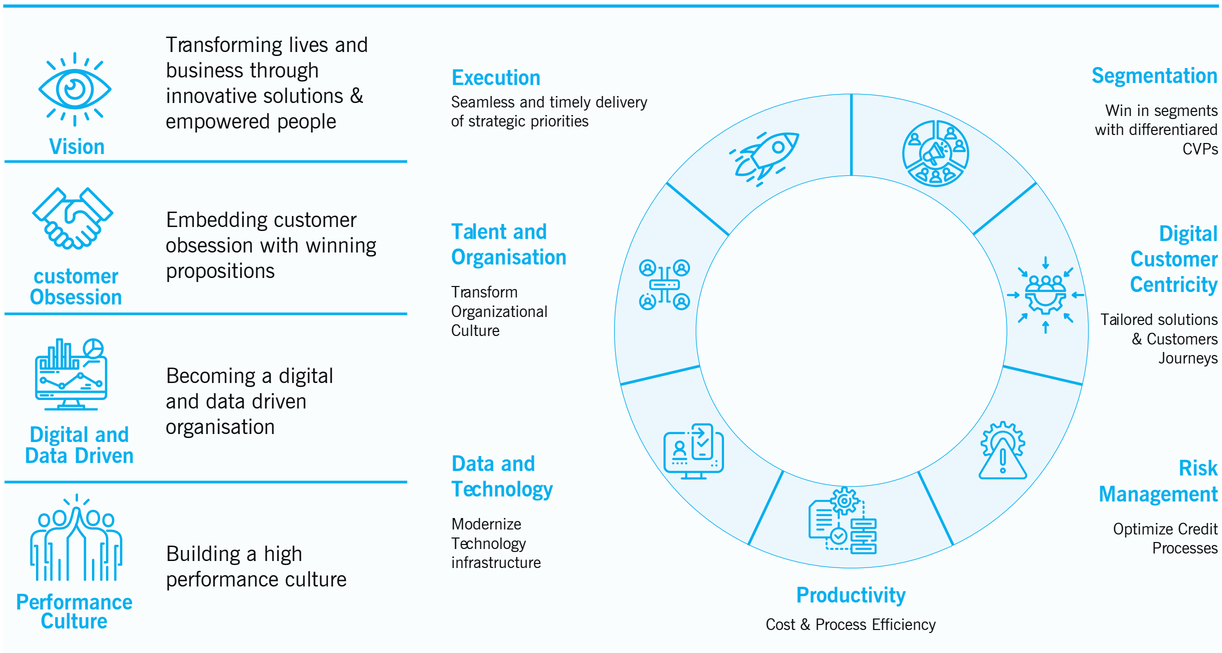
Soroti Branch
Jovi House, Plot 47, Gweri Road

Tororo Branch
Plot 9 & 11, Mbale Road, Tororo Bukedi

Strategy Update 2022

Strategy Overview

dfcu's strategy is focused on "Customer Obsession" anchored by the vision of "Transforming lives and Businesses through innovative solutions and empowered people, carried by three strategic pillars which are; (1) Embedding customer obsession with winning propositions (2) Becoming and a digital and data-driven organisation and (3) Building a high-performance culture. The overall thrust for delivery of intended results is derived from the seven strategic themes which are; (1) Segmentation and Customer Value Propositions, (2) Digital and Customer Centricity, (3) Risk Management, (4) Productivity, (5) Data and Technology, (6) Talent and Organization and (7) Execution as illustrated below;



Segmentation and Customer Value Propositions

Segmentation focuses on the three broad customer segments that **dfcu** serves which are; (1) Corporate Customers including Local and International Corporates, (2) Business Customers including Small, Medium and Large Enterprises and (3) Personal Customers including Professionals, High net worth Individuals, Low-Income Individuals, Youth, and Students. The objective is to achieve scale and win in the fast-growing segments and sectors by providing differentiated value propositions to each of the customer segments.

For the year 2022, the key initiatives for Corporate Banking were on deep sector specialisation and value chain financing and optimization of the corporate sales coverage model, while the initiatives for Business Banking focused on branch network optimization, tailored product offerings, and payments capabilities. Additionally, the initiatives for Personal banking were on partnerships for mass customer acquisition, loyalty and rewards schemes, and personal financial management solutions and it was envisaged that through all the above initiatives, the Bank would be enabled to deliver a 101% growth in operating profit for the corporate customer segment and a 55% growth in the total active customer base for Personal and Business Banking customer segments.

During the year, an agriculture sector specialisation program was started in partnership with Rabo Foundation with emphasis on seven key value chains namely, coffee, cocoa, banana, cereals, oil seeds, dairy, and livestock. Furthermore, a distributor finance solution was implemented and is currently under pilot testing which is aimed at further driving value chain synergies between the corporate and business banking segments. Additionally, a target service model was rolled out for Corporate with a new pricing model and optimal portfolio allocation. These and other key initiatives implemented during the year resulted in a 43% growth in the operating profit of the corporate customer segment compared to the target of 101% for the period.

On the business banking side, two ATM recyclers were deployed at Owino and Kyebando with an additional four locations in the pipeline and a team of over 50 digital ambassadors onboarded to drive the digital agenda across the branch network. A new deposit product was developed for the Enterprise segment in addition to launching a business accelerator program for women in business. Traction was made in the payments space onboarding a key telco escrow account, and partnership with Flutterwave for payments capabilities with key customers. In terms of personal Banking, key partnerships for mass customer acquisition were engaged particularly the Parish Development Model and three loyalty programs launched with a leading global airline and two premium restaurants. These and other initiatives implemented resulted in a 14% growth in the total active customer base.

Digital and Customer Centricity

The Digital and Customer centricity theme deals with the front-facing side of our technology and customer service with a focus on tailored digital solutions and customer journeys. The plan for the theme during the year was to revamp digital platforms such as agency banking and investment clubs and commence the process of setting up a customer service factory developing analytics dashboards and carrying out customer forums.

During the year, a project to revamp the agency banking systems was kicked off with migration done for all agents to a single vendor Interswitch from the previous multiple vendors to improve system stability and overall agent network management. The system was also upgraded and is currently under pilot testing with enhancements done to improve agent float management and increase the suite of functionality on the platform. Additionally, system enhancements were deployed to enable instant digital secondary account opening through our mobile banking platform 'QuickBanking' and the SACCO App (Investment Club App) was revamped to add functionality to improve member onboarding, administration, contributions, and payments both on Android and iOS platforms. This enabled an 8% increase in the volume of transactions on digital channels, compared to over-the-counter (OTC) at branches, from 76% to 82% versus the 80% target for the period.

Additionally, on the customer-centricity side, the foundations were laid for a customer experience factory with the development of customer analytics dashboards to effectively monitor and improve customer journeys across all segments. To support this, the bank held customer forums with each of the segments i.e. high net worth or 'Pinnacle', business banking with a focus on the education sector, and corporate customers such as the Chinese community.

Risk Management

The Risk Management theme focuses on the optimization of credit processes focusing on underwriting, monitoring, and collections capabilities across the lending value chain. Under the underwriting workstream, the objective is to strengthen overall risk systems across application, pricing, risk decisioning, and documentation to support faster turnaround times. The monitoring workstream focuses on proactive credit management with early warning tools and decision engines to support early work-out solutions for customers identified to be potentially in distress. Finally, the collections workstream focuses on enhancing collections capabilities by engaging risk-based segmentation with differentiated contact and treatment approaches to increase the rate of loan collections and recoveries.

The key initiative planned for the year under the risk management theme was to implement a comprehensive credit review with modules covering each of the three work streams end to end, review and enhance the loan origination system, enhance the environment social governance (ESG) frameworks, deploy an early warning analytics tool, enhance the incentive systems for recoveries and revamp the collections processes and procedures to reduce administrative bottlenecks and increase efficiencies. It was envisaged that these would enable a 66% reduction in the overall impairment of loans and advances to customers and financial assets net of recoveries.

During the year, the comprehensive credit review project commenced with the collections module undertaken and completed, and the other workstreams are now underway. The loan origination system review was also undertaken with the "as is" and "to be" architectural review carried out; an in-house early warning analytics tool was developed and deployed as an interim solution and training of ESG champions was carried out through the support of technical assistance with Arise B.V. The implementation of this and other initiatives, during the year, resulted in the achievement of a 48% reduction in overall impairment of loans and advances to customers and financial assets net of recoveries. Key to note was the 30% increase in loan recoveries recorded in the period.
Productivity

The Productivity theme is based on cost management and business process reengineering to increase institutional efficiency with a focus on procurement excellence, branch footprint optimization, and process refinement and automation. Key initiatives planned were to set up a spend control tower to align negotiations for large contracts, deploy a procurement system, optimise the branch network and performance as well as review key processes in the areas of account management and transaction processing. It was envisaged that these would enable the delivery of at least 3.5 billion Uganda shillings in direct procurement savings.

During the year, a new procurement system was deployed code-named, 'Platform of Possibilities' (POP), and a review of large contracts was undertaken which consisted mainly of business technology contracts. Process reviews were also undertaken to improve turnaround time for Centralised account opening and remittances, introduced paperless transactions for over-the-counter transactions, and carried out sessions for lessons learned in contracts negotiation resulting in the realisation of 1.1 billion shillings of procurement savings.

Data and Technology

The Data and Technology theme is about the modernisation of technology infrastructure and leveraging data to support decision-making and solution development focusing on eight broad components; channels, applications, integration, development tools, data analytics, infrastructure, security, and operations. While the digital and customer-centricity theme focuses on the customer-facing front end of systems, the data and technology theme focuses on the back end of systems such as electricity, facilities, servers, databases, cooling systems, networks, and others.

The key initiatives planned for the year included the implementation of a document system, the development of governance frameworks and tools for data management, revamping the overall network, developing a road map for hardware modernization, enhancement programs for cyber security, and carrying out simulations for cyber incident response. The target was to deliver improved system stability with a 9% improvement in transaction success rates and a 100% recovery time objective for systems.

During the year, a document management system was implemented with scanning done for a variety of documents prioritising credit documentation such as loan files. The data governance framework was also developed and implemented resulting in end data classification and management tools across the Microsoft platforms being rolled out to enhance data protection and privacy. On the technology side, the hardware roadmap was developed which set out the obsolete hardware for replacement and new hardware needed to support projects. This is currently under implementation with the procurement of most key items done. Additionally, a complete overhaul and re-design were undertaken for the network infrastructure, and migration to the new network was done during the year with network access control (NAC) currently deployed as part of the enhancement of the overall cyber security which also included migration to cloud services for some services such as email and user acceptance testing environments (UAT) with two cyber incident simulations undertaken during the period. Key to note under this theme was the completion of project plans and contracting for the Enterprise Bank Architecture project which is geared towards the deployment of an enterprise service bus, a new ATM switch, and a card management system with a new payments gateway. This and other key initiatives implemented under this theme resulted in an 8% improvement in transaction success rates across all systems.

Talent and Organization

The Talent and Organization theme is about the transformation of organisational culture by implementing a new culture dubbed "Execution Edge" which is about gaining a competitive edge by involving employees in driving performance and innovation, gathering insights, and sharing knowledge across the organisation. Key practices that drive this culture include; performance transparency, employee involvement, creativity and entrepreneurship, consequence management, capturing external ideas, rewards, and recognition.

The initiatives planned during the year included organisational structure redesign, culture transformation initiatives, and addressing skills gaps all intended to reduce the regrettable attrition to less than 2.5% per quarter or 10% per annum.

During the year, a competence-based assessment project was implemented to match job role requirements to skill levels, align key performance indicators to strategy, and foster collaborative efforts toward the achievement of organisational objectives. Additionally, cascaded sessions targeting the areas for improvement identified in the organisational health index survey were implemented and critical roles to drive the business and technology were filled with new talent, and skilling was done for existing staff through the organisation-wide training program. The employee value proposition was also enhanced with the alignment of terms of service across job families and the upgrading of staff remuneration across job grades. As a result, there was a regrettable attrition of less than 5% for the year.

Execution

The Execution theme is about creating an environment for seamless and timely delivery of strategic priorities with a focus on seven key elements which are; (1) Visible leadership and role modelling to address mindsets and behaviours, (2) Integrated execution road map to sequence and prioritise strategic initiatives, (3) Resourcing and capabilities to deliver strategic priorities, (4) Governance and cadence across all levels of the organisation, (5) Transparency on delivery and impact to capture and track transformation impact, (6) Mindsets and behaviour change management to cascade a change story and link transformation outcomes to leadership objectives, and finally (7) Performance management and accountability with differentiated rewards and consequence management policies. It was envisaged that these initiatives would enable the delivery of at least 80% accomplishment of planned strategic activities and improved earnings with a net profit after tax of over 70 billion shillings.

During the year, execution teams were established with strategic theme sponsors at the executive management level, work stream leaders at the departmental management level and a cross-functional transformation office team to coordinate the execution efforts. Regular cadence sessions were held to track progress against intended objectives and periodic updates were made to Senior management and the Board of Directors. Whereas this enabled the achievement of 89% of the planned strategic initiatives, the profitability was below target by more than 50% due to the significant cost of approximately 40 billion shillings incurred to defend the company against litigation in a foreign jurisdiction on matters arising from the 2017 transaction.

Our Leadership

dfcu Limited Board of Directors and Management

Mr. Jimmy D. Mugerwa
Non-Executive Director/Chairman **dfcu** Limited

Mr. Jimmy D. Mugerwa is the Chairman Board of Directors. He is a Senior Business leader with over 27 years' experience across Africa and Europe.

He is a qualified Executive Coach, an Experienced Board chair and Independent Non- Executive Director serving on several boards in the Financial, FMCG and Oil Gas and Industry, including East African Breweries Ltd (a Diageo PLC).

Mr. Mugerwa has previously served as the Chairman **dfcu** Bank Limited, Group Africa Advisor / Chair Uganda for Tullow Oil Plc in London and Managing director for Tullow Oil in Uganda for 8 years. Prior to this, he worked for over 19 years for Royal Dutch Shell in Senior Business Leadership Positions across several countries in Africa and Europe, including being the Senior Regional Advisor for Sub Saharan Africa; Shell Africa Retail Marketing Manager; General Manager for Shell East Africa/ Country Chair for Kenya Shell and, Retail Manager in Ghana.

Mr. Mugerwa joined the Board in 2022.

Dr. Christine Akello Echookit
Non-Executive Director

Dr. Echookit Akello Christine joined the Board in 2022. She possesses 24-years working experience having served in various entities including NEMA, URA, UCB (currently Stanbic Bank) and Uganda Industrial Properties Limited.

She is an advocate of the Courts of Judicature in Uganda, and a Fellow of the Chartered Governance Institute of the United Kingdom (formerly "Institute of Chartered Secretaries & Administrators" or ICSA).

She previously served as the Deputy Executive Director of NEMA providing leadership, corporate and strategic guidance, as well as advising on organizational strategic positioning and functionality, organizational culture and organisational structure.

Kironde Lule
Non-Executive Director

Mr. Kironde Lule joined the Board in 2011. He has over 30 years' experience in financial management and auditing. He served as Finance Director in the Aga Khan Foundation (USA), ICF (Tanzania), Director Financial Reporting in the Global Fund for Vaccines (USA), Commissioner Internal Audit - Uganda Revenue Authority and as an Audit Partner in Deloitte & Touche (Swaziland & Cote d'Ivoire).

He is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the American Institute of Certified Public Accountants.

Friedrich Pelser
Non-Executive Director

Mr. Pelser joined the Board in 2018 and is a Chartered Accountant with over 20 years' work experience.

He has extensive experience in African financial institutions, Investment Banking and Private Equity which brings valuable insights to the board and is currently working as an Investment Director with Arise B.V whose investment mandate focuses on financial institutions in Sub-Saharan Africa. He previously worked for Norfund as a member of the Financial Institutions department with a strong investment track record and has extensive knowledge of African portfolio companies.

dfcu Limited Board of Directors and Management

Barbara T. Arimi
Non-Executive Director

Ms. Arimi joined the Board in 2019. She is the Head of Marketing and Corporate Affairs at the National Social Security Fund (NSSF) and is a member of the Board of Directors of the CEO Apprenticeship Program Alumni Association.

She is a seasoned Marketing Professional, Associate of the Chartered Institute of Marketing (CIM) and a Member of the Chartered Institute of Public Relations (CIPR). She holds an Executive MBA from East and Southern Africa Management Institute.

Dr. Aminah Zawedde
Non-Executive Director

Dr. Aminah joined the Board in 2020. She has over fifteen years' experience in the IT services sector both as an academician and as a digital transformation advisor. She brings on board vast experiences in IT initiatives and strategic leadership from both the public and private sector.

Her areas of specialty are Business Process Re-engineering, Systems Integration, E-Governance, and Information Security, which she brings to the Board.

George Ochom
General Manager

Appointed General Manager: January, 2018.

Career banker, with over 30 years of banking experience. Before joining **dfcu** Limited, George was Head of Treasury, **dfcu** bank, where he managed the banks Foreign Exchange, Fixed income trading and Investment activities, Asset and Liability Management and was a member of the banks Executive Committee (EXCO) for over 10years. He previously worked with Stanbic bank and Centenary bank in the Global Financial Markets.

He is a Fellow of the Uganda Institute of Banking and Financial Services were he also serves on the Board of the Institute representing the Fellows and is the Chair Board Audit Committee of the board.

dfcu Bank Board of Directors

Dr. Winifred T. Kiryabwire
Chairperson Board of Directors, **dfcu** Bank

Appointed to the Board: July 2019.

Has over 20 years' experience and expertise in Corporate Law, Corporate Governance, and Corporate Finance Law. She is a certified company director with the Institute of Directors of UK and has served in governance and oversight roles with various organizations in the public, private and non-for-profit sectors.

She is currently an Associate Professor in the Department of Commercial Law at the School of Law, Makerere University. She is a member of various professional bodies, such as INSOL International where she serves as co- chair of the Africa Advisory Council, member of the board of the International Insolvency Institute as well as co- chair of the Academic Committee. She is a Fellow of the Uganda National Academy of Sciences and member of the Uganda Law Society. She is a non- executive director of MTN Uganda Ltd and Jubilee Allianz General Insurance Ltd. Previous directorships include Financial Sector Deepening Uganda, African Alliance Uganda Ltd, Makerere University Holdings Ltd, Gatsby Microfinance Ltd, and Basic Needs Uganda. She also served as a member of the International Ethics Standard Board for Accountants, member of the Council of Mbarara University of Science and Technology, and member of the Public Sector Internal Audit Committee.

Mr. Stephen Caley
Non-Executive Director

Appointed as Director on 2nd June 2016.

Has over over 55 years of banking experience and in addition to experience in his native UK, has served in various capacities for a number of international and locally owned banks across Africa and Asia including Standard Chartered Bank, Stanbic Bank of South Africa, NIC Bank Kenya, Fina Bank Rwanda and Khan Bank Mongolia.

Previous directorships include the subsidiaries of Standard Chartered Bank in Botswana and Zambia, Stanbic Bank Nigeria (Managing Director), NIC Bank Kenya and Fina Bank sa Rwanda (Managing Director). He is an associate member of the Institute of Financial Services in the UK.

Since retirement from full time work in 2012, he has carried out consultancy work in the FI sector in Cameroun, Tanzania, Botswana, Zambia and Fiji.

Ms. Grace Tibihikirra Makoko
Non-Executive Director

Appointed as Director on 19th July 2019.

Career Banker with over 25 years of experience in the banking industry in East Africa and has served in various capacities in Standard Chartered Bank Kenya and Uganda.

She is a member of the Chartered Banker Institute, an Independent Consultant in Financial Markets and Corporate Banking and a Non-Executive Director in Britam Insurance Company Uganda Ltd and Med Optics.

dfcu Bank Board of Directors

Jackie Aneno Obol-Ochola
Non-Executive Director

Appointed as Director on 28th October 2020.

Has over 20 years of senior business leadership experience in the telecommunications sector in Uganda. She has served in various capacities in Uganda Telecom, Nokia Telecom, Andela and C-Squared Telecom.

She is currently the General Manager of Wave Transfer Ltd and a member of the Project Management Institute and Uganda Institution of Professional Engineers.

Mr. Mark William Springett
Non-Executive Director

Appointed as Director on 12th July 2022.

Has over 20 years of experience in banking and has served in various capacities for various banks, such as Credit Suisse First Boston, Barclays and Absa.
He is currently the Chief Operating Officer of Rino Energy Solutions (a renewable energy provider based in South Africa) and a director of a number of investment and holding companies

Dr. Danny Zandamela
Non-Executive Director

Appointed as Director on 18th August 2022.

He has over 39 years of experience in retail, commercial, and corporate banking. He started his banking career as a junior officer and rose through the ranks to serve in various senior executive capacities including as CEO and non-executive director for various banking and insurance organizations. These include Barclays Bank Plc, Rand Merchant Bank, First National Bank of Botswana Limited, FirstLife (Pty) Limited, First National Bank of Lesotho Limited, First National Bank of Namibia Limited, First National Bank of Lesotho Limited, First National Bank of Mozambique Limited, First National Bank of Zambia Limited, First National Bank of Tanzania Limited, and FirstRand Bank Limited. He consults in banking related matters, especially Open Banking and FinTech.

He is also an entrepreneur with interests in the Oil and Gas sector, as well as the Cleantech Energy sector.

Mr. Albert Jonkergouw
Non-Executive Director

Appointed as Director on 9th August 2013.

Has over 35 years' experience in banking internationally and has served in various roles and organizations, such as ARISE, NMB Bank Tanzania, Achmea East Africa and Rabo Bank Netherlands.He is currently the Chief Financial Risk Officer of ARISE B.V. and member of Netherlands Order of Registered IT Auditors and South African Institute of Professional Accountants. Previous directorships include PCPO Vechnstreeken Veenen and National Microfinance Bank (NMB) Tanzania.

dfcu Bank Board of Directors

Dr. Jeff Sebuyira-Mukasa
Non-Executive Director

Appointed as Director on 1st January 2023.

Dr.Jeff is a capacity building expert with over 32 years of experience with a strong business leadership & financial background. Has served in various capacities with Coca Cola Sabco – South Africa, British Red Cross-London, Price Waterhouse-Uganda, Wells Associates-United Kingdom, Coca Cola Sabco – North & East Africa Division and Century Bottling Company -Uganda where he was instrumental in installing and reinforcing financial systems, including the management of integrated projects.

He is currently the CEO of Imprint (U) Ltd an ISO 9001:2015 certified capacity building organization, director in International Medical Group (IMG), Nabagereka Development Foundation and Mildmay – Uganda.

Previous directorships include KCB Bank Uganda, Ndejje University, Good African Coffee -Uganda, Roofings (U) Limited, Great Lakes Safaris, Renaissance Capital Ltd -Uganda, Coca Cola Holdings-Kenya, Century Bottling Company-Uganda, Kwanza Bottling Company -Tanzania, Nairobi Bottlers-Kenya and Global Service Company Limited- UAE.

Charles M. Mudiwa
Managing Director / Chief Executive Officer

Appointed as Director on 11th April 2023.

Charles brings on board over 26 years of experience in Banking, with strong business leadership, success in turning around businesses and increasing business profitability. He takes over the leadership of the Bank at a critical time as we implement our enhanced customer obsessed strategy to transform lives and businesses with innovative solutions and empowered people.

Prior to his appointment to the Bank, Charles' had a 20-year remarkable journey at Standard Bank Group as CEO of Stanbic Bank Kenya Limited, CEO of Stanbic Bank Zambia Limited; CEO of Standard Bank Malawi and Director Mass Markets at Standard Bank South Africa amongst other roles. He has previously served on the Boards of Stanbic Bank Zambia and Kenya, Standard Bank Malawi Ltd; Standard Bank Insurance Brokers of South Africa, Edu-loan Limited South Africa, and Agribank Zimbabwe.

He holds an Honours Degree in Economics from the University of Zimbabwe, Post Graduate Diploma In Leadership & Change Management from Leeds Metropolitan University (UK); Advanced Management Programme and Certificate in Digital Transformation & Enterprise Leadership from the Columbia Business School (USA), and a Banking Certificate from the Institute of Bankers of Zimbabwe, among others. Charles is a certified executive coach and holds a Practitioners' Diploma in Executive Coaching from the Academy of Executive Coaching (UK). He is a member of the Institute of Bankers of South Africa. Charles is an active Rotarian and served as the Past President of the Rotary Club of Lusaka, and as the Director of Fundraising and Foundation at the Rotary Club of Nairobi Muthaiga North. Additionally, he was the Patron of Rotary Club of Nairobi Samawati, a corporate chapter at Stanbic Bank Kenya

dfcu Bank Board of Directors

William Sekabembe
Executive Director

Appointed Executive Director in August 2016.

William has banking experience spanning over twenty-four (24) years; and a track record of leading successful mergers, acquisitions, business strategy design, execution and review, channel development, administering development finance, risk modelling, and organizational redesign. He was appointed the Executive Director in August 2016. Prior to his appointment, he was the Head of Development and Institutional Banking. He has worked with several leading financial institutions in Uganda, Head of Products (Stanbic Bank Uganda) and Head of Distribution (Barclays Bank Uganda) and has had exposure to different markets including United Arab Emirates, South Africa, and Kenya.

He holds an Executive Master of Business Administration (MBA) from International Institute for Management Development (IMD) and A Master of Arts in Economic Policy and Planning from Makerere University. In addition, he attained The Effective Director (TED), CEO Apprenticeship Program and Advanced Leadership Development Certificates from Strathmore Business School; and completed the Future of Banking Innovation Program from Amsterdam Institute of Finance.

William is a Board Member at Uganda Warehouse Receipt System representing Uganda Bankers Association, Agribusiness Development Centre representing **dfcu** Bank and Jubilee Health Insurance Company of Uganda respectively. He holds professional membership at League of East African Directors (LEAD) and Uganda Bankers Association (UBA) and is also a Rotarian with Kampala Mahaba Club.

Angelina Namakula-Ofwono
Company Secretary

Appointed in October 2019.

Angelina brings a wealth of legal experience in banking, Corporate and Company Secretarial matters. She has previously worked with Barclays Bank of Uganda Limited (now Absa Bank Uganda Limited) as Head of Legal/Company Secretary, the Uganda Law Society as Coordinator, Continuing Legal Education, Directorate of Public Prosecutions as a State Attorney and Mwesigye, Mugisha & Co. Advocates and was recognised by the Uganda Bankers Association for her outstanding leadership to the Legal Committee in the year 2018.

She holds a Master's in International Commercial Law from the University of Kent, Diploma in Legal Practice from the Law Development Centre and a Bachelor of Laws from Makerere University.

dfcu Bank - Senior Management Team

Charles M. Mudiwa
Managing Director / Chief Executive Officer

Appointed as Director on 11th April 2023.

Charles brings on board over 26 years of experience in Banking, with strong business leadership, success in turning around businesses and increasing business profitability. He takes over the leadership of the Bank at a critical time as we implement our enhanced customer obsessed strategy to transform lives and businesses with innovative solutions and empowered people.

Prior to his appointment to the Bank, Charles' had a 20-year remarkable journey at Standard Bank Group as CEO of Stanbic Bank Kenya Limited, CEO of Stanbic Bank Zambia Limited; CEO of Standard Bank Malawi and Director Mass Markets at Standard Bank South Africa amongst other roles. He has previously served on the Boards of Stanbic Bank Zambia and Kenya, Standard Bank Malawi Ltd; Standard Bank Insurance Brokers of South Africa, Edu-loan Limited South Africa, and Agribank Zimbabwe.

He holds an Honours Degree in Economics from the University of Zimbabwe, Post Graduate Diploma In Leadership & Change Management from Leeds Metropolitan University (UK); Advanced Management Programme and Certificate in Digital Transformation & Enterprise Leadership from the Columbia Business School (USA), and a Banking Certificate from the Institute of Bankers of Zimbabwe, among others. Charles is a certified executive coach and holds a Practitioners' Diploma in Executive Coaching from the Academy of Executive Coaching (UK). He is a member of the Institute of Bankers of South Africa. Charles is an active Rotarian and served as the Past President of the Rotary Club of Lusaka, and as the Director of Fundraising and Foundation at the Rotary Club of Nairobi Muthaiga North. Additionally, he was the Patron of Rotary Club of Nairobi Samawati, a corporate chapter at Stanbic Bank Kenya

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He holds an Executive Master of Business Administration (MBA) from International Institute for Management Development (IMD) and A Master of Arts in Economic Policy and Planning from Makerere University. In addition, he attained The Effective Director (TED), CEO Apprenticeship Program and Advanced Leadership Development Certificates from Strathmore Business School; and completed the Future of Banking Innovation Program from Amsterdam Institute of Finance.

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dfcu Bank - Senior Management Team

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She holds a Master's in International Commercial Law from the University of Kent, Diploma in Legal Practice from the Law Development Centre and a Bachelor of Laws from Makerere University.

Veronica Sentongo
Chief Change & Innovation Officer

Veronica joined **dfcu** Bank as the Chief Change & Innovation Officer in January 2021.

She holds a Master of Science degree in Electrical Engineering - majoring in Telecommunications - and a Bachelor of Science degree in Electrical Engineering, both from the University of Cape Town. She holds expert accreditations in Microfinance, Financial Inclusion, Digital Money and her Project Management expertise spans from a PRINCE2 Practitioner certification to a certification in Scaled Agile Methodology (SAFe for Teams).

Prior to her appointment, Veronica was the inaugural ICEA LION Group Head of Digital Innovation championing the inception of their Grown and Innovation Centre and implementation of their Digital Strategy.

Kate K. Kiiza
Chief Financial Officer

Kate joined the Bank in 2015 as the Chief Financial Officer. Her career spans over 14 years in senior finance roles including Financial Controller and Chief Financial Officer at Shell Uganda Limited (now Vivo Energy) and Chief Financial Officer at United Bank for Africa. She has a wealth of experience in finance management and business leadership.

She has been a fellow of the Association of Chartered Certified Accountants (FCCA-UK) since 2009 and a member of the institute of Certified Public Accountants of Uganda (ICPAU) since 2010.

dfcu Bank - Senior Management Team

Victor Rugeiyamu
Chief Risk Officer.

Victor joined **dfcu** Bank as the Chief Risk Officer in November 2021.

He is responsible for overseeing the bank's Enterprise Risk Management (ERM) framework, and has direct responsibility for overseeing our Operational, Credit, Financial Crimes, and Integrated Risk Management teams. Victor brings to the bank a wealth of experience in risk management and financial services spanning over 20 years.

Most recently, Victor served as the Chief Risk and Compliance Officer of NMB Bank Plc in Tanzania.

Victor holds a Bachelor of Arts in Economics degree (Honors) from Belmont Abbey College in North Carolina, U.S.A. and a Master's Degree in Business Administration (MBA Finance and Banking) from the University of North Carolina at Charlotte in the United States.

Hope Ekudu
Chief Operating Officer (Resigned May 2023)

She is a seasoned banker with experience spanning over 13 years. Prior to joining **dfcu** Bank, she has held several roles at management level including Head of Business and Institutional Banking, Head of Operations and Business Technology as well as Head of Retail Banking.

She is a certified Retail Banker, ITIL certified (foundation level) who holds a Master's in Business Administration from Heriot Watt University (Scotland). Hope is also an alumnus of the Advanced Management Programme (an executive leadership by Strathmore University, Kenya) and the CEO apprenticeship programme run by the CEO summit in Uganda.

Jimmy D. Mugerwa
Chairman **dfcu** Limited

Chairmans Statement

We Continue to Leverage our investment in Business Technology to deliver Operational Excellence.

Our Esteemed Shareholders,

It is with pleasure that I present to you the 2022 Annual Report.

dfcu group has gone through another year of great achievements, where we continued to focus on delivering our business strategy in a challenging business environment. We adhered to the business strategy of seeking progress while maintaining stability, supporting our customers and communities, developing our people, technological innovations and solutions as we improved shareholder value.

Improved Financial Performance

2022 was a year of recovery and growth for **dfcu**. The Company's key performance indicators progressed in terms of credit risk management and overall earnings. Profit after tax increased by 217% from UGX 9.3Bn to UGX 29.5Bn. Impairment on Loans reduced by 41% from UGX 148Bn in 2021 to UGX 88Bn in 2022. Customer deposits increased by 6% while interest expenses on deposits reduced by 9% as we focused on growing current and savings deposits.

We extended loans to more individuals and businesses across different customer segments, resulting in a growth in the number of borrowers by 15%. We also increased investment in Government Securities by 70%, which was part of the strategy to diversify the asset base and de-risk the balance sheet.

The execution of our strategy anchored on 'Customer Obsession', and digital transformation whilst 'transforming lives and businesses through innovative solutions and empowered people, helped to drive revenues, lower operational costs and delivered improved profitability.

Sustainability

dfcu is committed to partnerships that promote the transformation and wellbeing of communities where it operates and continued to support the entrepreneurial spirit of Ugandans, enhanced the stability of families, and provided a sustainable approach to doing business.

There has been significant progress in the execution of our Environment Social and Governance (ESG) strategy in 2022. Our headquarters, **dfcu** Towers, is an environmentally friendly building where we use renewable solar energy in all the common areas and security lighting as well as water harvesting and recycling. Several branches were also remodeled or refurbished taking into account environmental concerns.

We have gender balanced boards both at the bank and the company and continue to promote gender

Profit after tax increased by **217%**

Customer deposits increased by **6%**

Impairment on Loans reduced by **41%**

Directors recommend that a dividend of UGX **8.19** per share

equity and balance. Our staff compliment which stands at 1,174 is very diverse with a gender balanced with 54% female and 46% male.

We critically evaluated all loan applications to ensure that the group is lending to environmentally friendly projects.

We complied with workplace safety and ethical labor practices and will remain working in partnership with our customers, suppliers, and industry partners to operate in a sustainable manner, while continually improving working conditions and providing more sustainable financing options.

A Strong Operational Performance Driven by Increased Use of Technology

Capitalizing on the previous investment in technology, the bank saw a growth in the number of customers, and increased usage of its digital channels particularly the Smart ATMs resulting in an improvement in the percentage of customers using the digital channels, and Agency Banking and an improved active customer ratio.

The ATM /Recycler channel continued to post the largest growth in customer volumes with overall transactions still migrating to digital channels at 86%, an indication that this is still the preferred channel for most customers.

There will be continued focus on overall improvement in channel efficiency through increased investment in the Agency banking network, self on-boarding solutions and increased mobile lending options to customers.

Operation risks remain high in the industry and the Board of Directors annually reviews the Enterprise Risk Management framework as well as our Risk Appetite Statement to deal with underlying risks of special importance to the Group.

The Boards

The Boards continue to operate effectively in terms of of strategy execution, risk mangement and business performance. Details of the Board's work is set out in the Corporate Governance Statement on page 77 to 80 in the annual report. The Board has undertaken appraisals of the Directors, as well as an evaluation of the performance of the Board and each sub-committee, both of which concluded that the Board is functioning effectively.

During the year, the company welcomed new directors particularly to the subsidiary **dfcu** Bank with a new Managing Director Mr. Charles M. Mudiwa replacing Mr. Mathias Katamba who resigned in addition to three Non-Executive Directors Mr. Mark Springet, Dr. Danete Zandamela and Dr. Jeff Sebuyira. We welcome the new directors and also wish the former Managing Director the best in his new endeavors. Further details of these appointments are elaborated in the statement of the **dfcu** Bank Board Chairperson.

The Board continues to focus on Long-term succession planning for senior executive roles and Board members.

Dividends

Our principal objective is to deliver growth that drives long-term sustainable value for our shareholders. After considering the exceptional expenses and continued clean-up of our asset portfolio that affected our performance in 2022 coupled with the need to preserve the strength of the Company, the directors recommend that a dividend of UGX 8.19 per share (less withholding tax) be paid out for the year ended 31st December 2022.

Looking Ahead With Optimism

With strong strategic decisions made to put our customers at the centre of our business, management of credit and other risks and investment in Technology and our people, I believe we have put in place foundations to transform dfcu and embark on the next phase of our journey.

Appreciation

I wish to thank my colleagues at the board, the management and staff for their commitment, energy, and strategic focus in ensuring the business remains robust in a challenging operating environment. I am encouraged by the Group's long-term strategy and believe that **dfcu** has laid a strong foundation and is well positioned for exponential growth in 2023.

Finally, I would like to express my sincere thanks to our shareholders for your confidence and continued support to the business.

Jimmy D. Mugerwa
Chairman **dfcu** Limited

Dr. Winifred T. Kiryabwire
Chairperson Board of Directors
dfcu Bank

Chairperson dfcu Bank Statement

Dear Shareholders,

I am pleased to present to you this statement on behalf of the Board of Directors of **dfcu** Bank, a subsidiary of **dfcu** Limited. During the year, we welcomed new members to the Board and improved our financial performance as we charted a path to turn around the business on all fronts.

Our operating environment during the year was marked by improved social economic growth despite the disruptions from the geo-political crisis in Europe that impacted commodity prices across the globe leading to high inflationary tendencies. But even with these major head winds on the economy, the country ended the year posting strong GDP growth of 7.5% in the first quarter of the financial year 2022/2023. Against this backdrop, our financial performance turned around as we recorded a 217% growth in net profit after tax and a 7% growth in total shareholder's equity and the Chief Executive Officer will shed more details on our performance in his statement.

We were also delighted to welcome a new member to the Executive Management Team and additionally, on the governance side, we welcomed three new members to the Board of Directors. Mr. Mark Springett joined the Board and brings a wealth of experience in renewable energy, banking and investment management having held various executive roles in Absa Group, Barclays Bank and Rhino Energy and holds a Bachelor of Commerce from the University of KwaZulu-Natal. Dr. Danny Zandamela joined the Board and brings a wealth of experience in digital Banking having held various executive roles in FNB Bank and Ithala Bank among others. He holds double doctorates in Business Administration from the University of Sheffield Hallam and Business School of Netherlands in addition to a Master of Science in Strategic Management from the University of Derby. Dr. Jeff Sebuyira also joined the Board and brings a wealth of experience in management and finance as a management consultant at Imprint and former executive at Coca Cola SABCO and holds a Doctorate in Business Leadership from the University of South Africa; is a Fellow of the Chartered Certified Accountants (FCCA) (UK); a faculty member of Duke University Corporate Education and a Certified Executive Coach.

I would like to appreciate our shareholders, stakeholders and customers for your unwavering support and loyalty to the Bank and as we look ahead, we shall continue to focus on ensuring the transformation of lives and businesses we serve in the various communities of our operations in order to make more possible for you.

Dr. Winifred T. Kiryabwire
Chairperson Board of Directors
dfcu Bank

William Sekabembe
Ag. Managing Director
dfcu Bank

Ag. CEO dfcu Bank Statement

Dear Shareholders,

On behalf of **dfcu** Bank the main trading entity of **dfcu**, its management, and staff, I am pleased to present to you this statement. The year ended 2022 saw the bank make a turnaround in performance driven by credit recoveries and balance sheet realignment.

The Operating and Regulatory Environment

The economy continued to recover slowly despite the shocks to local and global economies caused by the Russia-Ukraine war and other geopolitical tensions. Containment measures were implemented by the Central Bank raising the reference rate Central Bank Rate (CBR) from 6.5% to 10.0%. Other key interest rates also rose through the year affecting credit growth which grew by only 6.5% during the period. Sectors that grew include; Business services by 37%, Mining by 22%, Manufacturing by 20%, Personal and Household by 17%, Trade by 9%, Transport and Communications by 5%, Real Estate by 3%, and Electricity and Water by 0.4%. Sectors that contracted include; Other Services by 65%, Community by 40%, and Agriculture by 3%. The rise in interest allowed the bank to re-align the balance sheet by significantly increasing our holding in high-yielding government securities.

At an industry level, regulatory changes were made to increase the use of digital channels, strengthen capital positions, and preserve liquidity. The Cash reserve requirement was increased by 2% from 8% to 10% to preserve more liquidity in the industry while the cheque limit was further reduced by 10 million or the equivalent in any other foreign currency. This was done to promote the use of digital payments. More significant was the revision of capital requirements with paid-up share capital increased from 25 billion shillings to 150 billion shillings by 31st June 2024. Banks were required to raise the paid-up capital to 120 billion shillings by 31st December 2022. I am happy to report that dfcu Bank is compliant with all the above regulatory changes and continues to be designated as a Domestic Systemically Important Bank (DSIB).

Sustainability

We continued to implement our environmental social governance (ESG) initiatives, particularly through our Agri-Business Development Centre (ADC) and our Women in Business Program. During the year, in partnership with the Dutch Embassy and The New Vision, we continued to sponsor the Best Farmer awards for best-in-class farming practices. We carried out a variety of training and capacity development sessions for farmer groups in our four thematic areas of organizational strengthening, financial management, improved access to markets, and price risk management.

Being the pioneer in Women in Business programs, we ran a variety of key outreach programs including launching a Business Accelerator program for women-led Small and Medium Enterprises (SMEs) and agribusinesses, in partnership with the Daily Monitor, held various trainings sessions under the rising woman program, and awarded women who won in various categories with fully paid study trips to Nairobi.

Number of borrowers grew by **15%.**

Investment Securities increased by **70%**

Interest expense on deposits reduced by **9%**

We supported the education sector during the resumption and reopening of schools, engaged key customer segments focusing on value propositions, and in partnership with KPMG engaged the top 100 mid-sized SMEs to enable them to scale their businesses.

As a good corporate citizen, we engaged the communities where we operate by among others supporting the Kabaka Birthday Run whose focus is the fight against HIV AIDS under the theme “Men for Good Health,” and participated in the West Nile region Investment summit focused on industry and job creation. We also carried out a variety of social responsibility activities countrywide through our branch network.

Business Performance in 2022

The priority for the year was to realign our balance sheet by de-risking the asset base with a focus on increasing the level of risk-free assets on the balance sheet and optimising the funding base to reduce the overall cost of funds. We also focused on reducing credit concentration. This resulted in a 10% reduction in the value of net loans and advances to customers with the number of borrowers significantly increasing by 15%. This improved balance sheet structure also delivered more capital efficiencies resulting in a 0.1% increase in the core capital ratio from 22% to 29% adequately positioning the Bank for growth.

On the funding side, our customer deposits grew by 6% from 2.282 trillion shillings to 2.410 trillion shillings and we also continued to reduce our reliance on borrowed funds which declined by 35% from 191 billion shillings to 124 billion shillings. This enabled us to continue reducing our overall cost of funds with interest expenditure further dropping year on year by 9% or 7 billion shillings from 81.5 billion to 74.5 billion shillings.

There was a marked improvement in earnings in 2022, driven by a 41% reduction in impairment losses on loans arising from focused efforts on high-care management of customers at risk, and an increased drive around collections and recoveries. Profit After Tax grew by 217% from UGX9.3 billion to UGX 29.4 billion. The overall performance was however impacted by significant legal costs that we incurred in 2022.

Looking Forward with Great Optimism

Guided by our vision to transform lives and businesses with innovative solutions and empowered people, our emphasis remains on the sustained execution of our customer-obsessed strategy anchored on three pillars; to embed customer obsession with winning propositions, become a digital and data-driven organisation and build a high-performance culture.

I am happy to note that in the first full year of implementation, we have seen the fruits of improved credit and risk management as highlighted earlier, an increase in uptake and use of digital channels, an improvement in our employee value proposition, and a refresh of our institutional culture. There is an ongoing project to modernise the Bank’s technology infrastructure which should further improve our digital and online banking offering.

We shall continue to focus on our seven strategic themes in the areas of segmentation and customer value propositions, digital and customer centricity, risk management, data & technology, talent, as well as organization and execution.

