DRIVING TRANSFORMATION

dfcu ANNUAL REPORT AND FINANCIAL STATEMENTS

GOING FURTHER, TOGETHER

www.dfcugroup.com

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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 (as amended)
FVOCI	-	Fair Value Through Other Comprehensive Income
FVTPL	-	Fair Value Through Profit and Loss
ICPAU	-	Institute of Certified Public Accountants of Uganda
IESBA	-	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

About dfcu

About dfcu

dfcu Limited was started by the Commonwealth Development Corporation (CDC) of the United Kingdom and the Government of Uganda through the Uganda Development Corporation (UDC) under the name of Development Finance Company of Uganda Limited. Subsequent restructuring saw International Finance Corporation (IFC) and the German Development Corporation (DEG) invest resulting in an equal stake of 25% for the shareholders. Its objective was to support long-term development projects whose financing needs and risk did not appeal to the then existing financial commercial lending institutions.

dfcu Limited was incorporated under the Laws of Uganda on the 14th of May 1964, as a Private Limited Liability Company. In 1999, **dfcu** acquired Uganda Leasing Company which became **dfcu** Leasing, to provide direct asset-based finance.

dfcu Limited was listed on the Uganda Securities Exchange on the 14th of October 2004.

A subsidiary of **dfcu** Limited, **dfcu** Bank Limited is a leading banking and financial services company domiciled in Uganda. It came into existence in May 2000 following **dfcu's** acquisition of Gold Trust Bank to extend universal banking services alongside the pre-existing equity finance; long term development finance; leasing and working capital finance.

Purpose

Transforming Lives and Businesses in Uganda.

Our Behaviors

We Take Accountability by Delivering on Our Commitments.
We Work and Play Together.
We Continuously Learn to Improve Our Productivity.
We have a Shared Goal to Deliver Customer Solutions.

Our Goal

To sustainably grow stakeholder value with innovative solutions, inclusivity and empowered people.

Our Footprint

Our New Logo

Guided by our Brand Purpose of **"Transforming Lives and Businesses in Uganda,"** our revamped logo reflects boldness, dynamism, and modernity. It symbolizes our commitment to propelling our customers toward financial success.

Symbol
Our symbol is bold and dynamic.

Logo type
Our logotype is modern and friendly, reflecting our approach to our consumers.

Our Brand Proposition

Now is the time to turn our words into action. **"Evolving. Banking for You"** is more than a proposition—it's a commitment to empowering Ugandans and driving progress in our communities. It has birthed our new brand promise to our cherished customers:
Going Further, Together

GOING FURTHER, TOGETHER

With 60 years of trusted experience, **dfcu** is here to support Ugandans and their businesses every step of the way. Together, we will unlock potential, ignite innovation, and shape a brighter future for Uganda.

Our Leadership

dfcu Limited Board of Directors

Jimmy D. Mugerwa
Chairman, Board of Directors

Arimi Barbra Teddy
Non-Executive Director

Appointed as Director and Chairman Board of Directors in 2022.

Mr. Mugerwa is the Founder & CEO of Zoramu Consulting Group Ltd, a senior business leader with 30 years in the Oil & Gas sector working across Africa and Europe. Has a strong background in successfully leading teams, managing complex projects, building government and stakeholder relationships, managing Joint ventures, Strategy development, Marketing & Operational excellence.

Previously Jimmy worked with Tullow Oil PLC as the Group Africa Advisor in London/Chair Uganda and for 8 years was the Managing Director for Tullow Oil Operations in Uganda. He also spent 19 years working for Royal Dutch Shell in senior executive roles including Senior Regional Advisor for Sub Saharan Africa; Africa Retail Marketing Manager; Shell East Africa General Manager. A qualified Executive Coach, an Experienced Board chair and Independent Non-Executive Director, he sits on several boards including East African Breweries Ltd (a Diageo PLC).Chairs the Uganda Breweries Limited board , Jubilee Allianz Insurance.

Jimmy holds degrees from the University of Wales, Makerere University and Postgraduate training in Executive business leadership from IMD, the Financial Times/Pearson Non-Executive Director Diploma and several Oil & Gas certificates.

Appointed as Director in 2019.

She is the Head of Marketing and Corporate Affairs at the National Social Security Fund and a board member of the CEO apprenticeship Alumni.

Prior to that Barbra served in various strategic roles in the banking sector and has garnered a wealth of Experience in Strategy development, Marketing management, sales Force Management, product development, Research, Public Relations, Corporate Social Investment, and integrated Marketing communications.

She is a Member of the Chartered Institute of Marketing(CIM), an Associate of the Chartered Institute of Public Relations (CIPR), a Top MBA Graduate of ESAMI Management Institute and holder of a Bachelor of Commerce Degree of Makerere University

dfcu Limited Board of Directors

Kironde Lule
Non-Executive Director

Appointed as Director in 2012.

Mr. Kironde has over 30 years' experience in financial management and auditing. He was a 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 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.

He holds an honours Degree in Accounting and Finance from the London School of Economics.

Friedrich Christian Pelser
Non-Executive Director

Appointed as Director in 2019.

Mr. Pelser is a Chartered Accountant (South Africa) with more than 20 years of work experience and is currently working as a Senior Investment Director with Arise B.V. He holds both a Bachelor and an Honours degree in Accounting Science from the University of South Africa.

He has extensive experience in African financial institutions, Investment Banking and Private Equity which brings valuable insights to the Board. His appointment demonstrates the continued commitment from Arise B.V. to **dfcu's** growth and success.

dfcu Limited Board of Directors

Dr. Aminah Zawedde
Non-Executive Director

Appointed as Director in 2020.

Dr. Aminah Zawedde is an experienced IT professional with over 20 years of experience. She provides strategic and technical guidance on how various sectors can leverage innovation and digital solutions to solve their problems while creating employment opportunities. She has played a big role in strengthening the linkages between government, the private sector, academia and development partners as a driver to accelerating digital transformation. She also championed the development of Uganda's digital transformation roadmap that was launched in August, 2023 by the Vice President of Uganda.

Dr. Zawedde is the first female Permanent Secretary of the Ministry of ICT and National Guidance. In 2023, she was awarded a national medal for her outstanding contribution to the field of ICT in Uganda.

She holds a PHD in Computer Science from Eindhoven University in the Netherlands, is a Certified Information Systems Auditor, has Executive Board training from Strathmore University and IT Corporate Governance training.

George Ochom
General Manager

Appointed General Manager in 2018.

Career banker, with over 30 years of banking experience. Before joining **dfcu** Limited, George was Head of Treasury, **dfcu** Bank Limited, 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.

dfcu Bank Limited Board of Directors

Prof. Winifred Tarinyeba Kiryabwire
Chairperson, Board of Directors

Albert Jonkergouw
Non-Executive Director

Appointed as Director in 2019.

Prof. Winifred has over 20 years' experience and expertise in Banking, 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 Partnerships 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, among others.

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.

Appointed as Director in 2013.

Albert has over 40 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.

Previous directorships include PCPO Vechnstreeken Veenen and National Microfinance Bank (NMB) Tanzania.

dfcu Bank Limited Board of Directors

Stephen Caley
Non-Executive Director

Appointed as Director in 2016.

Stephen has over 55 years banking experience and has served in various capacities for a number of international and locally owned banks in his native country,United Kingdom, Sub-Saharan 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 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 Financial Services sector in Cameroon, Tanzania, Botswana, Zambia and Fiji.

Ms. Grace Tibihikirra Makoko
Non-Executive Director

Appointed as Director in 2019.

Grace is a 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 Limited Board of Directors

Dr. Jeff Sebuyira-Mukasa
Non-Executive Director

Mark William Springett
Non-Executive Director

Appointed as Director in 2023.

Dr. Jeff is a capacity building expert with over 32 years business and financial leadership experience. He has served in various capacities with Coca Cola Sabco – South Africa, British Red Cross-London, Price Waterhouse Coopers -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.

Appointed as Director in 2022.

Mark has over 20 years of experience in banking and has served in various capacities for various banks including 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 several investment and holding companies.

dfcu Bank Limited Board of Directors

Dr. Danny Zandamela
Non-Executive Director

Appointed as Director in 2022.

Dr. Danny 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 over 20 years as a CEO and non-executive director for various banking and non-banking organizations.

His banking career started in Barclays Bank Plc and moved on to various banks in the FirstRand Group, including Rand Merchant Bank, First National Bank of Botswana Limited, First National Bank of Namibia Limited, First National Bank of Mozambique Limited, First National Bank of Zambia Limited. He consults in banking related matters, especially Open Banking and FinTech.

Danny holds two doctorates in Open Banking and FinTech – a DBA from Sheffield Hallam University, and a DBA from Business School Netherlands respectively, he holds an MSc in Strategic Management from University of Derby, two mini-MBAs from Wits University and GIMT respectively, a diploma in banking from IOBSA and several other banking qualifications.

He is also an entrepreneur with interests in the property development and Cleantech Energy sectors.

Charles Mudiwa
Managing Director/ Chief Executive Officer

Charles has over 26 years of experience in Banking, with strong business leadership, success in turning around businesses and increasing business profitability.

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.

dfcu Bank Limited Board of Directors

Kate K. Kiiza
Executive Director and 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.

Angelina Namakula-Ofwono
Chief Legal Officer and Company Secretary

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.

She was recognised by the Uganda Bankers Association for her outstanding leadership to the Legal Committee in the year 2018.

She holds a Master's degree 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 Limited Executive Committee – Management team

Charles Mudiwa
Managing Director/ Chief Executive Officer

Kate K. Kiiza
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Victor Rugeiyamu
Chief Risk Officer

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.

dfcu Bank Limited Executive Committee – Management team

Margaret Karume
Chief Credit Officer

Maryann Wanjiku Michuki
Chief Business Solutions & Marketing Officer

Margaret is a seasoned banker with over 30 years of experience. She started her banking career in Barclays Bank Kenya (now ABSA Bank) and later joined NIC Bank (now NCBA Bank Group).

She is well known for her leadership skills in the banking industry in Kenya and more recently in the United Republic of Tanzania, where she led the first voluntary merger between two legacy Banks giving rise to NCBA Tanzania Limited.

Margaret holds a Global Executive Master's Degree and Bachelor of Science in International Business Administration from United States International University (USIU Africa), a Diploma in Customer Relationship Management from the Institute of Financial Services (UK) and is an Associate of the Kenya Institute of Bankers.

Maryann has over fifteen years of experience across several industries including financial services, telco, service, and manufacturing. She has experience working both internally within the corporate world and in an external advisory capacity.

She started her career at Safaricom Plc, before switching sides to advisory, managing and growing a USD 4Million portfolio of clients including Safaricom, KCB, Equity, EABL and the Elton John Aids Foundation, in her role as General Manager at Squad Digital, a WPP Company.

In 2020, Maryann joined Stanbic Bank - Kenya as Head, Innovation. She additionally worked as Ag. Head, Brand and Marketing for 9 months in 2022.

Maryann is a Chartered Marketer and holds a Bachelor of Business and Commerce Degree from Monash University.

dfcu Bank Limited Executive Committee – Management team

Annette Kiconco
Chief Retail Banking Officer

Doreen Byaruhanga
Chief Corporate and Institutional Banking Officer

Annette joined **dfcu** Bank Limited as Chief Retail Banking Officer where she will be the Executive Head responsible for driving and delivering our strategy through Personal, Commercial and Enterprise Banking Segments.

Prior to joining **dfcu**, Annette worked as Head of Public Sector for Business and Commercial Banking at Stanbic Bank where she delivered sustainable solutions that positively impacted the livelihood of Ugandans.

Annette also worked as the Chief Business Officer at Orient Bank, where she led the Commercial Banking team after making her mark at Absa bank (formerly Barclays Bank) where she worked for 18 years in various roles, the last one being the Ag. Retail Banking Director.

Annette has over 20 years of banking experience with strong attributes in business strategy formulation and development, governance, customer service excellence, and risk management.

She started her career at Barclays Bank (now Absa) Uganda in 2001 and quickly moved up the ranks to lead the Trade Finance team before moving to Corporate Credit. She then worked at Stanbic Bank Uganda for 11 years as Head of Corporate and Institutional Banking.

In 2017, Doreen was appointed the Head of Vehicle and Asset Finance at Stanbic Bank which started her journey on the business side. She joined Equity Bank Uganda in 2022 as their Head, Corporate, a role she held before joining **dfcu** Bank Limited.

She holds a Master of Science Degree in Finance and Accounting from University of Westminster, London and a Bachelor's Degree in Business Administration from Makerere University, Kampala.

Message from the Chairman Board of Directors dfcu Limited

"We are already witnessing the positive impact of this strategic shift, with significant enhancements in customer service across the group."

Jimmy D. Mugerwa
Chairman Board of Directors

On behalf of the Board of Directors, I am delighted to present **dfcu** Limited's results for the financial year ended 31 December 2023. We are proud to uphold our strong tradition of shareholder returns, proposing a dividend of UGX 9.10 per share for 2023. This represents a 2.1% increase from the UGX 8.91 per share distributed in 2022, underscoring our unwavering commitment to enhancing shareholder value.

During the year **dfcu** Bank Limited achieved another milestone by raising its share capital to the new statutory limit of UGX 150Bn well in advance of the June 2024 deadline and without calling on its shareholders for additional capital.

Our flagship entity, **dfcu** Bank Limited, has embarked on a bold new strategic plan. This plan is centred around sector specialisation, fostering client relationships, harnessing cutting-edge technology, cultivating a high-performance culture, and maintaining a commitment to sustainability. We are already witnessing the positive impact of this strategic shift, with significant enhancements in customer service across the group.

Proposing a dividend

UGX**9.10**
per Share

2023

6%
Reduction in impairment of loans

2023

The **dfcu** Limited Board on the other hand approved a new strategy to support the group harness other business opportunities that will create linkages with the bank and enhance customer value proposition. The strategy is partly guided by need for **dfcu** limited to increase its contribution to the overall group performance.

Despite lingering challenges in some customer segments, Uganda's economy demonstrated encouraging recovery from global headwinds in 2023, fostering an improved business climate. The group took deliberate steps to tapper down activity in the affected sectors, while growing our investment in Government securities portfolio by 4%. Through a 6% reduction in impairment of loans and advances to customers and a 4% uplift in operating income, we delivered a net profit after tax of UGX 28.7Bn.

dfcu remains deeply committed to uplifting the communities we serve. Our 54-branch network undertook impactful local initiatives, complemented by transformative programs like Women in Business, Rising Woman, and the SME Business Accelerator. The Agribusiness Development Centre (ADC), whose focus is supporting and building the capacity of agribusinesses that have the potential to contribute to the overall agriculture value chain, made strides in fostering the bankability of Farmer Based Organisations (FBOs), Small and Medium Enterprises (SMEs) and Savings and Credit Cooperatives (SACCOs). Over 28,000 individuals and entities have benefited from ADC's work.

We are filled with immense pride and excitement as we celebrate **dfcu's** 60th anniversary. This milestone is a testament to our resilience and enduring positive impact on customers, stakeholders, and Uganda's socio-economic fabric. As we reminisce over the 60 years milestone, the company is also proud to celebrate 20 years since it was Listed on the Uganda Securities Exchange. The listing allowed close to 4,000 Ugandan investors to buy shares and own part of company, which continues to pay dividends to them.

Lastly, we sincerely thank you, our valued shareholders, customers, and stakeholders. We invite you to further engage with **dfcu** through our website, social media, and branch network as we embark on this exhilarating new chapter together.

Message from the Chairperson dfcu Bank Limited

Prof. Winifred T. Kiryabwire
Chairperson Board of Directors
dfcu Bank Limited

Dear Shareholders,

dfcu Bank Limited has made remarkable progress in strengthening its resilience this year, bolstering our share capital to UGX 150Bn by December 2023, well ahead of the June 2024 deadline. During the year, we refreshed our approach and witnessed a significant boost in our financial performance. This resulted from an 11% increase in net profit after tax and a 16% reduction in total risk-weight assets. We achieved this by realigning our balance sheet towards risk-free investment securities, which saw a 4% increase during the year.

On the governance side, we bid farewell to Director Jackie Aneno Obol-Ochola, who joined the Bank Board in October 2020 and served as the Chairperson of the Remuneration Committee. We thank Jackie for her dedicated service and wish her all the best in her endeavors. We also bid farewell to Mr. William Sekabembe, **dfcu's** immediate past Executive Director, who served the Bank in various capacities, including Head of Consumer Banking, Head of Development Institutional Banking, Chief of Business, and Chief Commercial Officer. We thank William for his committed service to the Bank and wish him the best in his new endeavors. Relatedly, the Board appointed Ms. Kate Kabaingi Kiiza who also serves as the Bank's Chief Financial Officer, as the new Executive Director.