I would like to thank you, our shareholders, customers, and all stakeholders for the tremendous support and partnership that has seen us through the year and for your continued patronage of our business that has enabled us to deliver services that have transformed lives and businesses in Uganda. We remain committed to your growth as we play a key role in transforming the economy and enhancing the well-being of our people.

William Sekabembe
Ag. Managing Director
dfcu Bank

Financial Review

Financial Definitions

Profit for the year	Annual statement of comprehensive income profit attributable to ordinary shareholders stated in Uganda Shillings.
Earnings per share	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue stated in Uganda Shillings.
Return on Equity (ROE)	Earnings as a percentage of ordinary shareholders' funds.
Return on Assets (ROA)	Earnings as a percentage of total assets
Net Interest Margin (NIM)	Net interest income as a percentage of average total assets
Cost to income ratio	Operating expenses as a percentage of income before tax excluding income from subsidiaries.
Credit Loss Ratio	Provision for credit losses per the Statement of Comprehensive Income as a percentage of gross loans and advances.
Effective Tax Rate	The income tax charge as a percentage of income before tax.
Dividend per share	Total ordinary dividends declared per share in respect of the year.
Core capital	Permanent shareholder equity in the form of issued and fully paid up shares plus all disclosed reserves, less goodwill or any other intangible assets.
Supplementary capital	General provisions which are held against future and current unidentified losses that are freely available to meet losses which subsequently materialize, and any other form of capital as may be determined from time to time by Bank of Uganda
Total capital	The sum of core capital and supplementary capital
Core capital ratio	Core capital divided by the total risk weighted assets.
Total capital ratio	Total capital divided by the total risk weighted assets.
Credit Impairment Charge	The amount by which the period profits are reduced to cater for the effect of credit impairment expressed in Uganda Shillings.
Lending Ratio	Net loans and advances divided by total deposits expressed as a percentage.

A snapshot of dfcu Group's performance

Finacial Results

		2021	
Total assets	Ushs 3.2Tn	Ushs 3.1Tn	3% ↑
Loans and Avances	Ushs 1.3Tn	Ushs 1.5Tn	10% ↑
Government Securities	Ushs 949Bn	Ushs 558Bn	70% ↑
Customer deposits	Ushs 2.4Tn	Ushs 2.2Tn	6% ↑
Credit Loss	Ushs 88Bn	Ushs 148Bn	41% ↓
Borrowings	Ushs 124Bn	Ushs 191Bn	35% ↓
Interest expense	Ushs 74Bn	Ushs 81Bn	9% ↓
Operating expenses	Ushs 228Bn	Ushs 183Bn	24% ↓

Finacial Key Performance Idicators

		2021	
Return on assets	1%	0.3%	↑
Return on Equity	5%	2%	↑
Cost to income ratio	64%	50%	↑
Liquidity Ratio	32%	36%	↓
Core capital	28%	22%	↑
Total Cpital	29%	23%	↓

Shareholder information

		2021	
Shareholders Equity	Ushs 632Bn	Ushs 594Bn	6% ↑
Proposed divends	Ushs 6Bn	Ushs Nil	100% ↑
Operating expenses	Ushs 39.40	Ushs 12.45	216% ↑

Shareholder information

		2021
Number of staff	1,174	1,074
Number of branches	55	56
Number of ATMs	72	71

2022 Financial Highlights

	2022	2021
	Shs M	Shs M
Statement of Comprehensive Income (Shs M)		
Profit before tax	**35,352**	5,885
Profit after tax	**29,476**	9,312
Statement of Financial Position (Shs M)		
Total assets	**3,243,057**	3,136,732
Loans and advances to customers	**1,361,445**	1,508,410
Investment securities	**902,379**	552,290
Marketable securities	**46,757**	6,700
Customer deposits	**2,410,593**	2,282,205
Borrowed funds	**106,073**	159,900
Subordinated debt	**18,809**	31,907
Shareholders' equity	**632,533**	594,026
Financial performance (%)		
Return on equity	**5%**	2%
Cost to income ratio	**64%**	50%
Loans to deposits ratio	**56%**	59%
Liquidity ratio	**32%**	36%
Share statistics (Shs)		
Earnings per share - basic and diluted	**39.40**	12.45
Proposed dividends per share	**8.19**	-
Capital Adequacy		
Risk weighted assets (Shs M)	**2,177,785**	2,432,361
Core capital (%)	**28%**	22%
Total capital (%)	**29%**	23%
Cash flow information (Shs M)		
Net cash from operating activities	**31,309**	18,263
Net cash used in investing activities	**(6,785)**	(12,997)
Net cash (used in)/from financing activities	**(94,321)**	(60,535)
Cash and cash equivalents at end of the year	**472,559**	542,866

Kate K. Kiiza
Chief Financial Officer

Financial Review

Economic Outlook

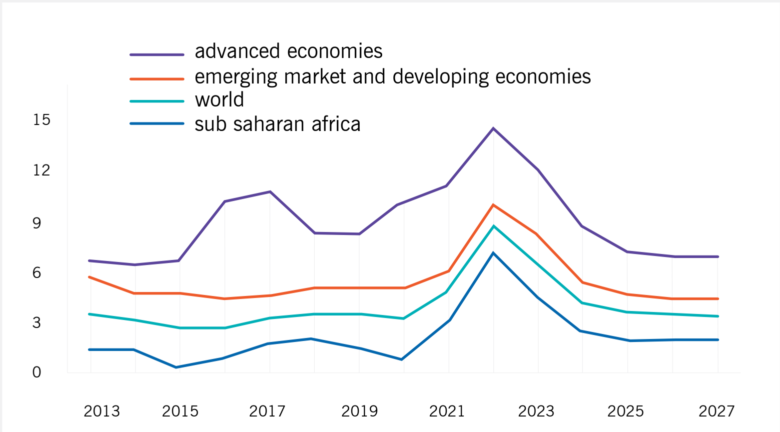
Faced with adverse consequences of the war in Ukraine, the global economy is experiencing a broad-based and a sharper-than-expected slowdown amid unusually high inflation. The outlook has progressively deteriorated as high inflation and hawkish central bank monetary policies are worsening the cost-of-living conditions and diminishing consumers' purchasing power. The actual and expected contraction in global demand is worsening the outlook and is putting the global economy on the brink of a recession. In October 2022, IMF projections indicated a sharp global output growth slowdown to 3.2 percent in 2022 from 6.1 percent in 2021 as most economies undergo significant slowdowns. Relative to the July 2022 projection, the global growth forecast for 2023 has been further downgraded by 0.2 points to 2.7 percent.

Growth in Advanced Economies is revised downwards and projected to slowdown from 5.2 percent in 2021 to 2.4 percent in 2022 and further down to 1.1 percent in 2023 largely reflecting major slowdown in the US economy. The tighter financial conditions, the gas crisis associated with the war in Ukraine combined with humanitarian costs arising from displaced Ukrainians are expected to exert a significantly drag on Euro area output. Growth is projected to decelerate to 0.5 percent in 2023, 0.7 percentage points lower compared to the July 2022 projection.

The global slowdown portends a contraction in demand for Uganda's exports while the slowdown in China and tightening global financial conditions means reduced financial support and debt distress to EMDEs and developing economies, and depreciation pressures on currencies of these economies. These would complicate both fiscal and monetary policies in these economies including Uganda.

Inflation has surprised on the upside in many economies, rising faster to unusually high levels and remain persistent. Global headline consumer price inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 and is expected to gradually ease to 6.5 percent in 2023 and 4.1 percent in 2024. Inflation projections for most economies have been revised upwards since July 2022, but the revision is especially large for advanced economies, where inflation is expected to rise from 3.1 percent in 2021 to 7.2 percent in 2022 before declining to 4.4 percent by 2023. Significant increases in headline inflation among major economies such as the US and Euro Area to 8.1 percent and 8.3 percent respectively are driving the increase for advanced economies which has seen an upward revision in headline inflation of 0.6 percentage points and 1.1 percentage points in 2022 and 2023, respectively from the July forecast. Correspondingly, the disinflation projected for 2023 is most pronounced in advanced economies even though it occurs in almost all economies for which forecasts are available due to the aggressive monetary policy tightening and the benefit of greater credibility of monetary frameworks enjoyed by these economies.

Global headline consumer price inflation and projections



Source IMF, October 2022

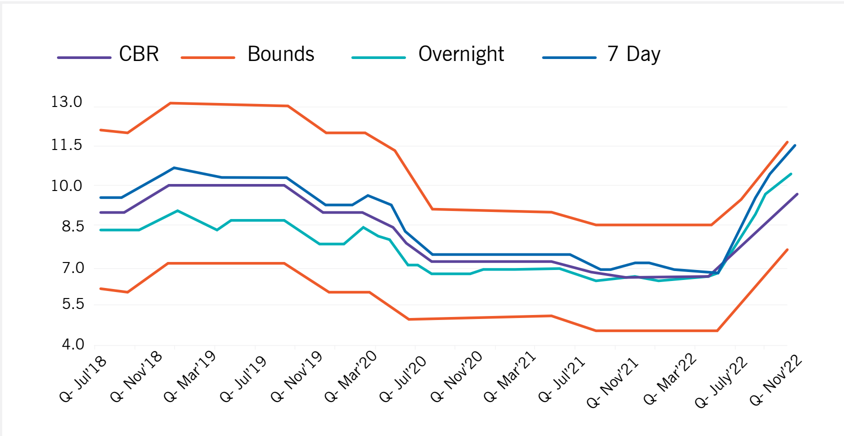
Global financial conditions have tightened sharply following aggressive central bank actions and communications to tame persistent inflationary pressures. Tighter financial conditions and fears of global recession are often associated with negative consequences for emerging market and developing economies capital flows. Indeed, higher US interest rates and the strong dollar are raising the financing costs for emerging market and developing economies, which are already generally facing real rates higher than those in advanced economies, in addition to making dollar-invoiced imported goods more expensive and boosting inflation. Thus far, this appreciation has been mainly driven by fundamental forces, such as the tightening of monetary policy in the United States that have seen the federal funds rate hiked by 3.75 percentage points since March 2022. As a result, the US Dollar has been strengthening Since March 2022 appreciating in the margins of 5 percent quarter-on-quarter. The expected slowdown in the pace of tightening in monetary policy prompted the easing of the US dollar in November 2022 and edging down of yields on treasuries in advanced economies although remain substantially higher compared to the before current Monetary policy tightening cycle.

On the domestic scene, in December 2022, the Monetary Policy Committee (MPC) kept the Central Bank Rate (CBR) unchanged at 10 percent, a level reached after 1 percentage point increase in October 2022. The lower and upper bands on the CBR were maintained at +/-2 percentage point, while the rediscount and bank rates were also maintained at 13 percent and 14 percent, respectively. The stay of CBR unchanged was deemed appropriate to deliver inflation back to the target at the time given that effects the of factors responsible for high inflationary pressures were diminishing and it was consistent with support sustainable growth yet significant uncertainty about the inflation outlook existed.

Consistent with the Monetary policy stance, interest rates in the interbank market maintained an upward trajectory in the quarter to November 2022 (Figure 4). The seven-day and overnight interbank rates treaded the upper band of the CBR, averaging 11.5 percent and 10.4 percent in the quarter under review compared to 9.5 percent and 9.0 percent respectively in the quarter to August 2022. Given the tight liquidity conditions, commercial banks stepped up their funding from the standing lending facility (SLF) to a tune of 17.42 trillion shillings during the quarter to November 2022.

Central Bank and interbank interest rates

Primary market yields rose at the short end of the yield curve and somewhat flattened at the long end. The rise in yields at short end was on account of tightening of the funding conditions and government preference to avoid locking in high interest rates for longer time. In the quarter to November 2022, yields on the 91-day, 182-day, 364-day T-bills rose by between 320 to 440 basis point to 11.1 percent, 13.1 percent, and 15.0 percent, respectively with highest increment observed for 364-day tenor. Reflecting the tight financial conditions and dynamics in the primary market, the secondary market yield curve shifted upwards and steepened at the short end. In the quarter to November 2022, treasury bill yields sharply rose most especially on the 364-day tenor, with increments ranging between 3.2 to 5.4 percentage points relative to the quarter to July 2022.

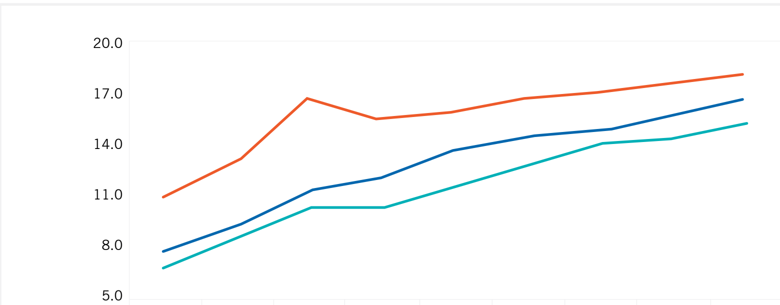


Source Bank of Uganda

Secondary market annualized yields on T-bills and T-bonds

Private Sector Credit (PSC) growth remains weak and below historical trends (Figure 7, left). Total PSC growth fell to 10.5 percent year-on-year in the quarter to October 2022, down from 10.8 percent in the quarter to July 2022. Excluding the exchange rate depreciation and capitalised interest, PSC grew at 8.2 percent in the quarter to October 2022 from 8.6 percent in the quarter to July 2022. Over the same period, growth in Shilling loans increased to 12.2 percent from 9.6 percent, while growth in forex loans declined to 6.3 percent down from 13.8 percent.

Commercial banks asset quality slightly improved as the ratio of non-performing loans to gross loans fell to 5.2 percent in September 2022 from 5.3 percent in June 2022. Declines of NPLs were observed in the sectors of transport, building, construction & real estate, community, and social and personal & household loans sectors. Going forward, improvements in NPL could reverse following expiry of the credit relief measures and due to the disruption of economic recovery.



	91 days	182 days	364 days	2 Years3	Years5	Years	10 Years	15 Years	20 Years
Q-Nov'21	6.9	8.7	10.4	10.3	13.1	13.1	14.1	14.5	15.2
Q-Nov'22	11.0	13.2	16.5	15.4	15.8	16.8	17.1	17.5	18.0
Q-Jul'22	7.6	9.1	11.1	12.1	13.7	14.4	14.8	15.6	16.6

Source Bank of Uganda

NPL Ratio	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Agriculture	5.7	5.5	5.8	4.7	4.8
Mining & Quarrying	1.2	5.5	3.9	2.2	2.3
Manufacturing	1.2	0.8	0.9	0.8	0.9
Trade & Commerce	6.7	6.7	6.9	6.4	6.4
Transport & Communication	4.5	3.1	3.8	3.4	2.7
Building, Construction & Real Estate	7.9	8.8	10.0	9.7	8.6
Electricity & Water	17.0	18.4	19.2	19.5	21.0
Business Services	4.4	4.9	9.8	7.9	10.9
Community, Social and Other services	2.7	3.2	2.8	2.1	1.9
Personal and Household loans	4.5	3.2	3.2	2.9	2.7
Other Activities	13.5	11.4	10.8	15.6	40.5
	5.4	5.3	5.8	5.3	5.2

Industry non-performing loans by sector

Inflation remains persistently high although signs are clear that it is losing momentum and peaking. The base effects associated with high prices of imported commodities are diminishing unless renewed by the escalation of the geopolitical tensions. In addition, supply chain disruptions have been easing over time. The main driver of inflation remains the lagged impact of the drought which is putting upward pressure on food prices is temporary and would dissipate soon with onboarding of current season's harvests. Indeed, annual headline and core inflation respectively edged down to 10.6 percent and 8.8 percent in November 2022 from 10.7 percent and 8.9 percent in October 2022 driven down by the drop of services inflation and a continued fall of inflation for the Electricity Fuel and Utilities category of goods.

Financial Performance Review

Below is brief review of the major assets and liabilities and how they affected the consolidated results and the drivers behind the variances year on year;

Cash and Balances with Banks

These are made up mainly of the cash we hold in our network, statutory cash reserves with Bank of Uganda, balances with other commercial Banks and repos and deposit auctions held with the Bank of Uganda for short periods awaiting suitable investment opportunities. The cash and balances with Banks reduced by 6% from UShs 746,326 million in 2021 to UShs 699,096 million in 2022, as a deliberate effort to invest more in the interest earning assets like investment government securities.

Government securities

The stock of financial investment government securities increased by 63%. The increase was part of the liquidity management strategy to take advantage of the rising interest rates in the market. The Group cautiously increased its trading positions in line with our risk management policies to prevent significant trading losses.

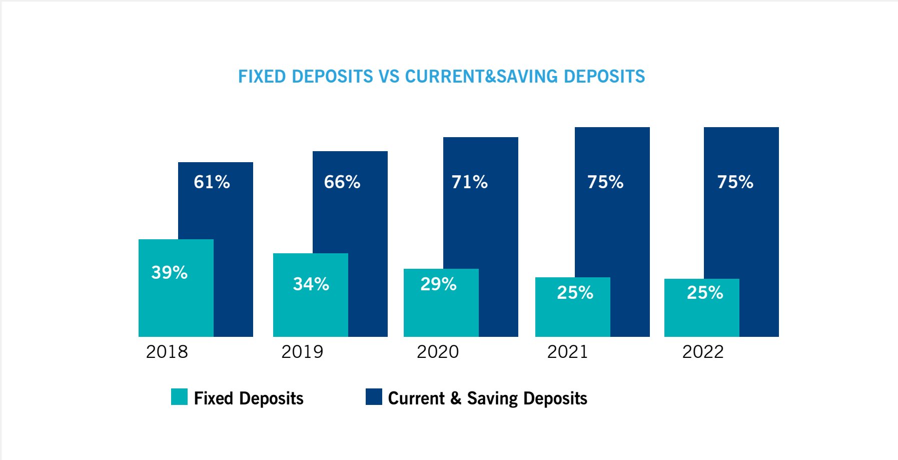
Loans and advances to customers

Loans and advances to customers dropped by 10% from UShs 1,508,410 million in 2021 to UShs 1,361,445 million in 2022 due to containment measures on customers businesses driving low credit uptake. The Group provided credit relief with restructures and moratoriums to customers affected by impact of covid-19 pandemic.
The Group continued to support customers and key sectors of the economy. Below is the composition of the loans and advances to customers by sector;

Credit by Sector	2022	2021	Trend
Agriculture	14%	18%	↓
Manufacturing	11%	9%	↑
Trade and Commerce	12%	14%	↓
Communications and Transport	8%	7%	↑
Building and Construction	12%	14%	↓
Leisure, Hotels and Accommodation	3%	3%	→
Home Loans	3%	3%	→
Private Individual	17%	12%	↑
Real Estate	16%	14%	↑
Education	5%	5%	→
Other	1%	1%	→
Total	100%	100%	

Customer deposits

The Group's deposit increased by 6% from UShs 2,282 billion in 2021 to UShs 2,410 billion in 2022. The composition of deposits has remained constant at 25% fixed deposits as part of the deliberate move to optimize funding costs by shedding or repricing expensive fixed deposits
Below is the composition of the customer deposits;



Borrowings

Borrowings reduced by 35% from UShs 191,807 million in 2021 to UShs 124,882 million in 2022 as facilities were repaid in the period, further improving our cost of funds.

Shareholders' funds

Shareholders' funds grew by 6% from UShs 594 billion in 2021 to UShs 632 billion in 2022 as result of increase in retained earnings.

Proposed dividends

At the next Annual General Meeting proposed to be held in June 2023, the directors plan to recommend the payment of a final dividend for the year ended 31 December 2022 of UShs 6,129 million (2021:Nil) or UShs 8.19 per share (2021: Nil). Payment of dividends is subject to withholding tax at rates depending on the tax residence of the shareholder.

Below is a brief review of the major income and expenditure and how they affected the consolidated results and the drivers behind the variances year on year;

Interest income

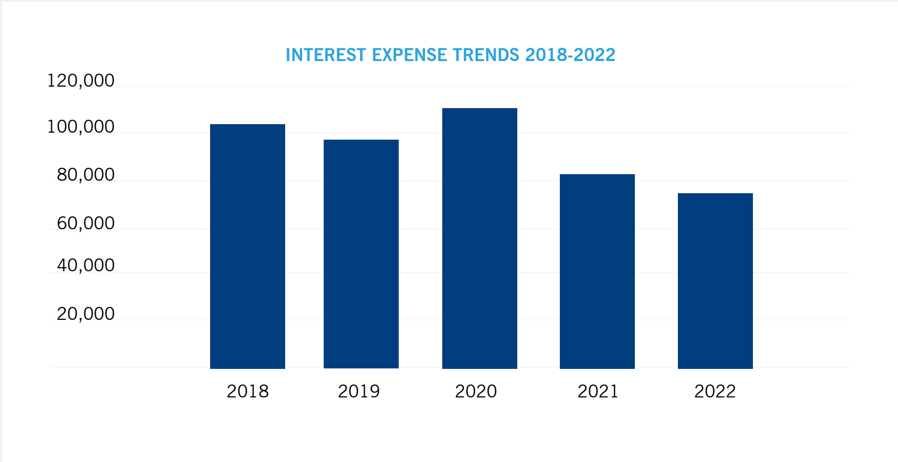
Interest income reduced by 3% to UShs 343 billion in 2022 from UShs 354 billion in 2021 arising from the containment measures on customers businesses driving low credit uptake.

Fee and commission income

Fee and commission income remained stable at UShs 62 billion. The Group continued to maintain its business activities amongst its customers in addition to the trade finance portfolio.

Interest expense

Interest expense reduced by 9% from Shs 81 billion in 2021 to Shs 74 billion in 2022. The Group took a deliberate strategy to shed or reprice expensive fixed deposits as part of wider efforts to bring down funding costs.



Net loan loss provisions and financial asset impairment charge

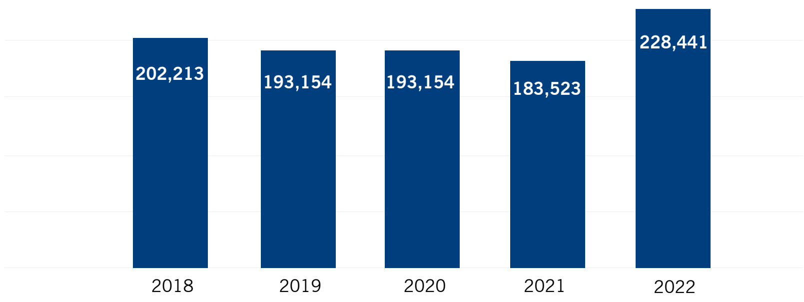
Net loan loss provisions and financial asset impairment charge reduced by 48% from Shs 179 billion in 2021 to Shs 93 billion in 2022. The reduction is as a result of the reduction in the non-performing loans (NPL) from UShs 274 billion in 2021 to UShs 107 billion in 2022. The related NPL ratio reduced from 16.3% in 2021 to 7.6% in 2022.

Operating expenses

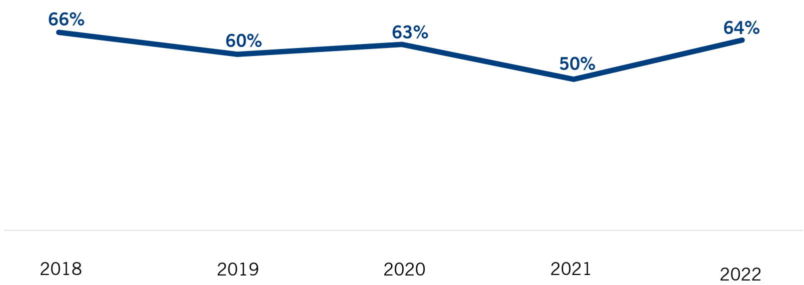
Operating expenses represent the costs that the Group incurred to support current and future revenues. Inflation and foreign exchange rates are key external indicators that contribute to the increase in such expenses. Many internal factors also affect the growth in operating expenses, such as our staff, investments in branches and IT infrastructure.

Operating expenses increased by 24% year on year from UShs 183,523 million in 2021 to UShs 228,441 million in 2022. The Group incurred a one-off legal cost amounting to UShs 39 billion relating to a claim issued in the English High Court against the Group in relation to the transaction in which **dfcu** Bank acquired some assets and assumed some liabilities of Crane Bank Limited (CBL) (then in Receivership) from Bank of Uganda (acting as Receiver of CBL) following placement of CBL under Receivership in 2017. Further details are included on Note 44(c) to the financial statements.
Further detail on the cost performance on the various lines is included on Note 14 to the financial statements.

OPERATING EXPENSE TRENDS 2018-2022



COST TO INCOME RATIO 2018-2022

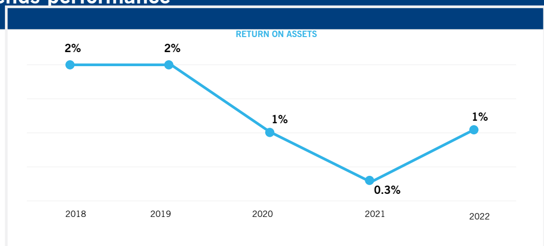
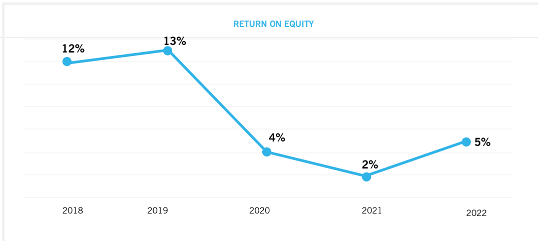
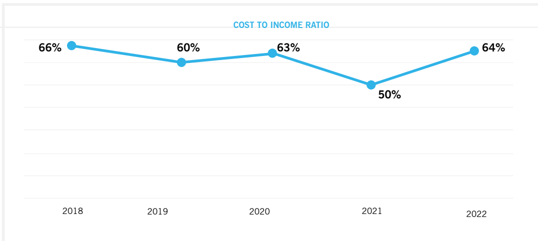


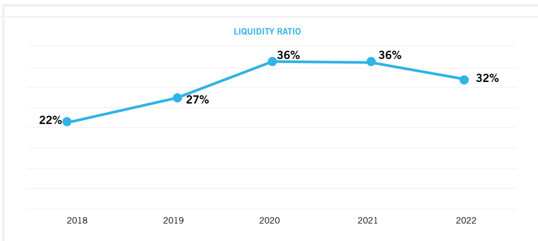
5-year Financial Performance Overview

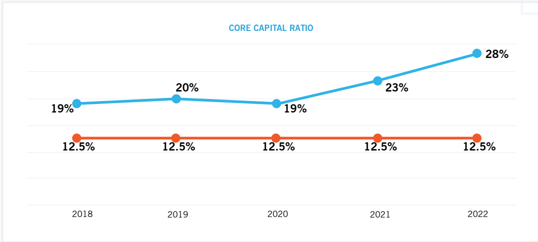
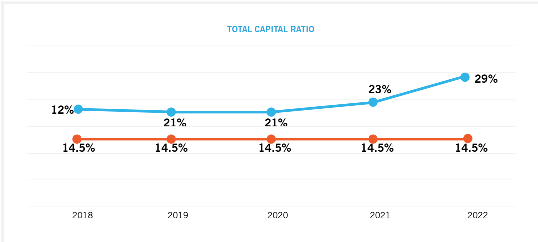
	2022	2021	2020	2019	2018
Statement of comprehensive income (UShs' m)					
Net interest income	268,787	273,290	233,388	227,498	221,172
Non-interest income	62,384	62,500	50,773	65,449	51,285
Credit impairment charge and fair value losses on other financial assets	93,120	179,219	81,120	24,879	18,836
Operating expenses	228,441	183,523	191,639	185,750	202,213
Profit before tax	35,352	5,885	31,485	100,966	84,469
Profit after tax	29,476	9,312	24,077	73,402	60,908
Statement of financial position (UShs' m)					
Loans and advances	1,361,445	1,508,410	1,775,316	1,539,323	1,398,162
Total assets	3,243,057	3,136,732	3,498,577	2,958,143	2,915,582
Customer deposits	2,410,593	2,282,205	2,595,347	2,039,037	1,979,093
Borrowings	124,882	191,807	218,412	284,561	371,006
Shareholders' equity	632,533	594,026	592,912	569,779	521,536
Financial performance (%)					
Return on equity	5%	2%	4%	13%	12%
Return on assets	1%	0.3%	1%	2%	2%
Cost to income ratio	64%	50%	63%	60%	66%
Loans to deposits ratio	56%	59%	61%	64%	52%
Liquidity ratio	32%	36%	36%	27%	22%
Capital adequacy					
Core capital ratio	28%	22%	19%	20%	19%
Total capital ratio	29%	23%	21%	21%	22%
Risk weighted assets (UShs' m)	2,177,785	2,432,361	2,451,279	2,276,976	2,167,607
Share statistics					
Number of shares in issue (in millions)	748	748	748	748	748
Earnings per share (UShs)	39.40	12.45	32.18	98.11	81.41
Dividends per share (UShs)	8.19	-	50.33	-	33.01
Other information:					
Number of staff	1,174	1,074	1,034	1,078	1,200
Number of branches	55	56	58	63	63

Number of ATMs	72	71	100	100	100

Key Financial Indicators

Key performance indicators	Target	Results	Trends performance
Return on assets (RoA)	Minimum of 3%	The RoA was 1% in 2022 compared to 0.3% in 2021. The increase in the performance was because of the profits made during the year.	
Return on equity (RoE)	Minimum of 16%	The RoE was 5% in 2022 compared to 2% in 2021. The increase is as a result of the increased profits during the year.	
Cost to income ratio (C/I)	Maximum of 70%	The C/I ratio was 64% in 2022, registering an increase from 50% in 2021. The increase was due to a 24% increase in operating expenses resulting from a one-off legal cost filed in the English court.	



Liquidity ratio	Minimum of 20%	The group maintained a healthy liquidity ratio of 32% in 2022 compared to the ratio of 36% in 2021. The Group maintained liquidity assets as a deliberate contingency plan both years.	
Key performance indicators	**Target**	**Results**	**Trends performance**
Core capital ratio (Tier 1 Capital)	Minimum of 8%	The core capital ratio remained above the statutory minimum of 12.5% at 28%. The position remains adequate to cover the asset growth registered during the year.	
Total capital ratio (Tier 2 capital)	Minimum of 12%	The total capital ratio remained above the statutory minimum of 14.5% at 29%. The position remains strong and sufficient to cover the growth of the group.	

Commercial Business Report

Robert Wanok
Head, Personal and Business Banking

Commercial Business Report | Personal and Business Banking

Delivering the power of our company to support growth of businesses

Personal and Business Banking provides sales and service and a full range of commercial financial services to personal, groups and large, medium and small businesses. Clients benefit from our wide network distribution network across the country, industry thought leadership, along with financial products including credit, treasury forex and foreign exchange, and lending products.

Our client relationship teams provide advisory and banking services to small and micro entrepreneurs, youth, women entrepreneurs, Investment Clubs, Savings Groups & SACCOS.

Our Personal and Business Banking Unit's continued success in delivering value for our customers, communities, shareholders and employees is our breadth of offerings and flexibility.

2022 at a Glance

Leveraging technology to grow lending and deposits: Overall, lending was sustained by personal lending to salaried individuals and the informal sector on the back of improved deployment of technological solutions and efficiencies in Turnaround Time. With significant growth recorded through the bank's Mobile platform, the number of retail borrowers grew by about 5.2% .in 2022

Deposits grew by 3% year on year on the back of continued innovation and solutions for Investment Clubs and SACCOs, strategic alignment to government programs driving wealth creation across the country and an uplift as result of the reopening of the economy.

Utilisation of Alternative Channels: Broadly speaking 2022 saw a growth in overall profitability for the bank driven by retail balance sheet growth and increased utilisation of the Bank's alternative channels a trend seen due to removal of COVID related restrictions on the economy.

The commendable growth in the utilisation of digital platforms in 2021, with over 70% of traffic moving from in person over the counter banking to alternative channels, continued post the lifting of Covid-19 restrictions. The ATM /Recycler channel continued to post the largest growth in customer volumes with overall transactions still migrating to digital channels at 86%, an indication that this is still the preferred channel for most customers.

Getting digital transformation at the centre of customer experience: Capitalising on the previous investment in technology, the bank saw a growth in the number of customers, increased usage of its digital channels particularly the Smart ATMs resulting in an improvement in percentage of customers using the digital channels, and Agency Banking and an improved active customer ratio.

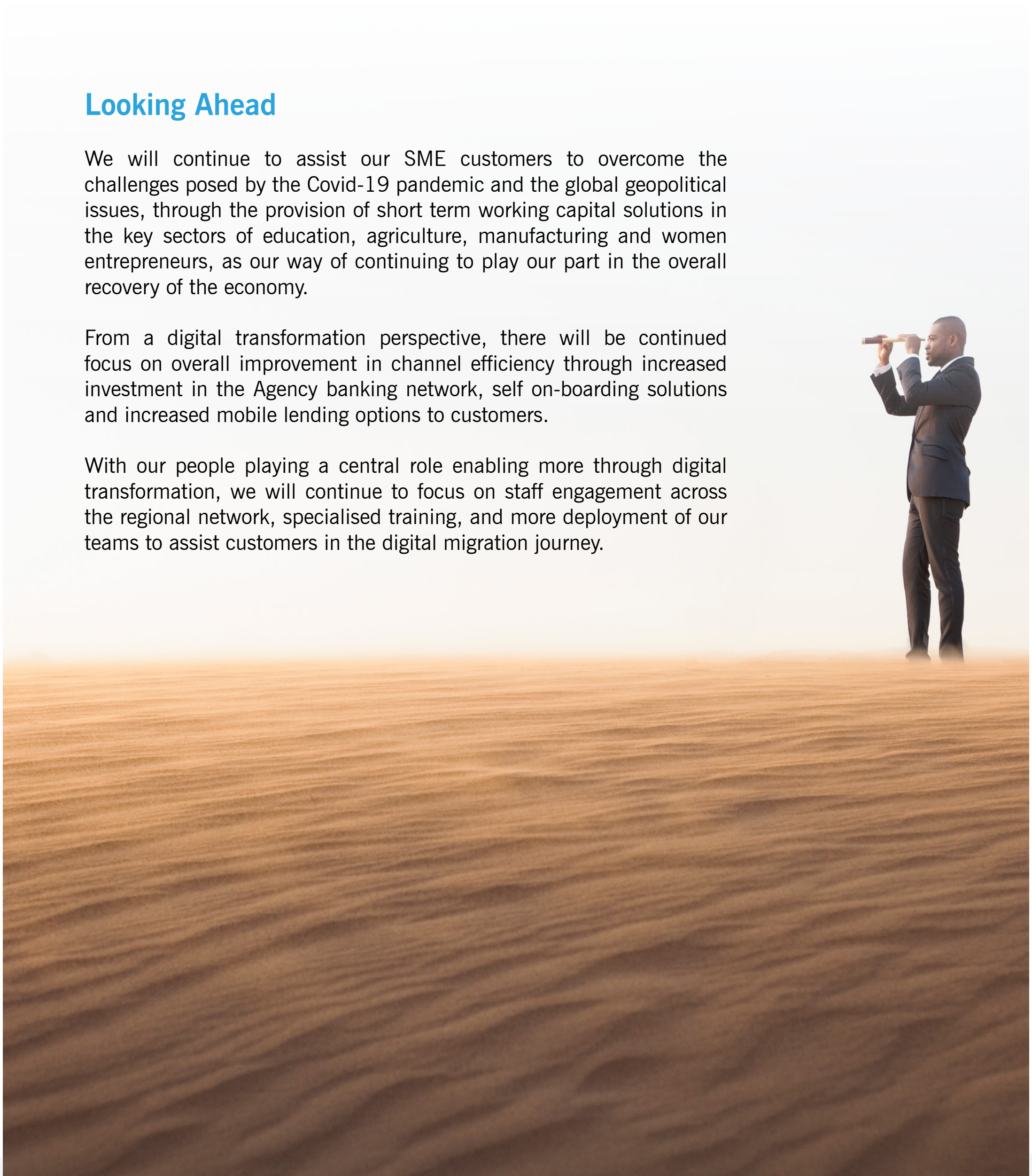
Equally important to note was the increased service satisfaction through overall growth in compliments in in-branch service, greater turnaround time for customers through consumer lending solutions and increased adoption of Trust factor authentication for Online banking transactions.

Looking Ahead

We will continue to assist our SME customers to overcome the challenges posed by the Covid-19 pandemic and the global geopolitical issues, through the provision of short term working capital solutions in the key sectors of education, agriculture, manufacturing and women entrepreneurs, as our way of continuing to play our part in the overall recovery of the economy.

From a digital transformation perspective, there will be continued focus on overall improvement in channel efficiency through increased investment in the Agency banking network, self on-boarding solutions and increased mobile lending options to customers.

With our people playing a central role enabling more through digital transformation, we will continue to focus on staff engagement across the regional network, specialised training, and more deployment of our teams to assist customers in the digital migration journey.



Godfrey Mundua
Head, Corporate Banking

Commercial Business Report | Corporate Banking

Supporting financial health of our customers today and in the future

dfcu Bank Corporate Banking, supports the financial health of customers whose sales turnover is over UGX 15bn and some whose turnover may be less than UGX 15bn but who's requirements are categorised as complex for example structured trade finance & project financing. We extend lending based on size and complexity for both working capital and capital expenditure. We manage risk through financial markets basic hedging instruments; improve efficiencies and business processes through our platforms that cover trade, payments, reporting ,and offer a broad range of advisory services through our specialised customer relationship teams.

Overall business environment - 2022

Emerging from the Covid-19 lockdown, businesses across different sectors like manufacturing started to regain operational stability in 2022 while the education sector only resumed business with the reopening of institutions of learning. We continued to see some challenges with cash flow management and scaling up of operations. The hospitality sector started picking up in 2022, with occupancy rates growing on average from 5 -10% to 20 - 40% as an indication of an economy in recovery.

In support of the education and hospitality sectors, our focus was on restructuring loans, waiving of interest rates to facilitate stabilising of cash flows, realignment of loans with post COVID cash flows ,and offering working capital to support the resumption of business.

In the agriculture sector, our main focus was the aggregators on account of the trickle down impact on small holders. Here we offered loan restructures and credit facilities for capital as a result of the support they offer to other players in the value chain e.g transport/logistics.

Other sectors like telecommunications continued to thrive, with a rise in the overall business transactions, given the role it plays in financial inclusion. We also saw business confidence growing as a result of post-covid initiatives and prospects for the economy on account of the increased activities in the oil and gas sector.

Creating value through digital innovations & strategic partnerships

Business: To improve efficiency and therefore enhance customer satisfaction, we upgraded our payment platform to lower turnaround time, provide additional functionalities and introduced service management tools. As part of enhancing our value proposition, we created efficiencies in the online platform to provide customers with a broader range of solutions to support their payments, improve reporting, and offer host to host integrations.

Agriculture: Through a partnership with Mastercard Foundation and Rabo Foundation, we continued to support the agribusiness sector with innovative solutions that link smallholder farmers to larger anchor farmers, curate data that enables us extend credit facilities to the small holders, track their performance and enable seamless transactions between the buyers and small-holder farmers. As a result of this process, we were able to extend our support across the entire value chain.

Manufacturing: In collaboration with Corelaction, we started developing a distributor management solution that supports manufacturers in the Fast-Moving Consumer Goods (FMCG) industry by linking the anchor to the distributor and availing the Bank with data to determine capital requirements for the small distributors and payment enhancements. Supported by Unilever - Uganda and some local manufacturers, the platform is due for official roll out in 2023.

Host to host integrations: By integrating the clients operating system with the Bank system, our customers are able to improve efficiencies through seamless payments, reconciliations and reporting etc. UEDCL, NSSF and Uganda Airlines are some of the companies that are currently using this service.

Looking Ahead

We will continue to support the growth of our customers directly and through their ecosystems, leveraging our specialist skills, appropriate digital platforms and thought-leadership in the fast-growing sectors of the economy like agriculture, manufacturing, trade etc where we have competitive advantage. We will also focus on cash management with a view to enhance and build new payment platforms, with a focus on improving the efficiencies to support our customers in their business processes and reporting. As part of our strategy for the oil and gas sector, we will continue supporting our customers participating in the various value chain activities as the sector continues to open up.

Julius Kateera
Head, Financial Markets

Global Financial Markets

Creating and capturing value for our clients

Global Financial Markets (GFM) is a team of product specialists that deliver integrated financial solutions including currency exchange, investment opportunities, risk (foreign exchange and investment) management solutions, and advice to Corporate, Personal, and Business Banking customers. The expertise of our team, combined with the Bank's commitment to making more possible for clients is at the core of what we do to help our clients make informed decisions and achieve financial goals.

Helping our clients navigate the economic environment

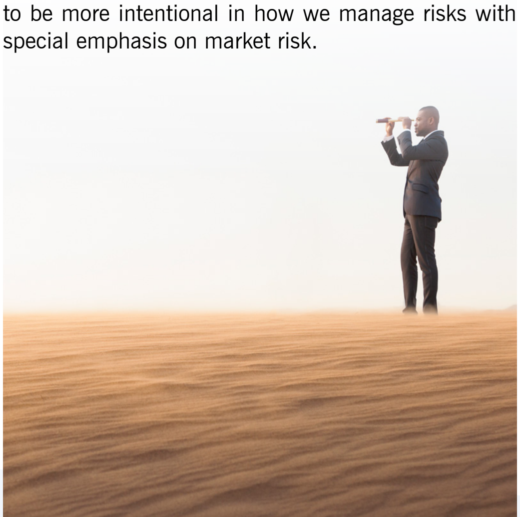
The COVID-19 pandemic necessitated large-scale borrowing to finance many critical fiscal support measures, which helped cushion the shock and prevent a more severe downturn. As the loans reached maturity in 2022, governments were faced with higher debt levels and higher real rates putting immense pressure on finances. The war between Russia and Ukraine also had a significant effect on the prices of food and energy.

Locally, Uganda saw domestic inflation hit double digits rising from 2.7% in January 2022 to 10% in September as higher food and energy prices, coupled with supply chain disruptions and rapid exchange rate depreciation put upward pressure on prices. The bank was able to support some of its clients with exposure to exchange rates by helping them hedge some of the exchange rate risk. We also provided advisory services to clients who had exposure to interest rates either as investors or as borrowers.

Despite the environment, our investments in government securities grew by 63% as part of our focus on diversifying our asset base. Net Trading Income also grew by 2% as we prudently managed the risks inherent in trading.
The continuous investment in our people through specialised training, coaching & mentorship gives our teams the right tools to make the best decisions regardless of the economic environment.

Looking ahead

Looking ahead, the collapse of regional banks in the United States like Silicon Valley and First Republic Banks, coupled with the takeover of Credit Suisse by UBS has provided us with another salutary lesson on the importance of risk management. We will need to be more intentional in how we manage risks with special emphasis on market risk.



Innovation and Transformation

Veronica Sentongo
Chief Change & Innovation Officer

Digital Transformation | Tracking Progress and Next Steps

Digital Transformation is more than just a choice the Bank has made, it has become a necessity, following the shift as a result of the Covid 19 pandemic and the key trends taking shape today. In 2022, dfcu Bank implemented its first year of the 5-year strategic plan with a renewed focus to: Embed winning Customer propositions, Become a digital and data-driven organization and Build a high-performance culture.

We prioritized laying the foundation for Digital Transformation, enrolling teams with critical skills and kicking off key Strategic projects. As we look forward to 2023, we understand that the transformation we seek is not an overnight process, but rather a long-term commitment from all stakeholders, including employees, customers, and partners.

We continue to implement key projects that will keep us on this journey, accelerate business process improvement initiatives, and scale innovation through empowered staff.

In 2022, we explored the key achievements of digital transformation, planned for the business process improvement initiatives to accelerate in 2023, and brainstormed how to further scale innovation through empowered staff.

Key Highlights

Getting our people all involved in enabling more through digital transformation.

2022 was a significant year for digital transformation at the Bank. The implementation of the 5-year strategic plan has set the foundation for a digital-first approach to business operations. Some of the key achievements of digital transformation in 2022 include the following:

1. Strategy Execution

Championed by the Bank's Senior Leadership team we carried out an extensive awareness drive aimed at achieving a cohesive understanding of the Bank's new direction among our staff. This was rolled out through the MD's Town Hall closely followed by Departmental and Branch-wide sessions.

Central to this was listening to employee views on how each staff member wanted to contribute, exploring key envisioned challenges, and enablers that would be necessary to achieve the 5-yr aspirations. This was the foundation upon which the strategy Theme sponsors and Workstream leads put to detail the respective roadmaps for the initiatives they were championing. These roadmaps have been thoroughly reviewed to confirm if they are still aligned to the overall vision, visible progress and unlocking of key results expected from the various implementations.

2. Investment Club App award

dfcu's Investment Club App has emerged as the Platinum Winner for the Infosys Finacle Innovation Awards 2023 under the category of Business Model Innovation! The App was one of over 200 nominations across 10 categories that were received by Infosys from around the world, and the **dfcu** App emerged as winner in its respective category.

In the recently enriched version, the upgraded App delivers an enhanced experience for our customers, simplifying their customer journey and makes life easier for club administrators.

With this update, administrators can now easily activate and deactivate members and update member personal details like names and email addresses with a few simple clicks.

They can also make mobile money payments to 3rd parties e.g., suppliers and members.

Club administrators can also register themselves for the App, no longer requiring them to visit a branch and fill out a paper form. The new streamlined registration process is done entirely online, making it simpler and more convenient.

This award is a true indication of innovation excellence within **dfcu** Bank.

3. Architectural Modernization

A critical part of unpacking the Bank's strategy is the next level architecture to articulate the current state focusing on how technology supports the Bank's operations. In 2022, we reviewed in detail the desired state, and a clear transition plan on how the current architecture would evolve to reach the desired state - with an initial focus on our Payments and Credit architectures. The Bank has already embarked on implementation of a modernized payments architecture in the context of future-proofing the bank's payments value chain. This will ensure that a flexible, agile, and cost-effective platform is installed to achieve the set-out strategic objectives.

4. e-Channel Enhancements

The Bank's customer e-Channels, collectively referred to as the QuickBanking suite, are a critical part of our digital transformation agenda and this is reflected in the transaction volume/value growth since inception. The channels include: the Quick Banking web, mobile and USSD applications for both Retail, Business and Corporate customers. Ensuring that these channels are fit-for-purpose in a continuously evolving market is therefore a key priority for the Bank.

In line with this, in 2022, the Bank continued to introduce enhancements to the QuickBanking suite of applications. These upgrades included enhancements and new features, some of which were in response to user feedback. One major new feature was the Online Account Opening feature dubbed "Ku Spot", enabling customers to open accounts online, thus reducing the need for physical branch visits for new **dfcu** customers. We also used this opportunity to streamline our account opening process resulting in a reduction in the time it takes to enroll new customers.

Other enhancements included: the ability for a customer to input their negotiated forex rates for online transactions, automated processing of International Payments to reduce the Turnaround time, the ability to apply online for Trade financing and the ability to withdraw from your account without using an ATM card.

5. Improved Stability of the Channels to increase Service Delivery

Historically, the Bank has relied on third party partners to offer certain digital services. While these relationships present various benefits to the Bank, they at times, could also present disadvantages including increased risk of fraud, reduced quality of service standards, and inability to robustly enhance these services as/when the need arises.

Prior to 2022, the Bank made the strategic decision to reduce its dependency on third parties for customer-facing services. To this end, firm steps were taken to execute this strategy. Some of the following projects were either initiated or registered a substantial amount of progress during the year, and are expected to be accomplished in early 2023:

a) Enhancement of the Agent Banking system to ensure that there is a single customer experience across all our agents.
b) Direct connection to MTN and Airtel to allow for seamless transactions between the customer's Bank accounts and their Mobile wallets.
c) Enhancement of the USSD customer experience to increase the transaction success rate.
d) The adoption of Cloud Computing and Cloud hosting of some of our platforms

6. Process Efficiency through Automation

The Bank's process improvement initiatives have resulted in increased productivity, less errors, and greater efficiency within Human Capital Operations and Retail Credit Operations.

By simplifying and standardizing its HR operations, the Bank can process employee data and requests more expeditiously and accurately. Through credit process improvement initiatives, the Bank has been able to streamline the Retail loan approval process, resulting in faster decisions and fewer errors through further enhancements to the Loan Origination System.

These improvements have allowed the Bank to serve its customers more effectively and efficiently, ultimately resulting in increased productivity and customer satisfaction.

Looking forward to more in 2023

Placing digital at the centre of our customer experience.
As we look forward to 2023, the Bank will focus on further accelerating business process improvement initiatives to streamline operations, reduce costs, and improve customer experience. Key areas of focus include:

1. **Improved Customer Experience:** The Bank will focus on enhancing customer experience by leveraging digital technologies to offer seamless services across channels. This will be achieved through automation of key internal bank processes to reduce manual intervention, errors, and processing time. We are also adopting the Agile methodology for project management to enable faster project delivery and customer feedback response times, reduce time to market, and improve collaboration across internal bank teams.

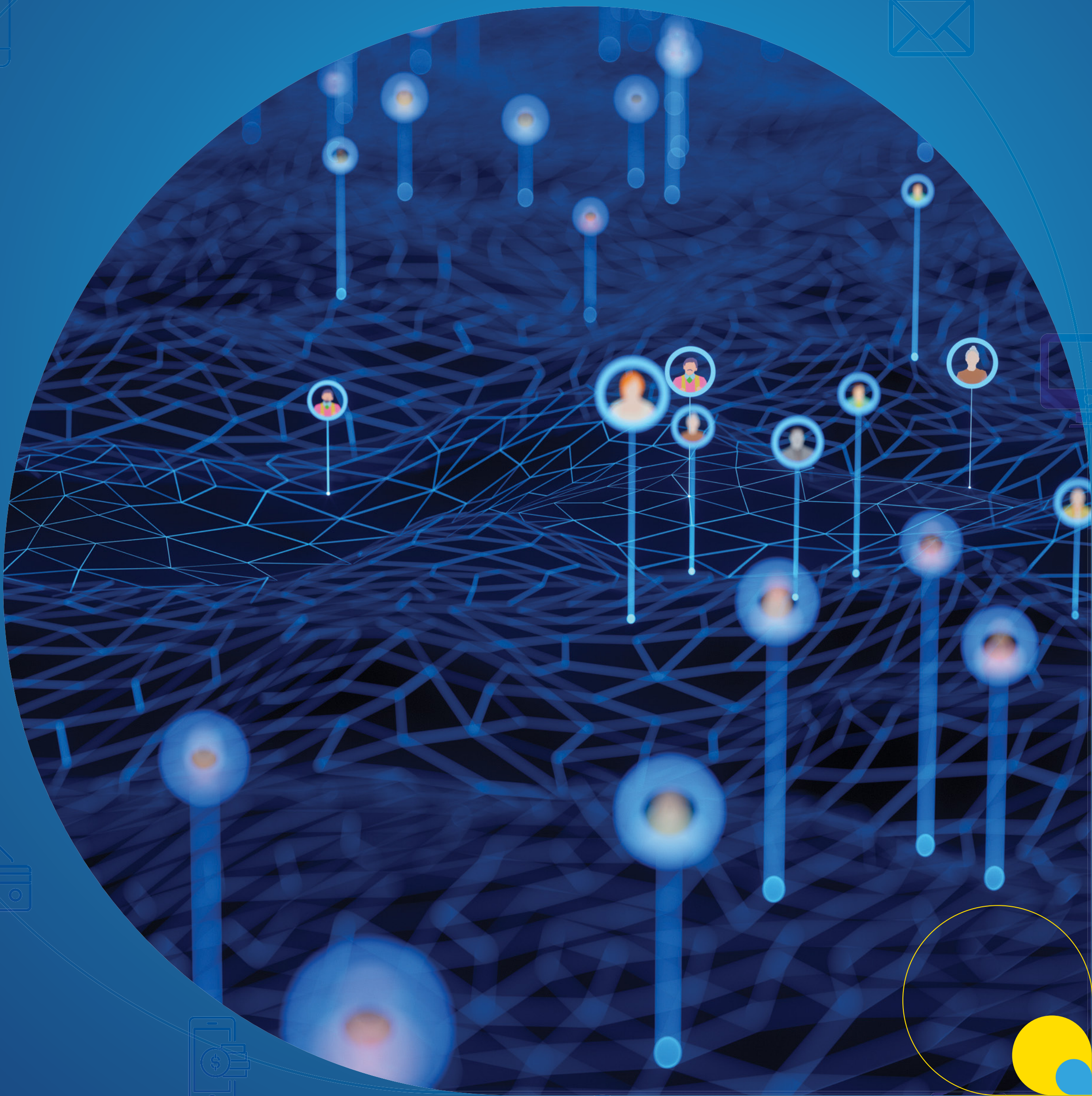
2. **Agent Banking Optimization:** As mentioned above, following considerable development progress in 2022, the Bank will be transitioning to its new and improved Agent Banking platform, and this is expected to create consistency, reliability, and stability across its network. Further refinement and enhancements will be carried out throughout the year as we seek to optimize the channel and maximize customer satisfaction.

3. **Platform/Value Chain Enablement:** We will continue to leverage our key strategic partnerships with various partners (e.g. Arise, Rabobank, MasterCard, etc.) to digitize the payment value chains within the SME and Agriculture space. This will allow ease of access to credit for farmers, FMCG suppliers and their distributors.

4. **Scaling innovation through empowered staff:** To foster an innovation culture, where dfcu Bank employees are encouraged to share ideas, experiment, and take calculated risks; there will be an increased focus toward creating the right opportunities to challenge each other around current business challenges, and promotion of collaboration forums linked to reward and recognition.

Digital transformation requires specialized skills, such as Data Analytics, Digital Marketing, Artificial Intelligence, Cloud Computing, and Machine Learning. To overcome this challenge, the Bank will continue to invest in talent acquisition and retention, by offering training and development programs, competitive remuneration, and a workplace environment and culture that our people will thrive in.

***dfcu** Bank continues to adopt modern technological execution methods like: Cloud Computing, Lean Manufacturing, Robotic process automation and the Agile Methodology throughout the Bank. This has seen us attain stability across our channels and reduced our time to market – thus enhancing the Bank's responsiveness to the changing customer requirements.*



Supporting Our Staff

Human Capital Management Update 2022

Our people make all the difference

We are committed to building a healthy environment that is aligned to our vision of transforming lives and businesses through innovative solutions and empowered people. A workplace that encourages and values the unique differences our people bring with them to work every day, and where everyone can reach their full potential. In order for us to grow our business in a way that delivers value for our customers, communities, colleagues and shareholders, we need to put our purpose at the front and centre of every decision we make.

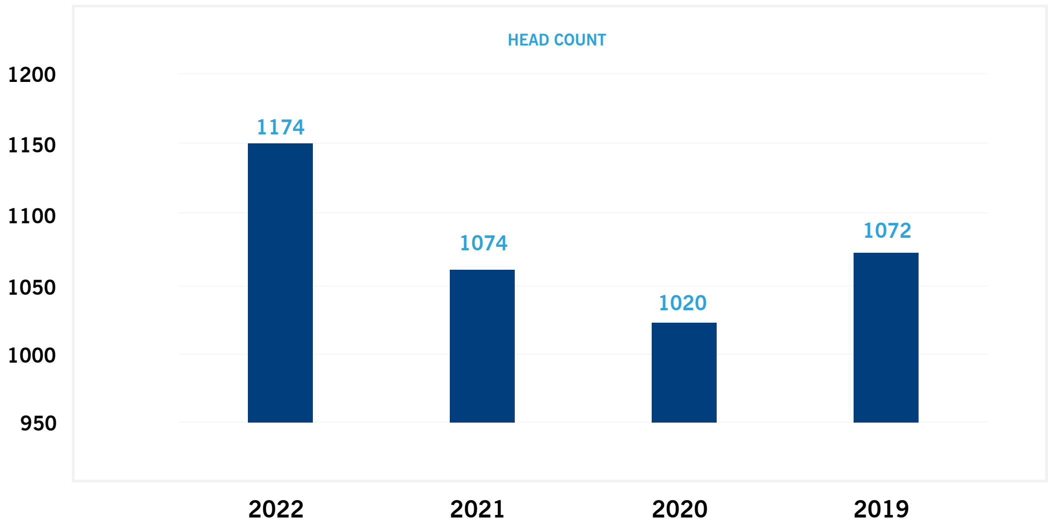
Attracting talent

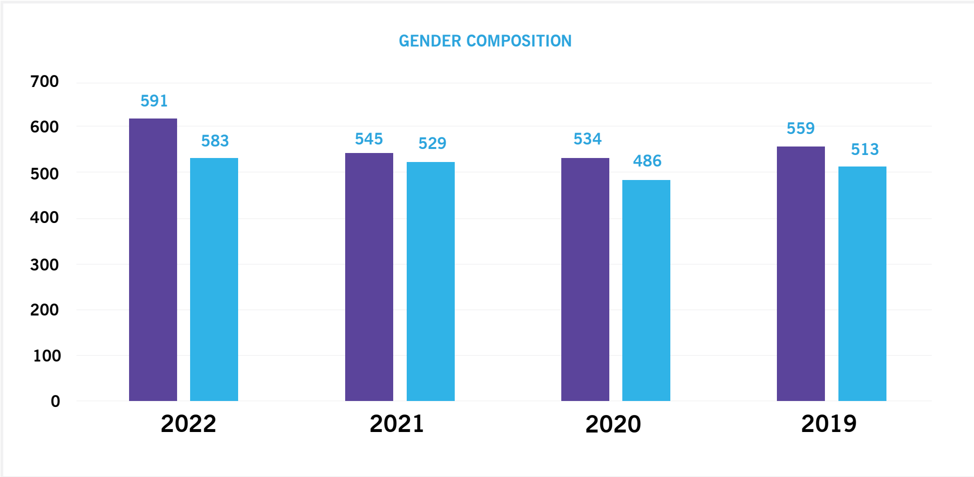
Building a strong pipeline of talent means finding candidates who are committed to our purpose and have a passion for serving our customers and communities. Through our rigorous talent acquisition processes, we are committed to attracting the best talent from the market by using a combination of methods including but not limited to; Psychometric/aptitude/ skills assessment tests, Written interviews, Oral interviews and Situational interviews among others.

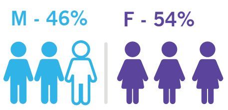
dfcu Bank closed the year 2022 with a headcount of 1,174 an increase of 9.3% from the previous year. The key driver here was the new roles created to support the Data and Digital agenda central to achieving our strategic initiatives for the next 5 years. We saw a slight increase in female employees from 51% from 2021 to 54% in 2022 and a slight drop in male employees from 49% in 2021 to 46% in 2022. We continue to emphasise fair employment practices in all our recruitment practices.

Headcount

	2022	2021	2020	2019
Staff Headcount	1,174	1,074	1,020	1,072
Female Employee	591	545	534	559
Male Employees	583	529	486	513
Employee Turnover	4.0%	6.2%	2.3%	4.1%







Retaining exceptional talent

Our employee turnover reduced from 6.2% in 2021 to 4.0% in 2022 as a result of heightened people initiatives implemented throughout the year which enabled the improved staff retention levels.

A key aspect of responsible growth is attracting and retaining exceptional talent from the market. This starts with how we recruit new talent and extends to the many ways we support their professional development and career growth once they're here. For our leaders and managers, we offer a range of development programs to help cultivate their skills. These programs provide assessments, professional coaching and tactics to help leaders progress in their careers and strengthen our leader pipeline for future roles.

a) The CEO Apprenticeship program: This program targets senior leadership (ExCo and their immediate successors i.e., qualifying ExCo-1). As part of the program that was introduced in 2019, we have trained over ten senior leaders.

The program is designed for future-ready CEOs from the top Tier 1 companies in Uganda, and it is conducted through a series of sessions that comprise 4 modules (12 months). The program integrates key management concepts and best practices to develop strategic thinking and leadership skills as well as enhance an integrated view of the business landscape in relation to market dynamics.

b) Female Future program: This program supports the diversity agenda of the organisation fast tracking the focus on female leadership. Mainly targeting senior managers (ExCo-1 and ExCo-2) this program is also central to the succession planning process. Since inception five years ago, ten female staff have benefited from the programme and have moved on to grow through the ranks into more senior roles within the Bank.

In 2022, 45% of the female workforce held managerial positions with 57% female representation at the executive level.

c) Rabobank partnership Future Leadership Program: This coveted program is offered to employees who are considered exceptional performers having achieved a 5 rating i.e., exceed their annual performance target and live the dfcu Bank values. It is the preserve of the winners of the Annual Dr. William Kalema Award for Excellence and has been in existence since 2012.

To date 10 employees have benefited from the programme that involves participating in the Rabo Bank Partner Bank Talent Program, Netherlands, for a 12-week attachment program that helps them to gain practical international experience during the program.

Innovation and people empowerment as key drivers for transformation

Our aspiration to transform lives and businesses through innovative solutions and empowered teams is underpinned by three pillars one of which is to build a high performance culture within the organisation. The three thematic areas below, broadly define our focus.

1. Purpose: Creating a sense of purpose for our people within the bank through inspirational leadership, personal ownership and employee involvement is crucial. Our key interventions in this space include:-

a) Employee Assistance Program (EAP):- The EAP is a voluntary, work-based program that offers free and confidential assessments, short-term counselling, referrals and follow-up services to staff dealing with personal and/or work related challenges.

b) Bankers Sports Gala:- the last 18 years, our various sports teams have taken part in the annual bankers gala with several accolades over this period. In 2022 we participated and emerged second best overall winner having scooped the best awards in various disciplines.

c) Customer service week:- Our staff joined the rest of the country in marking the annual customer service week in October under the theme, "Celebrating Service". During the week, we held a number of Corporate Social Responsibility (CSR) activities involving the Bank's customers.

d) Cyber security month:- In order to drive enhanced awareness of cyber security risks, we run internal campaigns to ensure our people's understanding of the nature of cybersecurity threats, how these threats can affect organisational security, and what they should do if they encounter any threats.

2. Innovation: Fostering the voice of innovation through managing improvement ideas, recognizing, or incentivizing innovation and supporting creativity that leads to impact.

a) Our Learning and development function focused on both soft and technical skills development that are aligned to the future needs of the organisation achieivng 85% of our training plan in 2022. We also continue to develop our staff professionally and have some of our people completing ACCA, CIPD, ICSA to mention but a few.

b) We have a comprehensive reward and recognition framework where we reward staff holistically and also incentivize individuals who go above and beyond the call of duty to achieve a business objective and deliver value to our clients. In December, during the staff end of year party, we recognized over 20 staff.

3. Execution: Driving execution and high performance through performance transparency and Talent development.

a) Our performance philosophy is transparent and aligned to the overall strategy of the bank, it's centred on our key pillars which are our Customers, People, Financial as well as Process & Risk.

b) The talent management framework is geared towards developing staff internally with external hires only considered under circumstances where we don't have the requisite skills internally for managerial roles.

Conclusion:

The Bank is an equal opportunities employer and our aspiration is to become the employer of choice in the country. We are committed to creating value-adding employment opportunities and in 2023, our key focus areas will be:

- Retention of our high performing employees
- Culture transformation programs and initiatives
- Improved employee engagement score from 75% in 2022 to 85% in 2023
- Leadership Development through our vibrant succession plans and talent management initiatives.
- Creating a learning organisation through the various training opportunities


dfcuBANK

Risk Management and Control

Victor Rugeiyamu
Chief Risk Officerr

Risk Overview

2022 was a year marked by an improvement in the overall financial performance of the Group when compared to 2021, on the back of concerted efforts to de-risk the Group's balance sheet and improve the Group's risk management processes and posture. Improvements in key risk management ratios were seen in 2022, examples of which include our Non-performing Loan (NPL) and Credit Loss ratios, while impairment-related losses also reduced year-on-year by 41%. Our NPL ratio, however, continued to remain above the 5% threshold in 2022 as guided by Bank of Uganda, due to a few stressed accounts.

Impairment related losses reduced year-on-year by 41%.	**NPL ratio above the 5% threshold**

The global high inflation rate regime as well as other challenges in both the domestic and global economies were exacerbated by the geopolitical conflict that began in Eastern Europe in 2022. These headwinds continue to increase the risk of doing business and will impact how the Group assesses and navigates emerging risks as it pursues its key strategic objectives in 2023 and beyond. We will continue to focus on maintaining a prudent risk appetite in all areas of our business, as we carefully position ourselves to gain from any upside opportunities.

Operational risk continues to be high and remains closely monitored. In 2022 the financial services sector was targeted repeatedly by fraudsters and criminals. The main area of vulnerability for many institutions was in the cyber realm. In addition, the third-party risk remains an area where threat levels remain elevated due to the various linkages between institutions and their many vendors and service providers. In response, in 2022 the Group instituted a new third-party risk management framework to better control the risk emanating from third parties, while several other interventions were also made to strengthen our overall control posture in the operational risk and cyber risk realms.

On liquidity, interest rate, and solvency risk, the Group stayed within its key ratios as defined by our Risk Appetite Statement in 2022, and for the first time, the Group submitted its Internal Capital Adequacy Assessment Process (ICAAP) document to the Regulator for appraisal in 2022. ICAAP is a regulatory framework that aims at appraising the levels of capital adequacy of financial institutions as well the robustness of their risk management practices. Our ICAAP appraisal by the Regulator in 2022 led to an additional Pillar Two capital buffer requirement of 2.13 percent which the Group ably accommodated due to its healthy capital reserves.

The Group was rated "marginal" at year-end 2022 by Bank of Uganda from an earlier position of "fair" on its CAMELS rating. CAMELS is an international rating system used by banking regulators to rate financial institutions according to the six factors represented by its acronym. The CAMELS acronym stands for "Capital Adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity. Our rating was mainly impacted by asset quality, which in turn impacted our earnings. This new rating had a knock-on impact on the amount of deposit insurance premium that we pay to the Deposit Insurance Protection Fund for the customer deposits that we hold. With a renewed focus on performance, we are confident of a better CAMELS rating in 2023.

Finally, there were several new regulatory requirements in 2022 including the new Bank of Uganda Corporate Governance Regulations. Another significant new regulatory requirement is the new guidance on capital requirements for commercial banks which establishes a new minimum of UGX 150 billion in paid-up share capital. The Group has already comfortably met this new requirement for capital due to its robust capital reserves and remains focused on continually complying with all its regulatory obligations.

Risk Management

dfcu Group defines Risk as the danger of possible losses or profits foregone due to internal or external factors.
dfcu Group's activities give rise to various financial as well as non-financial risks. Financial risks are categorized into Credit, Funding Liquidity, and Market risk. Whereas the non-financial risks include Reputational, Compliance, Third party, Strategic,Operational, and Cyber security risks.

To ensure agile financial performance and the prudent management of its risks, the Group has prepared and implemented a robust Enterprise Risk Management framework (ERMF) approved by the Board of Directors, for the identification, measurement, monitoring, management, control, and reporting of the potential risks that the organization faces or which it may potentially have to face in the future. The Board of Directors annually reviews this approved Enterprise Risk Management framework as well as our Risk Appetite Statement to deal with underlying risks of special importance to the Group.

How We Manage Risk

We manage risk by:

Taking a holistic forward-looking view to identify the risks that we face.

Assessing threats and opportunities in our operating environment.

Being consistent in our approach to risk and capital management, with guidance from our well-developed Enterprise

Risk Management Framework.

Risk Governance

Our risk governance framework is key to the identification, measurement, monitoring, and controlling of risks. The framework provides a basis for the board and senior management to establish the appropriate guide rails so that risk-creating activities are performed with the right mindset and are within risk appetite that's aligned with the broader strategic objectives. All employees are responsible for the management of risk, with the ultimate responsibility residing with the Board.

Identify

Measure

Monitor

Control

The Board of Directors determines the strategic direction of the Group and agrees on the nature and quantum of the risk that it is willing to accept to achieve its strategic objectives. The Board is supported by the Group's Executive Management team, who avail regular reports to the Board depicting the risk landscape and detailing newer emerging risks that may impact the Group's main business strategies and key objectives. These reports also include potential strategies to drive long-term shareholder value for the Board's consideration.

Reporting and Committee Structures

The Board delegates its Risk Management oversight responsibilities to specialized Board sub-committees which focus on different aspects of Risk Management. The full Board receives regular updates on the key risks facing the Group and these are benchmarked against the Group's defined risk appetite and set targets. The Board Risk Committee (BRC) is the main Board sub-committee with designated responsibilities for the oversight of Risk Management within the Group.

Three Lines of Defense

THE FIRST LINE OF DEFENSE.

This is comprised of the revenue-generating and client-facing areas of the Group along with all associated support functions, including the branch network, Global Financial Markets, Human Capital, Operations, and Business Technology. The first line identifies the risks, sets and evaluates controls, and escalates risk events to the second line of assurance. An upcoming enhancement to the first line of defense is the creation of an Internal Controls Unit that will be created in 2023 to serve as the central focal point for the coordination and management of first-line risk Credit

THE SECOND LINE OF DEFENSE

This consists of the Risk Domain and the Compliance functions. It oversees the first line by setting limits, rules, and constraints on its operations consistent with the overall approved risk appetite of the Group. This function also provides an independent assessment of the risks created by the first line and oversees compliance with the defined risk appetite.

THE THIRD LINE OF DEFENSE

This is the Internal Audit function which provides independent assurance and review to the Board and Executive Management team on the overall state of the effectiveness of the Governance, Risk Management, and Control structures of the Group. Although the legal function does not sit in any of the three Lines, it works to support them all and plays a key role in overseeing Legal Risk throughout the Group. The Legal function is also subject to oversight from the Risk Domain and Compliance functions (second line) concerning the management of Operational Risk and Conduct Risk.

Our Risk Universe

Our Risk universe represents the Principal Risks that are core to our business. These are annually reviewed for changes to ensure the residual exposures are within the appetite.

Credit Risk

Credit Risk is the risk of loss to the Group arising out of the failure of obligors to meet their financial or contractual obligations when due. The Group's Credit Risk arises mainly from its lending activities to customers but also from interbank lending and investment in securities. It's composed of obligor risk, concentration risk, and country risk. It represents the largest source of risk to which the group is exposed.

Strategic Risk

This is the risk to an organization's earnings, capital, or reputation arising from changes in the environment the organization operates in due to adverse strategic decisions, improper implementation of those decisions, or lack of timely responsiveness to industry, economic or technological changes.

Operational Risk

Operational Risk is the risk of loss to the Group arising from inadequate or failed processes, systems, human factors, or due to external events where the root cause is not due to credit or market risks.

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, foreign exchange rates, and other securities whose values are set in a public market. Market risk also includes solvency risk – namely the risk that the Group does not maintain sufficient capital ratios and buffers to allow it meet its regulatory and internal capital buffer obligations and requirements..

Liquidity Risk

Liquidity Risk is the risk that the Group does not always have sufficient cash and cash-equivalents available to meet its contractual and contingent cash flow obligations or can only secure these resources at an excessive cost.

Cyber Security Risk

Cyber risk is an area where if exploited, could be leveraged by a cyber-attack. Cybersecurity risks relate to the loss of confidentiality, integrity, or availability of information, data, or information (or control) systems and reflect the potential adverse impacts on organizational operations.

Compliance Risk	Reputational Risk	Third-Party Risk
The risk of legal or regulatory sanction, financial loss, or damage to reputation that **dfcu** group may suffer because it failed to comply with laws, regulations, codes of conduct, internal policies, and standards of good practice applicable to its financial activities.	The risk of potential or actual damage to **dfcu's** image which may impair the profitability and/or sustainability of its business.	This is the potential risk that arises from **dfcu** group relying on outside parties to perform services or activities on their behalf. Defenses can be breached and so the Group must accelerate its efforts and tempo to ensure that the right levels of cyber security training and sensitization are available to its employees and external stakeholders.

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 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 organization. It explains the risk tolerance of the company both qualitatively and quantitatively. Qualitative measures are by nature not easily quantifiable but relate to the guard rails, controls, and containment measures that the Group sets in place to ensure the successful realization of the Group's main business goals and strategies.

Quantitative Measures	Qualitative Measures
These provide quantifiable risk limits and levels of risk tolerance and are critical in implementing effective risk management. Risk appetite represents an organization's willingness and ability to accept Residual Risk up to a predetermined quantum.	These are by nature not easily quantifiable but relate to the guard rails, controls, and containment measures that the Group sets in place to ensure the successful realization of the Group's main business goals and strategies

Quantitative measures provide quantifiable risk limits and levels of risk tolerance and are critical in implementing effective risk management. Risk appetite represents an organization's willingness and ability to accept Residual Risk up to a predetermined quantum.

The Group implements its risk appetite in the form of various limits as encapsulated in the Group's Risk Appetite Statement.

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
- 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 Committee and ensures that risk appetite is in line with Group strategy and the Group's desired balance between risk and reward.

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 for proactively managing the Group's risk profile, as well as for strategic business and capital planning. 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, as well as the group's internal capital buffer limits.

The Executive Management team and Board of Directors periodically review the outcomes of the stress tests performed with the key focus being on their impact on Earnings and Capital Adequacy. This then informs the Group's decision-making in terms of pursuing or avoiding certain opportunities or activities based on their impact on earnings or capital. Under all scenarios, the Group should never greenlight a course of action that would expose it to the risk of potentially going below its minimum capital adequacy threshold requirements.

In 2022, the Group enhanced its stress testing framework by developing a more robust Integrated stress testing tool and framework. In addition to that, the group also conducted Bottom-up stress tests for Domestic Systemically Important Banks (DSIBs) in conformity with BOU stress testing guidelines. The new stress testing framework aims at simulating the impact on the Group in terms of profitability and capital, where a range of negative scenarios is to materialize and become a reality. It also prepares mitigating actions to lessen the potential impact from the crystallization of these scenarios, and in this way is a useful tool for key decision makers at Board and Management level to proactively prepare for an adverse operating environment.

Our stress testing process is also heavily linked to the development of our ICAAP document, which was submitted to the Central Bank for the first time in 2022.

Credit Risk

Year in Brief 2022

In 2022, the Group maintained a conservative approach towards the management of Credit Risk considering the unpredictable macroeconomic environment that prevailed post-Covid. This allowed for the remedying of certain portfolio quality challenges emanating from the Covid-19 pandemic and its associated containment measures of 2020/21. Although gross loans reduced by 9.7%, impairment on loans improved significantly by 41% from UGX 148 Billion in December 2021 to UGX 88 Billion. The credit loss ratio closed at 6.5% down from 8.3% reported in December 2021. Similarly, the Non-Performing Loans ratio (NPL) reduced materially from 15.45% in December 2021 to 7.46% in December 2022. This was on the back of a pickup in business activity, coupled with the implementation of several initiatives aimed at ensuring sustainable growth and good portfolio quality. Among the initiatives taken were the following:

- Maintaining a robust credit risk policy and control framework to foster an appropriate culture of responsible lending.
- Close surveillance of the macroeconomic operating environment to drive timely response to new developments as well as emerging risks and ensure the adoption of relevant strategies to protect the Group's position.
- Proactive identification, assessment, measurement, and monitoring of credit risk from an individual facility level through to an aggregate portfolio level with extra emphasis on managing counterparty and/ or sector concentration.
- Leveraging data and technology to improve the Group's end-to-end credit management process.
- Defining and implementing relevant Risk Appetite limits, monitoring the Group's credit risk exposure relative to the approved limits, and continually re-evaluating the appropriateness of the limits under actual as well as stressed conditions.

Focus for 2023

Looking forward to 2023 and beyond, the Group will continue to implement an aggressive approach toward fostering a healthy credit risk culture and improving portfolio quality. Among the strategies to be adopted is;

- Continuing to leverage data and technology to improve the Group's end-to-end credit management process such that the lending service is more convenient, efficient, and affordable.
- Reinforcing rigor engagements and capacity-building initiatives with the first line of defense as well as creating a transparent and safe environment for employees to communicate credit risk concerns.
- Strategic diversification of the portfolio across products, geographies, client segments, and industry sectors to manage concentration risk.

Operational Risk

Year in brief 2022

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.

The Group can be impacted by a range of operational risks that are inherent in the Group's strategy and business model. The Group continued to ensure the operational risk management framework supported the business and functions effectively in managing risk and controls within risk appetite to its strategic objectives.

Overall, the Group's operational risk profile was stable, with the quality of risk management improving in the three lines of defense. Our control framework will be further bolstered by the imminent introduction by the Group of an Internal Controls unit, to complement the activities of assurance providers in our second and third lines of defense. On people risk, the Group's regrettable attrition rate remains below the financial industry average. However, Operational and Technology Risks remained heightened in areas such as Fraud, Information, and Data Management, Cyber Security as well as Third Party Risk. The Group continued to enhance its operational resilience and defenses against these risks throughout the year.

In the year 2022, the Group experienced 2 medium-risk operational incidents. One was a loss we suffered arising from a suspected Cyber-attack on a third party who was supporting part of our agent banking network and the other was orchestrated by global fraudsters and eventually withdrawing funds through our Visa debit card channel. These incidents had no adverse impact on customer transactions or balances and enhanced operational safeguards were introduced to the two channels to prevent future recurrences.

Strengthening the cyber security posture of dfcu Group remains a top priority, notwithstanding the heavy investment required to achieve a mature Cyber resilient business. In addition, we have a deliberate focus on the management of third-party risks as we continue to partner with a number of them to drive the group's digital strategy.

The Group functions in a highly competitive market, with market participants that expect consistent and smooth business processes. The loss of or disruption to business processing is a material inherent risk within the Group and across the financial services industry, whether arising through impacts on the Group's technology systems, real estate including its retail branch network, or availability of personnel or services supplied by third parties.

Business continuity management is also an integral component of the group's operational Risk Management Framework. Robust Operational resilience is achieved through active assessment of the changing business environment, reference to and incorporation of updated and emerging best practice standards worldwide, pre-planned simulations, desktop assessments, and interrogation of identified risks and threats to the operational continuity of the Group. Contingency and recovery plans for critical 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. Crisis Management teams have been formed in the bank and simulations are regularly performed to ensure the teams are prepared and ready to handle any eventuality. The Group also maintains a robust Disaster Recovery site, to allow for seamless continuity of service to our customers in the event of any significant disruptions or failures on our primary infrastructure. The Group performs regular contingency planning and testing to ensure that it remains ready to serve its customers in the event of any system disruptions.

Focus for 2023

In the year 2023, the group will focus on embedding the right risk culture by driving accountability for risk decisions and control at all levels of the organization. The strengthening of the first line of defense risk management capability via the new Internal Controls Unit as well as ensuring resource capacity will also be key.

The Combined Assurance Methodology for providing assurance for the Group will be embedded into the activities of the Group with an overall objective of enhancing the control framework.

Process enhancements will continue to be pursued to automate where possible and reduce risk and wastage. We shall continue to enhance our Third-Party Risk Management Framework to control any exposures that may arise from outsourcing.

Year in Brief 2022

Under Financial Crime Management, the Group observed that fraud has continually evolved and become even more sophisticated, often orchestrated by highly organized crime syndicates seeking opportunities to target the Group's business activities. Cybercrime is now one of the highest risks in the financial services sector and the Group is committed to fighting against it in line with the zero-tolerance approach to fraud.

The Group delivered a regular program of customer education/ Social Media Communications on fraud through social media platforms to ensure as broad a reach as possible.

Focus for 2023

For 2023, the Group is carrying out anti-fraud awareness training and communications to our Customers, Service Providers, and Staff members on Economic crime. The Group is running whistle-blower campaigns encouraging open reporting of fraud and misconduct. The Group will continue to invest in cyber security and fraud detection technologies, enhance its operational safeguards and work closely with all Regulatory stakeholders, law enforcement, the Uganda Bankers Association, and other industry players to create awareness of fraud and cybercrime to protect our customers and the Group.

Year in Brief 2022

Over the last few years, the Group has taken deliberate steps to continuously improve its Cyber Security maturity in response to growth in the global impact of cybersecurity on businesses. In addition, the strategic direction of the Group is hinged on data, technology advancements, and digital solutions for our clients implying that more Cyber resilient organizations will counter the threat.

During 2022, cyber security continued to be ranked the topmost technological risk by the World Economic Forum and is tracked to continue to grow in the next 2 years majorly affecting businesses with a lower impact on government entities according to the 2023 global risk report. In 2022, cyber security threat levels for the Group remained in amber or medium due to new worldwide developments in the cyber arena and the outlook in the local financial industry. New threats are continuously emerging, and the Group strived throughout 2022 to keep abreast of these new developments and take all necessary precautions to minimize the threats emanating from these risks.
The cyber risk landscape in 2022 included several organizations getting exposed to zero-day vulnerabilities, with the most dangerous being the log4j which could be exploited remotely and affected many applications in the technology world. Ransomware also continued to threaten the existence of many businesses around the world and was mainly delivered to networks through phishing emails sent to the users. There was also an increase of the threat of insider threats in the industry which indicated groups trying to recruit organization staff to help circumvent cyber security controls.

During the month of October 2022, the Group observed the Cyber Security Awareness Month which was tailored to empower the staff and partners in taking control of their digital lives and making informed decisions when protecting their personal and sensitive information online. It included several training sessions, daily quizzes, phishing simulations, competitions, and talks with the staff on cybersecurity-related topics. The awareness month indicated an improvement in the users' understanding of the cyber risk as the Group's phishing simulation failure for the month of November moved to 0% showing that the phishing attempts were reported, and no user failed the phishing simulation. This is in addition to the other training and awareness programs aimed at making our staff the "human firewall" in the fight against Cybercrime.

Focus Areas for 2023

In 2023, the Group plans to continue investing in technology to keep its cyberspace secure and just as importantly to continue creating awareness amongst the staff and clients to protect them from cyberattacks. Daily users are typically the weakest link in terms of how an organization's cyber defenses can be breached and so the Group must accelerate its efforts and tempo to ensure that the right levels of cyber security training and sensitization are available to its employees and external stakeholders.
The Group will continue to keep abreast with industry and global intelligence to track experiences, ensure learnings from them to bolster controls to minimize the threat landscape, and equip our teams with the necessary tools to mitigate Cyber Security Risk.

Market Risk

Year in Brief 2022

The Uganda shilling opened the year trading at 3510 against the US dollar, but gradually depreciated as effects of the Russia-Ukraine war and the zero-covid policy in China which disrupted global supply chains started to trickle in. The increase in global inflation and pump prices of fuel globally also accelerated this depreciation. The market closed the year trading the Uganda shilling at 3719 against the US dollar. In the interest rate environment, we saw an uptick in rates in both short- and long-term rates following an increase in the Government's appetite to borrow domestically. The Bank of Uganda, to stem inflation, also increased the Central Bank Rate (CBR)by 350 basis points during the course of the year from 6.5% to 10% by year-end.

On the solvency risk front, the Group remains well capitalized, and our capital reserve levels were subjected to rigorous stress testing under the newly developed integrated stress testing framework in 2022. The Group also submitted its first ICAAP document to the Regulator in 2022, which contained several stress test scenarios and results that were developed by Management.

In 2022 the Group was well within its Risk appetite for key solvency ratios as per the table below:

Capital Ratio KRIs	December 2022
Tier 1	28%
Total Capital	29%

Focus for 2023

The Group will continue to focus on monitoring and managing interest rate risk in both the trading book and banking book as well as foreign currency risk in the context of current market volatility, including monetary policy decisions by the Central Bank and any rate changes. The shilling is projected to depreciate further to the levels of 3800/3850 during 2023.

Interest rates are likely to remain elevated as the Government of Uganda borrows heavily from the domestic market to plug a large fiscal deficit, now around 9% of GDP.

On solvency risk, the Group will continue to make improvements to its Integrated Stress Test Model and Framework and will submit its second ICAAP document to the Regulator at the end of April 2023.

Liquidity Risk

Year in Brief 2022

The group had sufficient liquidity throughout the year enough to maintain and fund business requirements within regulatory and internal appetite limits. The Group took a deliberate decision to shed expensive deposits as a means of reducing its interest expense which had been above industry averages over the past few years.

In 2022 the Group was well within its Risk appetite for key Liquidity ratios as per the table below:

Liquidity KRIs	December 2022
Liquid asset ratio	33.8%
LCR - (All major currencies)	263%
Concentration Risk (Top 10 depositors)	17.2%
Capital KRIs	Dec
Tier 1	28%
Total Capital	29%

Focus for 2023

Regular cash flow forecasting will be performed coupled with daily liquidity risk reporting considering the evolving macro and micro economic landscape to ensure liquidity risk remains well managed. The Group also plans to pursue its balance sheet optimization strategies to ensure that it always maintains the right tenures, in the right currencies, in the right amounts, and at the right cost to support the Group's strategic objectives. The Group also plans to further leverage the potential of data analytics to enhance its overall liquidity risk management framework.

Compliance Risk

Year in Brief 2022

The Group's Compliance Risk framework is implemented through a centralized Compliance Risk Management structure which reports directly to the Chief Executive Officer but also duly accorded access to the Board.

In 2022, the Group increased its focus on Anti-Money Laundering (AML), Counter-Financing of Terrorism (CFT), and Counter-Proliferation Financing (CPF) partly due to enhanced Regulatory focus on these areas, but also as part and parcel of the Group's continuous improvement initiatives. From a regulatory development perspective, the Companies Act, the Trust Incorporation Act and the Partnership Act were amended to provide for the filing of beneficial ownership information. The Anti-Money Laundering Regulations and the Anti-Terrorism Act were also amended to provide clarity on the requirements to ease implementation and to also introduce Proliferation Financing in line with the Financial Action Task Force (FATF) recommendations.

The Group continues to work hand in hand with its Regulatory stakeholders (Bank of Uganda through the Uganda Bankers Association and the Financial Intelligence Authority) to build and maintain robust defenses against money laundering, sanctions, and terrorism financing.

Focus for 2023

2023 provides yet another opportunity for the Group to stay ahead of the market in terms of further deepening our relationships with key regulatory stakeholders while further implementing our planned improvements to reduce compliance risk.

The conclusion of ongoing projects such as the digitization of records project will significantly improve our client data and further improve some of our core compliance processes such as sanctions monitoring, transaction monitoring, and customer due diligence.

Reputational Risk

Year in Brief 2022

Our reputational risk management strategy involves instituting multiple measures to mitigate potential reputational risks, including a comprehensive compliance program, rigorous operational controls, effective crisis management plans, strong ESG and corporate social responsibility initiatives, and continuous monitoring of our reputation.

Our compliance program ensures adherence to all relevant laws and regulations, and in doing so, prevents legal and regulatory issues that may damage our reputation. Robust operational controls help prevent operational failures and ensure our customers' trust in the group remains intact.

Our crisis management plans enable us to respond quickly and effectively to negative events, with procedures in place for communication with customers, employees, regulators, and the media.

Our ESG and corporate social responsibility programs demonstrate our commitment to the communities we serve and the environment, fostering goodwill and trust with our customers and other stakeholders.