We exceeded our capital management objectives, with the core capital ratio improving by 3.2%, surpassing the regulatory minimum of 10%.

Kate brings a wealth of experience supporting the Board in strategic financial management and is responsible for the Bank's Financial and Treasury operations, procurement, data analytic and internal controls.

Guided by the Fired-Up Strategy, the Bank aims to consolidate efforts towards its purpose of "Transforming lives and businesses in Uganda". The strategy guides on key pillars of where we play, how we shall win, the horizons that systematically phase the change, the cultural behaviors needed to drive the change and the technology priorities critical for the strategy's success. These are all geared towards improving customer and employee engagement, managing risks, and operational excellence to deliver earnings and social and economic environmental impact for all stakeholders.

As **dfcu** commemorates its 60-year journey, I would like to thank our customers, shareholders, and stakeholders for their continued support through the years, recognise the bank's management for its accountability and visionary leadership and reaffirm our commitment to delivering the purpose of "Transforming Lives and Businesses in Uganda."

CEO Annual Report Statement 2023: Transformative Progress at dfcu Bank Limited

"As a proudly Ugandan bank, we are deeply committed to fostering growth and fueling development in our homeland. Every move we make is dedicated to driving progress and uplifting the communities we serve."

Charles M. Mudiwa
Managing Director
dfcu Bank Limited

Dear Shareholders,

2023 was another challenging year for financial services across the globe. In the developed world, interest rates remained elevated as central banks raised interest rates to contain inflationary pressures.

The wars in Ukraine and the Middle East continue to impact food and energy prices, as well as trade. Across the region, the wars in the Democratic Republic of Congo and the Republic of Sudan have impacted trade between our countries as they are key export markets particularly for agricultural produce and manufactured goods.

Volatile international prices for Uganda's commodities such as tea continue to be a key risk for producers. Despite all this, Uganda's economy remained resilient. The economy grew by about 5.5% in real terms supported by investments in oil and gas, manufacturing, construction, kand services and is expected to grow by 6% in 2024 and 7% in the outer years. Inflationary pressures were largely contained around the 5.0% target set by BoU due to the right mix of monetary and fiscal policy. The Uganda Shilling depreciated by 1.9% during the year but performed relatively well compared to peers in the region and across Africa.

The banking system is generally sound and well-regulated ensuring that we continue to play our intermediation role adequately.

Business Performance

The Government of Uganda in partnership with the Commonwealth Development Corporation on 14th May 1964, founded Development Finance Company of Uganda Limited (**dfcu**), two years after the country's historic independence with the aim of creating a commercially operated development organisation to supplement the efforts of Government in bringing about economic development in Uganda.

UGX**34Bn**
Bank net profit after tax
2023

UGX**350Bn**
Interest income
2023

dfcu Limited quickly became successful and survived the challenges of the economic recession between 1972 and 1985, eventually venturing into commercial banking in 2000 as **dfcu** Bank Limited.

Over the years, **dfcu** Bank Limited has been associated with many stories of wealth creation and transformation of lives in Uganda across various sectors that include agriculture, manufacturing, hospitality and trade.

Our financial performance reflected the resilience of the Bank and the ability to maintain a strong capital position cushioning against the key risks. To that end, our total capital ratio improved by 3.2% to 29.5% in 2023, which is well above the regulatory minimum of 12% as prescribed by the Financial Institutions Act.

The concerted efforts put in place to manage credit risk during the year led to the reduction of impairment of loans and advances to customers by 6% from UGX 88Bn to UGX 83Bn. The total number of borrowers continued to grow, increasing by 19% as the Bank expanded its credit outreach to more households across the country. Given the dynamic environment, the Bank continues to exercise a cautious approach to credit extension.

The company recorded a 2% increase in total interest income from UGX 345Bn to UGX 350Bn and a 12% increase in non-funded income from UGX 86Bn to UGX 97Bn driven by the following underlying factors.

- Significant recovery on the fair value asset due to our revamped recovery strategy.
- 103% increase in the total number of customers mainly driven by our active participation in the Parish Development Model (PDM) program where the government is our key partner and a 17% increase in transaction volumes.
- 33% uptake of our digital banking offerings, especially mobile banking.

Interest expense, increased by 24% from UGX 74Bn to UGX 92Bn, driven by a rising cost of deposits, with the industry time average time deposits rate going up by 1.2% from 10.7% in 2022 to 11.9% in 2023.

The Bank recorded an 11% improvement in net profit after tax from UGX 31Bn to UGX 34Bn and will continue to pay dividends to shareholders.

Our footprint continues to grow across the country and includes a network of 54 branches spread across the country, 1,015 Agents and 78 deposit taking ATMs, all of which offer added convenience to our customers.

Social Economic Environment Impact

In 2023, we continued our legacy of driving sustainable development for our customers and the communities where we operate. We continued to deliver impactful interventions through programs in our Agribusiness Development Centre (ADC), Women in Business, Investment Clubs, and through partnerships with a variety of stakeholders and the Government. We graduated over 200 entrepreneurs through our Business Accelerator program targeted towards women-led SMEs and agribusinesses. This was in addition to providing fully paid exposure tours to Nairobi, Kenya, for over 60 women who successfully made it through the Rising Woman mentorship program to elevate their businesses to new heights. Our focus on the agricultural value chains saw us reach over 28,000 smallholder farmers in 2023 and beneficiaries in a wide range of programs run through our Agribusiness Development Centre. The programs include training and capacity building, price risk management of agricultural commodities, and general financial management and governance.

We partnered with Mastercard and the Rabo Foundation to implement the Agri-exchange program, a marketplace for key players in the agriculture value chain. We also partnered with key customers in various sectors where we play, such as MTN to drive the Advancing Women Entrepreneurs (AWE) program, Airtel to drive their Initial Public Offering, sponsored the Africa Airlines Conference hosted by Uganda Airlines, and partnered with the Government of Uganda to implement the Parish Development Model (PDM) where the Bank successfully supported Government to on board and disburse funds to beneficiaries across the country. Through our Investment Clubs program, we have served over 33,000 groups and continue delivering financial literacy training and thought leadership engagements to enable groups to grow their investments.

As a proudly Ugandan bank, we are deeply committed to fostering growth and fueling development in our homeland. Every move we make is dedicated to driving progress and uplifting the communities we serve.

Refreshed Strategic Direction

As we celebrate 60 years of existence in 2024, we are energized by our enduring resilience and meaningful contributions to customers, stakeholders, and the broader economy, which defines our new totem; Going Further Together.

During the year, we refreshed our strategy to adapt to the dynamic shifts in our operating environment and ambitions of our shareholders. The refreshed strategy anchors on a rallying call, 'Fired-Up,' which galvanizes all our efforts towards achieving our purpose of "Transforming lives and businesses in Uganda" and our goal, "To sustainably grow stakeholder value with innovative solutions, inclusivity, and empowered people." The strategy refresh seeks to reaffirm our purpose and institutional goal, clarify where we play and how we shall win, define our digital and technology priorities, and show the value drivers that will enable us to achieve improved financial performance and social, economic environmental impact.

The strategy is meant to position **dfcu** Bank Limited as the financial institution of choice for Ugandan businesses. Our strategy emphasizes economic sectors which fall into the Bank's existing customer segments.

We believe that we will see positive changes from implementing 'Fired Up', for us, our shareholders, and our customers.

Focus Going Forward

Our focus is driving the execution of the "Fired-Up" strategy, which is hinged on who we are as an institution – our values and culture and how we uphold them. The execution efforts of the strategy will focus on reengineering the company to drive transformation through operational efficiency and automation. The goal is to drive a dynamic shift in organisational culture and deliver a more customer-centric organisation, leveraging technology and data-driven insights to create seamless user experiences.

On the sustainability front, the Agribusiness Development Centre (ADC) will have its mandate and scope broadened as it transitions from an exclusive focus on the agriculture sector to becoming a full-fledged Foundation.

Appreciation

On behalf of the bank's management, staff, and myself, I would like to extend our sincere appreciation to all our customers, shareholders and stakeholders for the support accorded to the company in your respective capacities over the years. I invite you to journey with us as we strive to fully achieve our purpose of " Transforming lives and businesses in Uganda." I would also like to extend my appreciation to the past leaders of the Bank whose stewardship and dedication have brought us this far.

We remain indebted to the confidence of our customers, the long-term trust from our regulators and the effective leadership of the Government of the Republic of Uganda.

Financial Review

A snapshot into dfcu's consolidated performance

Financial Results

Fees & Commission Income
+5%
UGX 65bn
2022: UGX 62bn

Credit loss
-6%
UGX 82bn
2022: UGX 88bn

Interest income from government securities
+52%
UGX 131 bn
2022: UGX 86bn

Investment securities
+7%
UGX 968bn
2022: UGX 902bn

Borrowed funds
-32%
UGX 85bn
2022: UGX 124bn

Shareholders' Equity
+2%
UGX 644bn
2022: UGX 632bn

Customers

Customers
+103%
Doubled

Borrowers
+19%
Increase

Transactions
+17%
Increase

Delivery channels

2,015
Agents

+33%
Mobile Banking

78
Intelligent ATMs

54
Country wide Branches

Shared value

UGX **38.39**
Earnings per share

UGX **98.9bn**
Tax contribution

UGX **9.10**
Dividends per share

UGX **1.6bn**
CSI contribution

2023 Financial Highlights

	2023 Shs M	2022 Shs M
Statement of Comprehensive Income (Shs M)		
Profit before tax	**23,078**	35,352
Profit after tax	**28,720**	29,476
Statement of Financial Position (Shs M)		
Total assets	**3,158,126**	3,243,057
Loans and advances to customers	**1,125,816**	1,361,445
Investment securities	**968,637**	902,379
Marketable securities	**18,288**	46,757
Customer deposits	**2,318,572**	2,410,593
Borrowed funds	**85,230**	124,882
Shareholders' equity	**644,033**	632,533
Financial performance (%)		
Return on equity	**4%**	5%
Cost to income ratio	**69%**	64%
Loans to deposits ratio	**49%**	56%
Liquidity ratio	**39%**	32%
Leverage ratio	**14%**	14%
Share statistics (Shs)		
Earnings per share - basic and diluted	**38.39**	39.40
Proposed dividends per share	**9.10**	8.19
Capital Adequacy		
Risk weighted assets (Shs M)	**1,761,945**	2,077,945
Core capital (%)	**29%**	26%
Total capital (%)	**30%**	27%
Cash flow information (Shs M)		
Net cash from operating activities	**197,630**	31,309
Net cash used in investing activities	**(33,451)**	(6,785)
Net cash (used in)/from financing activities	**(62,070)**	(94,321)
Cash and cash equivalents at end of the year	**574,521**	472,559

Financial Performance Review

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

Kate K. Kiiza
Executive Director and Chief Financial Officer

Government securities

The stock of financial investment government securities increased by 4%. 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 per our risk management policies to prevent significant trading losses.

Government securities

4%

2023: UGX 987bn

2022: UGX 949bn

Liquid assest

Liquid assets increased by 8% from UGX 1,648Bn in 2022 to UGX 1,772Bn in 2023, providing a cushion against economic downturns, unexpected expenses or revenue flactuations. This financial buffer enhanced the Group's resilience to external shocks, making it better equipped to meet short term obligations without financial strain.

Liquid assest

8%

2023: UGX 1,772bn

2022: UGX 1,648bn

Loans and advances to customers

Customer loans and advances dropped by 17% from UGX 1,361Bn in 2022 to UGX 1,125Bn in 2023 due to management's cautious approach to credit extension.

The Group continued to support customers and critical sectors of the economy. Below is the composition of the loans and advances to customers by sector;

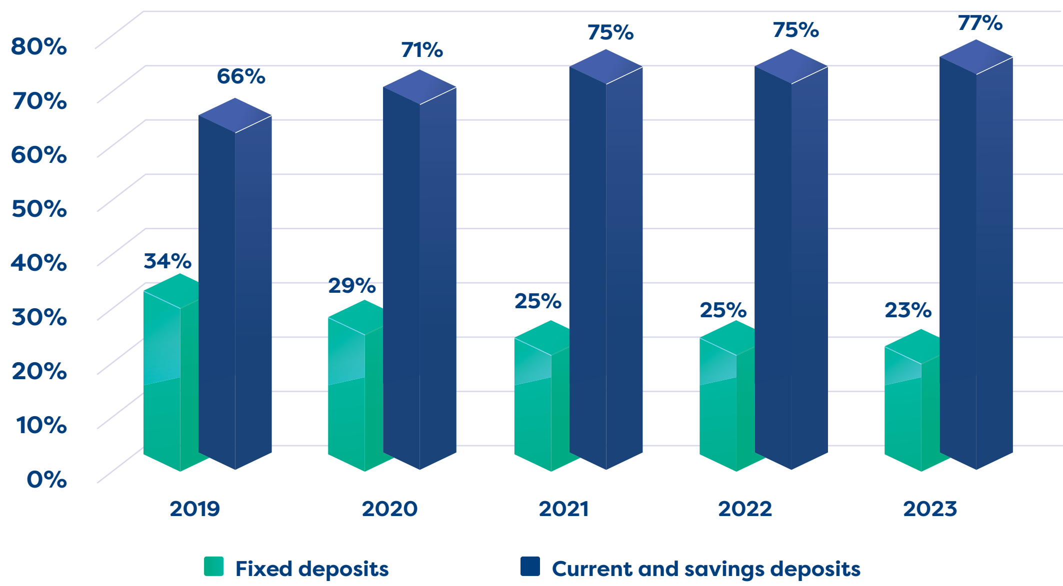
	2022	2023	Trend
Agriculture	13%	**11%**	↓
Manufacturing	11%	**7%**	↓
Trade and Commerce	12%	**9%**	↓
Communications and Transport	8%	**5%**	↓
Building and Construction	12%	**12%**	→
Leisure, Hotels and Accommodation	3%	**1%**	↓
Home Loans	3%	**8%**	↑
Private Individual	17%	**25%**	↑
Real Estate	16%	**16%**	→
Education	4%	**6%**	↑
Other	1%	**0%**	↓

Customer deposits

The Group's deposits decreased by 4% from UGX 2,410Bn in 2022 to UGX 2,318Bn in 2023. The composition of deposits is at 23% fixed deposits as part of the deliberate move to optimise funding costs by shedding or repricing expensive fixed deposits.

Below is the composition of the customer deposits;

Fixed deposits vs current and savings deposits



Shareholders’ funds

Due to increased retained earnings, shareholders’ funds grew by 2% from UGX 632 billion in 2022 to UGX 644 billion in 2023.

Proposed dividends

At the next Annual General Meeting, which is proposed to be held on 11 July 2024, the directors plan to recommend the payment of a final dividend of UGX 6,808 million (2022: UGX 6,129 million) or UShs 9.10 per share (2022: UGX 8.19 per share) for the year ended 31 December 2023. Dividends are subject to withholding tax at rates depending on the shareholder’s tax residence.

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;

Net interest income

Net interest income

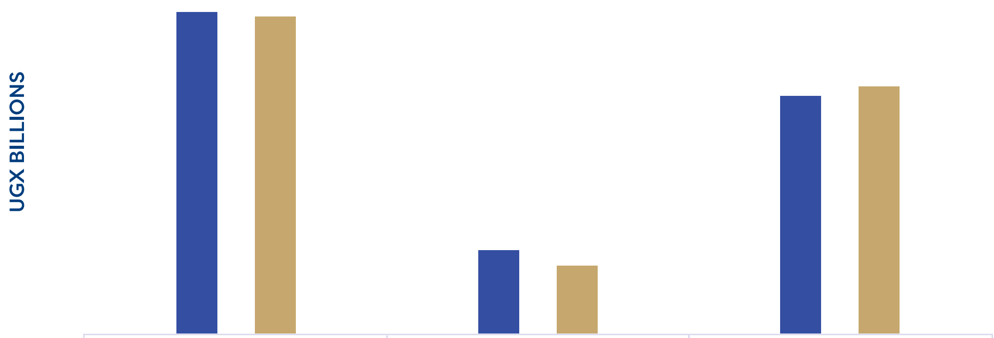
-4%

2023: UGX 257bn

2022: UGX 268bn

Net interest income decreased by 4% from UGX 268Bn in 2022 to UGX 257Bn in 2023. The decrease is due to the reduction in the interest income as a result of management’s cautious approach to credit extention.