In 2022, the Group endeavored to monitor its reputation through surveys, social media, and other channels, proactively addressing any negative perceptions of the Group. These measures position us to manage reputational risk effectively and protect our brand and reputation. We remain vigilant and remain well-positioned to take appropriate actions to mitigate any potential reputational risks that may arise in the future.

Legal Risk can also trigger Reputational Risk if not managed correctly, so the Group has instituted robust measures to carefully handle all cases that are currently in litigation, including the biggest one that is currently in the Group's docket and at the appeal stage in London, UK related to the transaction to acquire Crane Bank in 2017.

Focus for 2023

The Group's commitment to its customer-obsessed strategy which among other things has highlighted the need to put the customer at the heart of every decision that the Group makes will continue to yield results and in turn, lead to an overall improvement in the Group's reputation.

Strategic Risk

Year in Brief 2022

The Group refreshed its 5-year medium-term plan (MTP) in 2022 which encompasses seven (7) new strategic themes (Segmentation, Digital and Customer Centricity, Risk Management, Data and Technology, Productivity, Talent and Organization, Execution). Management proposed new KRIs which were approved by the Board for the proper management and reporting on Strategic risk.

Overall, strategic risk in 2022 was rated as amber, mainly driven by the ripple effects of credit risk.

Focus for 2023

This being the 2nd year of the 5-year strategy, the Group is focused on executing its strategy, as per intended targets.

There are 5 key strategic areas the Group is placing its focus on, and these are:

- Developing and leveraging digital capabilities
- Sustainable deposit mobilization
- Credit quality management
- De-risking the balance sheet.
- Progressing the retail growth agenda

Management has developed new Key Risk Indicators to accommodate these key strategic aspirations for 2023. These KRIs are intended for the continuous monitoring and management of strategic risk throughout the year.

Corporate Governance, Audit Committee and Nominations Report

Corporate Governance Statement 2022

Introduction

dfcu Limited (the "Company") recognizes that corporate governance is essential in the promotion of transparency, fair dealing, and the protection of stakeholder interests. Our.approach to corporate governance is designed to direct our relationship with various stakeholders such as Shareholders. customers, employees, and the community.

The operating environment in 2022 was volatile, requiring high levels of adaptability for both the Board of Directors and the management team in view of the technological advancements around the world and the financial sector in particular.

This Report is intended to provide insight into the Company's activities, progress and changes in regard to governance aspects in the financial year 2022.

Our Corporate and Governance Structure

The Company is a holding company listed on the Uganda Securities Exchange with 3,840 shareholders as at 31st December 2022. (See page 82 of the Annual Report) and **dfcu** is engaged in various business ventures as indicated below:

dfcu Limited	**Real Estate Management** *__dfcu__ Tower *__dfcu__ Financial Centre – Namanve *Plot 36 Jinja Road – Mukono *Plot 7 Luthuli Avenue – Bugolobi *Plot 1 Mackinnon Road -Nakasero
dfcu Bank	• Corporate Banking • Business Banking • Personal Banking • Global Financial Markets • Bancassurance
Agribusiness Development Centre(ADC)	• **Capacity Building & Business Acceleration Programs for Agribusinesses covering:** i)Governance ii) Busines Canvas Modelling iii)Financial Literacy & Management iv)Marketing v)Price Risk Management, vi) ESG vii)Digital Literacy.

To adhere to governance mandates, the entities above have separate Board of Directors.

The Board of Directors is ultimately responsible to Shareholders for the direction, management, performance and long-term sustainability of the Company. Throughout the year, the Board of Directors of **dfcu** Limited and **dfcu** bank has provided guidance and support to Management to create and facilitate sustainable value for our Shareholders through informed, collaborative, and accountable decisions.

dfcu appreciates the importance of diversity on their Boards and delivering value for Shareholders through engaging a versatile Board with a wide spectrum of experiences and skill sets as indicatedon page 17-23 of the Annual Report).

Codes and Regulations

The Board is committed to continuous improvement of corporate governance principles, policies, and practices by remaining abreast of evolving regulations and best practices. This is further enhanced through engagements with regulators and Stakeholders. Importantly the **dfcu** Group ensures a culture of compliance and implementation of best practices. Therefore, compliance monitoring remains critical to the Group.

dfcu Limited's corporate governance is guided by the Uganda Securities Exchange Listing Rules 2021, the Capital Markets Authority corporate governance guidelines, the Companies Act 2012 as amended in 2022, and its Articles of Association.

The governance framework of the trading entity, **dfcu** bank is regulated by the Financial Institutions Act 2004 as amended, the Financial Institutions (Corporate Governance) Regulations 2005, the Companies Act 2012 as amended and its Articles of Association.

Agribusiness Development Centre(ADC) operates under the ambit of the Companies Act 2012.

The Board is the ultimate decision-making body of the Company, except in those matters reserved for the Shareholders under the Companies Act and Articles of Association.

Board Mandate

The Board of Directors of **dfcu** comprises of eminent and qualified persons who ensure that high standards of corporate governance are adhered to. The Board sets out the overall corporate objectives and provides direction to the management team.

The Board remains ultimately and 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 implementation of the strategy is delegated to Management. The Board remains committed to ensuring that the Company meets its governance, social and regulatory obligations while taking into consideration the operating environment.

In 2022, a review was undertaken of the terms of reference (the "Board's Terms of Reference") which notably detail the role and responsibilities of the Board and its Committees, as well as matters reserved for Board decisions and include corporate governance requirements.

The Board of Directors has Committees that assist it in the execution of its duties and responsibilities. Each committee has written terms of reference that are aligned to applicable legislation and governance practices to ensure relevance and compliance. The Board established a new Committee, the Business Development Committee whose mandate is to identify growth opportunities and development of the Company.The Board has commenced a process of drawing up a new 5 year strategy for the company.

Appointment of Directors and Board Composition as at 31st December 2022

Appointment of the Board of Directors and External Auditors remains a preserve of the Shareholders who hold the Board of Directors responsible and accountable for effective corporate governance. The Board of Directors however is mandated by the Articles of Association to appoint Directors to fill casual vacancies and the appointed Directors are then elected at the next Annual General Meeting. In selecting directors, the Company seeks individuals who are of high integrity and with passion for the sectors the Company is involved with.

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 Bank of Uganda which conducts a rigorous vetting "fit and proper process" prior to issuance of its no objection to the appointment.

As at 31st December 2022, the Board of Directors of dfcu Limited comprised of six (6) Non-Executive Directors as indicated on page 17 of the Annual Report. The Board of Directors comprises of highly renowned professionals drawn from diverse fields and collectively bring with them a wide range of skills and rich experiences, which enhances the quality of the Board's decision-making process.

On the other hand, as at 31st December 2022, **dfcu** Bank Limited had ten (10) directors, as indicated on page 20 of the Annual Report.

Changes in the Board Membership:
Director Resignations:
dfcu Limited

Mr. Albert Jonkergouw who served on both the Board of **dfcu** Limited and **dfcu** Bank stepped down from the Board of **dfcu** Limited to ensure compliance with regulatory requirements of the Bank of Uganda but remains on the Board of **dfcu** Bank where he chairs the Nominations Committee.

dfcu Bank Limited

Willem Cramer and Jimmy D. Mugerwa, Non-Executive Directors resigned from the Board of **dfcu** Bank Limited effective 30th April and 31st March 2022 respectively. Mr. Mathias Katamba, an executive director, resigned from the management of **dfcu** Bank Limited in effective 31st January 2023. To provide stability and leadership during his absence, the Board appointed Mr. William Sekabembe as Acting Manging Director/ Chief Executive Officer during the period ending 10th April 2023.

Director Appointments:

At the 57th Annual General Meeting held on 21st July 2022, the Shareholders appointed Jimmy D. Mugerwa and Dr. Echookit Akello Christine as Directors of the Company,

At **dfcu** bank, the Board appointed Mr. Mark William Springett on the 12th of July 2022, Dr Danete Higgins Zandamela on the 18th of August 2022 and Dr. Jeff Mukasa Sebuyira on the 1st of January 2023 as directors of the bank. All the new directors bring a combined wealth of experience of over 30 years.

Board Meetings

Meetings of the Board are held on a quarterly both physically and virtually. During the year, the Board of Directors of the Company held four mandatory quarterly meetings and other special meetings to discuss urgent matters.

The Board comprised the following persons, whose attendance of meetings during the year 2022 was as follows:

Name	25th January	29th March	19th July	30th September	13th December
Jimmy D. Mugerwa (Chairperson)	x	x	√	√	√
Mr. Kironde Lule	√	√	√	√	√
Mr. Friedrich Christian Pelser	√	√	√	√	√
Dr. Christine Echookit	x	x	√	√	√
Dr. Aminah Zawedde	√	√	√	√	√
Ms. Arimi Barbra Teddy	√	√	√	√	√
Mr. Albert Jonkergouw	A	√	N	N	N

A- Absent with apology
N- Resigned from the Board
x- Not Appointed to the Board

Composition of the Board of Directors of dfcu Bank Limited

During the year under review, the Board of Directors of **dfcu** Bank comprised of: Dr. Winifred Tarinyeba Kiryabwire, Mr. Steve Caley, Mr. Albert Jonkergouw, Ms. Jackie Ochola, Mr. Mark William Springett, Ms. Grace Makoko and Dr. Danete Higgins Zandamela,

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 provide recommendations to the Board. Each Board committee has terms of reference that define its roles and responsibilities. There is clear communication between the Board and the Committees.

Due to its nature of business as a holding company, the Company has three (3) Board Committees to which it delegates some of its roles as follows:

i. Audit and Risk Committee which is responsible for the integrity of the financial reporting and audit process.
ii. Nominations and Governance Committee which deals with the governance and compliance requirements of the Company including board performance evaluation.
iii. Business Development Committee which deals with the business strategy and development of the Company

All matters other than the ones dealt with by the Committees are discussed at the full Board.

a) dfcu Limited

The **dfcu** Limited Board Committees comprised the following persons, whose attendance of meetings during the year 2022 was as follows:

Audit Commitee				
	24th March	14th July	5th October	23rd November
Name				
Mr. Kironde Lule	√	√	√	√
Mr. Friedrich Pelser	√	√	√	√
Dr. Aminah Zawedde	z	√	√	√
Nominations and Governance Committee				
Name	25th March	15th July	4th October	24th November
Mr. Friedrich Pelser	√	√	√	√
Dr. Christine Echookit	x	√	√	√
Ms. Arimi Barbra Teddy	√	√	√	√
Mr. Albert Jonkergouw	√	N	N	N
Business Development Committee				
Name		23rd September		2nd December
Ms. Arimi Barbra Teddy		√		√
Dr. Aminah Zawedde		√		√
Jimmy D. Mugerwa		√		A

A-Absent with apology
N-Resigned from the Board
x- Not Appointed to the Board
z-Dr Aminah Zawedde had been appointed as the Acting Board Chair and as such did not attend the first quarter meeting of the first quarter meeting of the Committee.

b) dfcu Bank Limited.

dfcu Bank Board delegated its authority to seven (7) Board Committees whose composition and role is as follows:

1. Nominations and Governance Committee

The purpose of the committee is to assist the Board in fulfilling its oversight responsibilities with respect to:

(a) Corporate governance systems and practices for the Board's overall stewardship and the discharge of its obligations to the stakeholders of the Bank.

(b) Board appointments/re-appointments and to ensure that the Board and its Committees have an appropriate balance of skills, experience, independence, and knowledge of the Bank to enable them to discharge their respective responsibilities effectively.

In 2022, the Committee was comprised of Mr. Albert Jonkergouw and Dr. Winifred Tarinyeba Kiryabwire.

2. Board Audit Committee

The Committee is a statutory committee of the Bank thet assists the Board in fulfilling its oversight responsibilities with respect to the effectiveness of the internal and external audit functions, internal controls, operating procedures and systems, management information systems, financial reporting, general operations of the Bank and practices in relation to insider transactions.

The Committee members for the year 2022 were Mr. Mark William Springett, Ms. Grace Makoko, and Dr. Danete Higgins Zandamela.

3. Board Risk Committee

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to the identification, measurement, monitoring, and treatment of key risks within the Bank to ensure that they support the Bank's business strategy.

The Committee members for the year 2022 were Mr. Steve Caley and Ms. Jackie Ochola.

4. Board Credit Committee

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities on credit operations in line with the Bank's credit strategy.

The Committee members for the year 2022 were Ms. Grace Makoko, Mr. Steve Caley, and Dr. Danete Higgins Zandamela.

5. Board Remuneration Committee

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to human capital, and more specifically to provide oversight over the human capital affairs of the Bank so as to ensure that the Bank has in place an optimal organizational structure and appropriate policies to attract, retain and motivate staff needed to run the business successfully while at the same time retaining equity in the management of such staff.

The Committee's members for the year 2022 were Ms. Jackie Ochola and Mr. Albert Jonkergouw.

6. Board Assets and Liabilities Committee

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to:

a) The establishment of effective asset and liability management policies for the Bank.
b) The establishment of key business performance indicators for the Bank, regularly reviewing performance against such indicators.
c) Ensuring that the Board is fully aware of the framework of the Bank's balance sheet structure by setting polices and guidelines for the Bank's tolerance for risk and expectation from investment.

The Committee members for the year 2022 were Dr. Danete Higgins Zandamela, Ms. Grace Makoko and Mr. Mark William Springett.

7. Business Development Committee

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to business development and oversight of IT operations. The Committees mandate includes

(a) Review proposals, oversee the development of new products and new lines of business and make appropriate recommendations for the Board's approval.
(b) Support Management by advising on projected market developments and related customer needs in relation to the Bank's products / service portfolio and channel approach.
(c) Provide oversight for strategic project execution.

The Committee members for year 2022 were Mr. Steve Caley, Mr. Albert Jonkergouw, Ms. Jackie Ochola and Mr. Mark William Springett.

c) Agribusiness Development Centre

ADC operates a very lean Board comprising of Mr. Paul Van Apeldoorn, Mr. William Sekabembe, Dr. James Ssemwanga and Mrs Josephine Mukumbya. The Board is supported on program oversight by an Advisory Committee comprised of four representatives of founder institutions.

Board Remuneration

Non-Executive Directors receive fixed fees for their services on the Board and its Committees. The fees comprise of an annual retainer and sitting allowance, which are approved by the Shareholders at the Annual General Meeting. Non-Executive Directors do not receive short term incentives, nor do they participate in any long-term incentive schemes. For the year 2022, the directors' total remuneration was as shown below:

	2022		2021
	Ushs M		Ushs M
Fees for services as directors	566.9399		589.3268

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 2022 was Ligomarc Advocates while the Company Secretary for the subsidiary **dfcu** Bank was Mrs. Angelina Namakula-Ofwono.

Management of dfcu

The Management structure of the Company and the entities within **dfcu** 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 essence of ensuring 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.

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 **dfcu** Bank, the Managing Director/ Chief Executive Officer is assisted by an Executive Committee comprising of Senior Management team composed of the Executive Director / Chief Commercial Officer, Chief Finance Officer, Chief Risk Officer, Chief Operating Officer, Chief Change and Innovation Officer and Chief Legal Officer.

Separation of the role of the Chairman and Executive Officers

a) dfcu Limited

There is a clear separation of the roles and responsibilities of the Chairman and the General Manager of the Company. The day-to-day management of the operations of dfcu Limited is conducted by a General Manager appointed by the Board. The General Manager is responsible for effectively implementing the company strategy and reports to the Board on a quarterly basis. The Chairman provides leadership to the Board in the execution of its mandate.

b) dfcu Bank Limited

The Managing Director/ Chief Executive Officer 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.

c) Agribusiness Development Centre

The day to day Management of the Agribusiness Development Centre is executed by the Executive Director who reports to the Board Chair.

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 the 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 offshore Shareholders. Investor queries can be sent to the e-mail address: queries@dfcugroup.com and are expeditiously handled through the office of the General Manager, Company Secretary or Registrar.

Sustainability

dfcu Group manages the social and environmental impacts of its products and services through the Environmental, Social and Governance (ESG) unit and 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 that encompasses social and environmental aspects.
Our ESG review sets out our approach to our environment, customers, employees and governance. It also explains how we aim to achieve our purpose and deliver our strategy in a way that is sustainable and how we build strong relationships with all of our stakeholders.

dfcu Group is deliberate about conducting its business responsibly and sustainably; directly in its business activities and indirectly through the financing it provides. The Group has an ESG Framework that forms part of its guiding principles. It provides an ESG Strategy articulating the Group's position on Environmental, Social, and Governance issues, policies, and procedures. It guides the identification, assessment, management, and monitoring of ESG risks within all relevant activities of **dfcu**. The Group adheres to applicable national laws and regulations and is further committed to adopting the United Nations Environment Programme (UNEP-FI) Finance Initiative codes, standards and guidelines, and industry best practice. **dfcu** Group recognizes that the significant milestones of the Paris Agreement on Climate Change and the ratification of the Sustainable Development Goals (SDGs) mean that every country and business sector has a role to play in the transition to a low-carbon economy.

BRIEF SHAREHOLDER ANALYSIS

Directors' interest in the shares of the Company as at 31st December 2022

Name	Number of shares held
Dr. Mary Winifred Tarinyeba	4,590

Distribution of **dfcu** Limited shareholders as at 31st December 2022

	Description	No. of Investors	No of Shares Held	Percent Holding
1.	Between 1 and 1,000 Shares	1820	752,854	0.10
2.	Between 1,001 and 5,000 Shares	1267	3,282,656	0.44
3.	Between 5,001 and 10,000 Shares	211	1,531,842	0.20
4.	Between 10,001 and 100,000 Shares	448	11,974,549	1.60
5.	Between 100,001 and 1000,000 Shares	69	21,339,459	2.85
6.	Above 1000,001 Shares	25	709,262,673	94.80
		3,840	**748,144,033**	**100**

List of the 20 Largest Shareholders of **dfcu** Limited as at 31st December 2022

The following were the twenty largest Shareholders of the Company during the year.

ARISE B.V	439,176,097	58.7
SCB MAURITIUS A/C INVESTMENT FUND FOR DEVELOPING COUNTRIES	74,580,276	10.0
NATIONAL SOCIAL SECURITY FUNDS	56,543,204	7.6
KIMBERLITE FRONTIER AFRICA MASTER FUND, L.P.-RCKM	54,958,626	7.3
SSB RUSSELL INVESTMENT COMPANY PLC FUND NAS5	14,428,700	1.9
NATIONAL SOCIAL SECURITY FUND-PINEBRIDGE	10,440,437	1.4
SSB-CONRAD N HILTON FOUNDATION -00FG	9,180,658	1.2
VANDERBILT UNIVERSITY VANDERBILT UNIVERSITY	9,155,182	1.2
JUBILEE HEALTH INSUARANCE COMPANY OF UGANDA	7,296,339	1.0
BANK OF UGANDA DEFINED BENEFITS SCHEME- GENEAFRICA	4,811,165	0.6
BANK OF UGANDA STAFF RETIREMENT BENEFIT SCHEME AIG	4,481,491	0.6
THE PARLIAMENTARY PENSION SCHEME-STANLIB	2,924,455	0.4
UGANDA REVENUE AUTHORITY STAFF RETIREMENT BENEFITS	2,850,292	0.4
CENTENARY BANK STAFF DEFINED CONTRIBUTION SCHEME	2,806,087	0.4
MR. SUDHIR RUPARELIA	2,165,575	0.3
MR RAKESH GADANI	1,977,748	0.3
UAP INSURANCE UGANDA LTD	1,836,146	0.2
HOUSING FINANCE BANK/ UAP INSURANCE- GEN LIFE FUND	1,557,256	0.2
MR. KEITH MUHAKANIZI	1,488,972	0.2
BARCLAYS BANK UGANDA STAFF PENSION FUND	1,380,060	0.2
Sub Total	704,038,766	94.1
Others	44,105,267	5.9
Total	748,144,033	100

Director's Report: Board Nominations And Governance Committee Report

Introduction

The Board of Directors of **dfcu** limited ("the Company") is empowered to delegate some of its functions to Committees to ensure that it executes its mandate effectively and efficiently.

The Nominations and Governance Committee of dfcu limited ("the Company's Nominations Committee") is responsible for proposing new nominees to the Board and for assessing the performance and effectiveness of Directors to perform their role in the company.

The Committee also offers oversight over any high-level governance matters affecting the operation of the Company. In a bid to be more effective, the Committee recommended and proposed to the Board the establishment and the constitution of a Business Development Committee whose principal purpose is to drive and monitor the implementation of the Business Strategy. The Business Development Committee was established in the second half of 2022 and has commenced operations having had its Terms of Reference approved by the Board.

Segregation of Board Membership

In October 2022, the Bank of Uganda issued consolidated corporate governance guidelines to ensure compliance with existing international standards.These guidelines specifically required that the members of the Board Directors of both dfcu Bank and dfcu Limited remain distinct.

Membership of the Committee

The Nominations Committee of **dfcu** Limited comprises of Non-Executive Directors. The biographies of all the members of the Committee are available on page 17 and 18 of the Annual Report.

It is important to note that to maintain impartiality and transparency, no Director attends any discussion in regard to their own matters. Every Director is required to confirm whether they have any conflict of interest prior to the start of each meeting.

Key Highlights for the year 2022

Below we highlight some key considerations of the Committee for the year ended 31st December 2022.

Appointment of New Directors

One of the key responsibilities of the Committee is to establish an adequate succession plan for the Company that facilitates business continuity. One of the main considerations in the year was updating the succession plan in respect to various Director positions.

In 2022, the Board appointed two Directors to fill casual vacancies on the Board following the retirement of Dr Hon, Elly Karuhanga and Mr. Albert Jonkergouw.

On 21st July 2022, the General Meeting of the Company confirmed the appointment of Mr. Jimmy Mugerwa and Dr. Echookit Akello Christine as Directors in the Company. Mr. Jimmy Mugerwa and Dr. Echookit Akello Christine had been prior to the general meeting been appointed to the Board to fill casual vacancies.

The Board Directors unanimously appointed Mr Jimmy Mugerwa as the Board Chairman.

Remuneration

The Company's Nominations Committee considered the remuneration of executive staff members of the Company. The goal of the Committee is to ensure reward of good performance and market alignment with respect to remuneration scales. The Committee considered bonus payments for specific staff in line with their performance and the diligence with which the staff served the mission of the Company.

The renewal of the contract of the General Manager for dfcu Limited was also considered and approved for a period of one year. The Company's Nominations Committee critically considered the performance against the Key Performance Indicators agreed upon with the General Manager.

Evaluation

In 2022, the Company's Nominations Committee ensured that a Board Evaluation was conducted. This involved review and assessment of the performance of the Board as a whole, the Chairman, the Individual Directors, the General Manager the Company Secretary and Board Committees. The specific areas for improvement were identified, discussed by the Board and an action plan was developed. The Committee continues to monitor the implementation plan of the agreed actions aimed at enhancing the effectiveness of the Board.

Areas of focus for the year 2023

The areas of focus for the year 2023 for the Company's Nominations Committee remains the enhancement of the succession plan for both the Board and Management. The plan will consider current and future business needs, balance of skills, experience and effectiveness.

Succession planning should consider contingency planning for any unforeseen departures or unexpected absences, medium-term planning for orderly refreshing of the Board, Committees and Senior Management and long-term planning to look ahead to the skills that may be required on the Board and Senior Management in the future. This is especially critical in view of the rapidly changing business environment.

Friedrich Pelser
On behalf of the Nominations and Governance Committee
dfcu Limited

Director's Report: Board Audit And Risk Committee Report

This report is provided by the Audit and Risk Committee ("the Committee") of **dfcu** Limited in respect of the year ended 31st December 2022. The Composition and meeting attendance schedule of the Committee is indicated in the Corporate Governance Statement on page 78 of the Annual Report.

The Committee operates under Terms of Reference approved by the Board and conducts its function under the following broad areas:

(a) Annual Financial Statements

The Committee reviewed and monitored the integrity of the Company's interim and annual financial statements and any other formal announcements relating to the Company's financial performance.

The Board on the recommendation of the Committee approved the financial statements for the year ended 31st December 2022. The External Auditors Ernst and Young Certified Public Accountants issued a clean opinion on the accounts..

(b) Oversight of the External Audit Process

The Audit committee received confirmation and was satisfied that Ernst and Young was not impaired by any consultancy they undertook for other entities and as such were independent throughout the execution of the Audit process. Further, they did not receive any other remuneration for their services to save as external auditors.

The Committee discussed all significant matters arising from the interim and final audits and any other issues with the External Auditors.

(c) Accounting and Financial reporting

The Committee maintained its oversight role in financial reporting by the Company and received comfort from the Auditors on aspects of financial reporting by the Company.
All key audit issues were highlighted and addressed by management.

(d) Risk Management and Monitoring

Risk as an element of uncertainty (opportunity or threat) is an inevitable component of running our business. We recognise that risk management is an integral part of sound management practice and an essential element of good corporate governance. As a heavily regulated group, risks within **dfcu** are managed as an integrated part of planning, decision making, and operational processes within a defined structure of roles and responsibilities.

The Board and Management remain committed to ensuring that the Company maintains continuous operations in a changing business environment.

The Committee is operating effectively and is constituted to provide an effective and appropriately broad level of challenge and oversight of the areas within its remit.

Kironde Lule
On behalf of the Board Audit and Risk Committee
dfcu Limited

Sustainability Reporting

Sustainability Report

Report Scope

This report covers the economic, social, and environmental performance of **dfcu** Group for the year ended 31 December 2022. 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 considered salient aspirations and concerns discovered through our structured stakeholder engagements, in our day-to-day interactions, and from the community at large. The report reviews dfcu Group's direct impact on sustainability and Corporate Social Responsibility (CSR) initiatives designed and undertaken 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 In drawing up content for this report, we considered 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 and a significant indirect impact through our lending and investment activities. **dfcu** Group's non-financial data reporting protocol describes critical performance indicators related to our material topics. The value creation model section below contains data on these and other relevant key performance indicators. We continuously listen to our stakeholders and adapt our strategy and reporting to meet their evolving expectations.

Reporting Cycle

dfcu Group's sustainability impact has been consistently 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 strive to ensure that our corporate reporting meets the 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 of its products and services through the ESG unit and channelling 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 that encompasses social and environmental aspects.

Assurance

We value the accuracy and reliability of financial and non-financial information and data in this report. Therefore, assurance for the non-financial information in this report is drawn from published material from our regulators. Ernst and Young audited the financial statements of dfcu Group for the years 2022 and 2021.

Sustainability highlights

Year		2022	2021
Shareholders and investors			
Profit after tax	Shs M	29,476	9,312
Return on equity	%	5	2
Earnings per share	Shs per share	39.40	12.45
Proposed dividends	Shs per share	8.19	-
Customers			
Number of customers		1,063,000	1,040,000
Number of branches		55	56
Number of ATMs		72	71
Number of Agents		1,751	1,400
Suppliers			
Total procurement spend	Shs Million	136,811	96,333
% of procurement spend with local suppliers	%	92	91
Employees			
Number of employees		1,774	1,074
Number of female employees		591	545
Training spend	Shs Million	1,080	667
Society and Communities			
Donations and CSR spend	Shs Million	1,090	839

Environmental, Social and Governance (ESG) Review

Our ESG review sets out our approach to our environment, customers, employees and governance. It also explains how we aim to achieve our purpose and deliver our strategy in a way that is sustainable and how we build strong relationships with all of our stakeholders.

About the ESG Review

The Group business is largely steered by our banking subsidiary – **dfcu** Bank, whose purpose is: 'To grow shareholder value while playing a key role in transforming the economy and enhancing the wellbeing of our people.' To achieve this purpose and deliver the strategy in a way that is sustainable, we are guided by the values: we aim for excellence in everything we do (Professionalism); we are honest, consistent and uncompromising (Integrity); we are approachable and ready to listen to our clients (Customer Focus);we openly share our views (Courage); and we support each other in the interest of the organisation (Teamwork).

We also need to build strong relationships with all of our stakeholders, who are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve.

dfcu Group is deliberate about conducting its business responsibly and sustainably; directly in its business activities and indirectly through the financing it provides. The Group has an ESG Framework that forms part of its guiding principles. It provides an ESG Strategy articulating the Group's position on Environmental, Social, and Governance issues, policies, and Procedures. It guides the identification, assessment, management, and monitoring of ESG risks within all relevant activities of **dfcu**. The Group adheres to applicable national laws and regulations and is further committed to adopting the United Nations Environment Programme (UNEP-FI) Finance Initiative codes, standards and guidelines, and industry best practice. **dfcu** Group recognizes that the significant milestones of the Paris Agreement on Climate Change and the ratification of the Sustainable Development Goals (SDGs) mean that every country and business sector has a role to play in the transition to a low-carbon economy.

ESG risk assessment procedure

The ESG team comprises three people who are part of the Credit Control and Monitoring Unit in the Credit department. Two members (ESG Analysts) are dedicated to E and S risk analysis. The team is responsible for reviewing and managing the Bank's business and operations for potential environmental and social risks and impacts, particularly for transactions in environmental and socially sensitive sectors, such as oil and gas, mining, building and construction, agriculture, real estate, trade, and commerce as well as manufacturing. All transactions are screened, against the bank's exclusion list, at the credit application stage. As stated in the bank's ESG framework, transactions are categorised as A (High risk), B (Medium risk), and C (Low risk).

Key procedures in the Bank's Environmental & Social Management System (ESMS) are:

- Screening transactions against the Exclusion List activities.
- Reviewing transactions to identify E&S risks per E&S sector guidelines.
- Categorization of transactions for E&S risk into A, B, or C.
- For category A and B transactions, the Relationship Managers refer them to ESG Analysts to conduct further due diligence.
- E&S conditions and action plans are captured as covenants in offer letters and periodic monitoring is carried out to assess client's progress with action plans and compliance with E and S requirements.

ESG Framework

The Bank's ESG framework is aligned with the IFC performance standards categorization system. The categories are described below:

- A (high risk) - Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
- B (medium risk) - Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
- C (Low risk) - Business activities with minimal or no adverse environmental or social risks and/or impacts.

The main referenced national environmental law is National Environment Act, 2019.

E & S Portfolio review

As of 31st December 2022, the bank portfolio had 10% category A transactions, 17% category B transactions, and 73% category C transactions. This calculation was based on the outstanding value of loans. It should be noted that while category A had the least number of transactions, it had the highest exposure. These clients' activities are therefore closely monitored to mitigate any E & S risk that may arise.

At **dfcu** Group, we believe that finance should not only deliver a return to our shareholders but should also be socially relevant and environmentally responsible. This means that we take a "do no harm" approach in our financing decisions, and where possible we also prioritise opportunities to create local benefits and revitalise communities. Consequently, we will take steps to ensure that our financing decisions take relevant ESG considerations into account.

The Group is committed to supporting specific and dedicated environmentally friendly financial investments and strategies including;

- Green investments related to environmental goods and services that prevent or reduce any form of environmental degradation while conserving and maintaining natural resources.
- Investments relating to social good such as education, health care, infrastructure, waste management, housing, gender equality, financial inclusion, and employment creation. The bank further supports strategies to reduce poverty, advance women and youth empowerment, drive the development of rural areas, and grow small to medium enterprises.
- Public policies that support the green transformation of the economy (such as feed-in tariffs for renewable energies) and clean water.
- Financial system components that protect the environment by utilising financial instruments such as green credit, green bonds, green stock indices, carbon finance, energy efficiency, and related products.

Connecting with stakeholders

As evident from the developments around the globe, proliferation of the social media from instant messaging and blogs to social networking sites with its enormous “word-of-mouth” impact has created the possibility of anyone becoming a stakeholder, making the selection and prioritisation of stakeholders to engage with difficult and also, changing the manner corporates communicate with them. While compounding these difficulties, the unprecedented conditions that prevailed in the recent past have created an acute need to engage deeply with stakeholders to clearly identify their concerns and aspirations and appropriately engage with them. Accordingly, the Group considers those that have the potential to impact its value-creation process and those who are affected by its activities as its stakeholders that need to be continually engaged. Based on the above, we have identified the following groups to be our key stakeholders considering their power and their interest in our business model and we have presented them in the order of their ability to affect our operations from high to low.

The diagram given below demonstrates the stakeholder engagement process in place at the Group which reflects our ethos of having the best interest of all the stakeholders at heart – Group’s tag line – “with pleasure” which has enabled us to maintain continuous and open engagement through multiple platforms, thereby strengthening collaboration with stakeholders. This process has paved the way for us to incorporate their legitimate concerns and expectations into our strategy and deliver value to and, in turn, derive value from them, leading to sustainable value creation.

Stakeholder group	Level of priority and the reason	Engagement strategy
Investors	High – due to the difficulty in raising fresh capital to meet the capital management objectives of the Group given the lackluster performance in equity markets consequent to the adverse economic environment	Highly engaged
Customers	High – because the ability to operate as a “going concern” depends on how best and effectively their expectations are met	Highly engaged
Employees	High – they connect the Group to the customers	Highly engaged
Government institutions and regulators	High to moderate – since we are operating in a highly regulated industry and are a top tier Domestic Systemically Important Bank	Keep satisfied
Business partners	High to moderate – due to the dependence on critical to less customized solutions by vendors	Keep informed
Society and environment	High to moderate – due to the obligation to operate responsibly to secure its social license	Keep informed

dfcu Group pursued wide-ranging initiatives to underpin the advancement and welfare of key stakeholders, alongside responding to their needs and requirements. As a key focus area, the Group took dedicated actions to meaningfully reinforce its stakeholder interactions in the wake of the exigent operating environment triggered by the covid-19 pandemic.

<table>
<tr><th>Stakeholders</th><th>How we have engaged with and served our stakeholders</th><th>Engagement mechanism and frequency</th><th>Key topics raised and feedback provided</th></tr>
<tr><td>Investors</td><td>• We upheld the image and reputation of the Group as a strategically important player. As a key principle, the Group aims to generate comfortable earnings to reward its shareholders and investors.
• We continued to hold open, constructive, and regular dialogues with local and international agencies to report on the performance prospects of the Group as well as its strategic orientations. Along the way, we shared dedicated analyses to provide comfort as regards our risk management and business growth foundations.</td><td><table>
<tr><th>Engagement mechanism</th><th>Frequency</th></tr>
<tr><td>Annual reports and AGMs</td><td>Annually</td></tr>
<tr><td>Extraordinary General Meetings</td><td>As required</td></tr>
<tr><td>Interim financial statements</td><td>Semi-annually</td></tr>
<tr><td>Investor presentations</td><td>As required</td></tr>
<tr><td>Press conferences and releases</td><td>Continuous</td></tr>
<tr><td>One-to-one discussions</td><td>As required</td></tr>
<tr><td>Corporate website</td><td>Continuous</td></tr>
<tr><td>Feedback surveys</td><td>As required</td></tr>
</table></td><td>• Financial performance
• Governance
• Transparency and disclosure
• Business expansion plans
• Risk management
• Sustainable growth
• Resilience to the effects of the pandemic
• Rising NPA and impairment charges
• Dividend payments
• Achieving sustainable business growth against accepted risks</td></tr>
<tr><td>Customers</td><td>• Backed by a thorough understanding of exigencies and requirements across market segments, we provided clients with increasingly simplified and personalised financial solutions to help them meet their goals, thus contributing to their prosperity and financial well-being. We made further headway in building life-long relationships with clients and accompanying them in good and bad times. We pursued the digitalisation of our operations and services, alongside improving the reach and appeal of our wide-ranging channels allowing customers to undertake payments and transactions in an easier, faster, and safer way.
• We adopted appropriate and carefully designed communication and reporting channels vis-à-vis our customers to provide them with transparent and timely advice and information about our offering as well as effectively attend to their queries. We regularly sought customer feedback on our solutions, notably via surveys and focus group discussions, towards improving our value proposition. We embraced dedicated initiatives to address customer complaints in an efficient and opportune manner. Of note, over 99% of customer complaints registered during the year were resolved within less than 24 hours (2020: 98%)
• We preserved the security and confidentiality of transactions, alongside upholding customers’ trust in the Group. We reinforced our internal platforms and processes, including our cyber risk management framework, to foster the safety of our customers’ information, while ensuring that they can dependably use our channels.
• We have strengthened client relationships and our market visibility, mainly through the organisation of and participation in various promotional and commercial initiatives. Such events enabled the Group to promote its capabilities and value proposition while gaining insights into international business trends and dynamics. We remained active on social media platforms such as Facebook, Twitter, Youtube, Instagram, and LinkedIn.</td><td><table>
<tr><th>Engagement mechanism</th><th>Frequency</th></tr>
<tr><td>Customer visits</td><td>As required</td></tr>
<tr><td>Complaints received</td><td>As required</td></tr>
<tr><td>Complaints resolution officer, relationship managers</td><td>As required</td></tr>
<tr><td>Investment clubs</td><td>As required</td></tr>
<tr><td>Branch network and call centre</td><td>Continuous</td></tr>
<tr><td>Media advertisements</td><td>As required</td></tr>
<tr><td>Corporate website</td><td>Continuous</td></tr>
<tr><td>FCustomer workshops</td><td>As required</td></tr>
</table></td><td>• Swift service
• Customer security and privacy
• Service quality
• Affordability of services and convenience
• Grievance handling mechanism
• Financial education and literacy
• Financial support for the revival of business
• Access to financial services
• Enrolment to digital platforms
• A growing interest in sustainable investing among the private sector
• Need for Financial support for women entrepreneurs</td></tr>
</table>

<table>
<tr>
<td>Societies and Communities</td>
<td>

The Group has continued to foster the well-being and progress of the societies and communities in which we live and operate. We partnered with relevant stakeholders such as NGOs, and public sector entities towards promoting social welfare. We provided support in key focus areas, notably absolute poverty and community empowerment, preservation of the natural environment, arts and culture, youth development and sports as well as health and education.
Our corporate social responsibility activities are channelled through the dfcu Foundation, which is a dedicated vehicle for the efficient and effective design, implementation, and management of initiatives meant to drive the Group's engagement with the community. During the year, various initiatives were done as indicated in this report.
It is worth highlighting that no political donations were made during the year (2021: None)
Through our personalised solutions and thoughtful channel distribution, we promoted financial inclusions through investment clubs' discussions, thus enabling our low-income customers to get access to credit and improve their conditions.
We encouraged the adoption of environment-friendly and energy-saving practices in our operations, we worked towards effectively managing our carbon footprint, amidst endeavours to continuously monitor and assess our direct environment footprint to minimise the impact of our activities on the environment.
As a key achievement, we progressively reduced energy and water usage in line with objectives and targets set, backed by systematic monitoring of consumption patterns which helped us in identifying saving opportunities.
We financed key projects shaping the economic landscape and sustained our contribution to the real economy and the continued growth of the country's businesses. dfcu Group continues to be a dedicated and trusted partner for large corporates and investors while upholding its commitment to support and accompany small and medium enterprises across a broad range of economic sectors through our proactive, tailored, and modular solutions.
We safeguard the perennity and soundness of our operations, alongside fully coping with specificities and implications of evolving mandatory provisions and requirements. We ensured strict compliance with relevant regulatory limits and guidelines related notably to business operations, product development, market development, and risk management in the jurisdiction in which we operate. We assisted in strengthening the regulatory framework based on our close collaboration with the regulators. We responded to regulatory reviews with notable attention to detail and professionalism, while promptly reacting to matters raised. The reports submitted to the regulatory bodies were on time and we were deliberate about forging transparent relationships to promote adequate monitoring of our activities and informed discussions about relevant issues.
We acted as tax agents for Uganda Revenue Authority (URA) where we collected several taxes on their behalf from our customers. During the year, Shs 83,305 million (2021: Shs 62,678 million) was collected and paid to URA.

</td>
<td>
<table>
<tr><th>Engagement mechanism</th><th>Frequency</th></tr>
<tr><td>Delivery channels</td><td>Continuous</td></tr>
<tr><td>Press releases, conferences and media briefings</td><td>As required</td></tr>
<tr><td>Informal briefings and</td><td></td></tr>
<tr><td>Communications</td><td>As required</td></tr>
<tr><td>Public events</td><td>As required</td></tr>
<tr><td>Corporate website</td><td>Continuous</td></tr>
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<td>

Responsible financing
Commitment to community
Financial inclusion, recruitment
Microfinance and SME
Ethics and business conduct
Environmental performance

</td>
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<td>
• Our corporate social responsibility activities are channelled via the dfcu Foundation, which is a dedicated vehicle for the efficient and effective design, implementation and management of initiatives meant to embed the Group’s engagement with the community. During the year, various initiatives were done including the Group’s contributions to the Covid-19 response initiatives as indicated in other business reviews.
• It is worth highlighting that no political donations were made during the year (2020: None)
• By means of our personalised solutions and thoughtful channel distribution, we promoted financial inclusions through investment clubs’ discussions, thus enabling our low-income customers get access to credit and improve their conditions.
• We encouraged the adoption of environment-friendly and energy saving practices in our operations, we worked towards effectively managing our carbon footprint, amidst endeavours to continuously monitor and assess our direct environment footprint in order to minimise the impact of our activities on the environment.
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<td>Government institutions and regulators</td>
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</td>
<td>
<table>
<tr><th>Engagement mechanism</th><th>Frequency</th></tr>
<tr><td>Supplier relationship Management</td><td>Annually</td></tr>
<tr><td>Directives and circulars</td><td>As required</td></tr>
<tr><td>Meetings and consultations</td><td>As required</td></tr>
<tr><td>Press releases</td><td>As required</td></tr>
<tr><td>Periodic returns</td><td>As required</td></tr>
<tr><td>Submissions to policymakers</td><td>As required</td></tr>
<tr><td>Responses to consultation papers on Directions and other regulations</td><td>As specified</td></tr>
</table>
</td>
<td>
• Compliance with directives and codes
• Microfinance and SME development
• Stability of the financial system
• Migration to cashless payment platforms
• Supporting economic recovery and growth
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<tr>
<td>Employees</td>
<td>

Towards embedding our position as an employer of choice, we pursued our efforts to attract, develop and retain talents as well as empower them to deliver their best alongside further developing and capitalising on the collective skills, knowledge and experience of our employees. Concomitantly, the Group has engaged with staff to adequately understand and respond to their needs, vial surveys and culture audits. With a view to realising its strategic objectives, the Group continues to implement dedicated projects and programs as part of its ongoing HR Transformation Programme. While promoting an environment of trust, high aspiration and achievement as well as fostering strategic talent acquisition, the underlying aim is to reinforce human resource frameworks in support of enhanced operational efficiencies as well as sound and balanced business growth.
The subject matters to which the Bank is exposed to are getting more complex and client solutions increasingly sophisticated. Against this backdrop and while capitalising on our forward-looking approach, we brought relevant upgrades to our learning and training framework as well as the underlying culture. Dedicated programs were conducted to step up the quality of our human capital, including training courses.