NET INTEREST INCOME



	Interest Income	Interest expense	Net Interest Income
2023	349	91	257
2022	343	74	268

Non-interest income

Non- interest income

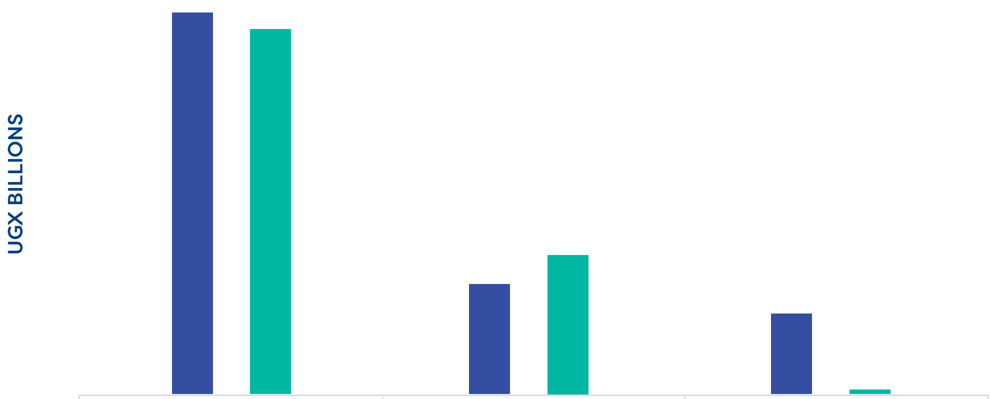
+13%

2023: UGX 99bn

2022: UGX 88bn

Non-interest income increased by 13% to UGX 99Bn in 2023 from UGX 88Bn in 2022. This was due to increased transactions boosted by higher number of customers and greater uptake of our digital channels. The increase was registered under fees and commision income and net income from other financial instruments.

NON-INTEREST INCOME



	Fee and commission income	Net trading and other income	Net Income from other financial instruments
2023	65	19	14
2022	62	24	1

Operating expenses

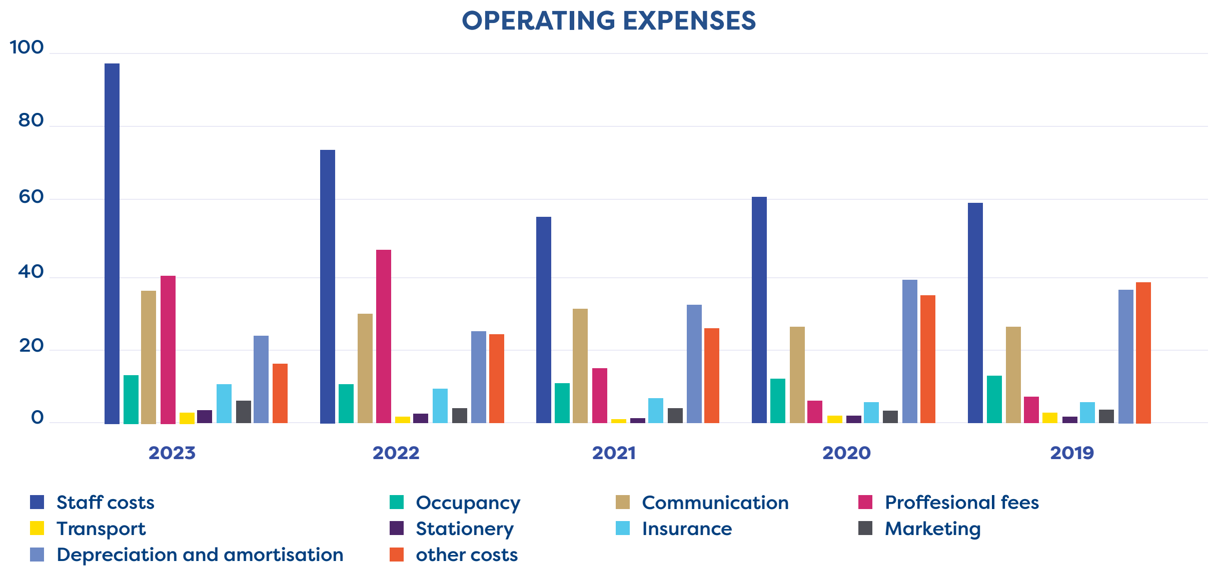
Operating expenses

+9%

2023: UGX 248bn

2022: UGX 228bn

Operating expenses increased by 9% from UGX 228bn in 2022 to UGX 248bn in 2023 as we continued to make significant investments in infrastructure, people and technology. The increase was mainly driven by the strategic re-alignment of structures and processes to boost internal capacity, increase productivity, create better service delivery and more innovative solutions. Further details are included on Note 44(c) to the financial statements.



Net loan loss provisions and financial asset impairment charge reduced by 8% from UGX 93 billion in 2022 to UGX 86 billion in 2023. The group continued to exercise a cautious approach to credit extension and concentrated on credit recoveries.

	2023	2022	2021	2020	2019
Statement of comprehensive income (UShs' m)					
Net interest income	257,686	268,787	273,290	233,388	227,498
Fees and commission	65,403	62,384	62,500	50,773	65,449
Credit impairment charge and fair value losses on other financial assets	86,095	93,120	179,219	81,120	24,879
Operating expenses	248,003	228,441	183,523	191,639	185,750
Profit before tax	23,078	35,352	5,885	31,485	100,966
Profit after tax	28,720	29,476	9,312	24,077	73,402
Statement of financial position (UShs' m)					
Loans and advances	1,125,816	1,361,445	1,508,410	1,775,316	1,539,323
Total assets	3,158,126	3,243,057	3,136,732	3,498,577	2,958,143
Customer deposits	2,318,572	2,410,593	2,282,205	2,595,347	2,039,037
Borrowings	85,330	124,882	191,807	218,412	274,559
Shareholders' equity	644,033	632,533	594,026	592,912	569,779
Financial performance (%)					
Return on equity	4%	5%	2%	4%	13%
Return on assets	1%	1%	0.3%	1%	2%
Cost-to-income ratio	69%	64%	50%	63%	61%
Loans to deposits ratio	49%	56%	66%	68%	75%
Liquidity ratio	39%	32%	36%	36%	27%
Capital adequacy					
Core capital ratio	29%	26%	22%	19%	19%
Total capital ratio	30%	27%	23%	21%	21%
Risk-weighted assets (UShs' m)	1,761,945	2,077,945	2,432,361	2,451,279	2,511,546
Share statistics					
Number of shares in issue (in millions)	748	748	748	748	748
Earnings per share (UShs)	38.39	39.40	12.45	32.18	98.11
Dividends per share (UShs)	9.10	8.19	-	17.38	-
Other information:					
Number of staff	1,140	1,174	1,074	1,034	1,078
Number of branches	54	55	56	58	63
Number of ATMs	78	72	71	100	100

Commercial Business Report

Retail Banking

Strategic reorientation to drive transformation.

Annette Kiconco
Chief Retail Banking Officer, **dfcu** Bank Limited

*"**dfcu** holds the **3rd largest** physical distribution network with **54 branches** across the country, with the highest coverage in Kampala and Wakiso".*

In response to the dynamic market landscape and evolving customer expectations, the bank refined its strategy to focus on sectors that drive national economic growth and development. This strategic recalibration seeks to enhance our competitive edge, foster closer customer relationships, and achieve sustained growth. By embedding ourselves within our chosen sectors, we are poised to deliver customised financial solutions that address the unique challenges and opportunities each sector presents.

The Retail banking unit supports individual customers and businesses through its three segments.

2023 Key Retail Performance Snapshots

Personal Banking

SME Banking

Commercial Banking

We held steady on the balance sheet for the assets and liabilities, registering a growth on the liability balance sheet.

- **Net Interest Income (NII) and Net Interest Revenue (NIR):** Net Interest Income increased by 10% from 2022, and net interest revenue grew by close to 9% due to increased customer numbers and growth in the forex business.
- **Operating Profit:** We recorded double-digit growth of 16% on account of increased customer transactions, strong forex performance, cost control, recoveries, and collections.
- **Recoveries:** Between 2022 and 2023, we had 150% recoveries, closing at UGX 6.4Bn, thanks to an increased focus on driving our recoveries.
- **Utilisation of digital channels** Our countrywide spread of ATM recyclers 78 in total, strong countrywide Agent banking and a stable online banking platform
- The business recorded increased customer acquisitions, which resulted in growth in deposits and customer transactions.

Channels & Distribution Network

With one of the most extensive distribution networks across the country, **dfcu** holds the 3rd largest, network with 54branches across the country and holding the number one positions in Kampala and Wakiso, with 28 branches, increasing our competitive advantage. This is supported by a good agent banking spread of more than 1500 Agents across the country and 77 ATMs nationwide.

We continue to optimise our physical distribution to ensure our customers can find us wherever they need us.

SME Banking: Challenges & Opportunities

Despite Uganda's reputation as a hub of entrepreneurial activity and a net trade and importing nation, the SME segment presents unique risks due to widespread compliance and governance issues. These factors often categorise SMEs as high-risk entities, complicating our engagement and support strategies.

The bank will continue to develop compelling Customer Value Propositions (CVPs) that accommodate the specific needs and risk profiles of SMEs, aligning with the broader strategy on sectorisation. This effort is pivotal in harnessing the considerable growth potential within this segment.

While digitisation is crucial for enhancing service efficiency and reducing operational costs, a significant portion of our customer base still needs to be more open to embracing digital platforms. This calls for a balanced approach to advancing our digital capabilities while ensuring we remain accessible and relevant to customers who are not yet ready to transition to digital platforms.

Building Strong & Sustainable Communities through Strategic Programs and Partnerships

In line with the Bank's commitment to fostering sustainable development within our communities, we continued to implement initiatives through our flagship programs, such as the Women in Business program, and Investment Clubs, as well as partnerships with diverse stakeholders and governmental bodies.

a) Women in Business:

76% growth in active Women in the program (85,000 up from 65,000 in 2022)

dfcu Women in Business

90% growth in Women-led /owned businesses (42,100 up from 38,000 in 2022)

b) Rising Woman Initiative 2023 Achievements

Rising Woman
Taking your business ahead

1200 Women Trained in entrepreneurship & financial management

60 Women completed the Rising Woman mentorship program.

10 Women benefitted from fully funded exposure tours to Nairobi, Kenya.

c) Investment Clubs & SACCOS

dfcu Investment Clubs and SACCOs

36% growth (27,657 up from 10,147) in active clubs & SACCOs.

Degrowth in value in deposits from **UGX 136,637bn** in 2022 to **UGX 88,831bn** because of disbursements for Parish Development Model (PDM) SACCOs & Emyooga

500 Clubs trained in financial literacy.

d) **European Investment Bank partnership:** The EIB fund, specifically designed to support women-led businesses by offering loans at concessional rates, underlines our commitment to empowering women in the business sector by providing financial support that makes a tangible difference in their ability to grow and sustain their enterprises.

Launched in August 2023, over 50 women-led and women-owned businesses benefited from the fund with a total disbursement of UGX8Bn, underlining its significant impact on the beneficiary businesses.

e) **Business Accelerator Program:** The Business Accelerator Program, managed by the Agribusiness Development Centre (ADC) in partnership with GIZ, is designed to boost enterprises' capabilities over a structured four-month course. In 2023, the program engaged 200 enterprises in activities to enhance their business acumen and operational effectiveness.

The EIB fund and the Business Accelerator Program illustrate strategic efforts to support specific segments of the business community, mainly focusing on gender inclusivity and operational enhancement for small to medium-sized enterprises. These initiatives are part of a broader strategy to integrate practical support mechanisms with financial products tailored to the unique needs of diverse business landscapes.

Future Outlook

Looking ahead, the Retail Banking Division is dedicated to consolidating its presence in the identified sectors, leveraging innovative and relevant banking solutions to meet our clients' evolving needs. We will also continue to leverage strategic partnerships to drive the transformation in our customers' lives and businesses and invest in our people.

Corporate and Institutional Banking

Strategic Realignment for Enhanced Client Service

Doreen Byaruhanga
Chief Corporate and Institutional Banking Officer

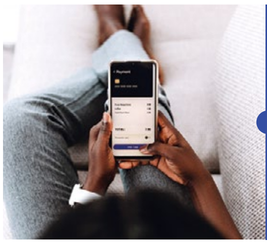
Cognisant of the dynamic needs of our clients, we embarked on a strategic realignment journey in 2023, which saw a transition from a product-centric approach to one deeply rooted in understanding and catering to the sector-specific needs of our clients. This has enabled us to offer tailored solutions that resonate with our chosen sectors' unique opportunities and challenges. By aligning our services with the key drivers of the Ugandan economy, we are not just participating in but actively contributing to the country's growth trajectory.

The broad definition of our sectors is summarised below

Agriculture: We recognize its pivotal role in our nation's economy and prioritize serving clients engaged in primary and semi-processing agriculture.

Trade Services and Business Solutions: This sector is dedicated to clients involved in the import and export trade, offering tailored solutions to support their business endeavours.

ICT: We support clients engaged in information and communication technology services, fostering innovation and digital transformation within the country.



Financial Institutions & Public Sector: Lastly, we prioritise cultivating strong partnerships with other financial institutions and the public sector, amplifying our collective impact on our clients' lives and businesses.

Manufacturing:
We focus on all clients involved in manufacturing activities within the country, for export or local consumption.

Infrastructure and Energy: We are committed to funding vital national projects that foster economic growth, particularly those related to infrastructure development and energy sustainability.

Education and Health: We acknowledge their significant societal impact and remain dedicated to contributing nationally to the advancement of the education and health sectors.

Our goal remains clear and consistent: we are not just a bank but a partner in our client's growth and success.

A commitment to digitisation and efficiency

Our journey towards digital transformation has been pivotal in enhancing our service delivery by making our operations more efficient and client-focused. Through our digital platforms and solutions like Quick Connect, we will continue providing our clients with fit-for-purpose platforms to manage their finances more effectively and securely while opening up new avenues for growth. Going into 2024-2025, we will focus on enhancing the platform's capabilities in response to client feedback.

Refining our Relationship Management Model

Aligning the Bank along sectors enhances our capacity to build internal expertise and understand our sectors of choice from a macro perspective. This will enable us to continue tailoring solutions, anticipating our clients' needs and solving for them, thereby building better relationships.

Supporting businesses through transitions and growth

We continue to support our clients through four key business units aligned to their operations and key needs:

Coverage: The bank's CIB business is run on a tested relationship banking model, which ensures that our clients have access to a dedicated relationship team comprising Sector Heads, Relationship Managers, and Client Analysts who ensure the bank is consistently aware of and meet the client's needs throughout their journey.

1. **Transactional Banking:** The focus here is on enabling clients to collect their sales revenues and make payments in a timely and efficient manner. It is geared towards supporting operational efficiencies by digitising processes and payment solutions for an enhanced client experience.
2. **Global Financial Markets:** Our strategy is to provide the best foreign exchange rates and derivatives to help our clients mitigate foreign currency risks they face when doing business.
3. **Credit Origination:** This allows us to provide efficient and timely long-term and short-term debt solutions while provisioning and managing the bank's portfolio quality.

2023 Key Corporate Financial Performance Snapshots

1. **Corporate Customer Growth:** Corporate customer accounts saw a notable 11% increase to 1,117 accounts, which drove a net business income of UGX 72Bn. Foriegn exchange income was mainly driven by contributions from current and savings accounts.
2. **Profit and Loss:** Despite the growth in customer base and net business income, the corporate business recorded a loss of UGX 2.9Bn in 2023. This loss was partially offset by the market's business, which generated a profit of UGX 10Bn.
3. **Asset Quality and Credit Performance:** The bank faced challenges in asset quality and credit performance, with a double-digit Non-Performing Asset (NPA) ratio of 12.8%, above the bank's target of 5.0%. The credit loss ratio also stood at 6.8%, indicating further strain on financial performance.
4. **Asset Book and Lending Activity:** The asset book for 2023 declined due to several factors, including the write-off of considerable debt. Moreover, lending activity slowed in the first half of the year.
5. **Deposits and Liquidity Challenges:** Deposits were also impacted by increasing costs, with the market facing liquidity shortages. The cost of deposits grew by 20 basis points year-on-year, adding further pressure on financial performance.

Looking Forward: A Renewed Focus on Client-Centric Growth
We look forward to deepening our client relationships and driving sustainable growth while remaining committed to continually understanding our chosen sectors, building on our strategic partnerships, and upskilling our team to meet our client's emerging needs. Our digital transformation journey will evolve further as we introduce innovative solutions to enhance operational efficiency and service delivery. In a world of constant change, one thing that remains certain is our dedication to our clients' success. We are humbled by our client's trust and partnership and look forward to continuing to support their ambitions in the future.