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<table>
<tr><th>Engagement mechanism</th><th>Frequency</th></tr>
<tr><td>Town hall meetings</td><td>As required</td></tr>
<tr><td>Regional review meetings</td><td>As required</td></tr>
<tr><td>Training programmes</td><td>As required</td></tr>
<tr><td>Intranet</td><td>Continuous</td></tr>
<tr><td>Special staff events</td><td>Annually</td></tr>
<tr><td>Employee satisfaction survey</td><td>As required</td></tr>
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<td>

Performance and reward management
Training and development
Career advancement opportunities
Work-life balance
Retirement benefit plans
Diversity and inclusion
Safety at workplace
Stable performance of the Group

</td>
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</table>

Material matters

	POLITICAL	ECONOMIC	SOCIAL	TECHNOLOGICAL	ENVIRONMENTAL	REGULATORY
CUSTOMERS	Lack of desired level of policy consistency Lack of desired level of transparency and accountability	Economic slowdown due to pandemic Depreciating currency against the US dollar	Growing influence of social media Demand for non-financial information and long termism	Unorthodox competition and financial disintermediation		Directions and guidelines to counter impacts of the pandemic Compliance with new Basel requirements
			Demand for more transparency and accountability			Higher regulatory capital
		High CAPEX requirements				
EMPLOYEES		Envisaged upturn in private sector credit and improvement in asset quality	Changing customer expectations	Migration towards digital platforms		Compliance requirements and regulations
		Import restrictions Need to enhance Productivity	Staff recruitment and retention becoming more challenging	Cybersecurity threats Technology driving change in job skills		
		Health and Safety		New working Cultures		

	POLITICAL	ECONOMIC	SOCIAL	TECHNOLOGICAL	ENVIRONMENTAL	REGULATORY
SOCIETY AND ENVIRONMENT	Geopolitical Conflicts					Increasing frequency and magnitude of natural disasters and poor disaster preparedness
	Corruption		Pandemics hampering world trade and economy			
BUSINESS PARTNERS		A more collaborative approach		New technological advances such as AI, Robotics, blockchain		

Materiality determination and integration

Below is the process of identification of material matters through a refreshed materiality assessment, to gain deeper insight and understanding into key areas of concern for stakeholders. Even as these trends present risks, opportunities, or both, the impact of these trends is felt by the stakeholders. The risks emerging from the pandemic were felt across all stakeholder groups at different magnitudes, and they outweighed the risks presented by other emerging trends. The matrices that follow, illustrate the topics that are material to the Group according to their impact on stakeholders and the Group itself. The Group defines material matters as those that significantly affect the Group's ability to create value over the short, medium, and long term. The materiality of each matter has been determined by its relevance, the magnitude of its impact, and the probability of occurrence.

Identification of material matters to address

We identify matters that most impact the execution of our strategy. Relevant matters are those that have or may have, an effect on the Group's ability to create value for our stakeholders.

Identification of material matters to address

We identify matters that have the greatest impact on the execution of our strategy. Relevant matters are those that have or may have, an effect on the Group's ability to create value for our stakeholders.

Identification of material matters to address

We identify matters that most impact the execution of our strategy. Relevant matters are those that have or may have, an effect on the Group's ability to create value for our stakeholders.

Material Matters, Risks, Opportunities, and how we manage

Material matters	Risks	Opportunities	How we manage	GRI Disclosure
Digital Transformation	The younger generation is more inclined to technology and its preference for personalised, convenient, and secure service is on the rise. The pandemic has sparked a higher trajectory in the migration towards the use of digital products and services, increasing the need to continue digital innovation. Need to upskill the human capital to be on par with the technological changes.	Digital channels allow speedier and round-the-clock delivery of service at the fingertip of customers, leading to increased levels of transactions and expanding reach. Digitalised processes freeing up employees from tasks, enabling higher customer interactions, establishing new connections.	The Group takes a proactive approach in this sphere and has launched new digital channels and products.	
Cyber Security	As cyber threats continue to increase globally the need to protect the integrity and privacy of data is becoming more important than ever before. The pandemic has fuelled the risk of cyber-attacks and thefts.	Having a robust cyber security programme boosts customer confidence in embracing and using digital platforms and provides a distinctive advantage over the competition in the digital banking space.	A high importance is placed on this critical aspect. For more details, please refer to the sections ………	GRI 418: Customer Privacy
Transparency and Accountability	Non-disclosure of adequate information may give rise to reputation risks and regulatory pressures. Increased demand for forward-looking strategic direction by investors over traditional past performance reporting	Increased transparency helps reduce risks of unwarranted suspicion and helps achieve faster resolution of issues and reputation-related risks.	The Group's approach to transparency and accountability is discussed in detail in the Corporate Governance Section.	
Talent Management	Among the risks brought about by the pandemic are the health and safety of the workforce, sustaining critical operations, sudden adjustments in the new working environment top the list. Staff recruitment and retention is becoming more challenging.	Adoption of digital means for remote working results in increasing technology related skills and rethinking working conditions that may improve work-life balance and reduction in costs.	Putting the safety of our employees first, our focus was more on providing a safe working environment for the staff and looking after the employees and their families affected by the pandemic. Getting employees adjusted to new ways of working and working conditions, the Group invested in its Human capital. .	GRI 401: Employment GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 403: Occupational Health and Safety
New Regulations, Compliance requirements, and directives	Increased costs in implementation, modification, and monitoring of process.	Good governance is the bedrock of a sustainable business and helps boost stakeholder confidence.	The Group is committed to being compliant to the letter and spirit and believes in commitment to good governance provides a strong footing for sustainable development.	

Climate Change	Increasing frequency and magnitude of natural disasters may cause deterioration of asset quality, operational and reputational risks. The Group may outpace the competition by responsible lending through Social and Environmental screening.	Increasing awareness and tendency towards renewable energy and greening of buildings and processes bring about green financing opportunities. Initiatives in countering impacts of carbon emissions.	Though the Group's footprint is minimal, we endeavour to minimise the same by adopting green processes, moving to green buildings, and generating solar energy for our operations. However, the Group could influence a much higher impact through our lending to renewal energy generation, greening of processes, and screening for environmental impacts on businesses we lend to.	
Partnerships for Goals	Interruption to critical services could disrupt the smooth execution of the Group's operations. Unorthodox competition and financial disintermediation may threaten survival.	Collaboration with Fin-Techs could open up new avenues to reach untapped markets and evolve alongside changing customer expectations.	The Group continued its efforts on building win-win partnerships and constantly seek avenues to turn the risks of evolving new technology for the development of our products, services, and delivery.	
Being Socially Responsible	The growing influence of social media and increasing awareness of socially accepted norms expected from business, if not properly managed could lead to losing the social license to operate	Social acceptance of being responsible augments the Group's leadership position within the banking system contributes to sustainable development.	We believe in sharing the value created with the society, in which we operate, through our CSR initiatives, conducting capacity building programmes and supporting the preservation of the environment.	
Macroeconomic and Geopolitical Risks	Though the severity has reduced overtime the pandemic-led disruptions continue to prevail with economies continuing to slow down. Geopolitical tensions may impact certain sectors of the economy.	Increased collaboration with the business community especially with SMEs and micro sector, through the extension of relief on best repayment, rescheduling, and education lead to stronger and more sustainable relationships. Social distancing has increased the demand for digital products and with already sound digital infrastructure the Group is poised for a higher share of the digital banking sphere.	Discussed within the Risk management section	GRI 201: Economic Performance GRI 203: Indirect Economic Impact GRI 207: Tax

Business Model

1. INPUTS

Raw materials" for the value driver activities drawn from capital.

FINANCIAL CAPITAL

- Shareholders' funds
- Borrowed funds
- Financial covenants
- Customer deposits
- Subordinated debt

MANUFACTURED CAPITAL

- Property, plant and equipment
- Investments in process improvements
- Information and Communication
- Technology

INTELLECTUAL CAPITAL

- Brand loyalty
- Data analytics
- Trained employees
- Award and accolades
- Best practices

HUMAN CAPITAL

- Skills and experience
- Competencies
- Creativity
- Commitment
- Health workforce
- Loyal employees

SOCIAL AND NETWORK CAPITAL

- Services and supplies
- Relationships
- Customers
- Contribution to CSR activities

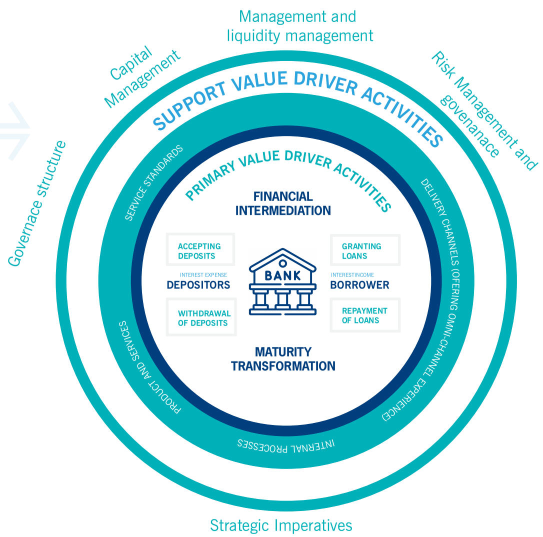
NATURAL CAPITAL

- Utilities
- Digitalization projects
- Social and environmental management system (SEMS)

2. VALUE DRIVER ACTIVITIES

Include primary value driver activities that promoted growth, support value driver activities that promoted positive stakeholder interactions and other value driver activities that minimised risk. It is the inputs from the capitals together with relationships, interactions, interdependencies, and trade-offs among capitals that generated outputs, leading to creation of value reflected in capitals.

VISION



1. INPUTS

Products and services and externalities generated through the value driver activities.

Loans and advances, government securities, share investments, deposits, forex products, remittance products, fee-based services, international trade related products and services, unfunded facilities, Repo transactions

4. OUTCOMES

Consequences of our activities and outputs manifested in capitals as value created.

FINANCIAL CAPITAL

- Prudent growth
- Profits, taxes and dividends
- Being well capitalized, funded and liquidity
- Market capitalization

MANUFACTURED CAPITAL

- Digital leadership
- Growth in capacity
- Safe work environment
- Enhanced productivity

INTELLECTUAL CAPITAL

- Innovation
- Creativity
- New products
- Simplicity
- Compliance

HUMAN CAPITAL

- Operational excellence
- Empowerment and engagement
- Training and development
- Motivation and productivity
- Cordial industrial relations

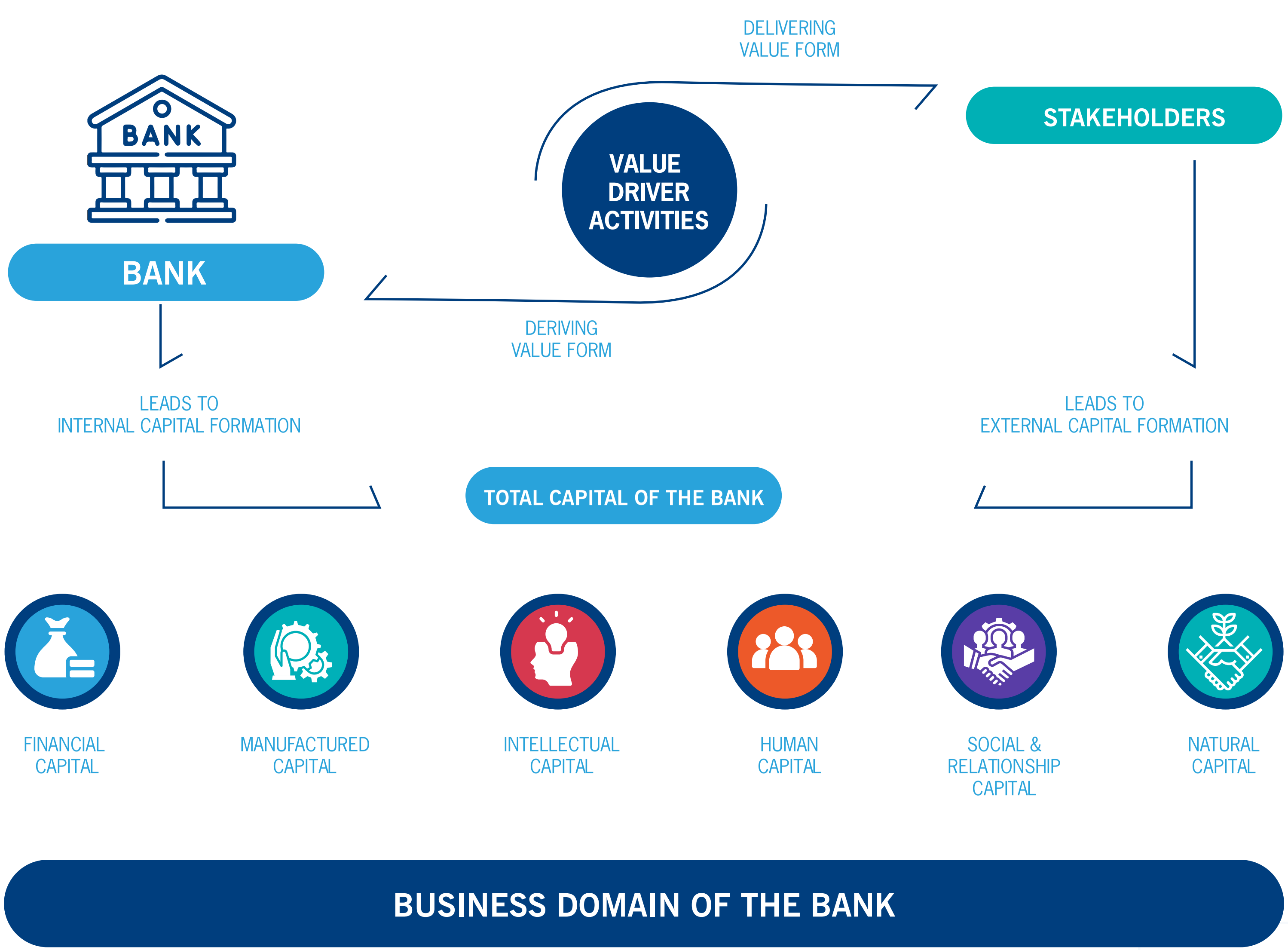
SOCIAL AND NETWORK CAPITAL

- Customer centricity
- Growth in customer base
- Customer satisfaction
- CSR activities

NATURAL CAPITAL

- Green processes and facilities
- Environmental protection
- Improvements in quality of life

Value Creation and Capital Formation



Wealth Creation Statement

	2022	2021
	Shs. M	Shs. M
Interest income	343,364	354,799
Fees and commission income	62,384	62,500
Net trading and other income	24,980	30,835
Net income from other financial instruments at FVTPL	762	2,002
Interest expense	(74,577)	(81,509)
Operating expenses	(228,441)	(183,523)
Wealth created	**128,472**	**185,104**

How we distribute value created

During the year, dfcu Group continued to provide relevant and meaningful ways to promote the interests of its stakeholders and help them prosper, supported by its resilient financial results.

Total Wealth Created

UGX 128,472 Million

2021 ‣ Shs 185,104

29%
2021 ‣ 31%

Retention to Support Growth

Wealth is allocated to support the Group's future growth and sustainability via our retained earnings.

54%
2020 ‣ 52%

Employees

Our value proposition comprises competitive rewards and benefits, with particular emphasis laid on the personal and career development of our staff.

1%
2021 ‣ 1%

Society

We contribute to the welfare of the society in which we live and work via funds assigned for Corporate Social Responsibility (CSR) activities and sponsorships.

5%
2021 ‣ 0%

Shareholders

We provide shareholders with adequate dividend

12%
2021 ‣ 8%

Authorities

Via our direct and indirect tax payments, we support the authorities in fostering the execution of socio-economic development projects.

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 downtime 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 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 the 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 businesses 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 with the Group's standards for solution quality, sustainability, and commercial viability.

Summary of procurement spend:

		2021	2020
Total procurement spend	Shs M	96,333	132,521
Amount spent on local suppliers	Shs M	87,663	117,944
Amount spent on foreign suppliers	Shs M	8,670	14,577
Percentage spent on local suppliers		91%	89%

Our employees

dfcu Group employed 1,174 employees (2021: 1,074) of which 56% are female (2021: 51%). The Group ensures that all its people train at least once in a calendar year to enhance skills and productivity. The Group spent a total of Shs 1,080 million (2021: Shs 667 million) on training staff.

	2022	2021
Total employees (number)	1,174	1,074
Total staff costs (Shs M)	69,232	55,701
Staff composition (Female: Male)	56% : 44%	51% : 49%
Staff training spend (Shs M)	1,080	667

Financial enablement for staff

Through our employee value proposition, we enabled staff to acquire homes and also acquire finances for their personal development. As of 31 December 2021, the total advances to employees amounted to Shs 29,667 Million (2021: Shs 25,096 Million). There was no credit to employees that was neither past due nor impaired.

	2022		2021	
	Number of staff	Shs M	Number of staff	Shs M
Staff personal development loans	663	15,224	565	11,243
Staff home loans	91	14,443	99	13,853
Total	754	29,667	664	25,096

Performance measurement

To monitor an employee's contribution, **dfcu** Group developed a performance measurement tool that 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 are 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 department.
Talent management and succession planning

dfcu Group's people management philosophy is to progressively build its 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 into the training budget and plan.

GRI Index Reference

The 2022 Sustainability Report was completed in reference to the Global Reporting Initiative (GRI) guidelines and supported by the G4 Financial Services Sector Supplement.

Disclosure number	Description	Required for CORE	Heading	Page Reference
102-1	Name of the organisation	Core	Who we are	6
102-2	Activities, brands, products, and services	Core	Products and services	8-9
102-3	Location of headquarters	Core		11
102-4	Location of operations	Core		11
102-5	Ownership and legal form	Core		82
102-6	Markets served	Core		47-51
102-7	Scale of the organisation	Core		17-23
102-8	Information on employees and other workers	Core		58-60
102-9	Supply chain	Core		47-51
102-10	Significant changes to the organisation and its supply chain	Core		47-51
102-11	Precautionary principles or approach	Core		N/A
102-12	External initiatives	Core		53-56
102-13	Membership of associations	Core		N/A
Strategy				
102-14	Statement from senior decision-makers	Core		26-30
102-15	Key impacts, risks, and opportunities			63-73
Ethics and integrity				
102-16	Values, principles, standards, and norms of behaviour	Core		8-9
102-17	Mechanisms for advice and concerns about ethics			75-85
Governance				
102-18	Governance structure	Core		75-85
102-19	Delegating authority			26-30
102-20	Executive-level responsibility for economic, environmental, and social topics			87-105
102-21	Consulting stakeholders on economic, environmental, and social topics			87-105

102-22	Composition of the highest governance body and its committees			75-85
102-23	Chair of the highest governance body			75-85
102-24	Nominating and selecting the highest governance body			75-85
102-25	Conflicts of interest			75-85
102-26	Role of the highest governance body in setting purpose, values, and strategy			75-85
102-27	The collective knowledge of the highest governance body			N/A
102-28	Evaluating the highest governance body's performance			75-85
102-29	Identifying and managing economic, environmental, and social impacts			87-105
102-30	Effectiveness of risk management processes			63-73
102-31	Review of economic, environmental, and social topics			87-105
102-32	Highest governance body's role in sustainability reporting			87-105
102-33	Communicating critical concerns			N/A
102-34	Nature and total number of critical concerns			N/A
102-35	Remuneration policies			58-60
102-36	Process for determining remuneration			58-60
Energy				
302-1	Energy consumption within the organisation			109-112
302-2	Energy consumption outside of the organisation			109-112
303-3	Energy intensity			109-112
303-4	Reduction of energy consumption			109-112
303-5	Reductions in energy requirements of products and services			109-112
Water				
303-1	Water withdrawal by source			109-112
303-2	Water sources significantly affected by the withdrawal of water			109-112
303-3	Water recycled and reused			109-112
Bio-Diversity				
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas			N/A
304-2	Significant impacts of activities, products, and services on biodiversity			N/A
304-3	Habitats protected or restored			N/A
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations			N/A
Emissions				
305-1	Direct (Scope 1) GHG emissions			109-112
305-2	Energy indirect (Scope 2) GHG emissions			109-112
305-3	Other indirect (Scope 3) GHG emissions			109-112
305-4	GHG emissions intensity			109-112
305-5	Reduction of GHG emissions			109-112
305-6	Emissions of ozone-depleting substances (ODS)			109-112
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions			109-112

Effluents and Waste				
306-1	Water discharge by quality and destination			N/A
306-2	Waste by type and disposal method			N/A
306-3	Significant spills			N/A
306-4	Transport of hazardous waste			N/A
306-5	Water bodies affected by water discharges and/or runoff			N/A
Environmental Compliance				
307-1	Non-compliance with environmental laws and regulations			N/A
Supplier Environmental Assessment				
308-1	New suppliers that were screened using environmental criteria			N/A
	Negative environmental impacts in the supply chain and actions taken			N/A
Employment				
401-1	New employee hires and employee turnover			58-60
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees			58-60
401-3	Parental leave			58-60
Labour / Management Relations				
402-1	Minimum notice periods regarding operational changes			N/A
Occupational Health and Safety				
403-1	Workers representation in formal joint management–worker health and safety committees			58-60
403-2	Types of injury and rates of injury, occupational diseases, lost days, absenteeism, and the number of work-related fatalities			58-60
403-3	Workers with high incidence or high risk of diseases related to their occupation			58-60
403-4	Health and safety topics covered in formal agreements with trade unions			58-60
Training and Education				
404-1	Average hours of training per year per employee			109-112
404-2	Programs for upgrading employee skills and transition assistance programs			109-112
404-3	Percentage of employees receiving regular performance and career development reviews			109-112
Diversity and Equal Opportunity				
405-1	Diversity of governance bodies and employees			75-85
405-2	Ratio of basic salary and remuneration of women to men			N/A
Non-Discrimination				
406-1	Incidents of discrimination and corrective actions taken			N/A
Freedom of Association and Collective Bargaining				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk			N/A
Child Labour				109-112
408-1	Operations and suppliers at significant risk for incidents of child labor			N/A
Forced and Compulsory Labour				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor			N/A

Security Practices				
410-1	Security personnel trained in human rights policies or procedures			N/A
Rights of Indigenous People				
411-1	Incidents of violations involving the rights of indigenous peoples			N/A
Human Rights Assessment				
412-1	Operations that have been subject to human rights reviews or impact assessments			N/A
412-2	Employee training on human rights policies or procedures			
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening			N/A
Local Communities				
413-1	Operations with local community engagement, impact assessments, and development programs			109-112
	Operations with significant actual and potential negative impacts on local communities			109-112
Supplier Socio Assessment				
414-1	New suppliers that were screened using social criteria			N/A
414-2	Negative social impacts in the supply chain and actions taken			N/A
Public Policy				
415-1	Political contributions			N/A
Customer health and Safety				
416-1	Assessment of the health and safety impacts of product and service categories			N/A
	Incidents of non-compliance concerning the health and safety impacts of products and services			N/A
Marketing and Labeling				
417-1	Requirements for product and service information and labeling			N/A
417-2	Incidents of non-compliance concerning product and service information and labeling			N/A
417-3	Incidents of non-compliance concerning marketing communications			N/A
Customer Privacy				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data			N/A
Socioeconomic Compliance				
419-1	Non-compliance with laws and regulations in the social and economic area			N/A

Supporting Lasting Interventions

dfcu is committed to partnerships that promote the transformation and well-being of communities where we operate. The Bank continued to support the entrepreneurial spirit of Ugandans, enhanced the stability of families, and provided a sustainable approach to promoting savings.

Contributing to agricultural transformation through the Agribusiness Development Centre (ADC)

Agriculture Development Center (ADC) is a company limited by guarantee and founded by Rabo Foundation (Netherlands) and **dfcu** Limited (Uganda) in 2017. ADC's purpose is to build the capacity of Agribusinesses that have potential to contribute to Agricultural transformation in Uganda.

dfcu in partnership with Rabo Foundation established Agribusiness Development Centre (ADC) to promote the self-sufficiency of agribusinesses.

Since 2018, the ADC has successfully offered capacity building and business accelerator services to at least 400 enterprises and reached at least 22,000 unique learners, favoring 46% women inclusion in its interventions. It has also facilitated financial linkages worth UGX 43.5 billion for multiple Small Holder Farmers. At least 40 Agribusinesses were supported to access social and commercial credit facilities. ADC fosters self-reliance and bankability of Farmer Based Organizations (FBO), Small and Medium Enterprise (SME) in agribusiness and savings and credit Cooperatives (SACCOs) through capacity building and related Business Development Services, in over 25 districts segmented into North, East, Central, West A, West B and West C.

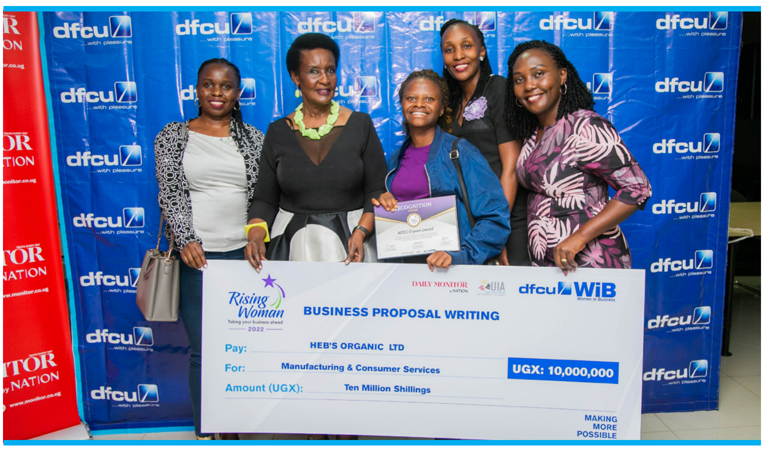
Key outcomes so far

Total number of Trainings	**4,692**
Total number of Farmers Trained	**20,424**
Percentage of women	**47.8%**
Total number of accounts opened	**2,546**
Value of loans (linked)	**UGX 43.5 billion**

The Impact Assessment for the period 2018-2022 indicated the following key outcomes:

- Overall, 43% of ADC-supported Enterprises can access and repay financing from financial institutions across the country. The findings demonstrate that the capacity-building interventions by the Agribusiness Development Centre have resulted in financial and market linkages which are relevant and provide added value to the beneficiaries.
- Significant improvements in the economic value of the Enterprises are evident, mirrored by an increase in the level of individual savings, utilization of formal financial institutions for savings, and access to financial credit for investment.

In 2022, **dfcu** through the ADC rolled out the Business Accelerator Program to support business improvements and facilitate the necessary linkages for growth and sustainability. The accelerator targets to enable 350 businesses to become self-sufficient.



One of the Winners from the **dfcu** Rising Woman

Building business capacity through SME TOP 100

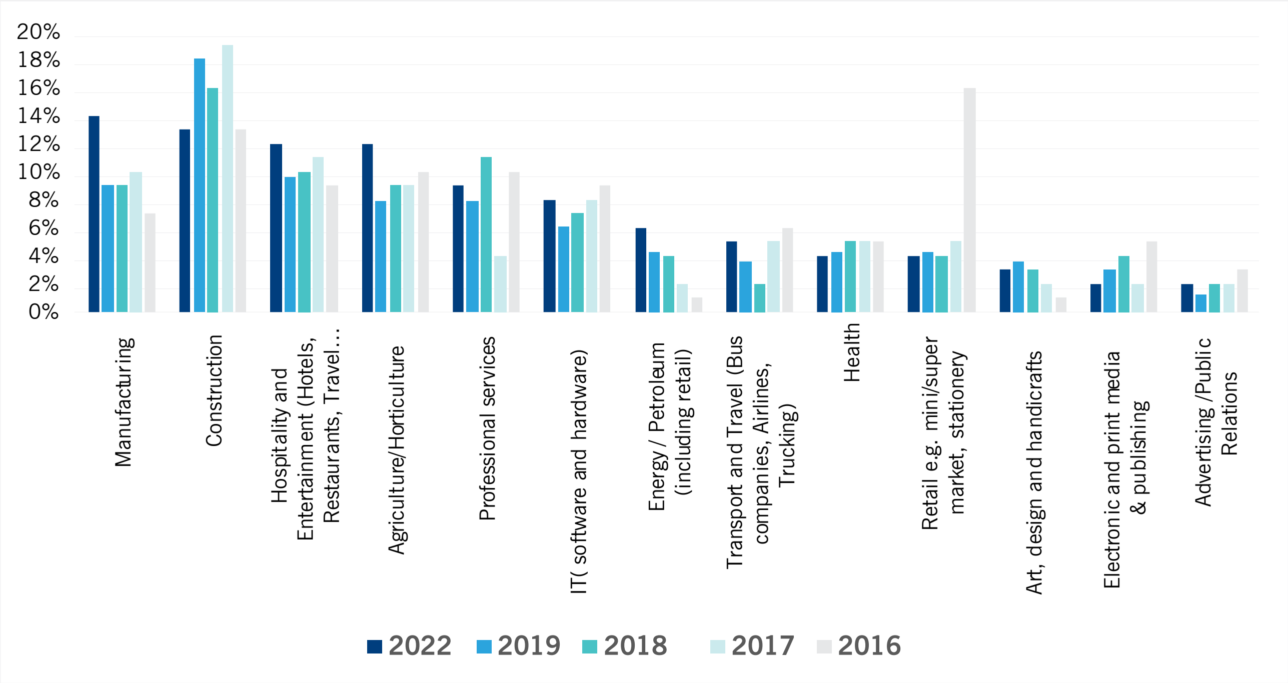
The SME Top 100 recognizes Uganda's fastest-growing medium-sized companies and showcases the country's most successful entrepreneurship stories. The program creates a platform to provide opportunities that offer value and build sustainable businesses. Through this initiative, hundreds of businesses learn from each other; engage policymakers on their contribution to the economy, benchmark against other business operations, and much more.
The initiative is boosting the skillset of the selected companies, eventually translating to improved business practices and increased profitability for SMEs.

Participating in this annual competition is critical to business process improvement that ultimately helps entities gain access to new sources of financing, enhance their business management skills and acquire new partners they need to move to the next level.

The 2022 activities were anchored on the following:

- An SME survey was conducted to assess the state of SME's post covid – 19 and interventions at different levels.
- Six sector-specific forums were held covering Agriculture, Hospitality & Tourism, and health.
- Two TV dialogues were held which shaped the online conversations on SME-related matters.
- Awards Gala which recognized the TOP 100 companies from the SME survey

Participation by sector




Participants in the Business Acceletor pogram on a learning tour at the Uganda Industrial Research Institute

Some of the award winners from the SME Top 100 program

Removing Barriers to Financial Access

dfcu supports individuals to access finance; set up and grow their businesses; and gives them the skills to manage their finances through financial education.

Deepening access to financial services

We want to give everyone access to financial services, regardless of factors such as income level, gender, educational attainment, or geographic location. To achieve its goal of deepening financial access, dfcu deploys a mix of traditional and digital banking channels respectively.

Ease of account opening

To ease the account opening and onboarding process, dfcu introduced a digital self-onboarding account. This account empowers and allows anyone to access the mobile banking platform to (1) open a digital account, (2) self-onboard and (3) transact immediately.

Branch network

We know that our customers value being able to walk into a local branch for face-to-face service, especially when making large deposits and when making major financial decisions. That's why we are committed to keeping a well-balanced branch network spread across the country.

Agent Banking

Through Agent Banking, we are extending financial services to the unbanked and underbanked in easy-to-access locations across the country. Services include making cash deposits and withdrawals; balance enquiries; generating mini-statements; paying utility bills; school fees payments and carrying out transfers. In line with the digitization agenda, the agent banking services are complemented with an instant account opening platform that enables customers to acquire **dfcu** Bank accounts in less than five minutes.

24/7 ATM cash deposits

A new ATM fleet was deployed, and customers can now deposit cash into their accounts at any of the 78 **dfcu** ATM points across the network. The deposit-taking functionality has provided added convenience for customers to make cash deposits 24/7.

Contactless cards

dfcu introduced upgraded contactless Visa cards that allow customers to tap their cards to complete a low-value payment transaction, instead of inserting the card into a point-of-sale machine and entering a PIN. The contactless cards enable a seamless payment process with increased security to allow customers keep their cards with them rather than handing them to the cashiers or entering a PIN or signing a slip.

Mobi loans

The digital micro-loan dubbed "**dfcu** Mobi Loan" allows emerging entrepreneurs and personal account holders to access short-term credit facilities to bridge a temporary financial gap for emergencies that just can't wait. With the Mobi loan product, customers can access instant loans from as low as Ugx 30,000= and up to Ugx 2,000,000= using their mobile phones.

Online Banking

The flagship digital platform Quick Banking helps us achieve this ambition, allowing us to overcome some of the barriers to accessing financial products and services. This omnichannel digital platform enables customers to access our banking services using the mobile phone (***240#**), using the computer (**dfcu** QuickConnect), or through the mobile App (**dfcu** Quick App).

dfcu Investment Club App

The Investment Club App is central to our financial inclusion strategy of encouraging personal and group savings, and investments. The App simplifies the day-to-day management of group savings by providing a digital real-time view of all financial activities. The App helps with tracking member contributions, managing group lending and collections, effective reporting, and general administration anytime, anywhere. The platform is integrated with other payment options like mobile money so that with just a few taps, clubs can make payouts to third parties e.g., suppliers and members.

Tailored products for specific customer groups

dfcu offers specific banking products aimed at bringing underserved customer groups into the banking system. Affordable savings products such as the Dembe and Group savings accounts are helping to inculcate a savings culture.

The Enterprise account provides small businesses with convenience and simplicity for their transactions such as the facilitation of making and receiving payments among others. The account comes with no monthly fees providing an affordable option for small enterprises to do their banking.

Promoting financial deepening and education

The dfcu financial inclusion strategy goes beyond providing access to banking services. We want people to have the skills to manage their finances, so they can make the right choices about what products and services meet their needs. The **dfcu** Investment Club and SACCO program provides a conducive platform to foster group savings and financial inclusion. In 2022, the program recorded a total banking activity turnover of over Ugx 800 billion.

1000+
Financial literacy engagements

In addition, dfcu partnered with the Government of Uganda and supported the rollout of the Parish Development Model (PDM) model, onboarding over 2,000 PDM SACCOS into the banking system. As part of this partnership, we extended financial literacy to over 1,000 PDM SACCOs with over 300,000 members.

Empowering Women in Business

Our commitment to women-led business ventures started with the introduction of the **dfcu** Women in Business Program which has to date, directly benefited over 80,000 women across the country. In 2022, our flagship "Rising Woman" campaign was held under the theme 'Taking Your Business Ahead', to provide female entrepreneurs with the knowledge, skills, and abilities to improve how they operate their businesses; enabling them to create profitable operations. Over 1,200 women entrepreneurs directly benefited from the initiative during the year, of which 10 winners were sponsored for a fully paid business tour to Nairobi.

dfcu Limited

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

GROUP INFORMATION

DIRECTORS

Mr. Jimmy D. Mugerwa*	-	Chairman (Appointed 6 April 2022)
Dr. Amina Zawedde*	-	Non-executive Director
Mr. Lule Kironde*	-	Non-executive Director
Mr. Freiedrich C. Pelser***	-	Non-executive Director
Ms. Barbra T. Arimi*	-	Non-executive Director
Dr. Christine E. Akello*	-	Non-executive Director (Appointed 6 April 2022)
Mr. Albert J.M. Jonkergouw**	-	Non-executive Director (Resigned 6 April 2022)
*Ugandan	**Dutch	***South African

COMPANY SECRETARY

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P. O. Box 7215
Kampala, Uganda

REGISTERED OFFICE

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

GROUP INFORMATION (CONTINUED)

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

FirstRand 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

M/s MMAKS Advocates
4th Floor Redstone House
Plot 7 Bandali Rise-Bugolobi Kampala

S & L Advocates (formerly Sebalu and Lule Advocates)
14, MacKinnon Road, Nakasero
P. O. Box 2255, Kampala

M/s A. F. Mpanga Advocates
Plot 26 Kyadondo Road, Nakasero
P. O. Box 1520 Kampala

K&K Advocates
K&K Chambers
Plot 5A2 Acacia Avenue
P. O. Box 6061, Kampala

M/s Arcadia Advocates
3rd Floor Acacia Place
Plot 6 Acacia Avenue
P. O. Box 28997, Kampala

KTA Advocates
Plot 4 Hannington Road
P. O. Box 37366, Kampala

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

Kentaro Mugerwa & Company Advocates
2nd Floor Mukwano Courts
Plot 13 Buganda Road, Kampala

Kalenge, Bwanika, Ssawa & Co. Advocates
KBS Chambers
Plot 30, Lumumba Avenue
P. O. Box 8352, Kampala

Amber Solicitors & Advocates
6th Floor Lourdel Towers
Plot 1 Lourdel Road, Kampala

Muganwa Nanteza and Co Advocates
Plot 1-3 Coral- Crescent, Lower Kololo
Nice Apartments
P. O. Box 8543, Kampala

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

M/s Katende, Ssempebwa & Company Advocates
Radiant House, Plot 20 Kampala Road
P. O. Box 2344, Kampala

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 2022, 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 real estate. The Bank (subsidiary) is licensed under the Financial Institutions Act, 2004 (as amended by the Financial Institutions Amendment Act, 2016).

The Group's balance sheet closed at Ushs 3.243 trillion in 2022 (2021: Ushs 3.137 trillion), net loans and advances of Ushs 1.361 trillion (2021: 1.508 trillion) and customer deposits of Ushs 2.410 trillion (2021: Ushs 2.282 trillion).

Future outlook

The Group is very clear about the role it must and will continue to play in supporting our customers and the economy; while also maintaining a strong, resilient balance sheet and delivering value to our shareholders. Our priorities for the next three years include the following:

- Aggressively pursue the Group's strategy to digitise our operations to the benefit of our customers;
- Diversify the deposit mix with the focus on reducing our overall cost of funds; and
- Grow and diversify quality loan portfolio.

RESULTS AND DIVIDEND

The Group's profit for the year was Ushs 29.5 billion (2021: Ushs 9.3 billion). The directors recommend the payment of a final dividend for the year ended 31 December 2022 of Ushs 6,129 million (2021: Ushs Nil) or Ushs 8.19 per share (2021: Ushs Nil).

DIRECTORS

During the financial year and up to the date of this report, other than as disclosed in Note 46 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 46 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 17 to 18.

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

DIRECTORS' REPORT (CONTINUED)

AUDITOR

The Group's external auditor, Ernst & Young, being eligible for reappointment have expressed willingness to continue in office in accordance with Section 167(2) of the Companies Act, 2012 of Uganda.

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 29 March 2023.

By order of the Board

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

COMPANY SECRETARY

Date: 29 March 2023

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 statements of financial position as at 31 December 2022, 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 and the Companies Act, 2012 of Uganda.

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 auditor is 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 and the Companies Act, 2012 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 29 March 2023 and were signed on its behalf by:

……………………………………
Director

……………………………………
Director

……………………………………………
Secretary

Date: 29 March 2023

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF dfcu LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our opinion

We have audited the separate financial statements of **dfcu** Limited (the "Company") and the consolidated financial statements comprising the Company and its subsidiary (together, the "Group") set out on pages 126 to 225, which comprise the consolidated and separate statements of financial position as at 31 December 2022, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2022, and the consolidated and separate financial performance and consolidated and separate cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda.

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 the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

No.Level	1 Group	Key Audit Matter	How our audit addressed the key audit matter
		Accounting for expected credit losses on loans and advances to customers As disclosed in Note 23, as at 31 December 2022, the Group had an allowance for expected credit losses of Ushs 62.683 billion (2021: Ushs 177.258 billion) charged on gross loans and advances of Ushs 1.424 billion (2021: Ushs 1.686 billion). The expected credit losses are based on a forward-looking approach that recognises impairment loss allowances in accordance with IFRS 9 *Financial Instruments.* The estimation of expected credit losses requires the group to make significant judgements in the consideration of the following variables: •Allocation of loans to stages 1, 2 and 3 in accordance with IFRS 9 based on: •Credit exposures for which there has been a significant increase in credit risk since initial recognition, and for which a loss allowance is recognised over the remaining life of the exposure (lifetime ECL); •Credit exposures for which there has been no significant increase in credit risk, and for which a loss allowance is recognised for default events that are possible within the next 12-months (12-month ECL). •Stratification of assets under different credit portfolio on the basis of the associated credit risk. •Assessment of the Probability of Default (PD) and the Loss Given Default (LGD). •The application of historical and forward-looking information, including macro-economic factors in the assessment of the PD. •Assessment and forecasting of expected future cash flows from impaired (stage 3) loans and advances to customers including assessing the financial condition of the counterparty, estimating recoverability of the cash flows and collateral realisation. •Expected utilisation of overdraft and other lending commitments over the lifetime of the commitments. •Application of additional overlay adjustments to reflect factors that are not considered in the applied expected credit loss model.	Our audit procedures included, but were not limited to: •Evaluated the accounting policies for compliance with IFRS 9 requirements. •Tested the ECL models including whether the assumptions applied, and the functioning and application of the models were in accordance with IFRS 9. •Tested the allocation of loans and advances to customers to stages 1, 2 and 3 for compliance with IFRS 9 basing on the performance of the loans and the available information. •Evaluated the assumptions made to factor expected future cash flows into the ECL computations, taking into account market conditions, and the post-reporting date performance of the loan facilities. •Evaluated the reliability of data sources, including collateral valuation, used in the ECL calculations. This included reviewing a sample of loan files to check, where appropriate, if the inputs agreed to the supporting documentation. •Recomputed the ECLs basing on supportable inputs and assumptions and compared the results of our re-computations to the management balances. •Assessed whether disclosures made in the consolidated and separate financial statements agreed to the audited balances and information, and whether they were in accordance with IFRS 9.

		Due to the uncertainty of the economic impact of COVID-19 and other changes in the business environment, management re-assessed the assumptions used to estimate ECLs, on account of changes in the market conditions and related observable inputs. The disclosures in Note 6B to the consolidated and separate financial statements provide information about the changes in the assumptions made in the determination of ECLs and the market conditions as at year-end. Due to the significance of the amounts and significant judgements and related estimation uncertainty involved, the assessment of ECLs has been considered a key audit matter. The complexity of these estimates requires management to prepare financial statement disclosures explaining the key judgments and the key inputs into the ECL computations. Refer to Notes 5(i), 6B and 23 to the consolidated and separate financial statements for the accounting policies and explanatory notes on expected credit losses on loans and advances to customers.	

No.	Level	Key Audit Matter	How our audit addressed the key audit matter
2	Group	Valuation of non-performing loans acquired from Crane Bank Limited (in receivership)	
		As disclosed in Note 27 to the consolidated and separate financial statements, the Group recognised a financial asset based on the fair valuation of written off and non-performing loans and advances acquired from Crane Bank Limited (in receivership). The financial asset is measured at fair value through profit or loss and amounted to Ushs 26.501 billion as at 31 December 2022 (2021: Ushs 72.664 billion). A fair value loss of Ushs 4.93 billion was recognised for the year ended 31 December 2022 (2021: Ushs 30.861 billion). The fair valuation of the financial asset is determined using the discounted cash flows method. The valuation of the financial asset is considered a key audit matter due to the significant amounts and judgments involved. The key judgements include estimating the future cashflows expected from the facilities and the time when the cash flows will be received. The estimation process is further complicated by the impact of the Covid-19 pandemic and other unexpected changes in the business environment on the counterparties and general business environment. We also considered that the related disclosures in Note 27 to the consolidated and separate financial statements are significant to the understanding of the financial assets.	Our audit procedures included, but were not limited, to: •Reviewed documentation supporting management's assessment of the expected future cash flows including loan files, correspondence with the counterparties, payment plans agreed with the counterparties, collateral valuation reports, and legal reports. •Basing on the information available in the documents reviewed, evaluated the realizability and timing of cash flows expected from payments from counterparties and disposal of collateral, and where litigation is involved, the likely outcome of the litigation. Assessed whether assumptions made in previous periods continue to be reasonable by reviewing actual outcomes during the year and subsequent to the reporting date. •Assessed whether management considered the impact of the Covid-19 pandemic and other changes in the business environment, for example, on the realizability of expected cash flows including the impact on the valuation of assets held as collateral by the group. •Assessed whether the disclosures made in the consolidated and separate financial statements are complete.