Redefining our Marketing Approach

Maryann Wanjiku Michuki
Chief Business Solutions & Marketing Officer

Transforming marketing from a cost-centre to a value-driver

The role of marketing has evolved over the years, and today, the core focus is to drive growth by changing our customers perceptions and behaviours. The marketing function's mandate was expanded as part of the 'Fired-Up' strategy, unveiled in the last quarter of the financial year. The function, now known as Business Solution and Marketing has four core mandates;

1. Shaping **dfcu's** product strategy, in delivering the sector specialization and customer-centric agenda
2. Driving a profitable product portfolio at scale
3. Building new capability and revenue streams, anchoring the bank's fourth pillar; rebound and disrupt the market
4. Building **dfcu's** brand awareness, consideration and overall equity for impact

To enable this expanded mandate and in-line with **dfcu's** strategic "north star", the team configuration has been transformed to serve the company's long-term strategic goals. There are six core units who mandate includes;

Marketing

a. Responsible for building the **dfcu's** brand across customer segments and broader stakeholders, converting equity to commercial opportunities, in line with the growth objectives of both the retail and corporate and institutional banking business units

Corporate Affairs and Public Relations

a. Accountable for **dfcu's** internal and external communications, strategic stakeholder engagement as well as driving our sustainability agenda

Retail Products

a. Designing, delivering and managing a lean, coherent and profitable product portfolio, enabling the growth ambitions of the personal, enterprise and commercial banking units

Card and Payments

a. Integrated payments capability that enables cost-effective, straight-through-processing, and that is dynamic aligned to customer needs across our segments and prioritized sectors

Ecosystems and Partnerships

a. Accountable for the development of the bank's new capability and revenue streams, enabling **dfcu** to play in new frontiers and maximize the value from its customer base and ecosystems thereof
b. This role is also accountable for developing and extracting value from **dfcu's** strategic partnerships

Bancassurance

a. Growing **dfcu's** bancassurance market share, while consistently evolving our solutions and partnerships with underwriters, to match our customers' needs

Future Outlook

The transformed business solutions and marketing unit has begun to take shape in Q1, 2024, as the existing team is repurposed, and additional capabilities brought in to complement the current skillset. The outlook for 2024 therefore, is the beginning of the transformation from a cost-centre to value-driver, as the unit delivers demonstrable brand and commercial value to **dfcu** in FY 2024 and beyond.

Global Financial Markets

Julius Kateera
Head, Financial Markets

Global Financial Markets (GFM) serves customers through a team of product specialists, who work with Relationship Managers in CIB and Retail to build a comprehensive understanding of each client's financial needs. Our expertise in Foreign Exchange, Fixed Income, Money Markets, Derivatives and Research ensures that we provide foreign/local currency liquidity, investment opportunities, risk management solutions and insights to customers who have exposure to exchange rates and interest rates.

In 2023, we consolidated some of the gains of 2022. Some of the highlights are below;

- **dfcu** was appointed a Primary Dealer Market Maker (PDMM) for government securities for three more years (2023-2026).
- We continued to invest in our staff, taking them through a series of trainings to strengthen core technical skills.
- We hired promoted some internal staff into financial markets and hired some talent from outside the bank.

2024 priorities

In 2024, the focus will be on the following:

- We will judiciously play our role in supporting Government of Uganda's financing needs by intermediating between investors and government.
- We will ensure that we prudently manage interest rate risk and foreign exchange risk in the face of evolving global macro risks such as the wars in Ukraine and the Middle East, elevated commodity prices and tight monetary conditions.
- We will continue to provide appropriate research and much needed insight to our clients as they navigate an uncertain environment.
- We will continue to build strategic partnerships with financial institutions and technology companies in areas where we have common goals or where we seek to tackle common challenges like financial inclusion and financial literacy.

Innovation and Transformation

Driving Transformation through Data & Technology

2023 represented the foundational focus for the Bank's digital and data-driven transformation journey. In line with the refreshed 'Fired-Up' Strategy, we continue prioritising innovation, business process automation, availability and security across all the bank's operations. This report outlines our key initiatives in data management, technological investments, and operational improvements, demonstrating our commitment to leveraging data and technology to deliver exceptional customer service and drive business growth.

Key Highlights

1. **Embracing Digital Transformation:** One of the significant initiatives we undertook in 2023 was overhauling the agency banking platform, which was rebuilt from the ground up by our in-house digital transformation team. This revamp led to improved uptime of 99%, higher transaction rates at 98%, and an enhanced customer transaction experience.

2. **Leveraging Data Analytics for Strategic Decision-Making:** In the period under review, the adoption of data analytics and business intelligence tools has increased. This has enabled us to make data-driven decisions, better understand customer needs, and effectively tailor our products and services to meet these needs.

   Some of the challenges we faced on our journey to becoming a data-driven bank included integrating analytics with legacy systems and ensuring data privacy. To navigate these bottlenecks, we invested in training our staff and implementing robust data protection measures to safeguard sensitive information, ensure compliance with data protection laws and mitigate security risks.

3. **Investing in technology and building internal capacity:** The bank made a significant investment in technologies to replace those no longer fit-for-purpose and build resilience and overall availability of our services to our customers. The Agency Banking system is a perfect example of how the bank built a solution tailored to our customers' specific needs and unique requirements.

4. **Ensuring Operational Efficiency and Security:** Automating critical processes such as account opening, and reconciliation lends credence to our focus on operational efficiency. While automation has streamlined operations, it has also significantly enhanced the customer onboarding experience.

   It is important to note that achieving operational efficiency requires overcoming the inertia of legacy practices and systems. We are making strides in this area by adopting a comprehensive strategy that includes the ESSA framework (Eliminate, Simplify, Standardize, and Automate).

   From a security perspective, we continue strengthening our cybersecurity measures to anticipate and protect against evolving threats and vulnerabilities. This is critical to building confidence and trust in our customers.

5. **Upskilling our people:** The technology and data departments were adequately resourced with various trainings to upskill them and align them to the technological investment being made. We will continue to retool our technical teams on emerging technologies like AI, Data Analytics, Business Intelligence, etc., and raise awareness across the bank to appreciate where we are going.

Embracing emerging technologies

We are excited about the potential of emerging technologies such as AI, IoT, and blockchain to transform banking operations further. Our initial venturing into AI and IoT has shown promising results, from AI-powered chatbots to exploring IoT applications for personalised services. The bank is currently formulating policies that will govern the responsible use of these technologies.

With the rapid pace of technological advancement comes the challenge of keeping our people skilled and the bank systems compatible with new technologies. To address this, we will continue focusing on training and developing our people while remaining agile in our technology adoption strategies.

2024 Priorities /Next Steps

1. **Efficiency:** Stabilising the bank's technology will be crucial to ensure that our systems are always on and work efficiently.

2. **Strategic Projects Delivery:** Several projects are in the pipeline, including end-to-end credit automation, reconciliation automation, an upgrade to the core banking system to improve service delivery speeds, enhancing the customer account onboarding process to ensure seamless customer experience and robotic process automation. This will lead to a faster, improved and consistent customer experience. Internal processes will become more efficient, resulting in a consistent quality of operation while reducing operating costs.

3. **Workforce Development:** We will continue upskilling and reskilling our tech teams on emerging technologies and equipping the rest of our people with the skills necessary to adapt to the technological changes we are making.

Looking Ahead

Our digital transformation journey so far has shown that through embracing digital transformation, leveraging data for decision-making, ensuring operational efficiency, and preparing for future technologies, we can significantly impact the lives and businesses of our customers. As we move forward, we remain committed to this path of continuous transformation, driven by our core values of innovation, customer focus, and operational excellence.

Supporting our Staff

Human Capital Report 2023

Transforming the lives of our people

As the financial services sector evolves, our most valuable asset remains our people. Our Human Capital Report for the year 2023 outlines our commitment to nurturing, developing, and retaining our talent. It reflects our efforts to build a robust culture of engagement, talent management, and leadership development that aligns with our strategic goals.

Over the period under review, our human capital initiatives focused heavily on enhancing employee engagement, career development, workforce flexibility, and agility while addressing areas needing improvement, such as retention and innovation. Through strategic partnerships, revised policies, and targeted development programs, we made significant strides in aligning our human capital efforts with the bank's overarching goals, strengthening our position as a leader in talent management and organisational culture within the financial industry.

Redefining our culture from values to a focus on behaviour

In Q4, the bank rolled out the Fired-Up strategy, which shifted focus from static values to four action-oriented measurable behaviours.

01
We take accountability by delivering on our commitment

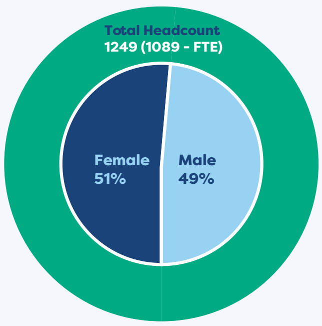
02
We work and play together

03
We continuously learn to improve our productivity

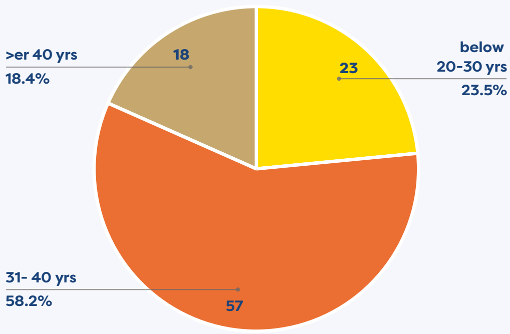
04
We have a shared goal of providing customer solutions

These behaviours are expected to define our organisational culture, enhance customer and employee satisfaction and drive a high-performing culture.

Male: Female split by %age



Data by age (%)



%age of Women in leadership - Exco 75%

%age of Women on the Board - 40%

Keeping our people engaged and satisfied.

With an 89% participation rate in our Employee Engagement Survey (EES), we recorded a commendable 90% engagement score against a target of 80%. This was a 5% improvement from 85% (Willis Towers 2019). While our efforts in performance management, career development, and workload flexibility were well received, we recognise the need to enhance our reward, recognition, and retention strategies while continuing to foster a culture of innovation. It is important to note that the regrettable attrition rate of 4.9% during the year, against an industry rate of 10%, was reasonable and will continue to improve.

Other notable results from the survey carried out by Willis Towers include

95%
Brand image and pride

98%
Clarity in strategic objectives

91%
Line management

86%
Career Development

84%
Communication with clarity

Career Development

Our focus on career development has been twofold: internally promoting talent (over 130 staff) and providing diverse learning opportunities. Our policy of prioritising internal candidates for specific positions has been fruitful, with internal promotions improving from 10% in 2022 to 16% in 2023. Equally notable is our partnership with online learning platforms like Alisson, which benefitted over 250 employees in their professional growth in 2023.

Workforce Flexibility and Agility

The bank has shown remarkable flexibility and agility in adapting to changing market dynamics and employee needs. Some of the initiatives we undertook in response to our people's needs include;

- Adjustments in loan accessibility for banking officers have made it possible for them to qualify for loans upon successful confirmation vis the prior 24-month period.
- Continuously enhancing the Employee Value Proposition to motivate and retain top talent, drive overall employee engagement and, ultimately, organisational success.
- Employee Assistance programmes with a focus on mental health and financial wellness
- Targeted support programs like "Suits & Sneakers" promoting men's well-being

The initiatives above highlight our commitment to a supportive and adaptive work environment.

Building a winning team through sport

Leading the Bank to four Annual Bankers Gala victories, including the recent 2023 championship, has been incredibly rewarding. But for us, sports is more than just about winning trophies. Competing together builds a strong team spirit as we push each other, celebrate wins, and learn from losses. While the trophies hold a special place, the actual win lies in the spirit of teamwork, competitive drive, and brand pride that flourishes through sports at **dfcu** Bank Limited. It's a culture we've nurtured since 2005, and it's a culture that propels us forward, both on and off the field.

The **dfcu** Bank Limited CEO, Charles Mudiwa, Executive Director and Chief Financial Officer, Kate K Kiiza and the Chief Legal Officer, Angelina Namakula-Ofwono join the **dfcu** sports team during a luncheon hosted by the Bank's Executive Team in celebration of the **dfcu** Sports team emerging overall winners in the 2023 Annual Bankers Sports Gala.

Talent Management

Our Talent Management framework, developed with insights from competency-based assessments, focuses on identifying and nurturing critical skills aligned with our strategic goals. This includes sector-focused recruitment and a structured approach to talent development, leveraging the 70-20-10 model for learning and growth. As a result, we had over 100 staff access coaching & mentoring opportunities through the Blue Mentorship Program and delivered formal training to over 700 staff.

Performance Management

The bank refined its performance management processes to ensure clarity of goals, alignment with strategic objectives, and regular performance reviews. This approach, coupled with the introduction of consequence management, has contributed positively to overall bank performance. In 2023, we revised our reward and recognition structure, better aligning it to the bank's performance and competition, resulting in the attraction and retention of the best talent.

Leadership and Management Development

Through initiatives like the CEO Apprenticeship and Super Leaders Program, the bank continues to invest in developing leadership skills at all levels, ensuring that our people are better equipped to drive performance, foster a positive culture, and lead with impact.

During the period under review, we ran a Communicating with Impact training program for the top twenty leaders. This, alongside the Super Leaders programme, skewed towards assessing productivity and leading self, was key to supporting the effective rollout of the Bank's new strategic direction.

Other strategic trainings carried out in the bank over the period under review include:

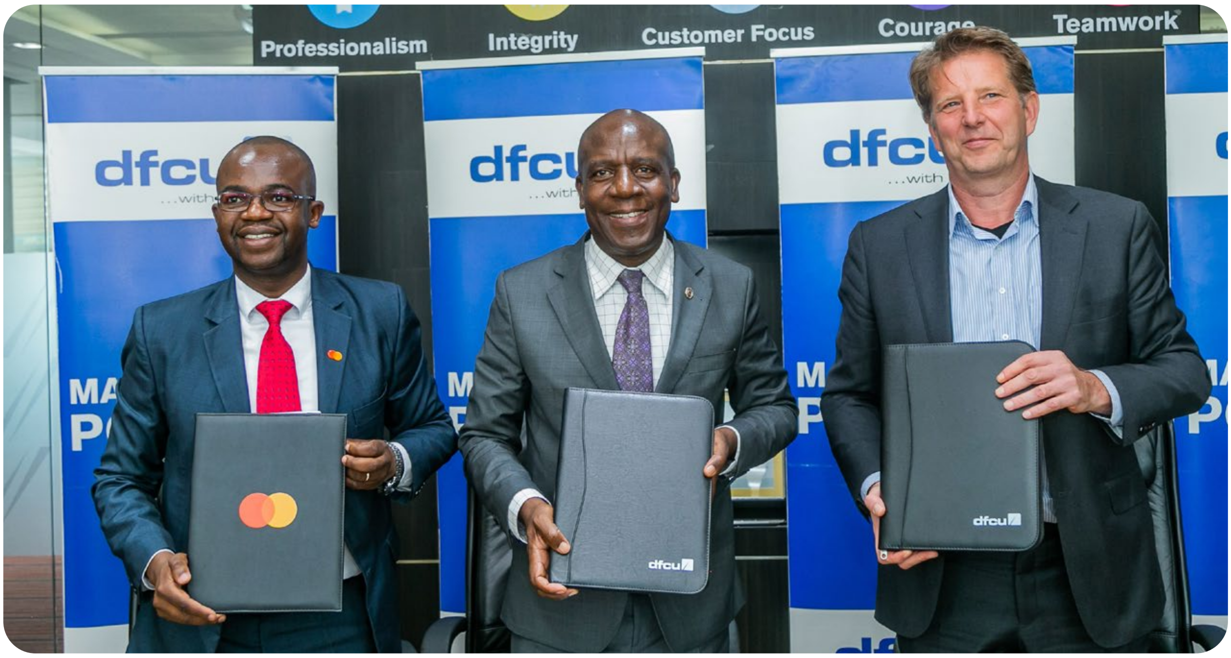
Training	Category	Beneficiaries	Number of staff trained
PMI Agile Certified Practitioner (PMI-ACP)®	Technical	Digital transformation team	2
Riding training for sellers	Technical	Upcountry Regional Sellers	53
Branch Managers Accreditation Program.	Leadership	Branch managers and their successors	54
Effective Selling	Service	Direct Sales Representatives	120
Certificate of Insurance and membership.	Regulatory	Selected sellers.	25
Credit certification	Technical	Select Relationship Manager	20
Rabo Partnerships Future Leadership Program	Leadership	Select employees	1

Challenges and Adaptations

2023 brought several challenges, primarily adapting to new leadership styles, cultural shifts, and organisational structural changes. Our phased approach to implementing these changes, supported by extensive communication and engagement efforts, facilitated a smoother transition for our workforce.

Looking Ahead

As we move into 2024, we remain focused on aligning our human capital initiatives with the bank's Fired-Up strategy, emphasising dynamic and measurable behaviours over static values. Our commitment lies in fostering a culture where accountability thrives through the delivery of promises, collaboration flourishes as we work and play together, learning is a constant driver of productivity enhancement, and our shared goal of providing customer solutions guides our every action. These action-oriented behaviours will define our organisational culture and drive customer and employee satisfaction while fostering a high-performing environment.



(L-R): Daniel Huba, Vice President of Sub-Saharan Africa Market Development for Community Pass at Mastercard; Charles Mudiwa, Chief Executive Officer, and Managing Director of **dfcu** Bank Limited; and David Gerbrands, Global Head of Agri and Banking Advisory Services and Inclusive Business Ventures at Rabo Partnerships, signing the partnership agreement in Uganda.

The flag-off for 29 participants from the 2nd and 3rd cohorts of the Agricultural Business Accelerator Program (BAP) for a peer learning visit. at JKCC General Trading Limited, a peer enterprise known for its steady growth in the coffee industry. The Business Accelerator Program aims to provide the participants with valuable insights into effective implementation of concepts studied throughout their 3-month training period and foster their growth and success.

Charles Mudiwa, **dfcu** Bank's Limited Chief Executive Officer (L), Jenifer Bamuturaki, (2nd LEFT), the Chief Executive Officer of Uganda Airlines and CPA Prof. Samuel Sejjaaka (R) of Sejjaaka Kaawaase & Co. Certified Public Accountants, hand over a prize to Nafuna Washeba, proprietor of Naphoyo LTD, who came emerged 3rd in the 2023 Rising Woman Initiative.

Kate K Kiiza, the Executive Director and Chief Financial Officer of **dfcu** Bank Limited and partners from New Vision Group, The Embassy of the Netherlands, KLM Airlines, and Koudjis Nutrition BV flag off the 2nd cohort of the 2020 Best Farmers Competition winners for a week-long visit to the Netherlands.

The Best Farmers Competition been running for the past nine years and has consistently aimed at promoting excellence in farming practices and supporting the backbone of Uganda's economy – agriculture.

dfcu Bank Limited reaffirmed its dedication to promoting financial empowerment and inclusion through its active participation in the '2023 Savings Challenge' campaign. Charles M. Mudiwa, the Bank's CEO, received the 'Giant Savings Box' at **dfcu** Towers, Nakasero, during an engagement with representatives from Uganda Institute of Banking and Financial Services (UIBFS), Uganda Bankers' Association (UBA), Bank of Uganda, and Uganda Microfinance Regulatory Authority (UMRA) – the visionary pioneers behind this initiative.

Corporate Governance Statement, Audit Committee and Nominations Committee reports

Corporate Governance Statement 2023

2023 was a pivotal year for **dfcu** as we reevaluated our strategy in order to remain competitive within the changing operating environment. **dfcu** Limited (the "Company") concluded a review of its strategic plan focused on enhancing the revenue base of the Company and facilitating sustainability throughout the group. Our subsidiary and trading entity, **dfcu** Bank Limited also executed a revitalized strategic plan aimed at reorienting the business, focusing on five key pillars: economic sector specialization, customer relationships, technology, performance culture, and sustainability.

The benefits of this new strategic direction are already being realized, particularly in business growth and enhanced customer experience. The Board and Management of **dfcu** are confident that the renewed focus, adaptability and agility shall enable delivery on our commitments to our stakeholders.

We believe that good corporate governance is essential in the successful implementation of a Company's strategy, promotion of transparency, fair dealing and the protection of stakeholder interests. Therefore, **dfcu** is committed to upholding the highest standards of corporate governance. Our governance framework is designed to ensure transparency, accountability, and ethical conduct in all our business activities while at the same time harmoniously engaging with various stakeholders such as shareholders, customers, employees, and the community.

Therefore, the purpose of this report is to provide insight into the Company's activities, progress and changes in regard to governance in the financial year 2023.

KEY HIGHLIGHTS OF 2023

Strategy

In 2023, **dfcu** limited developed a new five-year strategy with a focus on broadening its revenue base while improving the services flowing from the other entities within **dfcu**. The key objective of the strategy is the expansion of the group's business lines to improve on the revenue streams and sustainability of the company.

dfcu complied with the Consolidated Corporate Governance Guidelines that required that all supervised financial institutions in Uganda adhere to the governance requirements by 31st December 2023.

Re-capitalization

The Financial Institutions (Revision of Minimum Capital Requirements) Statutory Instrument 130 of 2022 was issued by the Bank of Uganda which required that Tier 1 financial institutions maintain a minimum paid-up capital of UGX 120Bn by 31 December 2023 and UGX 150Bn by 30 June 2024. **dfcu** Bank Limited complied with this new requirement by having a minimum paid up capital of UGX 150Bn by 30 June 2024 without any Capital injection being made by the Company.

Beneficial Ownership

The Uganda Registration Services Bureau (URSB) issued a public notice on 11th January, 2023 advising all companies and partnerships to submit their beneficial owners' information following the enactment of the Companies (Amendment) Act 2022 which requires every company registered in Uganda to keep a register of its beneficial owners.

This requirement is also in compliance with a recommendation of the Financial Action Task Force (FATF) which agreed on tougher global beneficial ownership standards in its Recommendation 24 by requiring countries to ensure that competent authorities have access to adequate, accurate and up-to-date information on the true owners of companies. **dfcu** is compliant with this requirement.

OUR CORPORATE AND GOVERNANCE STRUCTURE

dfcu Limited (the 'Company' or '**dfcu**') is a holding company listed on the Uganda Securities Exchange with 3,851 shareholders as of 31st December 2023. (See page 71 of the Annual Report) and is engaged in various business ventures as indicated below.

dfcu Limited
Real Estate Management

dfcu Bank Limited
Integrated Financial Services

AgriBusiness Development Centre
Capacity Building and Business Acceleration Programs for Agribusinesses

In order to adhere to governance mandates, the entities above have separate Boards of Directors. The Company Board of Directors is ultimately accountable to Shareholders for strategy implementation, management, performance and long-term sustainability of the Company. Throughout the year, each of the Boards 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 its Boards and delivering value for shareholders through engaging a versatile Board with a wide spectrum of experiences and skill sets as indicated on page 12-19 of the Annual Report).

Codes and Regulations

The Board is committed to continuous improvement of its 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, **dfcu** ensures a culture of compliance and implementation of best practices. Therefore, compliance monitoring remains critical to **dfcu**.

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 2023, and its Articles of Association.

The governance framework of the trading entity, **dfcu** Bank Limited 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 as amended.

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.

The Board's Terms of Reference are reviewed periodically to ensure that they align with regulatory requirements, evolving circumstances, and best practice. These terms of reference detail roles and responsibilities of the Board and its Committees.

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. This Committee led the process of development of the new five-year strategic plan.

Appointment of Directors

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 a passion for the sectors the Company is involved with.

Non-executive Directors of the subsidiary, **dfcu** Bank Limited, are appointed through a similar process as outlined above, but in addition, are required by law to be approved by Bank of Uganda which conducts a rigorous vetting "fit and proper process" prior to issuance of its no objection to the appointment.

BOARD GOVERNANCE

A. dfcu Limited

Board Composition

During the year under review, the Board of Directors of **dfcu** Limited comprised of Six (6) Non-Executive Directors as indicated on page 12-14 of the Annual Report. The Board of Directors is comprised 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.

Growth and Leadership Evolution

Succession planning is a key area of focus for the Board and, during the year, we announced changes to the composition of the Board as indicated below.

Director Resignations and Appointments:

Dr. Christine Echookit who served on the Board of **dfcu** Limited resigned from the Board following her appointment as a judge of the High Court in September 2023. The Board of Directors appreciated Lady Justice Echookit for her exceptional service as a member of the Board of **dfcu** Limited.

A search for a new nominee for the vacant position on the Board of Directors was duly completed by the Nominations and Governace Committee of the Board of Directors through a transparent and rigorous shortlisting and interview process. Mr. Francis Gimara SC was appointed to fill the casual vacancy on 26th March, 2024 pending confirmation by the shareholders at the next Annual General Meeting. He brings wide and deep experience and understanding of arbitration matters and dispute resolution. He is a seasoned advocate of the High Court and currently leads the ALP East Africa team.

Board Meetings

Meetings of the Board are held quarterly both physically and virtually. During the year, the Board of Directors held four (4) mandatory quarterly meetings and other special meetings to discuss urgent matters.

The Board comprised the following persons, whose attendance of meetings during the year 2023 was as follows:

Name	1-3-23	27-3-24	28-3-23	18-5-23	4-7-23	22-8-23	29-9-23	18-12-23	21-12-23
Mr. Jimmy Mugerwa (Chairperson)	√	√	√	√	√	√	√	√	√
Mr. Kironde Lule	√	√	√	√	√	√	√	√	√
Mr. Friedrich Christian Pelser	√	A	√	A	√	√	√	√	√
Dr. Christine Echookit	√	√	√	√	√	√	N	N	N
Dr. Aminah Zawedde	√	√	√	A	√	√	√	√	√
Ms. Arimi Barbra Teddy	√	A	√	√	√	√	√	√	√

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

Board Committees

To give 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. The Board Committees comprised the following persons, whose attendance of meetings during the year 2023 was as follows:

Audit and Risk Committee						
Name	20-1-23	23-3-23	3-7-23	18-8-23	20-9-23	7-12-23
Mr. Kironde Lule	√	√	√	√	√	√
Mr. Friedrich Christian Pelser	√	√	√	√	√	√
Dr. Aminah Zawedde	√	√	√	√	√	A

Nominations and Governance Committee					
Name	20th March	23-3-23	20-6-23	15-9-23	6-12-23
Mr. Friedrich Christian Pelser	√	√	√	√	√
Dr. Christine Echookit	√	√	√	N	N
Ms. Arimi Barbra Teddy	√	√	√	√	√

Business Development Committee			
Name	19-6-23	22-9-23	12-12-23
Ms. Arimi Barbra Teddy	√	√	√
Dr. Aminah Zawedde	√	√	√
Mr. Jimmy Mugerwa	√	√	√

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

B. dfcu Bank Limited

Board Composition for the year ended 31st December, 2023

During the year under review, the Board of Directors of **dfcu** Bank Limited comprised of: Dr. Winifred Tarinyeba Kiryabwire, Mr. Steve Caley, Mr. Albert Jonkergouw, Ms. Jackie Ochola, Mr. Mark William Springett, Ms. Grace Makoko, Dr. Danete Higgins Zandamela and Dr. Jeff Sebuyira-Mukasa who are Non-Executive Directors. Mr. Charles Mudiwa, the Chief Executive Officer and Ms. Kate Kiiza the Executive Director are also members of the Board.

Growth and Leadership Evolution

The Company's subsidiary also had significant changes to the composition of the Board and Management team which we highlight below:

Director Retirements and Appointments:

Mr. William Sekabembe, the Acting Managing Director/ Chief Executive Officer took early retirement from the Bank with effect from 31st August 2023. **dfcu** Bank Limited appreciated him for his dedicated service.

Ms. Jackie Ochola who served on the Board as an Independent Non-Executive Director also retired from the Board effective 27th October 2023. Her service as a member of the Board of **dfcu** Bank Limited was appreciated.

The Bank Board also appointed Mr. Charles Mudiwa as the new Managing Director/ Chief Executive Officer with effect from 11th April, 2023. Mr. Mudiwa brought on board over 26 years' experience in the banking sector, with strong credentials in commercial leadership, turning around businesses and unlocking growth and profitability.

Additionally, the Board appointed Mrs. Kate K. Kiiza as Executive Director of the Bank effective 7th August 2023 . As Chief Financial Officer, Mrs. Kiiza brings a wealth of knowledge, strategic prowess, and leadership experience.

Board Committees

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

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 responsibility 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 2023, the Committee was comprised of Mr. Albert Jonkergouw and Mr. Steve Caley.

Board Audit Committee

The Committee is a statutory Committee of the Bank to assist 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 2023 were Mr. Mark William Springett, Ms. Grace Makoko, and Dr. Danete Higgins Zandamela.

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 2023 were Dr. Jeff Sebuyira-Mukasa, Mr. Steve Caley and Ms. Jackie Ochola.

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 2023 were Ms. Grace Makoko, Dr. Jeff Sebuyira-Mukasa and Dr. Danete Higgins Zandamela.

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 2023 were Ms. Jackie Ochola, Dr. Jeff Sebuyira-Mukasa and Mr. Albert Jonkergouw.

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 2023 were Dr. Danete Higgins Zandamela, Ms. Grace Makoko and Mr. Mark William Springett.

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 and 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 2023 were Mr. Steve Caley, Mr. Albert Jonkergouw, Ms. Jackie Ochola and Mr. Mark William Springett.

C. Agribusiness Development Centre (ADC)

ADC operated 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 2023, the directors' total remuneration was as shown below:

	2023		2022
	Ushs M		Ushs M
Fees for services as directors	1,587		1,101
Other emoluments: short-term benefits (included in key management compensation)			
	1,587		1,101

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 also supports in following up on the implementation strategies and actions which the Board has entrusted with the Management team. This ensures that the Company Secretary is a compliance and good corporate governance champion in the fabric of a Company.

The Company Secretary for **dfcu** Limited for the year ended 2023 was Ligomarc Advocates, while the Company Secretary for the subsidiary **dfcu** Bank Limited was Mrs. Angelina Namakula-Ofwono.

Management Of dfcu

The Management structure of the Company and the entities within **dfcu** are 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 Limited, are 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 Limited, the Managing Director/ Chief Executive Officer is assisted by an Executive Committee comprising of Senior Management team composed of the Executive Director/Chief Financial Officer, Chief Risk Officer, Chief Legal Officer, Chief Retail Banking Officer, Chief Corporate and Institutional Banking Officer, Chief Credit Officer, Chief Business Solutions and Marketing Officer, Chief Technology ,Digital and Operations Officer and the Chief People and Culture Transformation Officer .

SEPARATION OF THE ROLE OF THE CHAIRMAN AND EXECUTIVE OFFICERS

dfcu Limited

There is a clear separation of the roles and responsibilities of the Board 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. The Chairman provides leadership to the Board in the execution of its mandate.

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 Chairperson's primary role is to guide and ensure that the Board is effective in implementing the Company's strategy.

Agribusiness Development Centre

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

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. During the year, a number of publications regarding key matters affecting the business were published. Subsequent to publication of half and full year results, the Company circulated an investors' note explaining the performance to all shareholders with known addresses. The same information together with the accounts was uploaded to the Company website: **www.dfculimited.com.** The Company also arranged 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.

The Board has resolved to have more deliberate engagements with the Shareholders. We pride ourselves in listening and reflecting, before taking action. Decisions are never taken in isolation; rather they are fully discussed and therefore the Board welcomes input from all who can add value to the conversations.

Sustainability

dfcu is deliberate about conducting its business responsibly and sustainably; directly in its business activities and indirectly through the financing it provides. **dfcu** has an Environmental, Social, and Governance (ESG) framework that forms clearly articulates its position on ESG issues, policies, and Procedures. It guides the identification, assessment, management, and monitoring of ESG risks within all relevant activities of **dfcu**. **dfcu** 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** 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

Distribution of **dfcu** Limited shareholders as at 31st December 2023

	Description	No. of Investors	No of Shares Held	Percent Holding
1.	Between 1 and 1,000 Shares	1,831	752,461	0.10
2.	Between 1,001 and 5,000 Shares	1,268	3,294,921	0.44
3.	Between 5,001 and 10,000 Shares	208	1,515,760	0.20
4.	Between 10,001 and 100,000 Shares	447	11,790,359	1.58
5.	Between 100,001 and 1000,000 Shares	71	20,124,893	2.69
6.	Above 1000,001 Shares	26	710,665,639	94.99
	Total	**3,851**	**748,144,033**	**100**

List of the 20 Largest Shareholders of dfcu Limited as at 31st December 2023

Investor Name	Shares Held	% Holding
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 MASTER FUND,L.P.-RCKM	41,204,478	5.51%
BNYMSANV RE BNYMSANVFFT RE ODDO BHF ASSET MANAGEMENT GMBH WEGEN KILIMANJARO FRONTIER AFRICA FUND	15,091,878	2.02%
SSBT: AS CUSTODIAN FOR KIMBERLITE FRONTIER AFRICA MASTER FUND LP:RCA9/028928700579	13,754,148	1.84%
NATIONAL SOCIAL SECURITY FUND NATIONAL SOCIAL SECURITY FUND-PINEBRIDGE	10,440,437	1.40%
SSB-CONRAD N HILTON FOUNDATION -00FG SSB-CONRAD N HILTON FOUNDATION -00FG	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 DEFINED BENEFITS SCHEME -SANLAM	4,481,491	0.60%
PARLIAMENTARY PENSION SCHEME-UAP	2,924,455	0.39%
UGANDA REVENUE AUTHORITY SRBS-SANLAM	2,850,292	0.38%
CENTENARY BANK STAFF DEFINED CONTRIBUTION SCHEME	2,806,087	0.38%
SUDHIR RUPARELIA	2,165,575	0.29%
RAKESH GADANI	1,977,748	0.26%
UAP INSURANCE UGANDA LTD	1,836,146	0.25%
UAP INSURANCE- GENERAL LIFE FUND	1,557,256	0.21%
KEITH MUHAKANIZI	1,488,972	0.20%
Sub-Total	703,321,884	94.01%
Other shareholders	44,822,149	5.99%
Total Shareholding	**748,144,033**	**100.00%**

Director's Report: Board Audit and Risk Committee Report

The primary role of the Board Audit and risk Committee is to ensure the independence and effectiveness of the internal controls and external audit functions. This report seeks to highlight this key role exercised by the Committee.