Other information

The other information comprises the information included on pages 115 to 116 which includes the Group Information, the Directors' Report as required by the Companies Act, 2012 of Uganda, the Statement of Directors' Responsibilities and the Supplementary Information appended to the audited consolidated and separate financial statements, which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will 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 on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda and 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.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the 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 the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 internal control.

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

- 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 the 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 the 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.

We also provide the 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 the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current year 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 REQUIREMENTS

The Companies Act, 2012 of Uganda, requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

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

iii) the Group's and the Company's statements of financial position and statements of comprehensive income are in agreement with the books of accounts.

The Engagement Partner on the audit resulting in this independent auditor's report is CPA Julius Rwajekare – P0307.

Ernst & Young
....
Ernst & Young
Certified Public Accountants of Uganda
Kampala, Uganda

....
Julius Rwajekare
Partner

Date: 30 March 2023

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2022	2021
		Ushs M	Ushs M
Interest income calculated using the effective interest method	9 (a)	**339,058**	347,311
Other interest and similar income	9 (b)	**4,306**	7,488
Interest expense calculated using the effective interest method	10	**(74,577)**	(81,509)
Net interest income		**268,787**	273,290
Fees and commission income	13	**62,384**	62,500
Net trading and other income	11	**24,980**	30,835
Net income from other financial instruments at FVTPL	12	**762**	2,002
Total operating income		**356,913**	368,627
Operating expenses	14	**(228,441)**	(183,523)
Fair value losses on other financial assets at fair value through profit or loss	26	**(4,930)**	(30,861)
Credit loss expense on financial assets	18	**(88,190)**	(148,358)
Profit before tax		**35,352**	5,885
Income tax (expense) / credit	20 (a)	**(5,876)**	3,427
Profit for the year		**29,476**	9,312
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net loss on FVOCI financial assets net of tax	41	**8,924**	4,776
Changes in ECL on FVOCI financial instruments	41	**107**	26
Total other comprehensive income		**9,031**	4,802
Total comprehensive income for the year		**38,507**	14,114
Attributable to:			
Equity holders of the Company		**38,507**	14,114
Non-controlling interest		**-**	-
		38,507	14,114
Earnings per share:			
Basic earnings per share	19	**39.40**	12.45
Diluted earnings per share	19	**39.40**	12.45

All the profit for the year, other comprehensive income and total comprehensive income are attributable to equity holders of the Company.

Company statement of comprehensive income for the year ended 31 December

	Note	2022 Ushs M	2021 Ushs M
Interest income	9	**80**	145
Interest expense	10	**(2,324)**	(2,720)
Net interest income		**(2,244)**	(2,575)
Fees and commissions	13	**640**	602
Dividend income		**-**	15,000
Other income	11	**6,479**	6,241
Operating income		**4,875**	19,268
Operating expenses	14	**(4,407)**	(8,856)
Profit before tax		**468**	10,412
Income tax (charge) / credit	20(a)	**(1,635)**	685
(Loss) / profit for the year		**(1,167)**	11,097
Other comprehensive income:			
Other comprehensive income		**-**	-
Total comprehensive (loss) / income for the year		**(1,167)**	11,097

Consolidated statement of financial position as at 31 December

	Note	2022 Ushs M	2021 Ushs M
Assets			
Cash and balances with Bank of Uganda	21	**482,298**	516,802
Deposits and balances due from other banks	22	**216,771**	229,524
Government and other securities:			
Trading assets	26	**46,757**	6,700
Investment securities at FVOCI	25	**655,189**	339,849
Investment securities at amortised cost	25	**247,190**	212,441
Loans and advances to customers	23	**1,361,445**	1,508,410
Investment in equity shares	24	**6,980**	7,701
Other assets	27	**41,288**	118,147
Derivative financial instruments	44 (b)	**567**	647
Income tax recoverable	20(d)	**-**	214
Deferred tax assets	31	**33,411**	26,336
Property, equipment and right-of-use assets	29 (a)	**77,110**	91,035
Investment property	28	**19,784**	18,795
Intangible assets	30	**25,178**	31,042
Assets held for disposal	29 (b)	**29,089**	29,089
Total assets		**3,243,057**	3,136,732
Liabilities			
Customer deposits	33	**2,410,593**	2,282,205
Derivative financial instruments	44 (b)	**240**	308
Deposits due to banks	34	**8,512**	-
Other liabilities	35	**62,409**	66,196
Borrowed funds	37	**123,689**	190,614
Special funds	36	**1,193**	1,193
Income tax payable	20 (d)	**1,550**	-
Provisions	44 (a)	**2,338**	2,190
Total liabilities		**2,610,524**	2,542,706
Equity			
Share capital	38	**14,963**	14,963
Share premium	38	**185,683**	185,683
FVOCI reserve	41	**12,291**	3,260
Retained earnings	40	**413,467**	390,120
Proposed dividend	17	**6,129**	-
Total equity		**632,533**	594,026
Total equity and liabilities		**3,243,057**	3,136,732

The consolidated and separate financial statements were approved for issue by the Board of Directors on 29 March 2023 and signed on its behalf by:

.... Director	.... Director	.... Secretary

Company statement of financial position as at 31 December

		2022	2021
		Ushs M	Ushs M
Assets			
Amounts due from Group companies	46 (b)	**1,480**	2,882
Other assets	27	**102**	186
Income tax recoverable	20 (d)	**655**	651
Deferred tax asset	31	**1,005**	2,154
Investment in subsidiaries	32	**203,293**	203,293
Investment property	28	**39,546**	41,130
Total assets		**246,081**	250,296
Liabilities and equity			
Liabilities			
Other liabilities	35	**3,108**	7,185
Borrowed funds	37	**4,759**	5,239
Amounts due to Group companies	46 (a)	**16,142**	14,633
Total liabilities		**24,009**	27,057
Equity			
Share capital	38	**14,963**	14,963
Share premium	38	**185,683**	185,683
Accumulated profits	40	**15,297**	22,593
Proposed dividends	17	**6,129**	-
Total equity		**222,072**	223,239
Total equity and liabilities		**246,081**	250,296

The consolidated and separate financial statements were approved for issue by the Board of Directors on 29 March 2023 and signed on its behalf by:

....
Director

....
Director

....
Secretary

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

	Note	Share capital	Share premium	Retained earnings	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
As at 1 January 2021		14,963	185,683	356,157	(1,542)	37,651	592,912	592,912
Profit for the year		-	-	9,312	-	-	9,312	9,312
Loss allowance FVOCI		-	-	-	26	-	26	26
FVOCI revaluation		-	-	-	4,776	-	4,776	4,776
Transactions with shareholders:								
Dividends paid		-	-	-	-	(13,000)	(13,000)	(13,000)
Proposed dividends adjustment				24,651		(24,651)	-	-
As at 31 December 2021		14,963	185,683	390,120	3,260	-	594,026	594,026
As at 1 January 2022		**14,963**	**185,683**	**390,120**	**3,260**	**-**	**594,026**	**594,026**
Profit for the year		**-**	**-**	**29,476**	**-**	**-**	**29,476**	**29,476**
Loss allowance FVOCI		**-**	**-**	**-**	**107**	**-**	**107**	**107**
FVOCI revaluation		**-**	**-**	**-**	**8,924**	**-**	**8,924**	**8,924**
Transactions with shareholders:								
Proposed dividends	17	**-**	**-**	**(6,129)**	**-**	**6,129**	**-**	**-**
As at 31 December 2021		**14,963**	**185,683**	**413,467**	**12,291**	**6,129**	**632,533**	**632,533**

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

	Note	Share capital	Share premium	Accumulated losses	Proposed dividends	Total
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January 2021		14,963	185,683	(13,155)	37,651	225,142
Profit for the year		-	-	11,097	-	11,097
Transactions with shareholders:						
Dividends paid		-	-	-	(13,000)	(13,000)
Proposed dividends adjustment		-	-	24,651	(24,651)	-
At 31 December 2021		14,963	185,683	22,593	-	223,239
At 1 January 2022		**14,963**	**185,683**	**22,593**	**-**	**223,239**
Profit for the year		**-**	**-**	**(1,167)**	**-**	**(1,167)**
Transactions with shareholders:						
Dividends proposed	17	**-**	**-**	**(6,129)**	**6,129**	**-**
At 31 December 2022		**14,963**	**185,683**	**15,297**	**6,129**	**222,072**

Consolidated statement of cash flows for the year ended 31 December

	Note	2022	2021
		Ushs M	Ushs M
Operating activities:			
Profit before tax		35,352	5,885
Adjustment for:			
Depreciation of property, equipment and right-of-use assets		15,272	20,979
Depreciation of investment property		653	461
Amortisation of intangible assets		9,128	12,026
Unrealised foreign exchange gain		(677)	(2,935)
(Gain) / loss on disposal of fixed assets		(76)	261
Fair value losses on assets at fair value through profit and loss		4,930	30,861
Credit loss expense on financial assets		88,190	148,358
Reversals in provisions and employee benefits		(212,096)	(75,561)
Cash from operating activities before changes in operating assets and liabilities		(59,324)	140,335
Changes in operating assets and liabilities			
Increase in government and other securities		(350,220)	(35,284)
(Increase) / decrease in Bank of Uganda cash reserve requirement		(23,050)	890
Decrease in loans and advances to customers		261,540	266,906
Decrease / (increase) in other assets		76,859	(10,164)
Increase / (decrease) in balances due to other banks		8,512	(10,968)
Increase / (decrease) in customer deposits		128,388	(313,142)
Increase/ (decrease) in other liabilities		3,429	(5,933)
		46,134	32,640
Income tax paid		(14,825)	(14,377)
Net cash flows from operating activities		31,309	18,263
Investing activities			
Purchase of property and equipment		(3,095)	(7,069)
Purchase of investment property		(555)	(14)
Purchase of intangible assets		(3,264)	(6,387)
Proceeds from sale of property and equipment		129	473
Net cash flows used in investing activities		(6,785)	(12,997)
Financing activities			
New borrowings received		1,952	60,714
Principal paid on borrowings		(84,572)	(96,381)
Principal paid on lease liability		(11,701)	(11,868)
Dividends paid to shareholders		-	(13,000)
Net cash flows used in financing activities		(94,321)	(60,535)
Net decrease in cash and cash equivalents		(69,797)	(55,269)
Unrealised (loss) / gain on cash and cash equivalents		(510)	294
Cash and cash equivalents at start of year		542,866	597,841
Cash and cash equivalents at end of year		472,559	542,866

Additional information on operational cash flows from interest and dividends

	2022	2021
Interest paid	75,916	89,101
Interest received	339,579	366,936
Dividends received	1,037	398

Company statement of cash flows for the year ended 31 December

	Note	2022	2021
		Ushs M	Ushs M
Operating activities:			
Profit before tax		**468**	10,412
Adjustment for:			
Depreciation of investment property		**2,146**	2,666
Unrealised foreign exchange loss		**8**	21
Reversals in provisions and employee benefits		**(3,287)**	4,006
Cash from operating activities before changes in operating assets and liabilities		**(665)**	17,105
Changes in operating assets and liabilities			
Increase / (decrease) in amounts due to group companies		**1,509**	(1,299)
(Increase) / decrease in other assets		**(84)**	168
Decrease in other liabilities		**(197)**	(410)
Income tax paid		**(490)**	(6)
Net cash flows from operating activities		**73**	15,558
Investing activities			
Purchase of investment property		**(562)**	(190)
Net cash flows used in investing activities		**(562)**	(190)
Financing activities			
New borrowings received		**-**	500
Principle paid on borrowings		**(916)**	(220)
Dividends paid to shareholders		**-**	(13,000)
Net cash flows used in financing activities		**(916)**	(12,720)
Net (decrease) / increase in cash and cash equivalents		**(1,405)**	2,648
Unrealised gain on cash and cash equivalents		**3**	37
Cash and cash equivalents at start of year		**2,882**	197
Cash and cash equivalents at end of year		**1,480**	2,882

Additional information on operational cash flows from interest and dividends

Interest paid	914	904
Interest received	80	145
Dividends received	-	15,000

1. General information

dfcu Limited ('the Company') is incorporated in Uganda under the Companies Act of Uganda as a public limited liability company and is domiciled in Uganda. Some of the Company's shares are listed on the Uganda Securities Exchange (USE). The Company 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 Company's board of directors on 29 March 2023. Details of the Group's accounting policies are included in Notes 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 note 3.
The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 7.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The Group considered the impact of COVID-19 in preparing these financial statements. While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event.
In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/ estimates involved.

Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Refer to Note 5(I) for further information on determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

Going concern

The Group's directors have made an assessment of its ability to continue as a going concern and are satisfied that it 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 on the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

For further details about determination of fair value please see Note 6E.

Effective Interest Rate (EIR) method

The Group's EIR method recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life cycle of the instruments, as well expected changes to the Group's base rate and other fee income/expense that are integral parts of the instrument. Refer to note 5(C) for further information on the Group's policy.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Although in Uganda tax losses can be utilised indefinitely, judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies. Refer to Note 5(L) for further information on recognition of deferred tax assets.

Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory assessments, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingencies see Note 5(X).

Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the Group's functional currency).The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

4. Changes in significant accounting policies

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective on or after 1 January 2022.
New and amended standards and interpretations
The following amendments and interpretations applied for the first time in 2022 and have no impact on the Group's financial statements:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. Standards issued but not yet effective that are not expected to have a material impact on the Group's financial statements.

- IFRS 17 Insurance Contracts (effective for reporting periods beginning on or after 1 January 2023)
- Definition of Accounting Estimates – Amendments to IAS 8 (effective for reporting periods beginning on or after 1 January 2023)
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (effective for reporting periods beginning on or after 1 January 2023)
- Deferred tax related to Assets and Liabilities arising from a Single Transaction – Amendment to IAS 12 (effective for reporting periods beginning on or after 1 January 2023)
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 (effective for reporting periods beginning on or after 1 January 2024)
- Classification of Liabilities as Current or Non-current – Amendments to IAS 1(effective for reporting periods beginning on or after 1 January 2024)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting)

5. Summary of significant accounting policies

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

a) Consolidation

The consolidated financial statements comprise the financial statements of dfcu Limited and its subsidiary, dfcu Bank Limited as at 31 December 2022.

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 (investee) and has the ability to affect those returns through its power over the entity. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.
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.
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 Group 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

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.

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) and 6B.

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.

The Effective Interest Rate method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

d) 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, which 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- 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. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

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. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer. More details on the various type of fees and commissions recognised in the scope of IFRS 15 are included in Note 13.

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

Contract balances

The following are recognised in the statement of financial position arising from revenue from contracts with customers:

- 'Fees and commissions receivables' included under 'Other assets', which represent the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortised cost and subject to the impairment provisions of IFRS 9.
- 'Unearned fees and commissions' included under 'Other liabilities', which represent the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Group performs.

e) Net trading and other 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, for financial assets and financial liabilities held for trading.

f) 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 non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

g) 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. 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.

h) 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.

i) Financial assets and liabilities

i. Recognition and initial measurement

Date of recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated (e.g., Loans and advances to customers are recognised when funds are transferred to the customers' accounts and the Bank recognises balances due to customers when funds are transferred to the Bank). 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.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. A financial asset or financial liability is measured initially at fair value plus or reduced by transaction costs that are directly attributable to its acquisition or issue respectively, for an item not at fair value through profit or loss. The fair value of a financial instrument at initial recognition is generally its transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

ii. Classification

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 (SPPI)
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 defines 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 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.
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 (O). 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.

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

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.

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.

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. Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

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.

'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.

vi. Fair value measurement

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 recognizes 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 as they are classified and measured at FVPL
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'.

lifetime 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'.

Measurement of impairment

The Group calculates ECL based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. Details are included in Note 6B.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. Details are included in Note 6B.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD. Details are included in Note 6B.

When estimating the ECL, the Group considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs, as set out in 6B. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier.

5. Summary of significant accounting policies (continued)

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying 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 debt security held at fair value through OCI (FVOCI): 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 debt security at FVOCI was always recognised in OCI.

Presentation

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

Impairment losses on investment securities at FVOCI 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.

Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

If modifications are substantial, the loan is derecognised. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original EIR as calculated before the modification of terms. The Group also reassesses whether there has been a significant increase in credit risk and whether the assets should be classified as Stage 3. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

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.

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.
ii) A general provision of at least 1% of their total outstanding credit facilities net of specific provisions.

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

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

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

ix. 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.

j) Property, equipment and right-of-use assets

i. Recognition and measurement

Property and equipment is stated at cost excluding the costs of day–to–day servicing, net of accumulated depreciation and/or accumulated impairment losses, if any. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates. Right-of-use assets are presented together with property and equipment in the statement of financial position.

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.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) 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.

5. Summary of significant accounting policies (continued)

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 of owned assets is calculated using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. Land is not depreciated.

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

Buildings	40 years
Furniture, fittings and equipment	6 – 7 years
Computer equipment	3 – 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 adjusted.

k) Intangible assets

i. Recognition and measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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.

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.

5. Summary of significant accounting policies (continued)

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. The estimated useful life of the Bank's software is 5 years.

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.

l) 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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. The Group considers IFRIC 23 Uncertainty over Income Tax Treatments in applying judgement for any open tax matters.

The consideration is of whether it is probable that the tax authority will accept an uncertain tax treatment. If the Group concludes that the position is not probable of being accepted, the effect of the uncertainty is reflected in the Group's accounting for income taxes.

m) 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

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

5. Summary of significant accounting policies (continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 28 Property, equipment and right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 5(v) - Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.
Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

5. Summary of significant accounting policies (continued)

p) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated and company 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

'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.

'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.

t) Financial guarantees and loan commitments

Financial guarantees and 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 are initially measured at fair value. Subsequently, they are measured as follows:

- 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

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

For other loan commitments:

5. Summary of significant accounting policies (continued)

- the Group recognises a loss allowance;

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.

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.

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

5. Summary of significant accounting policies (continued)

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. Group levies

A provision for Group 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

The 'investment securities' caption in the consolidated 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.

5. Summary of significant accounting policies (continued)

Fair value 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.

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 / accumulated losses

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

aa) 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 properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation. Depreciation of investment property is calculated using the straight-line method over their estimated useful lives at a rate of 2.5%, and is recognised in profit or loss.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any). Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the net carrying amount at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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;

Note		2022	2021
Financial assets		Ushs M	Ushs M
Amortised cost:			
Cash and balances with Bank of Uganda	21	**482,298**	516,802
Deposits and balances due from other banks	22	**216,771**	229,524
Loans and advances to customers	23	**1,361,445**	1,508,410
Investment securities: Measured at amortised cost	25	**247,190**	212,441
Other assets: measured at amortised cost excluding prepayments	27	**9,412**	43,728
		2,317,116	2,510,905
FVOCI			
Investment securities: measured at fair value	25	**655,189**	339,849
		655,189	339,849
FVTPL			
Mandatorily at FVTPL			
Trading assets	26	**46,757**	6,700
Equity investments	24	**5,589**	6,563
Designated at FVTPL			
Other assets: Measured at fair value	27	**26,501**	72,664
Derivative financial instruments	44(b)	**567**	647
		79,414	86,574
		3,051,719	2,937,328
Financial liabilities			
Measured at FVTPL			
Derivative financial instruments	44(b)	**240**	308
Measured at amortised cost:			
Customer deposits	33	**2,410,593**	2,282,205
Balances due to banks	34	**8,512**	-
Borrowed funds	37	**123,689**	190,614
Special funds	36	**1,193**	1,193
Other financial liabilities	35	**43,962**	45,788
		2,587,949	2,519,800
		2,588,189	2,520,108

		Company	
	Note	2022	2021
		Ushs M	Ushs M
Financial assets			
Measured at amortised cost:			
Amounts due from Group Companies	46(b)	**1,480**	2,882
Other assets: Measured at amortised cost excluding prepayments	27	**9**	95
		1,489	2,977
Financial liabilities			
Measured at amortised cost:			
Amounts due to Group Companies	46(a)	**16,142**	14,633
Borrowed funds	37	**4,759**	5,239
Other financial liabilities	35	**2,911**	3,108
		23,812	22,980

6 Financial risk management (continued)

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.

6 Financial risk management (continued)
6B Credit risk (continued)

Maximum exposure to credit risk before collateral held

	Group	
	2022	2021
	Ushs M	Ushs M
Balances with Bank of Uganda (note 21)	288,471	357,698
Deposits and balances due from other banks (note 22)	216,771	229,524
Loans and advances to customers (note 23)	1,361,445	1,508,410
Government securities (notes 25 and 26)	949,136	558,990
Other assets excluding prepayments (note 27)	35,913	116,392
Credit risk exposures on off-statement of financial position items (note 42)		
- Guarantee and performance bonds	350,596	443,974
- Commitments to lend	26,957	26,650
	3,229,289	3,241,638

	Company	
	2022	2021
	Ushs M	Ushs M
Amounts due from Group Companies	1,480	2,882
Other financial assets (note 27)	9	95
	1,489	2,977

The above represents the worst-case scenario of the Group and Company's credit risk exposure as at 31 December 2022 and 2021, 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, 42% of the total maximum exposure is derived from loans and advances to customers (2021: 47%), whilst 29% represents investments in government securities (2021: 17%).

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;

- 82% of the loans and advances portfolio are neither past due nor impaired;
- 96% of the loans and advances portfolio are backed by collateral; and
- 100% of investments in debt securities are government securities.

Loans and advances are summarised as follows:	2022	2021
	Ushs M	Ushs M
Neither past due nor impaired	1,169,627	1,266,220
Past due but not impaired	146,822	145,399
Impaired	107,679	274,049
Gross	1,424,128	1,685,668
Less: Allowance for impairment (note 24)	(62,683)	(177,258)
Net carrying amount	1,361,445	1,508,410

No other assets of the Group or Company are either past due or impaired.

6 Financial risk management (continued)

6B Credit risk (continued)

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:

	2022	2021
	Ushs M	**Ushs M**
Grades 1-9 (Low-fair / higher risk)	**1,169,627**	1,266,220

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:

	2022	2021
	Ushs M	Ushs M
Past due up to 30 days	**12,886**	79,383
Past due 31 - 60 days	**124,283**	55,494
Past due 61 - 89 days	**9,653**	10,522
	146,822	145,399

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 2022, the gross carrying amount of impaired loans and advances to customers amounted to Ushs 107,679 million (2021: Ushs 284,049 million) and the value of identifiable collateral held against those loans and advances amounted to Ushs 83,494 million (2021: Ushs 98,260 million).

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

	Loans		Overdrafts	
	2022	2021	**2022**	2021
	Ushs M	Ushs M	**Ushs M**	Ushs M
Loans and advances	**105,243**	273,594	**2,436**	455
Fair value of collateral	**83,166**	98,260	**328**	-

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments. 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. The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

6 Financial risk management (continued)
6B Credit risk (continued)

The table below provides a mapping of the Group's internal credit risk grades.

Group's internal rating grade	Internal rating description	IFRS 9 Staging
1-6	Low-fair risk	Stage 1
7-9	Higher risk	Stage 2
10	Substandard	Stage 3
11	Doubtful	Stage 3
12	Loss	Stage 3

Loans and advances to customers at amortised cost

	2022 Ushs M			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grades 1-6 Low-fair risk	**1,169,626**	**-**	**-**	**1,169,626**
Grades 7-9 Higher risk	**-**	**146,823**	**-**	**146,823**
Grade 10: Sub standard	**-**	**-**	**42,580**	**42,580**
Grade 11: Doubtful	**-**	**-**	**39,650**	**39,650**
Grade 12: Loss	**-**	**-**	**25,449**	**25,449**
	1,169,626	**146,823**	**107,679**	**1,424,128**
Loss allowance	**(9,272)**	**(15,887)**	**(37,524)**	**(62,683)**
Carrying amount	**1,160,354**	**130,936**	**70,155**	**1,361,445**

	2021 Ushs M			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grades 1-6 Low-fair risk	1,266,220	-	-	1,266,220
Grades 7-9 Higher risk	-	145,399	-	145,399
Grade 10: Sub standard	-	-	91,168	91,168
Grade 11: Doubtful	-	-	156,022	156,022
Grade 12: Loss	-	-	26,859	26,859
	1,266,220	145,399	274,049	1,685,668
Loss allowance	(10,748)	(9,724)	(156,786)	(177,258)
Carrying amount	1,255,472	135,675	117,263	1,508,410

Balances with Bank of Uganda

	2022 Ushs M			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grades 1-6 Low-fair risk	**289,383**	**-**	**-**	**289,383**
Loss allowance	**(912)**	**-**	**-**	**(912)**
Carrying amount	**288,471**	**-**	**-**	**288,471**

	2021 Ushs M			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grades 1-6 Low-fair risk	357,800	-	-	357,800
Loss allowance	(102)	-	-	(102)
Carrying amount	357,698	-	-	357,698

6 Financial risk management (continued)
6B Credit risk (continued)

Loans and advances to other banks

	2022 Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	**216,881**	**-**	**-**	**216,881**
Loss allowance	**(110)**	**-**	**-**	**(110)**
Carrying amount	**216,771**	**-**	**-**	**216,771**

	2021 Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	229,623	-	-	229,623
Loss allowance	(99)	-	-	(99)
Carrying amount	229,524	-	-	229,524

Other Assets: Receivables excluding prepayments

	2022 Ushs M		
	Lifetime ECL not credit impaired	Credit impaired	Total
Grades 1-6 Low-fair risk	**35,954**	**-**	**35,954**
Loss allowance	**(41)**	**-**	**(41)**
Carrying amount	**35,913**	**-**	**35,913**

	2021 Ushs M		
	Lifetime ECL not credit impaired	Credit impaired	Total
Grades 1-6 Low-fair risk	117,197	-	117,197
Loss allowance	(805)	-	(805)
Carrying amount	116,392	-	116,392

Investment securities at amortised cost

	2022 Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	**247,466**	**-**	**-**	**247,466**
Loss allowance	**(276)**	**-**	**-**	**(276)**
Carrying amount	**247,190**	**-**	**-**	**247,190**

	2021 Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	212,586	-	-	212,586
Loss allowance	(145)	-	-	(145)
Carrying amount	212,441	-	-	212,441

6 Financial risk management (continued)

6B Credit risk (continued)

Investment securities measured at FVOCI

The expected credit loss relating to investment securities measured at FVOCI amounted to Ushs 190 (2021: Ushs 84 million) and is recorded in the OCI. (See note 41)

Cash and cash equivalents

The Group held cash and cash equivalents of Ushs 472,559 million at 31 December 2022 (2021: Ushs 542,866 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	2022	2021	Principal type of collateral held
		Ushs M	Ushs M	
Balances with Bank of Uganda	21	**288,471**	357,698	None
Deposits and balances due from other banks	22	**216,771**	229,524	None
Loans and advances to retail customers:	23			
Mortgage lending		**74,715**	72,513	Residential property
Personal loans		**381,918**	542,392	None
Loans and advances to corporate customers:	23			
Finance leases		**24,126**	203,854	Property and equipment
Others		**880,686**	691,010	Commercial property, floating charges over corporate assets
Trading assets	26	**46,757**	6,700	None
Investment debt securities	25	**902,379**	552,290	None
Other assets excluding prepayments	27	**35,913**	116,392	None
Off balance sheet items:				
-Guarantee and performance bonds	42	**350,596**	271,869	None
-Undrawn commitments	42	**26,957**	37,289	None

		Company		
		2022	**2021**	**Principal type of collateral held**
		Ushs M	Ushs M	
Amounts due from Group Companies	46(b)	**1,480**	197	
Other assets excluding prepayments	27	**9**	17	

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.

6 Financial risk management (continued)
6B Credit risk (continued)

At 31 December 2022, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to Ushs 946,548 million (2021: Ushs 955,557 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Ushs 83,494 million (2021: Ushs 98,260 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.
The tables below show the maximum exposure to credit risk by class of financial asset. They also show the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

31 December 2022	**Note**	**Gross carrying amount**	**Total collateral**	**Associated ECL**
		Ushs M	**Ushs M**	**Ushs M**
Balances with Bank of Uganda	21	**289,383**	**-**	**912**
Deposits and balances due from other banks	22	**216,881**	**-**	**110**
Loans and advances to customers	23	**1,424,128**	**3,743,894**	**62,683**
Trading assets	26	**46,757**	**-**	**-**
Investment debt securities at fair value through other comprehensive income	25	**655,189**	**-**	**-**
Investment securities at amortised cost	25	**247,466**	**-**	**276**
Other assets excluding prepayments	27	**35,913**	**-**	**41**
Off-statement of financial position items:				
-Guarantee and performance bonds	42	**350,596**	**-**	**101**
-Undrawn commitments	42	**26,957**	**-**	**-**
		3,293,270	**3,743,894**	**64,123**

31 December 2021	**Note**	**Maximum exposure to credit risk**	**Total collateral**	**Associated ECL**
		Ushs M	**Ushs M**	**Ushs M**
Balances with Bank of Uganda	21	357,800	-	102
Loans and advances to banks	22	229,524	-	99
Loans and advances to customers	23	1,685,670	5,299,224	177,258
Trading assets	26	6,700	-	-
Investment debt securities at fair value through other comprehensive income	25	339,849	-	-
Investment securities at amortised cost	25	212,441	-	145
Other assets excluding prepayments	27	116,392	-	805
Off-statement of financial position items:				
-Guarantee and performance bonds	42	443,974	-	102
-Undrawn commitments	42	26,650	-	-
		3,419,000	5,299,224	178,511

6 Financial risk management (continued)
6B Credit risk (continued)

		Company		
31 December 2022	**Note**	**Maximum exposure to credit risk**	**Total collateral**	**Associated ECL**
		Ushs M	**Ushs M**	**Ushs M**
Amounts due from Group Companies	46(b)	1,480	-	-
Other assets excluding prepayments	27	9	-	-
		1,489	-	-
31 December 2021				
Amounts due from Group Companies	46(b)	2,882	-	-
Other assets excluding prepayments	27	95	-	-
		2,977		

- -

ii. Amounts arising from ECL
Inputs, assumptions and techniques used for estimating impairment
See accounting policy in Note 5.

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 financial statements, management accounts, budgets and projections. 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 Affordability metrics 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 Utilisation of the granted limit Requests for and granting of forbearance Existing and forecast changes in business, financial and economic conditions

6 Financial risk management (continued)
6B Credit risk (continued)

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 its contractual payments.
- 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.

6 Financial risk management (continued)

6B Credit risk (continued)

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.

As a part of a qualitative assessment of whether an exposure is credit-impaired, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- An exposure is forborne or modified due to financial difficulties of the borrower
- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Group
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Group
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection

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 (CPI).

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

31 December 2022						
Key drivers	**ECL Scenario**	**2022**	**2023**	**2024**	**2025**	**2026**
		%	**%**	**%**	**%**	**%**
CPI trends	**Upside**	**117**	**123**	**130**	**137**	**140**
	Base case	**115**	**157**	**154**	**151**	**148**
	Downside	**118**	**161**	**158**	**155**	**152**

31 December 2021						
Key drivers	**ECL Scenario**	**2021**	**2022**	**2023**	**2024**	**2025**
		%	%	%	%	%
CPI trends	Upside	116	118	120	123	126
	Base case	115	117	119	122	125
	Downside	114	116	118	121	124

6 Financial risk management (continued)
6B Credit risk (continued)

Since the beginning of the year, as the Group has reassessed the key economic indicators used in its ECL models. The Group reassessed the correlation with other macro economic variables (MEVs) with its default rates and found low correlations with other MEVs and on this basis continued to use only CPI trends. Long-term expectations however remain unchanged.

Assessment and calculation of ECL

The calculation of ECL involves significant accounting judgements, estimates and assumptions. These are set out in Note 5(i) - Financial assets and liabilities under the Summary of significant accounting policies and Note 3 - Significant accounting judgements, estimates and assumptions.

The level of estimation uncertainty has increased since 31 December 2021 as a result of the economic disruption and consequential impact of the Covid-19 pandemic. This includes significant judgements relating to:

- The selection and weighting of macro-economic scenarios;
- The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;
- Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event;
- Identification and assessment of significant increases in credit risk and impairment especially for customers who have restructured their facilities and the inherent limitations in data availability to facilitate a reliable segmentation.

Impact on modelled ECL allowance

The Group's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the lack of experience of similar events could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Group expects that post-model adjustments will be applied for the foreseeable future.
Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2022 are set out in the following table:

	Modelled ECL	Post-model adjustments	Management overlays	Total ECL	Adjustments as a % of total ECL
	Ushs M	Ushs M	Ushs M	Ushs M	
31 December 2022					
Total corporate and retail lending	**51,671**	**-**	**11,013**	**62,683**	**18%**
31 December 2021					
Total corporate and retail lending	152,702	6,669	17,887	177,258	69%

Post-model adjustments
Post-model adjustments (both positive and negative) represent adjustments in relation to data and model limitations as a result of the Covid-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level.

6 Financial risk management (continued)
6B Credit risk (continued)

Management overlays

Management overlays reflect the significant uncertainty as a consequence of the Covid-19 pandemic. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes.

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.

6 Financial risk management (continued)
6B Credit risk (continued)

The following tables provide a summary of the Group's forborne assets, which are all under Stage 2. There are none under Stage 3.

31 December 2022	**Stage 2**			
	Gross carrying amount	**Temporary modification to T&Cs**	**Permanent modification to T&Cs**	**Total performing restructured loans**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Corporate loans	**117,029**	**3,982**	**102,572**	**106,554**
Retail loans	**29,794**	**30,616**	**5,388**	**36,004**
	146,823	**34,598**	**107,960**	**142,558**

31 December 2021	**Stage 2**			
	Gross carrying amount	**Temporary modification to T&Cs**	**Permanent modification to T&Cs**	**Total performing restructured loans**
	Ushs M	Ushs M	Ushs M	Ushs M
Corporate loans	926,394	12,829	91,367	104,196
Retail loans	472,533	19,927	27,408	47,335
	1,398,927	32,756	118,775	151,531

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12mECL measurement during the period:

	Post- modification		**Pre-modification**	
	Gross carrying amount	**Corresponding ECL**	**Gross carrying amount**	**Corresponding ECL**
	Ushs m	**Ushs m**	**Ushs m**	**Ushs m**
31 December 2022				
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	**13,523**	**49**	**7,903**	**151**
Facilities that reverted to (Stage 2/3) LTECL having once cured	**49,796**	**4,097**	**152**	**14**
Total	**63,319**	**4,146**	**8,055**	**165**
31 December 2021				
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	59,523	874	42,524	579
Facilities that reverted to (Stage 2/3) LTECL having once cured	23,527	758	19,527	258
Total	83,050	1,632	62,051	837

Measurement of ECL

The reconciliation between opening and closing balances for expected credit losses on loans and advances, other assets other than loans and advances and off-balance sheet items, presented per stage are disclosed in notes 23, note 6 (B) and note 42 respectively

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.

6 Financial risk management (continued)
6B Credit risk (continued)

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.

6 Financial risk management (continued)
6B Credit risk (continued)

			External benchmarks used	
	Exposure Ushs	Moody's Rating	S&P Rating	
	2022	2021	PD	LGD
Government securities – Amortised cost	247 bn	212 bn	2.8% - 21.4%	6%
Government securities - FVOCI	655 bn	339 bn	2.8% - 21.4%	6%

i. Impaired financial assets

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.

	2022		2021	
	Loans and advances	Credit Commitments	Loans and advances	Credit Commitments
As at 31 December	**%**	**%**	%	%
Agriculture	**14%**	**7%**	18%	4%
Manufacturing	**11%**	**16%**	9%	6%
Trade and commerce	**12%**	**12%**	14%	18%
Transport and communications	**8%**	**23%**	7%	36%
Building and construction	**12%**	**20%**	14%	15%
Leisure, hotels and accommodation	**3%**	**5%**	3%	0%
Home loans	**3%**	**0%**	3%	0%
Private individual	**17%**	**0%**	12%	0%
Real estate	**16%**	**0%**	14%	6%
Schools	**5%**	**8%**	5%	6%
Other	**1%**	**8%**	1%	9%
	100%	**100%**	100%	100%

As at 31 December 2022 and 2021, the Group had no exposures to a single borrower or group of related borrowers exceeding 25% of the core capital of the subsidiary (dfcu Bank Limited).

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.

6 Financial risk management (continued)
6C Liquidity risk (continued)

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.

	2022	2021
At 31 December	32.2%	36.3%
Average for the period	35.0%	34.0%
Maximum for the period	38.0%	41.0%
Minimum for the period	32.0%	28.0%

The table below summarises the net position as at 31 December 2022 and 31 December 2021 based on contractual maturity.

Net position as at 31 December 2022 (Group)	**Up to**	**1-3**	**3-12**	**Over**
Months	**1 month**	**months**	**months**	**1 year**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Long / (short) Gap	**(651,305)**	**84,729**	**(122,477)**	**766,869**
Long / (short) Cumulative Gap	**(651,305)**	**(566,576)**	**(689,053)**	**77,816**
Cumulative Gap / Total Assets	**(20%)**	**(17%)**	**(21%)**	**2%**

Net position as at 31 December 2021 (Group)				
	Up to	**1-3**	**3-12**	**Over**
Months	**1 month**	**months**	**months**	**1 year**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Long / (short) Gap	(964,313)	243,315	(149,385)	810,669
Long / (short) Cumulative Gap	(964,313)	(720,998)	(870,383)	(59,714)
Cumulative Gap / Total Assets	(31%)	(23%)	(28%)	(2%)

Net position as at 31 December 2022 (Company)				
	Up to	**1-3**	**3-12**	**Over**
Months	**1 month**	**months**	**months**	**1 year**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Long / (short) Gap	**703**	**(1,601)**	**(10,119)**	**(11,306)**
Long / (short) Cumulative Gap	**(703)**	**(898)**	**(11,017)**	**(22,323)**
Cumulative Gap / Total Assets	**0%**	**0%**	**(3%)**	**(7%)**

Net position as at 31 December 2021 (Company)				
	Up to	**1-3**	**3-12**	**Over**
Months	**1 month**	**months**	**months**	**1 year**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Long / (short) Gap	(465)	(453)	(4,270)	(14,815)
Long / (short) Cumulative Gap	(465)	(918)	(5,188)	(20,003)
Cumulative Gap / Total Assets	0%	0%	(2%)	(8%)

6 Financial risk management (continued)

6C Liquidity risk (continued)

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.

	Group					
	Contractual Cash flows					
2022	Carrying Amount	Gross nominal inflow/ (outflow)	Up to 1 month	1-3 months	3-12 months	Over 1 year
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Financial liability by type						
Customer deposits	2,410,593	2,698,972	2,221,990	165,991	294,779	16,212
Balances due to other banks	8,512	8,512	8,512	-	-	-
Derivative financial instruments	240	240	240	-	-	-
Other financial liabilities excluding lease liability	19,753	19,753	19,753	-	-	-
Lease liability	24,209	56,789	7,882	8,985	32,410	7,512
Borrowed funds	123,690	131,635	14,817	4,385	47,341	65,092
Special funds	1,193	1,193	1,193	-	-	-
Total liabilities	2,588,190	2,917,094	2,274,387	179,361	374,530	88,816
Financial assets by type						
Cash and balances with Bank of Uganda	482,298	482,298	482,298	-	-	-
Loans and advances to other banks	216,771	216,771	216,771	-	-	-
Loans and advances to customers	1,361,445	1,552,048	614,097	178,279	218,856	540,816
Government and other securities	949,136	1,063,033	222,585	136,360	226,025	478,063
Equity investments at fair value through profit and loss	5,842	5,842	-	-	-	5,842
Derivative financial instruments	567	567	567	-	-	-
Other assets excluding prepayments	35,913	30,889	1,396	7,426	10,671	11,397
Total assets	3,051,972	3,351,448	1,537,714	322,065	455,552	1,036,118
Net liquidity gap	(463,782)	(434,354)	736,673	(142,704)	(81,022)	(947,302)

6 Financial risk management (continued)

6C Liquidity risk (continued)

2021	Carrying Amount Ushs M	Contractual Cash flows Gross nominal inflow/(outflow) Ushs M	Up to 1 month Ushs M	1-3 months Ushs M	3-12 months Ushs M	Over 1 year Ushs M
Financial liability by type						
Customer deposits	**2,282,205**	2,556,069	2,083,922	129,401	336,970	5,775
Derivative financial instruments	**308**	308	308	-	-	-
Other financial liabilities excluding lease liability	**16,314**	16,314	16,314	-	-	-
Lease liability	**29,474**	41,560	12,692	4,127	10,478	14,262
Borrowed funds	**190,614**	203,440	17,505	14,511	65,297	106,127
Special funds	**1,193**	1,193	1,193	-	-	-
Total liabilities	**2,520,108**	2,818,884	2,131,934	148,039	412,745	126,164
Financial assets by type						
Cash and balances with Bank of Uganda	**516,802**	516,802	516,802	-	-	-
Loans and advances to other banks	**229,524**	229,524	229,524	-	-	-
Loans and advances to customers	**1,508,410**	1,719,614	178,056	486,958	265,596	789,005
Government and other securities	**558,990**	626,068	49,393	41,025	168,830	366,820
Equity investments at fair value through profit and loss	**6,563**	6,563	-	-	-	6,563
Derivative financial instruments	**647**	647	647	-	-	-
Other assets excluding prepayments	**116,392**	125,045	52,154	25,301	44,898	2,692
Total assets	**2,937,328**	3,224,263	1,026,576	553,284	479,324	1,165,080
Net liquidity gap	**(417,220)**	(405,379)	1,105,358	(405,245)	(66,579)	(1,038,916)

6 Financial risk management (continued)

6C Liquidity risk (continued)

	Company					
	Contractual Cash flows					
	Carrying	Gross nominal	Up to	1-3	3-12	Over
2022	Amount	inflow/(outflow)	1 month	months	months	1 year
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Financial liability by type:						
Amounts due to Group Companies	16,142	18,886	-	-	8,592	10,294
Other financial liabilities	2,911	2,911	776	1,601	534	-
Borrowed funds	4,759	5,568	-	-	2,634	2,935
Total liabilities	23,812	27,365	776	1,601	11,760	13,229
Financial assets by type:						
Amounts due from Group Companies	1,480	1,480	1,480	-	-	-
Other assets excluding prepayments	9	9	9	-	-	-
Total assets	1,489	1,489	1,489	-	-	-
Liquidity gap	(22,323)	(25,876)	713	(1,601)	(11,760)	(13,229)

	Company					
	Contractual Cash flows					
	Carrying	Gross nominal	Up to	1-3	3-12	Over
2021	Amount	inflow/(outflow)	1 month	months	months	1 year
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Financial liability by type:						
Amounts due to Group Companies	14,633	17,120	-	-	3,821	13,300
Other financial liabilities	3,108	3,108	1,239	1,359	510	-
Borrowed funds	5,239	6,129	-	-	2,634	3,496
Total liabilities	22,980	26,357	1,239	1,359	6,965	16,796
Financial assets by type:						
Amounts due from Group Companies	2,882	2,882	2,882	-	-	-
Other assets excluding prepayments	95	95	95	-	-	-
Total assets	2,977	2,977	2,977	-	-	-
Liquidity gap	(20,003)	(23,380)	1,738	(1,359)	(6,965)	(16,796)

6 Financial risk management (continued)

6C Liquidity risk (continued)

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.