This report is provided by the Audit and risk Committee of **dfcu** Limited for the year ended 31st December 2023. This Report takes into account the reports of the Audit, Risk and Credit Committees of the subsidiary, **dfcu** Bank Limited ("the Bank"). Each of the Committees operate under Terms of Reference approved by the Board. The composition of the Committees has been indicated in the Corporate Governance Statement.

The Board of **dfcu** Limited ("the Company") established and appointed the Audit and Risk Committee to handle the following matters;

(a) To review and monitor the integrity of the Company's interim and annual financial statements and any other formal announcements relating to the Company's financial performance and, if requested by the Board, any other price-sensitive public reports by the Company, or reports by the Company to regulators.

(b) To discuss and resolve any significant matters arising from the interim and final audits and any other issues the External Auditors wish to discuss (in the absence of Management, where necessary).

(c) To report its views to the Board where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company.

(d) To review and approve the annual appointment of the external auditors.

(e) Periodic review and monitoring of the objectivity and independence of the External Auditor as well as reviewing and monitoring the effectiveness of the external audit process and the ongoing relationship with the External Auditor.

(f) To review and assess the appropriateness of the Company's policies and procedures for handling ethics breaches and whistle blowing, including the mandate to conduct internal investigations.

The Board of the Bank also operates an Audit Committee which is separate from the Risk Committee. The Audit, Risk and Credit Committees are required by the Financial Institutions Act, 2014 (as amended) and their terms of reference aligned with the requirements of the Act and the Regulator, Bank of Uganda.

Membership of the Committee:

The Committee is comprised of Non-Executive Directors, with membership designed to provide the breadth of financial expertise and commercial acumen it needs to fulfil its responsibilities. Its members have relevant experience of the banking and financial services sector, in addition to general management and commercial experience; and are financially literate. The biographies of all the members of the Committee are included at page 12-23 of the Annual Report.

In 2023, the Company's Audit and Risk Committee was comprised of three (3) Independent Non-Executive Directors who did not change during the year. In 2023, the Bank's Board Audit, Risk and Credit Committees were each comprised of three (3) Non-Executive Directors whose details are also included on page 15-19 of the Annual Report.

Other Attendees:

The other attendees of the Company's Audit and Risk Committee include; the General Manager, the Chief Financial Officer and the external auditors.

The other attendees of the Bank's Audit, Risk and Credit Committees include; the designated Heads of Business, the Chief Financial Officer as well as the external auditors.

The Committee reserves the right to invite any other person it requires to attend its meetings .

Key Highlights for the year 2023

dfcu Limited

Some key considerations of the Committee for the year ended 31st December 2023 included:

(a) Cash Flow Management

This remained a key issue for the Company especially considering the approval of a new strategy for **dfcu** and the need to ensure seamless execution of the five (5) year strategy. The cash flows of the Company currently include rental income, property management fees, insurance commissions and dividends from the subsidiary **dfcu** Bank Limited.

However, with the new strategy, the Company seeks to build its capital generation muscle and expand its current property management business to other service lines. Management was therefore urged to ensure that cash flows of the Company were effectively managed, and non-critical expenditures deferred without compromising the operations of the Company.

(b) Costs for UK Litigation matter

This matter was critical given that the costs remain high especially in view of the cross-border nature of the matter. The Committee was therefore tasked to monitor and track provisioning for these costs to ensure that the Company is in position to meet the legal costs at the time they are required to be settled.

(c) Audit Plan for the year 2023

Ernst and Young were appointed as the External auditors for the year 2023 which is their fourth and final year of service as external auditors of the Company. The key audit focus areas for the audit exercise to be undertaken included:

i) Evaluation of the legal costs for the UK Litigation matter given its cross-border nature and the legal support required; and

ii) Impairment testing of goodwill and **dfcu** Limited as a cash-generating unit.

The findings and conclusions for the above aspects are detailed in the External Auditors Report for the year ended 31st December 2023.

(d) Assessing external auditor effectiveness, objectivity and independence and non-audit services

The Board Audit Committee is responsible for assessing the effectiveness, objectivity and independence of the External auditor, Ernst and Young. This responsibility was discharged throughout the year at formal Committee meetings, and through discussions with key executives. In addition to the matters noted above, the Committee also reviewed the terms of the audit engagement letter and associated fees, before recommending them to the Board for approval.

Assessment of the External Auditor's independence remains a critical aspect of the Committee's mandate. The Company's committee was satisfied with the nature of the internal controls and mechanisms of **dfcu** as well as the financial statements as audited by Ernst and Young for the year 2023 including their independence in undertaking the subject audit.

It is upon the guidance of the Committee that the Board recommends the Audited Financial Statements for the year ended 31st December 2023 for approval and adoption by our esteemed Shareholders together with the Directors' reports.

dfcu Bank Limited

The key considerations for the year 2023 for the Bank's Board Audit Committee included the following;

a) Review of the Bank's quarterly, half-yearly and annual financial statements.
b) Review with both the External Auditor and management, the audit approach and methodology applied to the external audit of the Bank and the Key Audit Matters included in the Auditor's report.
c) Review of the quarterly updates from Internal Audit.
d) Review of the updates on resolution of issues raised from the various audits, that is External Audit Management Letter, the External Audit ICT systems audit, Internal Audit and the Bank of Uganda on-site examination.
e) Review of quarterly reports on litigation, fraud and investigations.
f) Approval of the internal audit plan for 2023.

Areas of focus for the year 2024

dfcu Limited

The areas of focus for **dfcu** Limited's Board Audit and Risk Committee for the year 2024 are as follows;

a) Recommendation of appointment of a new External Auditor for the Company.
b) Review of the Company's quarterly, half-yearly and annual financial statements.
c) Review and keen monitoring of the Cash flows;
d) Review of the audit approach and methodology applied to the external audit and the Key Audit Matters included in the Auditor's report.

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. In 2024, the Committee will continue to monitor the key International Financial Reporting Standard (IFRS) 9 processes, particularly considering the anticipated economic growth and implementation of the new five-year strategy of **dfcu**.

dfcu Bank Limited

The areas of focus for the Bank's Board Audit Committee are as follows.

a) Review of quarterly reports.
b) Review of the Bank's quarterly, half-yearly and annual financial statements.
c) Continued performance review of the efficacy of both the External and Internal Auditor's performance and monitoring of corrective actions taken.
d) Reccomendation of appointment of a new External Auditor.

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

Director's Report: Board Nominations and Governance Committee Report

The **dfcu** Limited Nominations & Governance Committee ("the Committee") report highlights the key aspects handled in the year 2023 in accordance with its Terms of Reference approved by the Board.

The mandate of the Company's Nominations & Governance Committee includes:
(a) Succession Planning for the Board of Directors and Senior Management of the Company including maintaining a clear rotation schedule for the Board of Directors in adherence with the Company's Articles of Association.
(b) Sourcing and proposing new nominees for appointment onto the Company's Board of Directors and Senior Management of the Company.
(c) Assessing the effectiveness of Directors to perform their role in the Company;
(d) Planning for activities and trainings in emerging areas or any other aspects for the purpose of supporting Board members in their individual and collective duties.
(e) Assessment of the adequacy of the staffing requirements of the Company.
(f) Ensuring that majority of the Directors on the Board are Independent.

The Company's Nominations & Governance Committee recognizes that achieving a balance in decision-making, which aligns with the company's purpose and goals, requires a Board that values constructive challenge, transparency, diverse backgrounds and opinions, and is committed to fairness and acting in the best interests of all stakeholders. Therefore, the Company's Nominations Committee ensures a balanced Board with adequate skills set to deliver on its mandate and oversight role.

The Committee strives to ensure that Management is held to account through setting stretching targets and assessing performance against the performance of the Company. The Committee is cognizant of the need to maintain a high performing team that is well remunerated and ensures that the remuneration can deliver long-term sustainable performance for the benefit of all stakeholders.

Membership of the Committee

The Committee is comprised of Non-Executive Directors, whose profiles are detailed under the Corporate Governance Statement on page 12-23 of the Annual Report.

In July 2023, Dr. Christine Echookit Akello, a member of the Committee was appointed as a Judge of the High Court of Uganda and had to resign her position on the Board. The Board congratulates her on her appointment and wishes her the best of luck in her new assignment.

dfcu Bank Limited

In satisfaction of regulatory requirements, the Board of Directors delegated some of its responsibilities to the Remuneration Committee and the Nomination & Governance Committee. The Committees exercise their duties within the legal framework governing licenced financial institutions.

As already indicated in the Corporate Governance Statement, prior to the appointment of a director, approval must be sought from Bank of Uganda.

To ensure independence between the Boards of **dfcu** Limited and **dfcu** Bank Limited, the entities each have separate Board members.

The Bank's Nominations & Governance Committee assists the Bank Board in fulfilling its oversight responsibilities with respect to:

(a) Corporate governance frameworks and practices for the Board's overall stewardship responsibility 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.

Key Highlights for the year 2023

Below is a summary of key considerations that the Nominations and Governance Committees of both the Company and its subsidiary for the year ended 31st December 2023;

Succession Planning

The Committee reviewed the succession plan for both the Board of Directors and the Company with a view of aligning it to the approved strategic focus. One of the main considerations updating of the succession plan with respect to the Director positions that had fallen vacant.

Following the resignation of Dr. Christine Akello from the Board in July 2023, the Board Nominations and Governance Committee sought out several candidates who would bring on a valuable skills set to the Board of Directors to her. A number of qualified candidates were interviewed for the position , and after a rigorous exercise, the Board appointed Mr. Francis Gimara to fill in the causal vacancy in accordance with the Company's Articles of Association.

In assessing the succession plan for the Committee reviewed:

a) the Company's organizational structure taking into consideration the refreshed strategic direction.

b) the staffing requirements and recommended additional recruitments to improve service delivery and satisfy governance requirements,

c) the performance of the General Manager and evaluated it against the Key Performance Indicators agreed upon with him.

Board Evaluation

In 2023, the Board carried out an internally facilitated Board evaluation to assess the effectiveness of the Board committees, Board chairman and members, senior management and company secretary.. Specific areas for improvement were identified, discussed by the Board and an action plan was developed which will be monitored on a quarterly basis. The Committee continues to monitor the implementation plan of the agreed actions aimed at enhancing the effectiveness of the Board.

Training and Development

Our operational environment is continually changing, and it is therefore important for our directors to remain aware of recent, and upcoming, developments. This ensures that they keep their knowledge and skills up to date, to operate effectively and support delivery of our Strategy.

Board trainings were carried out by external facilitators for both the Boards of Directors of **dfcu** Limited and **dfcu** Bank Limited in the year 2023 in the areas of , IT Governance, Anti-Money Laundering, International Financial Reporting Standards (IFRS) Refresher and Agile boards. Most of the training was held virtually to cater for all the directors based in different locations in the world.

The aim of the training sessions is to refresh and expand the Board's knowledge and skills such that they can contribute to discussions on technical and regulatory matters more effectively.

All new members appointed to the Board are taken through a well-structured orientation and induction program.

Areas of focus for the year 2024

The areas of focus for the year 2024 for the Company's Nominations and Governance Committee are as follows:

The implementation of the Succession plan for the Board of Directors and Management is key for the Committee in 2024. In implementation of the plan, the Company's Nominations and Governance Committee will consider current and future business needs, balance of skills, experience and effectiveness.

The succession plan will consider contingency planning for any unforeseen departures or unexpected absences, medium-term planning, orderly refreshing of the Board, Committees and Management, and long-term planning which will look ahead to the skills that may be required on the Board and Management in the future.

In view of our revitalized strategy, the Nominations Committee is committed to ensuring that we maintain the right resources to successfully grow shareholder value.

I would like to thank the members of the Committee for their continued commitment throughout the year, for the open discussions that take place at our meetings, and for the contribution they all provide in support of our work.

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

Risk Management and Control

2023 in Review: Insights from Our Chief Risk Officer

Victor Rugeiyamu
Chief Risk Officer

2023 was a year of tremendous change for **dfcu** Limited. The first and most obvious change was in the leadership of **dfcu's** principal trading entity; **dfcu** Bank Limited, where a new Managing Director/CEO and a new Executive Director were appointed. With the changes came a new strategy for the bank and management structure. The main thrust of the new strategy was the bank's adoption of a sector-based approach in pursuit of its growth objectives over the short to medium term. Eight new sectors that hold promise for the bank regarding their sizeable economic potential in Uganda were identified and prioritised. The delivery of our sector-led strategy will be through our four business units: Corporate and Institutional Banking, Commercial, Enterprise and Personal.

Several significant risk-related developments occurred in 2023, both internationally and locally. The global high-interest rate first regime witnessed in 2022 persisted into 2023, with central banks not ready to proclaim victory in the fight against inflation. No significant central banks worldwide – except for the People's Bank of China - cut interest rates in 2023. However, most inferred that they would pause further rate hikes as their near-term preferred course of action in line with the ongoing tapering of inflation rates in their respective markets. High interest rates globally led to pressure on several currencies on the African continent, as well as imported inflation. Supply bottlenecks and geopolitical conflicts, such as the Russia-Ukraine conflict, have also wreaked havoc regarding the price and availability of certain food items and industrial components. Uganda is no exception to this reality.

In the United States of America (USA), 2023 witnessed the regional banking crisis, which led to a few medium-sized banks, such as Silicon Valley Bank (SVB) collapse. The root cause of the failure of SVB was the losses it recorded after selling its USA Treasury bond portfolio at a significant loss against a background of interest rate hikes by the USA Federal Reserve and an inverse effect of declining bond prices.

These losses triggered market concerns about SVB's liquidity situation and led to a run on the bank by its depositors. Signature and Silvergate Banks were two other regional USA banks that collapsed due to their heavy exposure to the cryptocurrency market, which experienced a lot of upheaval in 2023. The phenomenon of bank collapses was not restricted to the U.S. or smaller or mid-size regional players. 2023 also witnessed the fall of Credit Suisse, hitherto one of the giants of the global financial industry, due to a series of scandals and compliance failures.

dfcu Limited was not spared some of the aftershocks of these developments in 2023. In Uganda, the Central Bank Rate (CBR) remains at 9.5 per cent as the central bank contends with inflation currently at 2.8% as of January 2024 - mainly imported from outside the country. The economy continues to perform well, this notwithstanding, with GDP growing at a rate of over 5%. The UGX exchange rate remained primarily stable in 2023, trading in the UGX 3,780 – UGX 3,800 as of year-end. UGX currency stability was even more commendable when one considers some of the pressure that the country absorbed in the wake of the lending moratorium the World Bank imposed as a result of the passing of the Anti-Homosexuality Bill of 2023 and subsequent follow-up measures such as the termination by the United States government of Uganda's membership in the African Growth and Opportunities Act (AGOA) trading partnership in 2023.

dfcu Limited experienced a setback related to additional costs that it had to incur due to the ongoing case in London related to **dfcu** Limited acquisition of Crane Bank in 2017, and these costs had a material impact on **dfcu's** profit-after-tax performance in 2023. That notwithstanding, the group's overall performance marked notable growth year on year. In 2023, **dfcu** made the tough decision to aggressively clean up its loan portfolio, significantly growing its provisions. Still, conversely, it performed well concerning recoveries from previous written-off provisions.

The operational risk continues to be high and remains closely monitored. In 2023, criminals targeted the financial services sector, particularly in the digital arena. Several financial institutions experienced losses in the industry. However, **dfcu** did relatively well in this area by adhering to and implementing critical controls and measures as articulated in our short to medium-term cyber risk management roadmap. **dfcu** Limited also deliberately managed its third-party risks via its risk management protocols. This is often the first area of control compromise when a financial institution partners with vendors with weak controls to provide critical services or solutions for their customers. Operational losses as a percentage of gross revenue in 2023 were down by 68% compared to the previous financial year. This is a testament to the various initiatives and efforts that went into combating fraud and other cyber attempts throughout the year by multiple stakeholders within **dfcu** Limited.