	Up to	1-3	3-12	Over	Non-liquid items	Non-financial items	Total
As at 31 December 2022	1 month	months	months	1 year			
Assets	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cash and balances with Bank of Uganda	482,298	-	-	-	-	-	482,298
Deposits and balances due from other banks	216,771	-	-	-	-	-	216,771
Loans and advances to customers	538,681	156,385	191,979	474,400	-	-	1,361,445
Government and other securities	198,736	121,750	201,808	426,842	-	-	949,136
Investment in shares	-	-	-	5,842	-	1,138	6,980
Other assets	1,165	6,630	9,528	10,176	8,414	5,375	41,288
Derivative financial instruments	567	-	-	-	-	-	567
Deferred income tax asset	-	-	-	-	-	33,411	33,411
Property and equipment	-	-	-	-	-	77,110	77,110
Investment property	-	-	-	-	-	19,784	19,784
Intangible assets	-	-	-	-	-	25,178	25,178
Assets held for disposal	-	-	-	-	-	29,089	29,089
Total assets	**1,438,218**	**284,765**	**403,315**	**917,260**	**8,414**	**191,085**	**3,243,057**
Liabilities							
Customer deposits	1,984,717	148,206	263,195	14,475	-	-	2,410,593
Derivative financial instruments	240	-	-	-	-	-	240
Balances due to other banks	8,512	-	-	-	-	-	8,512
Other liabilities	7,038	8,022	22,347	6,555	-	18,447	62,409
Borrowed funds	13,978	4,136	42,177	63,398	-	-	123,689
Special funds	1,193	-	-	-	-	-	1,193
Current income tax payable	-	-	-	-	-	1,550	1,550
Provisions	-	-	-	-	-	2,338	2,338
Total liabilities	**2,015,678**	**160,364**	**327,719**	**84,428**	**-**	**22,335**	**2,610,524**
Net liquidity gap	**(577,460)**	**124,401**	**75,596**	**832,832**	**8,414**	**168,750**	**632,533**
Net off-statement of financial position items	(73,845)	(39,672)	(198,073)	(65,963)	-	-	(377,553)
Overall net liquidity gap	**(651,305)**	**84,729**	**(122,477)**	**766,869**	**8,414**	**168,750**	**254,980**

6 Financial risk management (continued)

6C Liquidity risk (continued)

Company:	Up to	1-3	3-12	Over	Non-liquid items	Non-financial items	Total
As at 31 December 2022	1 month	months	months	1 year			
Assets	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Amounts due from Group companies	1,480	-	-	-	-	-	1,480
Other assets	9	-	-	-	-	93	102
Current income tax recoverable	-	-	-	-	-	655	655
Deferred income tax asset	-	-	-	-	-	1,005	1,005
Investment in subsidiary	-	-	-	-	-	203,293	203,293
Investment property	-	-	-	-	-	39,546	39,546
Total assets	1,489	-	-	-	-	244,592	246,081
Financial liabilities							
Other liabilities	786	1,601	524	-	-	197	3,108
Amounts due to Group companies	-	-	7,344	8,798	-	-	16,142
Borrowed funds	-	-	2,251	2,508	-	-	4,759
Total liabilities	786	1,601	10,119	11,306	-	197	24,009
Liquidity gap	703	(1,601)	(10,119)	(11,306)	-	244,395	222,072

6 Financial risk management (continued)

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 2022, the Group had a net foreign exchange position of Ushs 31,671 million (2021: Ushs 3,002 million).

The Group's profit before income tax/ equity would decrease/ increase by Ushs 6,334 million (2021: Ushs 600 million) were the Ushs: US$ foreign exchange rate to change by 20% (2021: 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 2022. Included in the table are the Group's assets and liabilities categorised by currency. All figures are in millions of Uganda Shillings. The Uganda shillings (Ushs) and the non-financial items have not been included in determining the foreign currency sensitivity analysis.

As at 31 December 2022 (Group)	**USD**	**GBP**	**EURO**	**USHS**	**Total**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
Assets					
Cash and balances with Bank of Uganda	108,972	4,572	11,628	357,126	482,298
Loans and advances to other banks	168,983	9,482	35,177	3,129	216,771
Loans and advances to customers	405,445	-	-	956,000	1,361,445
Other assets	1,556	-	-	25,943	27,499
Equity investments	-	-	-	5,842	5,842
Government and other securities	-	-	-	949,136	949,136
Derivative financial instruments	-	-	-	567	567
Total assets	684,956	14,054	46,805	2,297,743	3,043,558
Liabilities					
Customer deposits	617,488	7,341	44,468	1,741,296	2,410,593
Derivative financial instruments	-	-	-	240	240
Balances due to other banks	6,510	-	-	2,002	8,512
Other liabilities	4,861	8,145	16,196	14,760	43,962
Borrowed funds	87,768	-	-	35,921	123,689
Special funds	-	-	-	1,193	1,193
Total liabilities	716,627	15,486	60,664	1,795,412	2,588,189
Net on-statement of financial position items	(31,671)	(1,432)	(13,859)	502,331	455,369
Net off-statement of financial position items	(154,936)	-	(39,715)	(182,902)	(377,553)
Overall open position	(186,607)	(1,432)	(53,574)	319,429	77,816

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2021 (Group)	USD	GBP	EURO	USHS	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets					
Cash and balances with Bank of Uganda	161,700	7,617	9,085	338,400	516,802
Loans and advances to other banks	112,811	6,644	49,351	60,718	229,524
Loans and advances to customers	538,833	-	-	969,577	1,508,410
Other assets	4,255	-	-	107,582	111,837
Equity investments	-	-	-	6,563	6,563
Government and other securities	-	-	-	558,990	558,990
Derivative financial instruments	-	-	-	647	647
Total assets	**817,599**	**14,261**	**58,436**	**2,042,477**	**2,932,773**
Liabilities					
Customer deposits	726,252	6,110	40,534	1,509,309	2,282,205
Derivative financial instruments	-	-	-	308	308
Other liabilities	11,451	8,145	16,196	9,996	45,788
Borrowed funds	76,894	-	-	113,720	190,614
Special funds	-	-	-	1,193	1,193
Total liabilities	**814,597**	**14,255**	**56,730**	**1,634,526**	**2,520,108**
Net on-statement of financial position items	3,002	6	1,706	407,951	412,665
Net off-statement of financial position items	(252,272)	-	-	(218,352)	(470,624)
Overall open position	**(249,270)**	**6**	**1,706**	**189,599**	**(57,959)**

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2022 (Company)	USD	GBP	EURO	USHS	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets					
Amounts due from Group companies	252	-	-	1,228	1,480
Other assets	-	-	-	9	9
Total assets	252	-	-	1,237	1,489
Liabilities					
Other liabilities	-	-	-	2,911	2,911
Amounts due to Group companies	-	-	-	16,142	16,142
Borrowed funds	1,574	-	-	3,186	4,759
Total liabilities	1,574	-	-	22,239	23,813
Overall open position	(1,322)	-	-	(21,002)	(22,324)

As at 31 December 2021 (Company)	USD	GBP	EURO	USHS	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets					
Amounts due from Group companies	905	-	-	1,977	2,882
Other assets	90	-	-	5	95
Total assets	**995**	**-**	**-**	**1,982**	**2,977**
Liabilities					
Other liabilities	-	-	-	7,216	7,216
Amounts due to Group companies	-	-	-	14,633	14,633
Borrowed funds	1,574	-	-	3,665	5,239
Total liabilities	**1,574**	**-**	**-**	**25,514**	**27,088**
Overall open position	**(579)**	**-**	**-**	**(23,532)**	**(24,111)**

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.

6 Financial risk management (continued)

6D Market risk (continued)

The table below summarises the Group's fair value and cash flow interest rate risks at 31 December 2022 assuming a market interest rate decrease of 3% from the rates ruling at year-end (2021: 3%). This would have an impact on the profit before income tax of the Group as follows:

	2022			2021		
	Ushs M			Ushs M		
	Profit before tax	Tax impact	Net impact on equity	Profit before tax	Tax impact	Net impact on equity
Fair value interest rate risk	**1,037**	**(311)**	**726**	1,181	(354)	827
Cash flow interest rate risk	**33,528**	**(10,058)**	**23,470**	38,182	(11,455)	26,727
	34,565	**(10,369)**	**24,196**	39,363	(11,809)	27,554

The table summarises the Group's interest risk on the debt instruments at FVOCI as at 31 December 2022 assuming a market interest rate decrease of 3% from the rates ruling at year end (2021: 3%)

	2022			2021		
	Ushs M			Ushs M		
	Gross effect on OCI	Tax (expense)/ benefit	Net impact on equity	Gross effect on OCI	Tax (expense)/ benefit	Net impact on equity
Movement in liability credit reserve	377	(113)	264	208	(62)	146
Movement in debt instrument at FVOCI	3	(1)	2	1	-	1
	380	(114)	266	209	(62)	147

6 Financial risk management (continued)

6D Market risk (continued)

The tables below summarise the Group's exposure to interest rate risk as at 31 December 2022 and 31 December 2021. 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 2022 (Group)	Up to	1-3	3-12	Over	Non - interest bearing	Total
	1 month	months	months	1 year		
Interest bearing assets	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cash and balances with Bank of Uganda	-	-	-	-	482,298	482,298
Deposits and balances due from other banks	57,788	-	-	-	158,984	216,772
Loans and advances to customers	601,364	156,385	191,979	474,400	(62,683)	1,361,445
Government and other securities	198,736	121,750	201,808	426,842	-	949,136
Equity investments	-	-	-	-	5,842	5,842
Other assets	-	-	-	-	27,499	27,499
Derivative financial instruments	567	-	-	-	-	567
Total interest bearing assets	858,455	278,135	393,787	901,242	611,940	3,043,559
Interest bearing liabilities						
Customer deposits	766,649	148,206	263,195	14,475	1,218,068	2,410,593
Derivative financial instruments	240	-	-	-	-	240
Balances due to other banks	8,512	-	-	-	-	8,512
Other liabilities	-	-	-	-	43,962	43,962
Borrowed funds	13,978	4,136	42,177	19,896	43,502	123,689
Special funds	-	-	-	-	1,193	1,193
Total interest bearing liabilities	789,379	152,342	305,372	34,371	1,306,725	2,588,189
Interest re-pricing gap	69,076	125,793	88,415	866,871	(694,785)	455,370

As at 31 December 2021 (Group)	Up to	1-3	3-12	Over	Non - interest bearing	Total
	1 month	months	months	1 year		
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets						
Cash and balances with Bank of Uganda	-	-	-	-	516,802	516,802
Deposits and balances due from other banks	69,973	-	-	-	159,551	229,524
Loans and advances to customers	333,424	427,156	232,979	692,109	(177,258)	1,508,410
Government and other securities	44,101	36,629	150,742	327,518	-	558,990
Equity investments	-	-	-	-	6,563	6,563
Other assets	-	-	-	-	116,392	116,392
Derivative financial instruments	647	-	-	-	-	647
Total interest bearing assets	448,145	463,785	383,721	1,019,627	622,050	2,937,328
Interest bearing liabilities						
Customer deposits	714,045	115,537	300,866	5,157	1,146,600	2,282,205
Derivative financial instruments	308	-	-	-	-	308
Other liabilities	-	-	-	-	45,788	45,788
Borrowed funds	17,251	13,690	61,368	55,570	42,735	190,614
Special funds	-	-	-	-	1,193	1,193
Total interest bearing liabilities	731,604	129,227	362,234	60,727	1,236,316	2,520,108
Interest re-pricing gap	(283,459)	334,558	21,487	958,900	(614,266)	417,220

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2022 (Company)	Up to	1-3	3-12	Over	Non - interest bearing	Total
	1 month	months	months	1 year		
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets						
Other assets	-	-	-	-	9	9
Amounts due from Group companies	1,480	-	-	-	-	1,480
Total interest bearing assets	1,480	-	-	-	9	1,489
Interest bearing liabilities						
Other liabilities	-	-	-	-	2,911	2,911
Amounts due to Group companies	-	-	7,344	8,798	-	16,142
Borrowed funds	-	-	2,251	2,508	-	4,759
Total interest bearing liabilities	-	-	9,595	11,306	2,911	23,812
Interest re-pricing gap	1,480	-	(9,595)	(11,306)	(2,902)	(22,323)

As at 31 December 2021 (Company)	Up to	1-3	3-12	Over	Non - interest bearing	
	1 month	months	months	1 year		Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets						
Other assets	-	-	-	-	95	95
Amounts due from Group companies	2,882	-	-	-	-	2,882
Total interest bearing assets	2,882	-	-	-	95	2,977
Interest bearing liabilities						
Other liabilities	-	-	-	-	3,108	3,108
Amounts due to Group companies	-	-	3,266	11,367	-	14,633
Borrowed funds	-	-	2,251	2,988	-	5,239
Total interest bearing liabilities	-	-	5,517	14,355	3,108	22,980
Interest re-pricing gap	2,882	-	(5,517)	(14,355)	(3,013)	(20,003)

Impact of interest rate benchmark reform

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with a Risk Free Rate (RFR). The reliefs require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Group may elect on a hedge-by-hedge basis to reset the cumulative fair value change to zero. The Group may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives.

For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of Banks of items, the Group is required to transfer to the funding partners those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

6 Financial risk management (continued)

The steering committee has set up a risk management transition plan which details the transition process for each product in the relevant Business Units (BUs).
Financial instruments impacted by the reform which are yet to transition are shown below:

	USD LIBOR	
	2022	2021
	Ushs M	Ushs M
Loans and advances	76,238	100,162
Total assets recognised on the balance sheet subject to IBOR reform	76,238	100,162
Borrowings	66,860	44,908
Total liabilities recognised on the balance sheet subject to IBOR reform	66,860	44,908

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.

6 Financial risk management (continued)

6E Fair values of financial assets and liabilities (continued)

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.

Valuation techniques

Government debt securities

Government debt securities are financial instruments issued by sovereign governments and include both long-term bonds and short-term bills with fixed or floating rate interest payments. These instruments are generally highly liquid and traded in active markets. When active market prices are not available, the Group uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Group classifies those securities as Level 2. The Group does not have Level 3 government securities where valuation inputs would be unobservable. The fair values of government securities are obtained from Bank of Uganda.

Equity instruments

The Group's equity instruments are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1.

Other assets at fair value through profit or loss

These comprise of loans and receivables designated at FVPL and mandatorily required to be measured at FVPL (those that did not meet the SPPI criteria), a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. These assets are classified under Level 3 as the assessment of credit quality is based on unobservable data.

6 Financial risk management (continued)

6E Fair values of financial assets and liabilities (continued)

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.

2022	**Hierarchy**			
	Level 1	**Level 2**	**Level 3**	**Total**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Treasury bills and bonds	**-**	**46,757**	**-**	**46,757**
Securities at fair value through OCI	**-**	**655,189**	**-**	**655,189**
Other assets at fair value through profit and loss	**-**	**-**	**26,501**	**26,501**
Equity investments at fair value through profit and loss	**5,589**	**-**	**-**	**5,589**
	5,589	**701,946**	**26,501**	**734,036**

2021	**Hierarchy**			
	Level 1	**Level 2**	**Level 3**	**Total**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Treasury bills and bonds	-	6,700	-	6,700
Securities at fair value through OCI	-	339,849	-	339,849
Other assets at fair value through profit and loss	-	-	72,664	72,664
Equity investments at fair value through profit and loss	6,563	-	-	6,563
	6,563	**346,549**	**72,664**	**425,776**

During the year ended 31 December 2022, there were no transfers into or out of Level 2 and level 1 fair value measurements.

6 Financial risk management (continued)

6E Fair values of financial assets and liabilities (continued)

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;

	2022	2021
	Ushs M	Ushs M
At 1 January	**72,664**	109,892
Settlements against the asset	**(41,233)**	(6,367)
Fair value loss	**(4,930)**	(30,861)
At 31 December	**26,501**	72,664

v) Unobservable inputs used in measuring fair value

The following table sets out information about significant un-observable inputs used at 31 December 2022 and 2021 in measuring financial instruments categorised as Level 3 in the fair value hierarchy;

As at 31 December 2022

Significant unobservable inputs	Sensitivity of the inputs	Carrying amount	Impact on carrying amount		Adjusted carrying amount
Change in amount of expected cashflows by:	**-10%**	**26,501**	**(2,689)**	**-10.15%**	**23,812**
	10%	**26,501**	**2,689**	**10.15%**	**29,190**
Change in timing of cashflows by:	**-1 year**	**26,501**	**4,590**	**17.32%**	**31,091**
	+1 year	**26,501**	**(3,919)**	**-14.79%**	**22,582**
Change in discount rate amount of expected cashflows and timing of cashflows by:	**-1%; -10%; -1 year**	**26,501**	**8,251**	**2.39%**	**34,752**
	+1%; +10%; +1 year	**26,501**	**(6,859)**	**-2.31%**	**19,642**

As at 31 December 2021

Significant unobservable inputs	Sensitivity of the inputs	Carrying amount	Impact on carrying amount		Adjusted carrying amount
Change in amount of expected cashflows by:	-10%	72,664	(7,239)	-10.00%	65,425
	10%	72,664	7,239	10.00%	79,903
Change in timing of cashflows by:	-1 year	72,664	10,497	14.45%	83,161
	+1 year	72,664	(10,714)	-14.74%	61,950
Change in discount rate amount of expected cashflows and timing of cashflows by:	-1%; -10%; -1 year	72,664	2,461	3.39%	75,125
	+1%; +10%; +1 year	72,664	(5,863)	-8.07%	66,801

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 fair values of the Group's and Company'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.

Short-term financial assets and liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts, which are net of impairment, are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity. Such amounts have been classified as Level 2 on the basis that no adjustments have been made to the balances in the statement of financial position.

6 Financial risk management (continued)

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 for purposes of the subsidiary, dfcu Bank;
- 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). dfcu Bank (the Bank) is required to file information on capital adequacy with Bank of Uganda on a quarterly basis.

As of 31 December 2022, the Financial Institutions Capital Adequacy Requirements Regulations 2022 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 12.5% of the total risk adjusted assets plus risk adjusted off statement of financial position items; and
c) maintain total capital of not less than 14.5% of the total risk adjusted assets plus risk adjusted off statement of financial position items.

The Financial Institutions (Capital Buffers and Leverage Ratio) Regulations, 2022 were gazetted and took effect on 31 December 2022. These introduced a Capital Conservation Buffer (CCB) of 2.5% of risk weighted assets over and above the core capital ratio and total capital ratio; a System Risk Buffer for domestic systemically important banks ranging from 0% to 3.5% of risk weighted assets over and above the CCB, a Countercyclical Capital Buffer of 2.5% of risk weighted assets and a minimum leverage ratio of 6% of the total balance sheet and off-balance sheet assets.

The total regulatory capital to be held by the Bank 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 dfcu Bank:

	2022	2021
	Ushs M	Ushs M
Before dividend declaration		
Tier 1 capital	**573,267**	517,120
Tier 1 + Tier 2 capital	**590,703**	545,476
After dividend declaration		
Tier 1 capital	**567,138**	517,120
Tier 1 + Tier 2 capital	**584,575**	545,476
Tier 1 (FIA minimum -12.5%)	**28.52%**	20.93%
Tier 1 + Tier 2 (FIA minimum – 14.5%)	**29.39%**	22.53%
FIA ratio (after dividend declaration)		
Tier 1 (FIA minimum - 12.5%)	**28.22%**	19.34%
Tier 1 + Tier 2 (FIA minimum – 14.5%)	**29.09%**	20.94%

6F Capital management (Continued)

Capital adequacy under Basel II

On June 26, 2004, the Basel Committee on Banking Supervision released "International Convergence of Capital Measurement and Capital Standards: A revised framework", which is commonly known as the Basel II Accord. In Basel II, apart from credit and market risk, operation risk was included in the capital adequacy ratio calculation. These are prudential guidelines which are currently monitored by BoU and these will form part of the proposed amendments to the capital adequacy regulations.

The capital adequacy ratios as at 31 December 2022 based on Basel II are indicated below;

Tier 1 (FIA minimum -12.5%)	**28.77%**
Tier 1 + Tier 2 (FIA minimum – 14.5%)	**29.65%**
FIA ratio (after dividend declaration)	
Tier 1 (FIA minimum - 12.5%)	**28.46%**
Tier 1 + Tier 2 (FIA minimum – 14.5%)	**29.34%**

6G Leverage ratio

The Group is required at all times to comply with a leverage ratio equal to or greater than 6% of the total on-balance and off-balance sheet assets. The bank maintained a ratio that is above the minimum requirement. Below is the computation of the leverage ratio as at 31 December 2022

		2022	2021
		Ushs M	Ushs M
Capital measure	Basel III Tier I capital	**567,138**	517,120
Exposure measure	On- and off-balance sheet exposures (regulatory):		
	Total on balance sheet assets	**3,241,299**	3,173,112
	Off balance sheet items	**377,553**	470,624
		3,618,852	3,643,736
Leverage ratio:		**15.67%**	14.19%

6H 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.

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 A. Classification of financial assets and financial liabilities

The Group's accounting policies on the classification of financial instruments under IFRS 9 are indicated below. The application of these policies resulted in the classifications set out in the table above and explained below.

a) Certain loans and advances to customers held by the Group's investment 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. Internal reporting and performance measurement of these loans and advances are on a fair value basis.

b) The investment securities are measured at FVTPL because the contractual cash flows of these securities are not SPPI on the principal outstanding.

c) 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.

d) 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.

e) 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.

f) Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at FVOCI

7 B. Classification of assets and liabilities

The table below shows the classification of the assets and liabilities as current and non-current:

	2022 (Ushs M)			2021 (Ushs M)		
Group	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets:						
Cash and balances with Bank of Uganda	**482,298**	**-**	**482,298**	516,802	-	516,802
Deposits and balances due from other banks	**216,771**	**-**	**216,771**	229,524	-	229,524
Government and other securities	**522,294**	**426,842**	**949,136**	231,472	327,518	558,990
Loans and advances to customers	**887,045**	**474,400**	**1,361,445**	816,301	692,109	1,508,410
Investment in equity shares	**-**	**6,980**	**6,980**	-	7,701	7,701
Other assets	**41,288**	**-**	**41,288**	107,679	10,468	118,147
Derivative financial instruments	**567**	**-**	**567**	647	-	647
Current income tax recoverable	**-**	**-**	**-**	214	-	214
Deferred income tax asset	**-**	**33,411**	**33,411**	-	26,336	26,336
Property and equipment	**-**	**77,110**	**77,110**	-	91,035	91,035
Investment property	**-**	**19,784**	**19,784**	-	18,795	18,795
Intangible assets	**-**	**25,178**	**25,178**	-	31,042	31,042
Assets held for disposal	**29,089**	**-**	**29,089**	29,089	-	29,089
Total Assets	**2,179,352**	**1,063,705**	**3,243,057**	1,931,728	1,205,004	3,136,732
Liabilities:						
Customer deposits	**2,396,118**	**14,475**	**2,410,593**	2,277,048	5,157	2,282,205
Derivative financial instruments	**240**	**-**	**240**	308	-	308
Deposits due to other banks	**8,512**	**-**	**8,512**	-	-	-
Other liabilities	**55,702**	**6,707**	**62,409**	39,138	27,058	66,196
Borrowed funds	**60,291**	**63,398**	**123,689**	90,805	99,809	190,614
Special funds	**1,193**	**-**	**1,193**	1,193	-	1,193
Current income tax payable	**1,550**	**-**	**1,550**	-	-	-
Provisions	**2,338**	**-**	**2,338**	2,190	-	2,190
Total Liabilities	**2,525,944**	**84,580**	**2,610,524**	2,410,682	132,024	2,542,706
Net Assets	**(346,592)**	**979,125**	**632,533**	(478,954)	1,072,980	594,026

7 B. Classification of assets and liabilities (continued)

	2022 (Ushs M)			2021 (Ushs M)		
Company	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets:						
Amounts due from Group companies	**1,480**	**-**	**1,480**	2,882	-	2,882
Other assets	**102**	**-**	**102**	186	-	186
Current income tax recoverable	**655**	**-**	**655**	651	-	651
Deferred income tax asset	**-**	**1,005**	**1,005**	-	2,154	2,154
Investment in subsidiaries	**-**	**203,293**	**203,293**	-	203,293	203,293
Investment property	**-**	**39,546**	**39,546**	-	41,130	41,130
Total Assets	**2,237**	**243,844**	**246,081**	3,719	246,577	250,296
Liabilities:						
Other liabilities	**3,108**	**-**	**3,108**	7,185	-	7,185
Borrowed funds	**-**	**4,759**	**4,759**	-	5,239	5,239
Amounts due to Group companies	**7,344**	**8,798**	**16,142**	1,665	12,968	14,633
Total Liabilities	**10,452**	**13,557**	**24,009**	**8,850**	**18,207**	**27,057**
Net Assets	**(8,215)**	**230,287**	**222,072**	**(5,131)**	**228,370**	**223,239**

8 Segment information

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

- dfcu Limited, which is the holding company that is listed on the Uganda Stock Exchange. The Company derives its revenues mainly from rental income charged on its investment property.
- 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. The Bank's main source of income is interest income on loans and advances which accounts for 57% of the Group's total revenue for the year ended 31 December 2022 (2021: 62%).

During the year 20.06% (2021: 14.05%) 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 2022 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	7,119	86,422	(5,415)	**88,126**
Interest income	80	345,305	(2,021)	**343,364**
Interest expense	(2,324)	(74,274)	2,021	**(74,577)**
Other operating expenses	(4,407)	(322,569)	5,415	**(321,561)**
Profit before income tax	468	34,884	-	**35,352**
Income tax expense	(1,635)	(4,241)	-	**(5,876)**
(Loss) / profit for the year	(1,167)	30,643	-	**29,476**

8 Segment information (Continued)

The segment results for the year ended 31 December 2021 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	6,843	93,519	(5,024)	**95,337**
Income from transactions with operating segments of the same entity	15,000	-	(15,000)	**-**
Interest income	145	357,066	(2,413)	**354,799**
Interest expense	(2,720)	(81,202)	2,413	**(81,509)**
Other operating expenses	(8,856)	(358,909)	5,024	**(362,742)**
(Loss)/profit before income tax	10,412	10,474	(15,000)	**5,885**
Income tax expense	685	2,741	-	**3,427**
(Loss)/Profit for the year	11,097	13,215	(15,000)	**9,312**

As at 31 December 2022				
	dfcu Limited	**dfcu Bank**	**Intra-segment items**	**Group**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Total assets	**246,081**	**3,282,715**	**(285,739)**	**3,243,057**
Total liabilities	**24,009**	**2,668,205**	**(81,690)**	**2,610,524**
Capital expenditure	**562**	**6,996**	**-**	**6,914**

As at 31 December 2021				
	dfcu Limited	**dfcu Bank**	**Intra-segment items**	**Group**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Total assets	250,296	3,177,568	(291,132)	3,136,732
Total liabilities	27,057	2,602,732	(87,083)	2,542,706
Capital expenditure	190	13,647	-	13,470

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 2022	80	345,305	**343,364**
Year ended 31 December 2021	145	366,844	**354,799**

9 Interest and similar income

	Group	Company		
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
(a) Interest calculated using the effective interest method				
Loans and advances	**243,340**	273,034	-	-
Placements and investments with other banks	**9,171**	11,011	80	145
Government and other securities	**86,547**	63,266	-	-
	339,058	347,311	80	145
(b) Other interest and similar income				
Interest income on finance leases	**4,306**	7,488	-	-
Total interest income	**343,364**	**354,799**	**80**	**145**

10 Interest and similar expenses

	Group		Company	
	2022	2021	**2022**	2021
	Ushs M	Ushs M	**Ushs M**	Ushs M
Borrowed funds	**13,143**	10,344	**2,324**	2,720
Customer deposits	**56,229**	62,707	**-**	-
Interest expense on lease liability	**5,205**	8,458	**-**	-
	74,577	81,509	**2,324**	2,720

11 Net trading and other income

	Group		Company	
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Net unrealised foreign exchange gain	**677**	2,935	**(8)**	(21)
Fixed trading income	**22,538**	26,361	**-**	-
Rental income	**1,689**	1,603	**6,482**	6,262
Other income	**76**	(64)	**5**	-
	24,980	30,835	**6,479**	6,241

12 Net income from other financial instruments at FVTPL

	Group		Company	
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Recoveries from other assets measured at FVTPL	**762**	2,002	**-**	**-**

- -

This represents cash collections from the managed portfolio of other assets measured at FVTPL net of recovery costs. These recoveries are from assets that had been written off the portfolio.

13 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	
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Major service lines				
Domestic commissions	**50,192**	49,215	**640**	602
Foreign commissions	**5,827**	5,268	**-**	-
Total fee and commission from contracts with customers	**56,019**	54,483	**640**	602
Financial guarantee contracts and loan commitments	**6,365**	8,017	**-**	-
Total fee and commission income	**62,384**	62,500	**640**	602

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.

13 Fee and commission income (continued)
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 including significant payment terms 2022	Revenue recognition under IFRS 15
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. -Performance obligation (PO) – the Group provides account transaction services -Transaction price – monthly fees in line with the contractual agreement. -Allocation of price to PO – single performance obligation, no allocation necessary. -PO satisfied – Revenue is currently recognised at the end of the month, for the services provided during that month (operational efficiency).
Category B	Annual Review Charge - It's an annual fee charged basing on the loans held in the year. This revenue is recognised annually on usually corporate loans.	-Enforceable arrangement with customer exists. - -Performance obligation (PO) – the Group provides loan review services. -Transaction price – commission received as per agreement with the insurer. -Allocation of price to PO – single performance obligation -PO satisfied – at a point in time in the year when the loan review has been performed. -Revenue should be spread over the period as services are provided before the next payment.
Category C	These are fees charged on card related transaction. These comprise of ATM commissions, Express Money commission, Visa Commissions, MoneyGram commissions and issuance fee of debit cards. It's a standard fee	-Enforceable arrangement with customer exists. -Performance obligation (PO) – the Group provides card services at specific points of time and over time. -Transaction price – fee charged in terms of the arrangement with customer at point of transaction. -Allocation of price to PO – single performance obligation for each of the services, no allocation necessary. -PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.
Category D	Guarantees and commitment fees This is a transactional based fee on guarantees issued. fee collection/ recognition or upfront fees depending on contract with client. Most Retail customers pay quarterly while Corporate customers are largely upfront fees for entire tenor of facility. Timing of revenue for guarantees- Quarterly Term / tenor of Guarantees range from 1-5 years	-Enforceable arrangement with customer exists. -Performance obligation (PO) – the Group provides guarantees, custody fees and commitment fees -Transaction price – fee charged in terms of the arrangement with customer -Allocation of price to PO – Each service is a single performance obligation, no allocation necessary. PO satisfied -Commitment fees- Revenue currently recognised upfront -Performance guarantees- Revenue currently recognised upfront -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 -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 -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. -Performance obligation (PO) – the Group provides a service (as noted alongside, for electronic banking transactions). -Transaction price – transaction based fees. -Allocation of price to PO – single performance obligation (for each of the service fees listed), no allocation necessary. -PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.
Category F	It's a transactional based fee on Incoming TTs and LCs depending on the transaction amount with a capped maximum amount Letters of credit are usually less than one year	- Enforceable arrangement with customer exists. - Performance obligation (PO) – Group to provide a service, provide inter account transfers that are done by customers and LCs - Transaction price – fee is charged per transaction and LCs depending on the transaction amount with a capped maximum amount - Allocation of price to PO – single performance obligation, no allocation necessary. - TT's- Revenue recognised at a point in time, when service has been provided -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 -Fees are currently recognised upfront. Business to monitor and reassess accounting treatment when amounts become material -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 -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)	
	-KCCA Commission URA Licencing	-Enforceable arrangement with customer exists. -Performance obligation (PO) – Group to provide a service (as noted alongside, for electronic banking transactions). -Transaction price – transaction based fees. -Allocation of price to PO – single performance obligation (for each of the service fees listed), no allocation necessary. -PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.

14 Operating expenses

	Group		Company	
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Employee benefits expenses (note 15)	**69,232**	55,701	**764**	746
Depreciation of property and equipment (note 29)	**15,272**	19,621	**-**	-
Depreciation of the investment property (note 28)	**653**	461	**2,147**	2,666
Amortisation of intangible assets (note 30)	**9,128**	12,026	**-**	-
Auditors' remuneration	**850**	619	**181**	101
Occupancy expenses	**10,506**	10,870	**31**	12
Professional and consultancy fees	**46,742**	14,960	**479**	4,390
Communication costs	**29,735**	30,718	**39**	33
Transport and travel costs	**2,009**	1,252	**30**	27
Advertising and publicity costs	**4,473**	4,290	**47**	42
Other expenses (note 16)	**39,841**	33,005	**689**	839
	228,441	183,523	**4,407**	8,856

15 Employee benefits expenses

	Group		Company	
	2022	2021	**2022**	2021
	Ushs M	Ushs M	**Ushs M**	Ushs M
Wages and salaries	**60,430**	48,481	**678**	659
Retirement benefits costs	**2,816**	2,369	**21**	21
National Social Security Fund contributions	**5,986**	4,851	**65**	66
	69,232	55,701	**764**	746

The average number of employees of the group during the year was 1,174 (2021: 1,074)

16 Other expenses

Other expenses (note 14 above) comprise of the following:

	Group		Company	
	2022	2021	**2022**	2021
	Ushs M	Ushs M	**Ushs M**	Ushs M
Stationery and printing	**2,625**	2,403	**-**	
Contribution to the deposit protection fund	**7,153**	4,911	**-**	
Insurance expenses	**2,803**	1,923	**368**	
Other expenses	**27,260**	23,768	**321**	
	39,841	33,005	**689**	

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17 Dividends

During the year, no interim dividend was paid (2021: Nil). At the next Annual General Meeting proposed to be held in June 2023, the directors plan to recommend the payment of a final dividend for the year ended 31 December 2022 of Ushs 6,129 million (2021:Nil) or Ushs 8.19 per share (2021: Nil). Payment of dividends is subject to withholding tax at rates depending on the tax residence of the shareholder.

18 Credit loss expense on financial assets (Group)

	2022	2021
	Ushs M	Ushs M
Increase in allowances for impairment on loans and advances (note 23)	**117,529**	161,586
Recoveries and allowances on loans and advances no longer required (note 23)	**(10,959)**	(9,485)
Increase in allowances for impairment on balances with Bank of Uganda (note 21)	**810**	(116)
Increase in allowances for impairment on balances with other banks (note 22)	**11**	76
Increase in allowances for impairment on other assets (note 27)	**(764)**	(262)
Increase in allowances for impairment on investment securities (note 23)	**131**	19
Recoveries on loans and advances previously written off (note 23)	**(18,568)**	(3,460)
	88,190	148,358

19 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.

	2022	2021
Net profit attributable to equity holders of the Company (Ushs M)	**29,476**	9,312
Weighted average number of ordinary shares in issue	**748,144,033**	748,144,033
Basic earnings per share (Ushs)	**39.40**	12.45
Diluted earnings per share (Ushs)	**39.40**	12.45

Profit attributable to ordinary shareholders

	2022	2021
	Ushs M	Ushs M
Net profit attributable to equity holders of the Company	29,476	9,312

There were no potentially dilutive shares outstanding at 31 December 2022 and 2021.

20 Income tax

a) Income tax expense

	Group		Company	
	2022	2021	2022	2021
	Ushs M	Ushs M	Ushs M	Ushs M
Current income tax	16,589	12,391	486	305
Prior year over provision of corporation tax	-	-	-	-
Deferred income tax (credit)/debit	(10,713)	(15,818)	1,149	(990)
Income tax expense/(credit)	5,876	(3,427)	1,635	(685)

b) Amount recognised in OCI – Group

	2022 Ushs M		
	Before tax	Tax (expense)/ benefit	Net of tax
Movement in liability credit reserve	12,562	(3,638)	8,924
Movement in debt instrument at FVOCI	107	-	107
	12,669	(3,638)	9,031

	2021 Ushs M		
	Before tax	Tax (expense)/ benefit	Net of tax
Movement in liability credit reserve	6,945	(2,169)	4,776
Movement in debt instrument at FVOCI	26	-	26
	6,971	(2,169)	4,802

20 Income tax (continued)

c) Reconciliation of effective tax rate

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

Group:

	2022		2021	
	Effective tax rate	Ushs M	Effective tax rate	Ushs M
Profit before income tax		35,352		5,885
Tax calculated at a tax rate of 30% (2020: 30%)	30%	10,605	30%	1,766
Tax effect of:				
Underprovision of current and deferred tax in previous years	8.36%	2,957	0.00%	-
Expenses not deductible for tax purposes1	9.86%	3,486	53.22%	3,132
Net interest income which is subject to final tax2	-31.60%	(11,172)	-141.44%	(8,324)
Income tax expense	16.62%	5,876	-58.22%	(3,426)

1These include items like depreciation expenses in non-qualifying assets, donations, entertainment and unrealised loss on the transfer of non-qualifying assets.

2Includes the income tax differential between interest income on government securities of Ushs 86,547 million (2021: Ushs 63,266 million) taxed at the statutory rate of 30% and withholding tax which is a final tax.

Company:

	2022		2021	
	Effective tax rate	Ushs M	Effective tax rate	Ushs M
Profit before income tax		468		10,412
Tax calculated at a tax rate of 30% (2020: 30%)	30%	140	30.00%	3,124
Tax effect of:				
Underprovision of current and deferred tax in previous years	2.44%	862	0.00%	-
Expenses not deductible for tax purposes1	5.92%	2,091	37.48%	2,206
Net interest income which is subject to final tax2	-4.13%	(1,458)	-102.19%	(6,015)
Income tax expense/(credit)	4.62%	1,635	11.65%	(685)

Income taxed at other rates refers to rental income taxed separately from the other business income. Further information on deferred income tax is presented in note 30.

d) Current income tax (recoverable) / payable

The movements in current tax payable are as follows:

	Group		Company	
	2022	2021	2022	2021
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	(214)	1,773	(651)	(949)
Current income tax expense for the year	16,589	12,390	486	304
Current tax paid during the year	(14,825)	(14,377)	(490)	(6)
At 31 December	1,550	(214)	(655)	(651)

21 Cash at hand and balances with Bank of Uganda - Group

	2022	2021
	Ushs M	Ushs M
Cash in hand	193,827	159,104
Balances with Bank of Uganda	289,383	357,800
Expected Credit Loss adjustment	(912)	(102)
	482,298	516,802

The fair value of cash and balances with Bank of Uganda approximates the carrying amount. As disclosed in note 45, the restricted cash balance with Bank of Uganda is Shs 226,510 million (2021: Ushs 203,460 million).

The balance with Bank of Uganda was classified as high grade, under stage 1 as at 31 December 2022 and 2021. There were no transfers between stages for both years. The changes in the gross carrying amounts of the balances with Bank of Uganda is due deposits, withdrawals and exchange differences (which are not material), the withdrawals in 2022 exceeded the deposits.

	2022	2021
	Ushs M	Ushs M
At 1 January	102	218
Impairment recognized during the year	810	(116)
At 31 December	912	102

22 Deposits and balances due from banks - Group

	2022	2021
	Ushs M	Ushs M
Deposit auction with Bank of Uganda	-	60,300
Deposits with other banks	158,984	159,551
Placements with other banks	57,897	9,772
	216,881	229,623
Expected Credit Loss adjustment	(110)	(99)
	216,771	229,524

Deposits and balances due from other banks are short-term deposits made for varying periods of between one day and three months, depending on the immediate cash requirements of the Bank, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate on deposits and balances due from other banks was 13% (2021: 7%). The fair value of loans and advances to other banks approximates the carrying amount.

The deposits and balances due from other banks were classified as high grade, under stage 1 as at 31 December 2022 and 2021. There were no transfers between stages for both years. The increase in the expected credit loss was due to the increase in the 12 month probability of default from 0.35% in 2021 to 0.70% in 2022.

	2022	2021
	Ushs M	Ushs M
At 1 January	99	23
Impairment recognized/(derecognised) during the year	11	76
At 31 December	110	99

23 Loans and advances to customers - Group

	2022	2021
	Ushs M	Ushs M
Loans and advances to customers at amortised cost	1,400,221	1,481,814
Finance leases	23,907	203,854
Less impairment loss allowance	(62,683)	(177,258)
	1,361,445	1,508,410

Movements in allowance for impairment of loans and advances

	Gross carrying amount	ECL allowance	Net carrying amount	Gross carrying amount	ECL allowance	Net carrying amount
	2021	2021	2021	2020	2020	2020
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Retail customers	477,580	(20,947)	456,633	613,545	(38,235)	575,310
Corporate customers	946,548	(41,736)	904,812	1,072,123	(139,023)	933,100
	1,424,128	(62,683)	1,361,445	1,685,668	(177,258)	1,508,410

The weighted average effective interest rate on loans and advances was 14.60% (2021: 14.38%)

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2022:	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
At 1 January 2022	**10,748**	**9,724**	**156,786**	**177,258**
Increase in allowances for expected credit losses	**-**	**6,163**	**111,366**	**117,529**
Recoveries and allowances no longer required	**(1,476)**	**-**	**(9,483)**	**(10,959)**
Debts written off during the year	**-**	**-**	**(221,145)**	**(221,145)**
At 31 December 2022	**9,272**	**15,887**	**37,524**	**62,683**
Charge to statement of comprehensive income (2022)				
Increase in allowances for expected credit losses	**-**	**6,163**	**111,366**	**117,529**
Recoveries and allowances no longer required	**(1,476)**	**-**	**(9,483)**	**(10,959)**
Recovery of amounts previously written off	**-**	**-**	**(18,568)**	**(18,568)**
Net charge to profit or loss	**(1,476)**	**6,163**	**83,315**	**88,002**

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2021:	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
At 1 January 2021	10,603	4,888	47,375	62,866
Increase in allowances for expected credit losses	145	4,836	156,605	161,586
Recoveries and allowances no longer required	-	-	(9,485)	(9,485)
Debts written off during the year	-	-	(37,709)	(37,709)
At 31 December 2021	**10,748**	**9,724**	**156,786**	**177,258**
Charge to statement of comprehensive income (2021)				
Increase in allowances for expected credit losses	145	4,836	156,605	161,586
Recoveries and allowances no longer required	-	-	(9,485)	(9,485)
Recovery of amounts previously written off	-	-	(3,460)	(3,460)
Net charge to profit or loss	145	4,836	143,660	148,641

More information about the significant changes in the gross carrying amount of financial assets during the year that contributed to the changes in the loss allowance is provided in the tables below:

23 Loans and advances to customers (continued)

Movements in allowance for impairment of loans and advances

Retail and corporate	**Stage 1**	**Stage 2**	**Stage 3**	
Loans and advances to customers at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Gross carrying amount as at 1 January 2022	**1,266,220**	**145,399**	**274,049**	**1,685,668**
Changes in the gross carrying amount				
- Transfer to stage 1	**11,431**	**(11,431)**	**-**	**-**
- Transfer to stage 2	**(70,920)**	**70,920**	**-**	**-**
- Transfer to stage 3	**-**	**(54,775)**	**54,775**	**-**
New financial assets originated net of deferred fees	**55,121**	**-**	**-**	**55,121**
Payoffs and write-offs	**(92,226)**	**(3,290)**	**(221,145)**	**(316,661)**
Gross carrying amount as at 31 December 2022	**1,169,626**	**146,823**	**107,679**	**1,424,128**
Loss allowance as at 31 December 2022	**(9,272)**	**(15,887)**	**(37,524)**	**(62,683)**
Carrying amount	**1,160,354**	**130,936**	**70,155**	**1,361,445**

Loans and advances to customers at amortised cost	Stage 1 12-month ECL Ushs M	Stage 2 Lifetime ECL Ushs M	Stage 3 Lifetime ECL Ushs M	Total Ushs M
Gross carrying amount as at 1 January 2021	1,501,335	242,752	94,095	1,838,182
Changes in the gross carrying amount				
- Transfer to stage 1	1,229,105	(1,229,105)	-	-
- Transfer to stage 2	(2,179,619)	2,179,619	-	-
- Transfer to stage 3	-	(217,380)	217,380	-
New financial assets originated net of deferred fees	715,399	-	-	715,399
Payoffs and write-offs	-	(830,487)	(37,426)	(867,913)
Gross carrying amount as at 31 December 2021	1,266,220	145,399	274,049	1,685,668
Loss allowance as at 31 December 2021	(10,748)	(9,724)	(156,786)	(177,258)
Carrying amount	1,255,472	135,675	117,263	1,508,410

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

	2022 Ushs M	2021 Ushs M
Gross investment in finance leases:		
Not later than 1 year	**5,150**	8,967
Later than 1 year and not later than 5 years	**16,981**	112,257
Later than 5 years	**1,776**	82,630
Gross investment in finance leases	**23,907**	203,854
Unearned future finance income on finance leases	**(8,256)**	(70,828)
Net investment in finance leases	**15,651**	133,027

23 Loans and advances to customers (continued)

Movements in allowance for impairment of loans and advances

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

	2022 Ushs M	2021 Ushs M
Not later than 1 year	**3,372**	5,851
Later than 1 year and not later than 5 years	**11,117**	73,254
Later than 5 years	**1,162**	53,921
	15,651	133,027

Included in the allowance for impairment of loans and advances as at 31 December 2022 is Ushs 42 million (2021: Ushs 4,144 million) attributable to impairment of finance lease receivables.