On liquidity, interest rate and solvency risk, **dfcu** Limited stayed within its key ratios as defined by our Risk Appetite Statement in 2023, and the **dfcu** also submitted the second iteration of its ICAAP framework to the Central Bank in the year for review and appraisal. ICAAP is a regulatory framework which seeks to appraise the levels of capital adequacy of financial institutions as well as the robustness of their risk management practices. Our ICAAP appraisal by the Regulator in 2023 led to an additional Pillar Two capital buffer requirement of 0.19 per cent, which was lower than the mandatory buffer requirement of 2.13 percent of 2022, implying a greater degree of confidence on the part of the central bank in the quality of risk management practices within **dfcu** and in the quality of the reporting thereof to the Regulator. **dfcu** Limited could comfortably accommodate our 2023 Pillar 2 capital assessment due to our overall healthy capital reserves position.

dfcu maintained a "marginal" CAMELS rating at year-end 2023 by Bank of Uganda – identical to the year-ago position. 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 – our non-performing asset ratio – exceeds five percent, which, in turn, affected our earnings. The marginal CAMELS rating in 4 successive quarters in 2023 also had a knock-on impact on the deposit insurance premium we pay to the Deposit Insurance Protection Fund for our customer deposits. With a renewed focus on performance, we are confident of a better CAMELS rating in 2024.

Finally, there were several new regulatory requirements in 2023, including the Financial Institutions (Liquidity) Regulations of 2023, the Financial Institutions (Preference and Appraised Book Value) Regulations of 2023, the Financial Institutions (Agent Banking) (Amendment) Regulations of 2023, the Financial Institutions (Amendment) Act of 2023, the Anti-Money Laundering (Amendment) Regulations of 2023 and the Anti-Terrorism (Amendment) Regulations, 2023. There was also a concerted push by the Regulator to comply with terms previously agreed upon between Uganda and the Financial Action Task Force (FATF), the global anti-money laundering watchdog, to remove Uganda from the FATF grey list. Towards this end, new requirements were issued to financial institutions in 2023 around identifying ultimate beneficiary ownership for registered entities being banked by each institution. **dfcu** remains focused on continually complying with all its regulatory obligations and will continue to give this area the necessary due effort and emphasis in 2024.

Risk Management

dfcu Limited defines Risk as the danger of possible losses or profits foregone due to internal or external factors.

dfcu Limited activities give rise to various financial and non-financial risks. As an institution, we have identified ten principal risks: Credit, funding, market risk, reputational, compliance, third party, strategic, operational, cyber security risk, and people and conduct risk.

To ensure agile financial performance and prudent risk management, **dfcu** Limited has a robust Enterprise Risk Management framework (ERMF) in place, which is reviewed and approved by the Board of Directors annually. It details the identification, measurement, monitoring, management, control, and reporting of the principal risks **dfcu** is exposed to or may face in the future.

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 critical to identifying, measuring, monitoring and controlling risks. The framework provides a basis for the Board and Senior Management to establish the appropriate guardrails to perform risk-creating activities with the right mindset and within risk appetite aligned with our broader strategic objectives. All employees are responsible for risk management, with the ultimate responsibility residing with the Board of Directors.

The Board of Directors determines **dfcu** Limited strategic direction and agrees on the nature and quantum of the risk it is willing to accept to achieve its strategic objectives. **dfcu's** Executive Management team supports the Board by providing regular reports depicting the risk landscape and detailing emerging risks that may impact **dfcu's** primary business strategies long-term shareholder value for the Board's consideration.

Reporting and Committee Structures

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

Three Lines of Defense

The first line of defence comprises the revenue-generating and client-facing areas of **dfcu** along with all associated support functions, including our branch network and the Finance, Credit, Corporate, Retail, Business Solutions and Marketing, Legal, People and Culture, Technology and Digital Operation teams. Each respective first-line business unit is responsible for identifying its key risks and testing and evaluating the efficacy of the controls in place to mitigate these risks and prevent them from impeding key business objectives. Each first-line business unit is also responsible for escalating risk events to the bank's Risk Management team for further analysis and reporting purposes. A significant development in the bank in 2023 involved the creation of an Internal Controls Unit. This unit is the central focal point for coordinating and managing first-line risk management activities, working closely with risk owners and other assurance stakeholders to ensure the bank's risks are well managed within approved limits.

The second line of defence consists mainly of the Risk and Compliance Domains. These oversee first-line business units by establishing risk tolerance limits on their activities commensurate with the overall risk appetite of **dfcu** and, after that, ensuring appropriate monitoring and control testing activities take place to ensure that **dfcu** is continuously operating in conformance to its Board-approved risk appetite. These functions also provide independent assessment and reporting on the risks created by the first line and oversee the **dfcu's** compliance with all relevant laws and regulations of Uganda.

The third line of defence is the Internal Audit function, which provides independent assurance and review to the Board and Executive Management team on the overall effectiveness of the **dfcu's** Governance, Risk Management, and Control structures.

Our Risk Universe

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

Credit Risk

Credit risk refers to the potential financial loss that **dfcu** Limited may incur if a borrower or debtor fails to meet their contractual obligations to repay a loan or other credit-related commitments. In simpler terms, it is the risk that a borrower will default on their debt obligations, leading to a financial loss for **dfcu** Limited.

Strategic Risk

Strategic risk refers to the potential threats and uncertainties arising from **dfcu's** strategic decisions and actions. The risk is that chosen business plans and strategies may only achieve intended results if appropriately executed or sometimes not perfectly align with **dfcu's** medium-to-long-term goals. Internal and external factors can also negatively impact the execution of those strategies, leading to suboptimal results for the **dfcu** Limited.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, people, or external events. It encompasses many risks that could arise from **dfcu's** day-to-day operations and can lead to significant losses if not well contained and managed.

Market Risk

Market Risk refers to the risk of losses in **dfcu's** trading and banking books due to changes in equity prices, interest rates, foreign exchange rates, and other securities whose values are established in the financial marketplace. Market risk also includes Funding Risk, which pertains to solvency risk or the risk that **dfcu** fails to maintain sufficient capital ratios and buffers to allow it to meet its regulatory and internal capital buffer obligations and requirements.

Liquidity Risk

Liquidity risk refers to the risk that **dfcu's** will not be able to meet its near-term financial obligations—as and when they become due—without incurring excessive costs or losses. Liquidity risk is the risk of not having enough liquid assets (such as cash or readily marketable securities) to cover immediate funding needs.

Cyber Security Risk

Cybersecurity risk is the potential harm or adverse impact that may result from exploiting vulnerabilities in **dfcu's** information systems, networks, or digital assets. These risks can arise from various threats, including cyber-attacks, data breaches, unauthorised access, and other malicious activities carried out by individuals, groups, or automated entities intending to compromise the confidentiality, integrity, or availability of information.

Compliance & Regulatory Risk

This is defined as the risk of legal or regulatory sanction, financial loss or damage to reputation that **dfcu** may suffer because it fails to comply with laws, regulations, codes of conduct, internal policies, and standards of good practice applicable to its activities.

Reputational Risk

Reputational risk refers to the potential harm or damage to **dfcu's** reputation that may result from various factors, events, or actions. Negative perceptions or public opinion about an organisation could lead to losing trust, credibility, and goodwill among stakeholders, including customers, investors, employees, and the public. Reputational risk can have significant and long-lasting consequences, affecting an organisation's ability to attract and retain customers, secure investments, and maintain positive relationships with various stakeholders.

Third-Party Risk

This potential risk arises from **dfcu** Limited relying on external parties to perform services or activities on its behalf. Third-party risk is the risk our organisation takes when dealing with third-party vendors we rely on to provide various support roles and services that ultimately allow us to deliver on our commitments and serve our customers and stakeholders. When outsourcing activities to third parties, **dfcu** has to be mindful of and have robust plans in place to mitigate a range of different risks that could potentially present themselves along the journey, including cyber risk, reputational risk, legal risk and concentration risk, to name a few.

People and Conduct Risk

People and conduct risk refers to the potential threats and uncertainties associated with individuals' behaviour, actions, and decisions within **dfcu** Limited. It encompasses the risks arising from the conduct of employees, Management, and other stakeholders that may adversely affect **dfcu's** reputation, compliance, and overall performance. This risk category recognises that people-related factors, such as ethical lapses, misconduct, and potential conflicts of interest, can significantly impact an organisation's success and stability.

Risk Appetite

Risk appetite is the maximum level of residual risk that **dfcu** Limited is prepared to accept to deliver its business objectives. Following the revamp of our strategy in 2023, **dfcu** developed a new risk appetite statement, which focused on the eight economic sectors that **dfcu** wants to direct its lending activities towards as part of its medium-term plan:

Agriculture, ICT, Manufacturing, Infrastructure and Energy, Households, non-bank Financial Institutions, Trade and Business, Education and Health, and the Public Sector.

Our Risk Appetite Statement is descriptive in qualitative and quantitative terms. Our qualitative measures relate to the general guard rails, controls, and containment measures established by **dfcu** to ensure the successful realisation of our medium-term strategy. On the other hand, our quantitative risk appetite measures provide quantifiable risk limits and tolerance thresholds necessary for effective risk management.

The Board delegates the review and appraisal of the risk appetite proposal from Management to the Board Risk Committee. The Board Risk Committee, in turn, ensures that the risk appetite proposal from Management aligns with **dfcu's** overall medium-term strategy and objectives and has the desired balance between risk and reward before recommending it to the full Board for approval.

Stress Testing

dfcu's overall stress testing program is a crucial management tool 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 impact **dfcu** Limited.

Stress tests are used to proactively manage **dfcu's** risk profile and for strategic business and capital planning. They are also integral to **dfcu's** internal capital adequacy assessment process. They assess and manage regulatory capital adequacy and **dfcu's** internal capital buffer limits.

The Executive Management team and Board of Directors periodically review the stress tests' outcomes, focusing on their impact on Earnings and Capital Adequacy. This then informs the Group's decision-making regarding pursuing or avoiding specific opportunities or activities based on their effect 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.

Our stress testing process is also heavily linked to developing our ICAAP document, which is submitted annually to the Bank of Uganda.

Strategic Risk

Year in Brief 2023

dfcu Limited refreshed its strategy in 2023, which hinges on eight (8) focus sectors, four (4) new business segments, four (4) behaviours, new change horizons and tech priorities over the next three years.

Key Focus Sectors

The new strategy calls for the bank to focus on eight new sectors to drive growth and deliver anticipated returns to shareholders over the next three years. These sectors are as follows:

Health & Education	ICT	Trade & Business	Financial Institutions
Agriculture	Public Sector	Manufacturing	Energy & Infrastructure

New Business Segments

Our new strategy also calls for the realignment of our business into four new strategic business units as follows:

a) Corporate and Institutional Banking
b) Commercial Banking
c) Enterprise Banking
d) Personal Banking

Technology Priorities

a) Availability and Security
b) Business Process Automation
c) Innovative Solutions

Looking Ahead

With 2024 as the first full year of the refreshed strategy, **dfcu** is focused on executing its strategy as per intended targets. There are four (4) critical strategic areas **dfcu** is placing its focus on this coming year, and these are:

- Re-focusing to stabilise and win market share.
- Re-organising for effectiveness.
- Re-engineering through operational efficiency and automation.
- Re-bounding and disrupting the market while future-proofing the business.

Management has also developed a few new key risk indicators (KRIs) to accommodate these critical strategic aspirations for 2024. These metrics are intended for continuously monitoring and managing strategic risk throughout the year.

Credit Risk

Year in Brief 2023

Throughout 2023, **dfcu** applied three lines of defence model towards managing credit risk, with particular emphasis on training and capacity building in the first and second lines of defence and new initiatives to reinforce control rigour in the lending value chain. These measures contributed to the Bank's various asset quality improvement initiatives in 2023. Impairment on loans for 2023 amounted to UGX 82.7 Bn on the back of a strategic decision to clean up the bank's loan book. The bank's credit loss ratio closed at 7.1%, up from 6.2%, as reported in December 2022 on the back of the loan book cleanup initiative in 2023. A similar picture emerged regarding the non-performing loans ratio, which closed at 9.2% compared to 7.6% in the year-ago period. It is to be noted that the overall size of the bank's loan portfolio declined in 2023 to UGX 1.13 trillion from the year-ago period (UGX 1.36 trillion at the close of 2022), which is one of the contributing factors to the lower asset quality performance indicator ratios. Management remains mindful that the bank's NPL ratio is still above the Bank of Uganda's guidance of 5% but remains confident that it will steadily attain the central bank target in 2024 based on its balance sheet growth and asset quality targets for 2024.

The bank took several initiatives to improve asset quality in 2023, which are expected to continue to add to the overall drive to enhance the quality of asset in 2024. The following were among the initiatives taken in 2023 to improve the quality of the asset:

- Refresh the bank's risk appetite statement to focus on eight new strategic sectors that **dfcu** wishes to concentrate on going forward (Agriculture, Education and Health, Energy and Infrastructure, Manufacture, ICT, Trade and Business, Financial Institutions, Public Sector), coupled with the segmenting of our business into new business segments – (Corporate and Institutional, Commercial, Enterprise and Personal). These changes were coupled with a complete overhaul of the internal management structure of the bank and a full business overhaul. These changes, on the aggregate, are expected to drive the bank forward as it focuses on achieving its short and medium (2024-2026) targets as per its new Fired Up strategy.
- Strategic portfolio diversification across products, geographies, client segments and industry sectors with new appetite caps aligns with our new Fired-Up Strategy's sector-driven strategy to manage concentration risk.
- Establish an internal controls department to act as a centre of excellence in driving control rigour and risk culture in the first line of defence.
- Revamping the bank's risk and control assessment (RCA) framework to enhance the first line's ability to self-assess its risks and test controls more effectively before other assurance functions provide follow-up assurance on this process.
- There is a renewed drive to increase automation in the lending chain. A project slated for 2024 will enhance automation in the origination, appraisal, and approval phases of the lending value chain.
- We are continuing to leverage data and technology to roll out new products.
- Close surveillance of the global and macroeconomic operating environments to drive timely responses to new developments and emerging risks and ensure the adoption of relevant strategies to protect **dfcu's** position.

Looking Ahead

In 2024 and beyond, **dfcu** will continue to implement its new Fired Up Strategy to achieve its short and medium targets while fostering a better overall customer experience and value proposition while simultaneously inculcating a more robust risk framework and culture. An optimal balance of risk, cost, utilisation and reward will be attained through the deployment of relevant mechanisms, including;

- Adopting a revised risk appetite statement meticulously tailored to support the bank's sector specialisation strategy.
- Implementation of relevant structural changes to create the necessary infrastructure for achieving the desired robustness.
- Fostering continuous innovation in the credit space to improve the Group's approach towards responsible lending.

Operational Risk

Year in Brief 2023

The operational risk remained stable in 2023, with operational losses reducing significantly by 68% compared with 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 provide management with information for determining appropriate mitigating measures.
Overall, **dfcu's** operational risk profile was stable, with the quality of risk management improving in the three lines of defence. The introduction of an Internal Controls unit further bolstered our control framework, complementing the assurance provided by the second and third lines of defence.

dfcu has robust controls to manage operational losses, reputational events, and regulatory breaches. It identifies and assesses emerging risks and mitigates them.

dfcu manages its operational risks mainly by employing the following techniques and methodology:

a) Review and invest in **dfcu's** control environment, focusing on automation, to ensure that **dfcu's** addresses the inherent risks faced.
b) Deployment of a range of risk management strategies, including avoidance, mitigation, transfer (including insurance) and acceptance.

Business Continuity Management

Business continuity management remains a key focus in our operational risk management framework, with continued enhancement of the **dfcu's** resilience, helping customers better and addressing regulatory priorities. 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 **dfcu** Limited.

Contingency and recovery plans for critical services, key systems and priority business processes have been developed. They are visited as part of existing management processes to ensure that continuity strategies and plans remain relevant. **dfcu** has a limited appetite for disrupting services, customers and stakeholders from significant unexpected events. An operational resilience program is in place to improve the Group's ability to respond to incidents while delivering critical services to customers. Investment in technology improvements, including enhancements to the resilience of systems that support vital business processes, is essential to realising **dfcu's** business continuity management objectives.

Crisis Management teams exist within **dfcu** Limited, representing all departments, and simulations are regularly performed to ensure the teams are prepared and ready to handle any eventuality. **dfcu** also maintains a disaster recovery site (DRS) to allow seamless continuity of service to our customers in the event of any significant disruptions or failures to our primary infrastructure. **dfcu** performs regular contingency planning and testing to ensure it remains ready to serve its customers during system disruptions.