The carrying value of loans and advances to customers is approximately equal to its fair value.

24 Equity investments – Group

	2022	2021
	Ushs M	Ushs M
Equity investments at fair value through profit or loss:		
New Vision Limited	56	106
Bank of Baroda (U) Limited	5,017	5,938
National Insurance Corporation	758	505
Kenya Commercial Bank Limited	11	14
	5,842	6,563
Other equity investments:		
Crane Financial Services	1,138	1,138
	6,980	7,701

All the equity investments at FVTPL are traded on the Uganda Securities Exchange (USE) except for Kenya Commercial Bank Limited shares which are traded in Nairobi Securities Exchange (NSE). The number of shares held at each reporting date is indicated below:

	2022	2021
	Number of shares	Number of shares
New Vision Limited	359,693	359,693
Bank of Baroda (U) Limited	59,019,400	62,500,000
National Insurance Corporation	148,645,383	99,096,923
Kenya Commercial Bank Limited	10,000	10,000

The trading prices per share at the last date of trading for the years ended 31 December 2022 and 2021 were as follows:

	2022	2021
	Ushs M	Ushs M
New Vision Limited	155	297
Bank of Baroda (U) Limited	85	95
National Insurance Corporation	5	5
Kenya Commercial Bank Limited	1,123	1,389

During the year, the Bank did not purchase any additional shares. The changes in equity investments at FVTPL during the year were as follows:

	2022	2021
	Ushs M	Ushs M
At 1 January	6,563	8,513
Shares de-recognised during the year	(279)	-
Increase in National Insurance Corporation shares because of a rights issue	253	-
Fair value gains losses (note 13)	(695)	(1,950)
	5,842	6,563

24 Equity investments (continued)

The Group's investment in equities that are designated at fair value through profit or loss represent equities for which there is an active market and where the Bank holds less than 20% of the voting rights of the investee companies and the Bank does not have significant influence over the financial and operating decisions of the investee companies.

Below is the sensitivity of the share prices to the bank's profit and loss and the resultant effect to the bank's equity;.

	2022 Ushs M			2021 Ushs M		
	Fair value gain/(loss)	Tax impact	Net impact on equity	Fair value gain/(loss)	Tax impact	Net impact on equity
10% increase in share price	**559**	**(168)**	**391**	655	(197)	458
10% decrease in share price	**(559)**	**168**	**(391)**	(655)	197	(458)

The other equity investment relates to the Group's investment in Crane Financial Services. This relates to the payment made by the Bank for Crane Financial Services as part of the assets acquired from Crane Bank Limited (in receivership).

25 Investments in securities – Group

	2022	2021
	Ushs M	Ushs M
Amortised cost:		
Investment securities measured at amortised cost	**247,466**	212,540
Other bonds	**-**	46
Expected credit loss adjustment	**(276)**	(145)
	247,190	212,441
Investment securities measured at FVOCI - debt instruments	**655,189**	339,849
	902,379	552,290

Other bonds include corporate bonds amounting to Nil (2021: Ushs 46 million) issued by Stanbic Bank Uganda Limited.

Movement in investment securities:

	2022	2021
	Ushs M	Ushs M
At 1 January	**552,290**	517,006
Additions during the year	**553,702**	200,393
Maturities during the year	**(208,851)**	(164,376)
Fair value gain during the year	**5,369**	(714)
Movement in expected credit loss	**(131)**	(19)
At 31 December	**902,379**	552,290
Maturing as follows:		
Maturing within 1 month	**151,979**	37,401
Maturing between 1-3 months	**121,750**	36,629
Maturing within 3-12 months	**201,808**	150,742
Maturing between 1-5 years	**426,842**	327,518
	902,379	552,290

The investment securities were classified as high grade, under stage 1 as at 31 December 2022 and 2021. There were no transfers between stages for both years.

	2022	2021
	Ushs M	Ushs M
At 1 January	**145**	126
Impairment recognized/(derecognised) during the year	**131**	19
At 31 December	**276**	145

26 Trading assets - Group

	Trading assets		Trading liabilities	
	2022	2021	2022	2021
	Ushs M	Ushs M	Ushs M	Ushs M
Non-derivatives	48,649	6,610	-	-
Trading assets FVTPL	(1,892)	90	-	-
	46,757	6,700	-	-
Maturing as follows:				
Maturing within 1 month	-	-	-	-
Maturing between 1–3 months	-	-	-	-
Maturing within 3-12 months	46,757	6,700	-	-
Maturing between 1-5 years	-	-	-	-
	46,757	6,700	-	-

	Pledged trading asset	Non-pledged trading assets	Total trading assets	Pledged trading asset	Non-pledged trading assets	Total trading assets
	2022	2022	2022	2021	2021	2021
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Government bonds	-	30,328	30,328	-	1,543	1,543
Treasury bills	-	16,429	16,429	-	5,158	5,158
	-	46,757	46,757	-	6,700	6,700

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 12.6%. (2021: 12.07%)

27 Other assets

	Group		Company	
	2022	2021	2022	2021
	Ushs M	Ushs M	Ushs M	Ushs M
Other assets at amortised cost (except prepayments)				
Sundry receivables	**8,414**	6,310	**-**	-
Other assets	**1,039**	38,223	**9**	95
Expected credit loss adjustment	**(41)**	(805)	**-**	-
	9,412	43,728	**9**	95
Other assets at FVTPL			**-**	
Other financial assets at fair value through profit and loss	**26,501**	72,664	**-**	-
	35,913	116,392	**9**	95
Prepaid expenses	**5,375**	1,755	**93**	91
	41,288	118,147	**102**	186

Other financial assets at fair value through profit or loss relate to the fair valuation of written off and non-performing loans and advances acquired from Crane Bank Limited. The carrying value of other assets is approximately equal to its fair value.
The movement in expected credit losses was as follows:

	2022	2021
	Ushs M	Ushs M
At 1 January	**805**	543
Impairment recognized/(derecognised) during the year	**(764)**	262
At 31 December	**41**	805

The table below summarises the movement in other financial assets at fair value through profit or loss:

	2022	2021
	Ushs M	Ushs M
At 1 January	**72,664**	109,892
Settlements against the asset	**(41,233)**	(6,367)
Fair value loss	**(4,930)**	(30,861)
At 31 December	**26,501**	72,664

28 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 2022, 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 separate 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	
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Cost:				
At 1 January	**21,226**	21,212	**56,215**	56,025
Additions	**555**	14	**562**	190
Transfer from work in progress	**-**	-	**-**	-
Transfers from own use (property and equipment)	**1,087**	-	**-**	-
Write offs	**-**	-	**-**	-
As at 31 December	**22,868**	21,226	**56,777**	56,215
Depreciation:				
At 1 January	**2,431**	1,970	**15,085**	12,419
Charge for the year	**653**	461	**2,146**	2,666
Transfers from own use	**-**	-	**-**	-
Write offs	**-**	-	**-**	-
As at 31 December	**3,084**	2,431	**17,231**	15,085
Net Book Value	**19,784**	18,795	**39,546**	41,130
Amount allocated to investment property			19,784	18,795
Amount allocated to property and equipment			19,762	22,335
Total property and equipment			**39,546**	41,130

The fair value of the investment property is Ushs 55 billion (2021: Ushs 58 billion). The Group has assessed that the highest and best use of its investment property does not differ from their current use.

The valuation was carried out using the investment method of valuation. The valuer utilised the income capitalisation approach by reference to the net cashflows / rental income from the commercial building portion that is being rented out.

The significant unobservable inputs used in the valuation were as follows:

Significant unobservable input		
		Range (weighted average)
Building	Estimated rental value	US$13 – US$ 18 per square metre depending on the attributes of the space. Gross annual rent is estimated at US$ 1,713,086.6
	Service charge	US$ 4 per square metre and is charged separately. The annual service charge is estimated at US$ 328,991.52
	Parking	Estimated annual rent of US$ 35,280
	Discount rate	6%- 8% (7%)
Land	Price per acre	Ushs 8 billion -Ushs 10 billion per acre

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.
Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield).

28 Investment property (continued)

Valuation techniques for investment properties:

Land	**Market Approach** Land was valued by the sales comparison method taking into account factors such as location, services and accessibility.
Buildings	**Income capitalisation approach** The valuer used this approach to estimate the value of income-producing portion of the building. It is based on the expectation of future benefits. This method of valuation relates value to the market rent that a property can be expected to earn and to the resale value.

The fair value measurement for the investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Key underlying assumptions in valuation of the investment property included:

- The property and its value is unaffected by any statutory notice or condition of title where title deeds were not inspected, and that neither the property nor its condition, nor its use, nor its intended use, is or will be unlawful.
- No onerous easements, rights of way or encroachments exist by or on the subject properties other than those in favour of statutory bodies, applicable to all such properties, or which could be regarded as customary.
- The market value referred to in the valuation report excludes Value Added Tax and transfer costs
- The property is unaffected by environmental issues

The property is assumed to be free from any structural fault, rot, infestation or defects of any other nature whether exposed or unexposed, including inherent weaknesses due to the use in construction of deleterious materials. There is also an assumption that there are no unidentified adverse ground or soil conditions and that the load bearing qualities of the site of each property are sufficient to support the building constructed or to be constructed thereon.

	Group		Company	
	2022	2021	**2021**	2020
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Rental income derived from investment properties	**1,689**	1,603	**6,482**	6,262
Direct operating expenses (including repairs and maintenance)	**(1,641)**	(1,972)	**(6,434)**	(6,434)
Profit arising from investment properties	**48**	(369)	**48**	(172)

29 (a) Property, equipment and right-of-use asset - Group

	Freehold land and buildings	Motor vehicle	Furniture & equipment	Computer equipment	Right of Use asset	Work-In-Progress	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cost:							
At 1 January 2022	31,545	3,237	91,265	24,549	53,923	3,764	208,283
Additions	-	-	1,560	285	211	1,039	3,095
Transfers from work in progress	-	301	2,394	514	-	(3,209)	-
Transfers to investment property	(1,086)	-	-	-	-	-	(1,086)
Write offs	-	(22)	(25,828)	(10,181)	-	(27)	(36,058)
Lease terminated during the year	-	-	-	-	(1,025)	-	(1,025)
Eliminated on disposal	-	(21)	(378)	(789)	-	-	(1,188)
At 31 December 2022	30,459	3,495	69,013	14,378	53,109	1,567	172,021
Depreciation:							
At 1 January 2022	4,735	1,988	68,694	21,910	19,921	-	117,248
Charge for the year	542	589	6,206	1,617	6,318	-	15,272
Write offs	-	(22)	(25,790)	(10,175)	-	-	(35,987)
Lease terminated during the year	-	-	-	-	(438)	-	(438)
Eliminated on disposal	-	(21)	(374)	(789)	-	-	(1,184)
At 31 December 2022	5,277	2,534	48,736	12,563	25,801	-	94,911
Net carrying amount	25,182	961	20,277	1,815	27,308	1,567	77,110

29 (a) Property, equipment and right-of-use asset – Group (continued)

	Freehold land and buildings	Motor vehicle	Furniture & equipment	Computer equipment	Right of Use asset	Work-In-Progress	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cost:							
At 1 January 2021	31,574	3,099	104,997	25,879	53,181	7,162	225,892
Additions	-	176	982	1,491	1,431	2,989	7,069
Transfers from work in progress	-	213	5,012	83	-	(5,308)	-
Write offs	(29)	-	(14,565)	(2,243)	-	(1,079)	(17,916)
Lease terminated during the year	-	-	-	-	(689)	-	(689)
Eliminated on disposal	-	(251)	(5,161)	(661)	-	-	(6,073)
At 31 December 2021	31,545	3,237	91,265	24,549	53,923	3,764	208,283
Depreciation:							
At 1 January 2021	4,007	1,699	78,313	22,865	11,800	-	118,684
Charge for the year	732	540	9,480	1,939	8,288	-	20,979
Write offs	(4)	-	(14,067)	(2,243)	-	-	(16,314)
Lease terminated during the year	-	-	-	-	(167)	-	(167)
Eliminated on disposal	-	(251)	(5,032)	(651)	-	-	(5,934)
At 31 December 2021	4,735	1,988	68,694	21,910	19,921	-	117,248
Net carrying amount	26,810	1,249	22,571	2,639	34,002	3,764	91,035

Work-In-Progress (WIP) relates to ongoing works in respect of various projects the Bank is undertaking. There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (2021: nil). Adjustments to align the fixed assets relates to amendments into the IFRS 16-Leases model with actual payments and payment frequencies.

(b) Assets held for disposal

dfcu Group acquired some assets and liabilities from former Crane Bank Limited (In Liquidation) under an Agreement signed with Bank of Uganda (as the Receiver) on 25 January 2017. As per the provisions of the Agreement, dfcu exercised the option not to purchase the reversionary interest of the properties. As of 31 December 2022, dfcu Group was in the process of returning the properties to Bank of Uganda (as the Receiver). The expected amount to be recovered is Ushs 29,089 million, which has been recorded under assets held for disposal. An impairment amount of Ushs 15,283 million was recognised in other expenses in 2020.

30 Intangible assets

	Goodwill	Computer Software	Other Intangible Assets	Work-In-Progress	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cost					
At 1 January 2022	**463**	**59,654**	**34,984**	**9,219**	**104,320**
Additions	**-**	**-**	**-**	**3,264**	**3,264**
Transfers from WIP	**-**	**7,840**	**-**	**(7,840)**	**-**
Write offs	**-**	**-**	**-**	**-**	**-**
At 31 December 2022	**463**	**67,494**	**34,984**	**4,643**	**107,584**
Amortisation					
At 1 January 2022	**-**	**38,593**	**34,685**	**-**	**73,278**
Charge for the year	**-**	**8,829**	**299**	**-**	**9,128**
Write offs	**-**	**-**	**-**	**-**	**-**
At 31 December 2022	**-**	**47,422**	**34,984**	**-**	**82,406**
Net carrying amount	**463**	**20,072**	**-**	**4,643**	**25,178**
Cost					
At 1 January 2021	463	51,190	34,984	11,469	100,043
Additions	-	-	-	6,387	6,387
Transfers from WIP		8,637		(8,637)	-
Write offs	-	(173)	-	-	(173)
At 31 December 2021	463	59,654	34,984	9,219	106,257
Amortisation					
At 1 January 2021	-	30,659	30,765	-	63,362
Charge for the year		8,107	3,920		12,026
Write offs	-	(173)	-	-	(173)
At 31 December 2021	-	38,593	34,685	-	75,215
Net carrying amount	463	21,061	299	9,219	31,042

Computer software comprises of software for the Group's core banking systems.
Other intangible assets comprises fair valuations of customer relationships acquired from Crane Bank Limited and fair valuations of customer deposits and ground rent. Work-In-Progress (WIP) relates to ongoing works in respect of the various software projects.

Annual impairment test for goodwill
The Group performed its annual impairment test of goodwill during the year. Goodwill was acquired through the business combination of the subsidiary, dfcu Bank as the Cash Generating Unit (CGU). The Group considers the relationship between its market capitalization and its book value among other factors when reviewing for indicators of impairment. As at 31 December 2022, the market capitalization of the Group was below the book value of its entity, an indication of a potential impairment of goodwill.

Management performed a Value in Use (VIU) estimation using the Dividend Discount Model (DDM) as the primary approach and the Market Multiples as a secondary approach.

The DDM involves discounting the expected earnings to shareholders (the dividends stream) at the Equity Required Rate of Return.

The following were the inputs into the DDM;
- Management's forecasts on equity capital requirements to satisfy Capital Adequacy Requirements (CAR) and derived the excess equity capital, distributable to shareholders as the forecast equity cashflows.
- The forecast cashflows were discounted at the low and high cost of equity of 23.12% and 24.36% (an average of 23.74%) derived using the Capital Asset Pricing Model.
- The terminal value was calculated using the long-term Ugandan inflation rate of 5.3%

The Market Multiples approach involved obtaining Price to Book (P/B) multiples of peer companies operating in the same industry as the company. The observed trading multiples were adjusted for country risk and size in order to arrive at an objective equity value. The implied P/B was calculated using the net asset value as at 31 December 2022.

30 Intangible assets (continued)

Annual impairment test for goodwill (continued)

Below is the summary of the valuation results:

	Low	High	Average
	Ushs M	Ushs M	Ushs M
Net assets as at 31 December 2022	**594,026**	**594,026**	**594,026**
Goodwill	**463**	**463**	**463**
Total	**594,489**	**594,489**	**594,489**
VIU (DDM)	**650,000**	**698,000**	**674,000**
Headroom/(impairment)	**55,511**	**103,511**	**79,511**
Net assets as at 31 December 2021	594,026	594,026	594,026
Goodwill	463	463	463
Total	594,489	594,489	594,489
VIU (DDM)	650,000	698,000	674,000
Headroom/(impairment)	55,511	103,511	79,511

From the indicative valuation results based on the primary approach (DDM) and the corroborative approach, there is no impairment for goodwill as at 31 December 2022.

31 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% (2021: 15%). Deferred tax assets and liabilities and the deferred tax credit as at 31 December 2022 are attributed to the following items:

	Group		Company	
	2022	2021	2022	2021
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	**(26,336)**	(12,688)	**(2,154)**	(1,164)
Deferred tax credit to P&L	**(10,713)**	(15,817)	**1,149**	(990)
Deferred tax credit to OCI	**3,638**	2,169	**-**	-
Deferred tax asset	**(33,411)**	(26,336)	**(1,005)**	(2,154)

	Group			
2022	At 1 January 2022	(Credit)/ Charge to P&L	(Credit)/ Charge to OCI	At 31 December 2021
	Ushs M	Ushs M	Ushs M	Ushs M
Property and equipment	**(3,656)**	**200**	**-**	**(3,456)**
Tax losses carried forward	**(13,643)**	**1,590**	**-**	**(12,053)**
Deferred fees and commissions income	**(1,928)**	**(11,661)**	**-**	**(13,589)**
Fair value of treasury bills and bonds	**(828)**	**43**	**-**	**(785)**
Fair value of customer relationships	**(158)**	**814**	**-**	**656**
Unrealised foreign exchange loss	**(6)**	**(36)**	**-**	**(42)**
FVOCI Fair value loss	**1,629**	**-**	**3,638**	**5,267**
Allowance for impairment of loans and advances	**(6,518)**	**-**	**-**	**(6,518)**
Allowance for contigent liabilities	**(657)**	**(1,484)**	**-**	**(2,141)**
Other temporary differences	**(308)**	**(45)**	**-**	**(353)**
Capped interest expense	**(263)**	**(134)**		**(397)**
Net deferred tax asset	**(26,336)**	**(10,713)**	**3,638**	**(33,411)**

31 Deferred income tax (continued)

2021	At 1 January 2021	(Credit)/ Charge to P&L	(Credit)/ Charge to OCI	At 31 December 2021
	Ushs M	Ushs M	Ushs M	Ushs M
Property and equipment	(3,488)	(168)	-	(3,656)
Tax losses carried forward	(1,527)	(12,116)	-	(13,643)
Deferred fees and commissions income	(2,200)	272	-	(1,928)
Fair value of treasury bills and bonds	217	(1,045)	-	(828)
Fair value of customer relationships	370	(528)	-	(158)
Unrealised foreign exchange loss	4	(10)	-	(6)
FVOCI Fair value loss	(540)	-	2,169	1,629
Allowance for impairment of loans and advances	(4,947)	(1,571)	-	(6,518)
Allowance for contigent liabilities	-	(657)	-	(657)
Other temporary differences	(450)	142	-	(308)
Capped interest expense	(127)	(136)	-	(263)
Net deferred tax asset	**(12,688)**	**(15,817)**	**2,169**	**(26,336)**

	Company		
2022	**At 1 January 2022**	**(Credit)/ Charge to P&L**	**At 31 December 2022**
	Ushs M	Ushs M	Ushs M
Property and equipment	**576**	**200**	**776**
Tax losses carried forward	**(2,461)**	**1,059**	**(1,402)**
Capped interest expense	**(263)**	**(115)**	**(378)**
Unrealised foreign exchange loss	**(6)**	**5**	**(1)**
Net deferred tax asset	**(2,154)**	**1,149**	**(1,005)**

2021	At 1 January 2021	(Credit)/ Charge to P&L	At 31 December 2021
	Ushs M	Ushs M	Ushs M
Property and equipment	487	89	576
Tax losses carried forward	(1,528)	(933)	(2,461)
Capped interest expense	(127)	(136)	(263)
Unrealised foreign exchange loss	4	(10)	(6)
Net deferred tax asset	**(1,164)**	**(990)**	**(2,154)**

32 Investment in subsidiary

	Shareholding		Company
		2022	2021
		Ushs M	Ushs M
dfcu Bank Limited	100%		
As at 1 January and 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.

33 Customer deposits - Group

	2022	2021
	Ushs M	Ushs M
Demand deposits	**1,218,068**	1,146,600
Savings deposits	**595,685**	557,992
Fixed deposits	**596,840**	577,613
	2,410,593	2,282,205

The weighted average effective interest rates for the customer deposits are as follows:

	2022	2021
	%	%
Demand deposits	**2**	1
Savings deposits	**2**	2
Fixed deposits	**9**	8

34 Deposits due to other banks - Group

	2022	2021
	Ushs M	Ushs M
Balances due to other banks within 90 days	**8,512**	

-

Balances due to other banks are short-term deposits made by other banks for varying periods of between one day and three months and earn interest at the respective short-term deposit rates. The weighted average effective interest rate was Nil (2021: Nil). The carrying value of deposits due to other banks is approximately equal to its fair value.

35 Other liabilities

	Group		Company	
	2022	2021	2022	2021
	Ushs M	Ushs M	Ushs M	Ushs M
Financial liabilities:				
Bills payable	**187**	466	**-**	-
Unclaimed balances	**4,509**	2,581	**-**	-
Other liabilities	**14,726**	13,011	**815**	1,289
Deferred rental income	**331**	256	**2,096**	1,819
Lease liability	**24,209**	29,474	**-**	-
Total financial liabilities	**43,962**	45,788	**2,911**	3,108
Non-financial liabilities:				
Accrued expenses and payables	**18,447**	20,408	**197**	4,077
Total liabilities	**62,409**	66,196	**3,108**	7,185

Other liabilities

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

Other liabilities include the expected credit loss on contingent liabilities and commitments amounting to Ushs 738 million (2021: Ushs 102 million). It also includes visa fees payable, taxes payable, dividends payable and others.
The carrying value of other liabilities is approximately equal to its fair value.

36 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.

	2022	2021
	Ushs M	Ushs M
As at 31 December	1,193	1,193

The carrying value of special funds is approximately equal to its fair value.

37 Borrowed funds

	Group		Company	
	2022	2021	2022	2021
	Ushs M	Ushs M	Ushs M	Ushs M
Uganda Government (KFW V loan)	11,878	11,878	-	-
Bank of Uganda (ACF loan)	14,060	31,552	-	-
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	5,120	10,638	-	-
Abi-Finance	5,498	7,591	-	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO USD)	6,345	17,947	-	-
European Investment Bank – PEFF	56,257	68,265	-	-
East African Development Bank	756	5,308	-	-
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG)	18,809	31,907	-	-
UN Habitat	207	289	-	-
Jubilee Insurance	4,759	5,239	4,759	5,239
	123,689	190,614	4,759	5,239

The maturity analysis for borrowed funds has been disclosed in Note 6C.

Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG)

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 debt is subordinated to ordinary liabilities of the Group and recognised by the Group as Tier 2 Capital for regulatory capital adequacy purposes of the Group in accordance with Bank of Uganda prudential regulations.

Agricultural Credit Facility (ACF)-BOU

The Government of Uganda through the central bank in partnership with commercial banks, Uganda Development Bank Ltd and micro-deposit taking institutions (MDIs) created the Agricultural Credit Facility. The facility was created for the provision of medium-term credit facilities to agriculture and agro-processing projects on more favorable terms as opposed to the open market. The credit facilities are advanced to customers at an interest rate of 12%. The other objectives of the facility include the promotion of commercial agriculture, increasing access to finance by agribusinesses, increased agricultural production thus food security as well as boosting the confidence of financial institution in lending to agriculture. The Group contributes 50% towards the lending and 50% is financed by the ACF. The Group repays the 50% financed by the ACF as and when the loans are repaid by the customers.

The terms and conditions relating to the other borrowings are tabulated below:

Group	Tenure (years)	Interest rate	Fixed / variable	Currency
Uganda Government (KFW V loan)	Due on demand	-		
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	5.50%	Variable	Ushs
European Investment Bank-PEFF USD	10	4.70%	Fixed	USD
European Investment Bank-PEFF UGX	10	9.28%	Fixed	Ushs
European Investment Bank-Microfinance	7	10.26%	Fixed	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	5.32%	Variable	USD
UN Habitat	15	2.00%	Fixed	Ushs
Company				
Jubilee Insurance	5	6.38%	Fixed	USD

All the borrowed funds are unsecured.

37 Borrowed funds (continued)

The carrying value of borrowed funds is approximately equal to its fair value.
The movement in borrowings is as follows:

	Group		Company	
	2022	2021	**2022**	2021
	Ushs M	Ushs M	**Ushs M**	Ushs M
At 1 January	**190,614**	217,219	**5,239**	4,502
Additional drawdowns	**1,952**	61,214	**-**	500
Interest expense	**12,580**	11,353	**384**	453
Interest and principle repayment	**(84,572)**	(96,886)	**(916)**	(220)
Unrealised foreign exchange exchange (gains) / losses	**3,215**	(1,873)	**52**	4
Debt origination fees	**(100)**	(413)	**-**	-
At 31 December	**123,689**	190,614	**4,759**	5,239

38 Share capital and share premium

Group	Number of authorised ordinary shared	Number of issued ordinary shares	Share Capital	Share premium	Total
			Ushs M	Ushs M	Ushs M
At 1 January and 31 December 2022 and 2021	1,250,000,000	748,144,033	14,963	185,683	200,646

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group. All ordinary shares rank equally with regard to the Group's residual assets.

Share premium

	2022
Ushs M	
** 1 May 2000	2,878
*** 28 February 2017	182,805
Total	**185,683**

** Share premium relates to shares issued by the Group on 1 May 2000 amounting to 198,880,729 with a par value of Ushs 20 per share at approximately Ushs 95 per share which resulted into a share premium of Shs 2,878 million.

*** Share premium relates to additional capital additional capital from its shareholders through a rights issue done during the year. The capital was converted into 250.9 million ordinary shares giving rise to additional ordinary share capital of Ushs 5.5 billion and share premium of Ushs 182.8 billion.

39 Regulatory reserve - Group

	2022	2021
	Ushs M	**Ushs M**
At 1 January	-	-
Transfer to retained earnings during the year	-	-
At 31 December	-	-
The regulatory credit risk reserve is analysed as follows:		
Provision for impairment of loans and advances as per FIA 2004:		
Specific provisions	**36,749**	87,836
General provisions	**13,719**	15,594
Total regulatory provision	**50,468**	103,430
Provision for impairment of loans and advances as per IFRS		
Identified impairment (note 23)	**(37,524)**	(156,786)
Unidentified impairment (note 23)		
Stage 1	**(9,272)**	(10,748)
Stage 2	**(15,887)**	(9,724)
Total IFRS provision	**(62,683)**	(177,258)
(Excess) / shortfall of IFRS provision over regulatory provision	**(12,215)**	(73,828)

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 4c(v). The reserve is not distributable.

As of 31 December 2022, the allowance of impairment of loans and advances computed in accordance with IFRS exceeded the regulatory provision and therefore the credit risk reserve was nil (2021: Nil).

40 Retained earnings/ accumulated losses

Retained earnings / accumulated losses comprises prior year brought forward earning plus current year profit less any dividends paid and proposed and transfers to credit risk reserve. As at 31 December 2022, retained earnings amounted to Ushs 412,242 million (2021: Ushs 390,120 million). The Company retained earnings amounted to Ushs 14,072 million (2021: Ushs 22,593 million). The movement in retained earnings / accumulated losses is shown in the statement of changes in equity for the Group and Company respectively.

41 FVOCI revaluation reserve - Group

The fair value reserve comprises the cumulative net change in the fair value of equity securities and the cumulative net change in the fair value of debt securities are 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	**2022**	**2021**
	Ushs M	**Ushs M**
At 1 January	**3,177**	(1,599)
Net movement on revaluation of FVOCI	**12,562**	6,945
Deferred tax impact on FVOCI transactions	**(3,638)**	(2,169)
At 31 December	**12,101**	3,177
ECL on FVOCI financial assets		
At 1 January net of deferred tax	**83**	57
Increase in ECL	**107**	26
At 31 December	**190**	83
Total fair value reserve	**12,291**	3,260

42 Off 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.

	2022	**2021**
	Ushs M	**Ushs M**
Contingent liabilities:		
Guarantee and performance bonds	**350,596**	443,974
Commitments:		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**26,957**	26,650
	377,553	470,624

The expected credit loss on contingent liabilities and commitments is Ushs 738 million (2021: Ushs 102 million) and this is presented under other liabilities in note 35.

43 Leases

Group as a lessee

The Group leases a number of branch and office premises. The leases typically run for a period of 7 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every 3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.
Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment. As at 31 December 2022, the net carrying amount for the right-of-use assets is Ushs 27,308 million (2021: Ushs 34,002 million) (see Note 29).

ii. Lease liability

The lease liability arises out of the payment obligations from leased branch and office premises and this is presented within the other liabilities (see note 35).

	2022	2021
	Ushs M	Ushs M
At 1 January	29,474	35,929
New leases	1,586	-
Interest charge (note 10)	5,205	8,458
Unrealised loss/(gain) on foreign currency denominated leases	83	(2,520)
Leases terminated during the year	(438)	(525)
Payments	(11,701)	(11,868)
At 31 December	24,209	29,474

At 31 December 2022, the future minimum lease payments under non-cancellable operating leases were payable as follows.

iii. Amounts recognized in profit or loss

	2022	2021
	Ushs M	Ushs M
Leases under IFRS 16		
Interest on lease liabilities	5,205	8,458
Depreciation on right-of-use asset	6,318	8,288
Unrealised gain on foreign currency denominated lease liabilities	83	(2,520)
	11,606	14,226

iv. Extension options

Some leases of office premises contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

v. Discount rate

In determination of the implicit rate of the lease (Discount rate), the Group has evaluated its ability to raise funds with a similar term structure and determined the weighted average cost of the fixed deposits as the discount rate. The weighted average rate as at 31 December 2022 was 12% (2021: 12%).

Group as a lessor

The Group has entered into operating leases on its investment property portfolio consisting of certain office buildings (see Note 28). These leases have terms of between 3 and 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Group during the year is Ushs 1,689 million (2021: Ushs 1,603 million). The rental income recognised by the Company was Ushs 6,482 million (2021: Ushs 6,065 million).

44 Other contingent liabilities – Group

(a) Provisions

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 224 billion (2021: Ushs 284 billion). Through legal advice management has determined that total expected losses to the Group are Ushs 2.3 billion (2021: Ushs 2.1 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.

The movement in litigation provisions during the year was as follows:

	2022	2021
	Ushs M	Ushs M
At 1 January	**2,190**	2,520
Arising during the year	**148**	-
Utilised during the year	**-**	(330)
At 31 December	**2,338**	2,190

(b) Derivative financial instruments

The Bank entered into derivatives for trading and risk management purposes. These include swaps and outright forwards that have a settlement date beyond 31 December 2022 from the deal date. The unrealised gain on these contracts amounts to Ushs 328 million (2021: 339 million) recorded in the statement of financial position. The financial instruments as split as indicated below:

	2022	**2021**
	Ushs M	**Ushs M**
Derivative financial asset	**567**	647
Derivative financial liability	**(240)**	(308)
At 31 December	**327**	339

(c) Other open litigation matters

In November 2020, a claim was issued in the English High Court against dfcu Limited, dfcu Bank and other defendants. The claim related to the transaction in which dfcu Bank acquired some assets and assumed some liabilities of Crane Bank Limited (CBL) (then in Receivership) from Bank of Uganda (acting as Receiver of CBL) following placement of CBL under Receivership in 2017.

dfcu successfully challenged the jurisdiction of the English High Court, which found that when exercising its powers in relation to CBL, Bank of Uganda was performing its regulatory function under the laws of Uganda, whose validity the English High Court had no authority to inquire into. The English High Court dismissed with costs the claims against dfcu, its subsidiary, dfcu Bank and Ugandan directors jointly sued in this case, for lack of jurisdiction.

CBL and some of its shareholders have since appealed against this ruling and recovery of the costs is now contingent upon the successful outcome from the English Court of Appeal. In addition, there are still ongoing engagements between dfcu Bank and Bank of Uganda on its obligation to indemnify the Bank.

Due to the facts above, and in line with IAS 37, legal costs amounting to Ushs 39 billion have been recognized in the profit and loss for the year ending 31 December 2022. dfcu will continue to defend the claim vigorously and pursue all possible avenues to recover the said costs.

45 Cash and cash equivalents

Analysis of cash and cash equivalents as shown in the consolidated statement of cash flows.

	Group		Company	
	2022	2021	2022	2021
	Ushs M	Ushs M	Ushs M	Ushs M
Cash in hand (note 19)	**193,827**	159,104	-	-
Balances with Bank of Uganda (note 19)	**288,471**	357,698	-	-
Less: Cash reserve requirement	**(226,510)**	(203,460)	-	-

Amounts due from related companies (note 46(b))	**-**	-	1,480	2,882
Deposits and balances due from banks (note 20)	**216,771**	229,524	-	-
	472,559	542,866	1,480	2,882

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, the subsidiary, over a cash reserve cycle period of fourteen days.

46 Related party disclosures

There are other companies that are related to dfcu Limited through common shareholdings or common directorships. National Social Security Fund is one of the top shareholders in dfcu Limited and it has significant shareholding in Umeme Limited. Transactions and balances with related parties are shown below:

a) Amounts due to related companies

	Group		Company	
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
dfcu Bank Limited-Overdraft and term finance	-	-	**16,142**	14,633

Amounts due to dfcu Bank Limited relate to term finance 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

	Company	
	2022	**2021**
	Ushs M	**Ushs M**
dfcu Bank Limited	**1,480**	2,882

For the purpose of the Company statement of cash flows, cash and cash equivalents are represented by the above balances. These include deposits held in dfcu Bank Limited which are due on demand and earn interest at the prevailing market rates. Amount due from Umeme Limited relates to an overdraft which earns interest at the prevailing market rates.

	2022	**2021**
	Ushs M	**Ushs M**
Interest expense incurred	**80**	145

46 Related party disclosures (continued)

Advances to customers include loans to directors and loans to employees as follows:

- At 31 December 2022, advances to employees amounted to Ushs 29,667 million (2021: Ushs 25,096 million).
- At 31 December 2022, there were no advances to non-executive directors and companies controlled by directors or closely connected persons (2021: Ushs Nil).

	2022	2021
	Ushs M	Ushs M
Interest income earned on advances to employees and directors / companies connected to directors	**1,074**	1,163
Deposits by directors (Group)		
At 1 January	**526**	651

Net decrease	**(252)**	(125)
At 31 December	**274**	526

c) Loans to directors - Group

The loans to directors indicated on page 1 amount to Ushs Nil million (2021: Ushs 1,083 million) at interest rates ranging from 8% to 10%. These facilities were performing as of 31 December 2021.

d) Key management compensation

	Group		Company	
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Salaries and other short-term employment benefits	**4,897**	4,292	**383**	383
Post-employment benefits	**738**	636	**64**	64
	5,635	4,928	**447**	447
Directors' remuneration				
	2022	2021	**2022**	2021
	Ushs M	Ushs M	**Ushs M**	Ushs M
Fees for services as directors	**1,477**	2,291	**619**	691
Other emoluments: short-term benefits (included in key management compensation)	**-**	-	**-**	-
	1,477	2,291	**619**	691

47 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 2022, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Ushs 2,794 million (2021: Ushs 2,379 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 2022 the Group contributed Ushs 5,921 million (2021: Ushs 5,301 million), which has been charged to profit or loss.

48 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	
	2022	**2021**	**2022**	**2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Authorised but not contracted	-	-	-	-
Authorised and contracted	**6,210**	12,983	-	-
	6,210	12,983		

49 Events after reporting date

There are no events after the reporting date that require disclosure in these financial statements.

50 Presentation currency

These consolidated and separate financial statements are presented in Uganda shillings rounded off to the nearest millions (Ushs M).

51 Representation of the consolidated statement of cash flows

The statement of cash flows which was previously presented using the direct method has been re-presented using the indirect method. The comparative information has been aligned to the indirect method for comparability.

Statement of cash flows for the year ended 31 December 2021

Group	As previously presented	Adjustment	As re-presented
Operating activities:	**Ushs M**	**Ushs M**	**Ushs M**
Interest receipts	**365,454**	**(365,454)**	-
Interest payments	**(106,057)**	**(106,057)**	-
Fee and commission receipts	**62,500**	**(62,500)**	-
Net trading and other income received	**30,835**	**(30,835)**	-
Recoveries on loans previously written off	**3,460**	**(3,460)**	-
Recoveries from other assets measured at FVTPL	**2,002**	**(2,002)**	-
Interest paid on lease liability	**(2,040)**	**(2,040)**	-
Cash payments to employees and suppliers	**(215,819)**	**215,819**	-
Profit before tax	-	5,885	5,885
Adjustment for:			
Depreciation of property, equipment and right-of-use assets	-	20,979	20,979
Depreciation of investment property	-	461	461
Amortisation of intangible assets	-	12,026	12,026
Unrealised foreign exchange loss/(gain)	-	(2,935)	(2,935)
Loss/(gain) on disposal of fixed assets	-	261	261
Fair value losses on assets at fair value through profit and loss	-	30,861	30,861
Credit loss expense on financial assets	-	148,358	148,358
Reversals in provisions and employee benefits	-	(75,561)	(75,561)
Cash from operating activities before changes in operating assets and liabilities	**140,335**	-	140,355
Changes in operating assets and liabilities			
(Increase) / decrease in Government and other securities	**(35,284)**	-	(35,284)
Increase in Bank of Uganda cash reserve requirement	**890**	-	890
Decrease/(increase) in loans and advances to customers	**266,906**	-	266,906
Decrease in other assets	**(10,164)**	-	(10,164)
Decrease in balances due to other banks	**(10,968)**	-	(10,968)
(Decrease)/increase in amounts due to customers	**(313,142)**	-	(313,142)
Increase in other liabilities	**(5,933)**	-	(5,933)
Income tax paid	**(14,377)**	-	(14,377)
Net cash flows from operating activities	**18,263**	-	18,263

51 Representation of the consolidated statement of cash flows (Continued)

Statement of cash flows for the year ended 31 December 2021 (Continued)

Company	**As previously presented**	**Adjustment**	**As re-presented**
Operating activities:	**Ushs M**	**Ushs M**	**Ushs M**
Interest receipts	**145**	(145)	**-**
Interest payments	**(904)**	904	**-**
Dividend income	**15,000**	(15,000)	**-**
Fees and commissions	**602**	(602)	**-**
Net foreign exchange and other income received	**6,241**	(6,241)	**-**
Cash payments to employees and suppliers	**(3,979)**	3,979	**-**
Profit before tax	**-**	10,412	**10,412**
Adjustment for:			
Depreciation of investment property	**-**	2,666	**2,666**
Unrealised foreign exchange loss	**-**	21	**21**
Reversals in provisions and employee benefits	**-**	4,006	**4,006**
Cash from operating activities before changes in operating assets and liabilities	**17,105**	-	**17,105**
Changes in operating assets and liabilities		-	
Decrease in amounts due to group companies	**(1,299)**	-	**(1,299)**
Decrease in other assets	**168**	-	**168**
Increase in other liabilities	**(410)**	-	**(410)**
Income tax paid	**(6)**	-	**(6)**
Net cash flows from operating activities	**15,558**	-	**15,558**

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

As at 31 December 2022	Number of shares	%
Arise B.V	439,176,097	58.70%
Scb Mauritius A/C Investment Fund for Developing Countries	74,580,276	9.97%
National Social Security Funds	56,543,204	7.56%
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	10,440,437	1.40%
Ssb-Conrad N Hilton Foundation	9,180,658	1.23%
Vanderbilt University Vanderbilt University	9,155,182	1.22%
Jubilee Health Insurance Company of Uganda	7,296,339	0.98%
Bank Of Uganda Defined Benefits Scheme- Geneafrica	4,811,165	0.64%
Bank Of Uganda Staff Retirement Benefit Scheme AIG	4,481,491	0.60%
The Parliamentary Pension Scheme-Stanlib	2,924,455	0.39%
Uganda Revenue Authority Staff Retirement Benefits	2,850,292	0.38%
Centenary Bank Staff Defined Contribution Scheme	2,806,087	0.38%
Mr. Sudhir Ruparelia	2,165,575	0.29%
Mr Rakesh Gadani	1,977,748	0.26%
Uap Insurance Uganda Ltd	1,836,146	0.25%
Housing Finance Bank/ UAP Insurance- General Life Fund	1,557,256	0.21%
Keith Muhakanizi	1,488,972	0.20%
Barclays Bank Uganda Staff Pension Fund	1,380,060	0.18%
Other 3822 Shareholders	44,105,267	5.90%
	748,144,033	100.00%

As at 31 December 2021

	Number of shares	%
Arise B.V	439,176,097	58.70%
SCB Mauritius A/C Investment Fund for Developing Countries	74,580,276	9.97%
National Social Security Fund	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	10,440,437	1.40%
SSB-Conrad N Hilton Foundation -00fg	9,180,658	1.23%
Vanderbilt University Vanderbilt University	9,155,182	1.22%
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Uap Insurance Uganda Ltd	1,836,146	0.25%
Housing Finance Bank/ Uap Insurance- Gen Life Fund	1,557,256	0.21%
Keith Muhakanizi	1,488,972	0.20%
Barclays Bank Uganda Staff Pension Fund	1,380,060	0.18%
Other 3799 Shareholders	44,845,055	5.99%
	748,144,033	100.00%

dfcu
...with pleasure

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