Fraud and Misconduct Risk

Year in Brief 2023

In the financial crime management, 2023 witnessed several challenges due to the financial services industry's threat landscape. Fraudsters continue to devise an ever-increasing array of tools and techniques to realise their evil ambitions, and these increasingly aim to exploit control weaknesses or knowledge and awareness gaps on digital channels to perpetrate fraud. Cybercrime is an ever-increasing fraud and misconduct typology in the financial services industry and is often backed by organised crime syndicates.

dfcu Limited continues to confront all attempts to perpetrate fraud and misconduct. We have a zero-tolerance policy against fraud, misconduct, and any persons involved in its perpetration. We recognise that fraud and misconduct are often the result of weak controls, poor monitoring, and a lack of knowledge or awareness about the inherent risks of using a particular service or product channel.

In 2023, **dfcu** delivered several regular anti-fraud and misconduct training and awareness programs internally (to staff) and externally to our customers. We also delivered several anti-fraud and misconduct messages via traditional and social media to educate customers on the basics of safe banking. **dfcu** Limited maintains several whistleblower reporting channels where staff and customers who suspect fraud or misconduct can report in complete confidentiality.

As **dfcu**, we continued to enhance our transaction monitoring capabilities in 2023 while our control rigour underwent continuous scrutiny and challenges to find ways of further improving our control posture. In 2023, we intentionally emphasised refreshing our risk culture to drive the correct behaviours consistent **dfcu's** values, and these initiatives will persist into 2024.

Looking Ahead

In 2024, **dfcu** will continue to conduct relevant fraud prevention programs, including frequent anti-fraud misconduct communications and training and awareness sessions for our staff, service providers and customers. We will focus heavily on issuing safe banking tips to our customers and anyone using our products and services. **dfcu** will continue to run whistle-blower campaigns to encourage the open reporting of fraud and misconduct observed in and out of the workplace.

dfcu Limited will continue to invest in cyber security and fraud detection technologies controls, enhance its operational safeguards and work closely with all regulatory stakeholders, law enforcement, the Uganda Bankers Association and other industry players to create awareness and promote collaboration in the fight against fraud, misconduct and cybercrime.

People and Conduct Risk

Year in Brief 2023

People and Conduct Risks were defined as new principal risks in 2023 per the bank's refreshed risk appetite statement, whereas previously, they were considered a subset of Operational Risk. The bank made this change to recognise the critical role people play in enabling any organisation to achieve its strategic objectives and potentially impede it from achieving its objectives in the short to medium term.

People and Conduct Risk encompasses a wide range of factors that **dfcu** considers, which are people-related and can impede or enable the achievement of its strategic objectives. Examples include, but are not limited to, regrettable attrition rates, misconduct, and conflicts of interest. People and Misconduct risk measurement metrics were stable in 2023. All incidents in 2023 involving a lack of adherence to the ethos and risk culture of **dfcu** in 2023 were firmly dealt with, with the critical priority being on sending a clear message to all staff and stakeholders that **dfcu** expects and practices zero tolerance in cases of people misconduct.

dfcu also rolled out its four new key behaviours in 2023, which outline the Board and Management's expectations regarding how employees and all affiliated stakeholders of **dfcu** are expected to conduct themselves at any given time. These behaviours focus on four key themes and are as follows:

a) Taking accountability for commitments made.
b) Continuously learning to improve performance and productivity.
c) Continuously working and collaborating.
d) Sharing the same goals to provide enhanced and sustainable customer solutions.

The new leadership team's strategic focus is enabling colleagues to enhance their skills and capabilities, providing progression opportunities, and building a strong culture necessary to support the bank's transformation agenda. **dfcu** is focused on delivering strategies to attract, retain, and develop high-calibre people with the required capabilities and managing rigorous succession planning for senior leaders. **dfcu's** continued focus is on its culture by developing and delivering initiatives reinforcing appropriate behaviour.

Looking Ahead

In 2024, **dfcu** will focus on further developing a robust group-wide culture

of risk management, driving ownership and accountability for risk management and controls amongst risk owners throughout **dfcu** while also promoting a culture of openness and transparency. **dfcu's** new Culture and Transformation Framework aims to drive efficiency and productivity while driving risk proactiveness by encouraging early detection and reporting of potential risks.

The combined assurance methodology that the assurance functions in **dfcu** deploy aims to assure **dfcu's** Board and Management that the bank's overall risk environment is under control.

Process enhancements will continue to be pursued to automate where possible and reduce risk and wastage. These objectives will be pursued under our new drive to promote ESSA-based initiatives (Eliminate, Simplify, Standardize and Automate) throughout **dfcu**. Finally, we shall continue to enhance our Third-Party Risk Management Framework to control any exposures that may arise from outsourcing.

Third-party Risk

Year in Brief 2023

dfcu Limited relies on third parties to provide certain services critical to delivering some products and services to our clients. Given the digital orientation of today's financial landscape, one of the essential drivers of third-party risk can be weak Information and security protocols in the IT environment of any given third-party pairing with any bank or financial institution to deliver an end product or service for its customers. These weaknesses can be exploited by fraudsters or other threat actors to perpetrate fraud or other malicious activity.

Through its third-party risk management framework, **dfcu** continues to tighten controls both at the onboarding stage for vendors and throughout the contractual life cycle of their business engagement with **dfcu** to ensure that **dfcu** does not import control weaknesses into its operating environment from third parties. Ongoing risk assessments are performed throughout the business relationship to detect emerging potential and actual risk issues promptly. Vendor exits are considered when a vendor has been engaged on an issue and fails to address the issue within agreed-upon timelines.

Looking Ahead

In 2024, **dfcu** will continue to embed best-practice Third-Party risk management principles and techniques and empower teams to manage these risks proactively. We will continue to empower our teams with the right behaviours and training to foster the culture necessary to manage third-party risk effectively.

Cyber Security Risk

Year in Brief 2023

Over the last few years, **dfcu** has taken deliberate steps to continuously improve its cybersecurity risk posture in response to the growing impact of cyber risk on businesses around the globe. The fact that the strategic direction of **dfcu** is hinged on data, technology advancements and digital solutions for our clients only heightens the need for us as an organisation to counter the growing threat of cyber risk in our operating environment.

In 2023, **dfcu's** cyber security threat levels remained heightened due to developments in the global cyber arena and the outlook in our local financial industry. New threats are continuously emerging, and **dfcu** strived throughout 2023 to keep abreast of these developments and take all necessary precautions to minimise the threats emanating from these risks.

The cyber risk landscape in 2023 saw a surge in cyber-attacks in the local financial industry, with Ugandan banks and financial institutions facing losses estimated to exceed $4 million, according to statistics published by Interpol on cyber-attacks. Ransomware also continued to threaten the existence of many businesses worldwide, mainly delivered to networks through phishing e-mails sent to users. There was also an increase in insider threats in the global financial industry affiliated with sophisticated cartels aiming to recruit employees of targeted organisations to assist them with circumventing cyber security controls.

In October 2023, **dfcu** observed Cyber Security Awareness Month, tailored to empower the staff and partners to prevent, detect, and respond to cyber incidents. As part of this initiative, phishing campaigns and several training sessions were carried out for staff to enhance our cybersecurity culture and improve vigilance. This was done with the understanding that since our staff use our cyber resources, they must take the lead in protecting **dfcu's** and our client's personal information. Cyber Security Awareness Month was an initiative taken in addition to various other training and awareness programs conducted throughout the year to make our staff our "human firewall" in the fight against Cybercrime. These initiatives collectively improved awareness and understanding of cyber risk within our organisation.

The Capability Maturity Assessment (CMA) conducted by KPMG in November 2023 allowed **dfcu** to gain insights into its cybersecurity risk profile and vulnerabilities, allowing for greater strategic focus on remediating identified gaps. **dfcu** aims to fortify its cybersecurity posture, mitigate risks, and enhance overall resilience against evolving threats by striving to meet industry standards. This process aligns with a commitment to continuous improvement, efficiency, and maintaining stakeholder confidence in the face of cybersecurity challenges.

Looking Ahead

In 2024, **dfcu** plans to continue investing in technology and skilled security personnel to secure its cyber estate and operating environment. Notably, **dfcu** will continue to create awareness amongst the staff, clients, and other stakeholders to protect them from cyberattacks.

dfcu will continue to monitor developments in the cyber realm on a local, regional, and global level whilst extracting appropriate lessons to bolster our control environment and minimise our cyber risk vulnerability.

As **dfcu**, we recognise that the only path forward demands strategic thinking, concerted action, and a steadfast commitment to cyber resilience, and we are committed to achieving this

Reputational Risk

Year in Brief 2023

In 2023, our reputational risk management strategy was foundational to our overall risk management framework. We aimed to preserve and enhance our brand reputation through proactive measures and strategic initiatives.

Key Achievements:

Six key factors underpin our reputational risk management strategy:

1. Our compliance programs
2. Our operational controls
3. Our monitoring framework
4. Our crisis management plans
5. Our corporate social program initiatives
6. Our legal risk management strategy

Comprehensive Compliance Program:

Our commitment to a comprehensive compliance program in 2023 ensured continued adherence to all relevant laws and regulations. This mitigated legal and regulatory risks and reinforced our reputation as a responsible and ethical entity.

Operational Controls:

In 2023, rigorous operational controls were pivotal in preventing operational failures and fostering trust among our customers. By upholding the highest operational standards, we continued to demonstrate reliability and security in our services.

Crisis Management Plans:

Our well-structured crisis management plans were effectively utilised in 2023 to respond to adverse events. Transparent communication with stakeholders, including customers, employees, regulators, and the media, remained a cornerstone in managing reputational challenges.

Corporate Social Responsibility Initiatives:

Ongoing corporate social responsibility initiatives underscored our commitment to our local community and overall environmental well-being. These efforts bolstered goodwill and trust, contributing significantly to the positive perception of our brand.

Monitoring and Proactive Measures:

Throughout 2023, our proactive reputation monitoring framework, employing surveys, social media analysis, and other channels, allowed us to address any emerging concerns swiftly. This proactive approach positioned us to effectively manage reputational risks and maintain a positive brand image.

Legal Risk Management:

Robust measures were employed in 2023 to manage legal risks, particularly in handling ongoing litigation cases. This included a significant case related to our acquisition of Crane Bank in 2017, which has been determined to go to trial in London, U.K., for final adjudication.

Focus for 2024

As we transition into 2024, we aim to sustainably grow stakeholder value with innovative solutions, inclusivity and empowered people. This strategic approach aligns with our broader purpose of transforming lives and businesses in Uganda, ultimately strengthening our reputation.

We commit to continuously monitoring reputational risks by leveraging all relevant lessons learned in 2023. This approach will ensure that we remain proactive in identifying and mitigating emerging challenges and position us to navigate our dynamic operating landscape effectively while safeguarding our brand and reputation.

As we embark on the challenges and opportunities of 2024, our commitment to proactive reputational risk management remains unwavering. By upholding the highest standards and aligning with our strategic goals, we are confident that we will continue successfully managing our reputational risks and enhancing our **dfcu's** overall brand image and perception in Uganda.

Market Risk

Year in Brief 2023

The Uganda shilling depreciated by 5.1% against the US dollar to an annual average exchange rate of 3,752 per US dollar in financial year 2022/23 from UGX 3,571 recorded in FY 2021/22. According to the central bank's annual FY 2022/23 report, depreciation pressures were carried over from the last quarter of FY 2022/23 as most advanced economies adopted tight monetary policies to curtail global inflationary pressures. The depreciation pressures further persisted due to spillover effects of the Russia-Ukraine war, such as supply chain disruptions, high international commodity prices, deteriorating terms of trade and tight global financial conditions, which triggered portfolio investors' exit from the domestic debt market. Despite the volatility, the **dfcu** traded within the approved market risk limits – without breach. Towards year-end, the **dfcu** also enhanced its Market risk reporting and onboarded additional models to compute present value basis points (PV01) for our Held for Trading (HFT), Available for Sale (AFS) and Held to Maturity (HTM) books.

In 2023, **dfcu** was well within its Risk appetite for key solvency ratios as per the table below:

Capital Ratio KRIs	December 2023
Tier 1	28.81%
Total Capital	29.46%

Looking Ahead

dfcu will continue to focus on monitoring and managing interest rate risk in the trading and banking books and foreign currency risk in the context of current market volatility, including monetary policy decisions by the Central Bank and any rate changes. Based on several factors, the UGX will likely depreciate further to the 3,800 to 3,850 range during 2024.

Interest rates will likely remain elevated as the Government of Uganda borrows heavily from the domestic market to plug a large fiscal deficit. The **dfcu** will closely monitor market developments and ensure that it responds promptly and appropriately as required.

Liquidity Risk

Year in Brief 2023

The global picture in 2023 was marred by a few bank failures – primarily on the U.S. regional bank scene – caused by liquidity failures triggered by bank runs.

dfcu maintained sufficient liquidity throughout 2023 to fund its operating requirements and to stay within its regulatory and internal risk appetite limits.

dfcu maintained its discipline about reducing its interest expense expenditure in 2023, which had been above industry averages in previous years, by targeting cheaper deposits.

In 2023, **dfcu** was well within its Risk appetite for key Liquidity ratios as per the table below:

Liquidity KRIs	December 2023
Liquid asset ratio	38.97%
Liquidity Coverage Ratio - (All currencies)	544%
Concentration Risk (Top 10 depositors)	17.1%

Looking Ahead

dfcu will continue to focus on monitoring In the evolving global and macroeconomic landscape, optimal cash flow forecasting will receive greater emphasis. **dfcu** also plans to pursue its balance sheet optimisation 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 its overall strategic objectives. The Group also plans to fully leverage the potential of data analytics to enhance its overall liquidity risk management framework.

Compliance Risk

Year in Brief 2023

dfcu Compliance Risk management framework is implemented through a Compliance Department, whose Head of Department reports directly to the Chief Executive Officer but also has access to the Board.

dfcu operates in a highly regulated financial sector with numerous laws and regulations. **dfcu** continued to strengthen Compliance Risk Management in 2023 by updating the bank's regulatory universe with laws and regulations that came into force such as the Financial Institutions (Liquidity) Regulations, 2023, Financial Institutions (Preference and Appraised Book Value) Regulations 2023, Financial Institutions (Agent Banking) (Amendment) Regulations, 2023, the Financial Institutions (Amendment) Act 2023, the Anti-Money Laundering (Amendment) Regulations, 2023 and the Anti-Terrorism (Amendment) Regulations, 2023. The Regulator also pushed for compliance with terms previously agreed upon between Uganda and the Financial Action Task Force (FATF), which is the global anti-money laundering watchdog, to remove Uganda from the FATF grey list. New requirements were issued to financial institutions in 2023 around the identification of ultimate beneficiary ownership for registered entities being banked by each institution.

Looking Ahead

In 2024, **dfcu's** commitment to compliance remains unwavering. In the face of a dynamic regulatory environment and emerging challenges, **dfcu** pledges to proactively anticipate, adapt, and comply with the evolving regulatory requirements and standards. By prioritising transparency, accountability, and ethical conduct, we aim to meet and exceed regulatory expectations. We will navigate the complexities of compliance with diligence, integrity, and a forward-looking mindset, ensuring our continued success while upholding the trust of our stakeholders.

Sustainability Review

Driving Economic Transformation through dfcu Limited AgriBusiness Initiatives

In 2023, **dfcu** Limited continued to demonstrate it's steadfast commitment to transforming the agriculture sector as a cornerstone of the Ugandan economy through its Agribusiness Development Centre (ADC) in collaboration with various partners. ADC was established in 2017 through a partnership between **dfcu** Bank Limited (Uganda) and Rabo Foundation (Netherlands)

dfcu's ADC has made a substantial impact, training an impressive 35,305 unique learners, nearly half of whom are female. The capacity of 885 enterprises has been significantly bolstered, and financing linkages worth a staggering $17.2 million have been facilitated. These efforts have catalysed agribusiness growth and job creation, ultimately transforming businesses and lives.

Below are some of the interventions ADC managed to achieve in 2023.

01
Supporting the growth of Agribusinesses:

Partnering with GOPA Worldwide Consultants, ADC spearheaded implementation of the E4D-GIZ-funded Enhancing Competitiveness of SMEs (ECOS) project. Over 111 participants (61% women-led agribusinesses) were enrolled in Cohorts 2 and 3 of the Business Accelerator Program (BAP). These participants underwent comprehensive training and received technical assistance and exposure, enhancing their investment readiness.

02
Positioning Entrepreneurs for Success:

ADC joined the Hi-innovator Program (funded by NSSF and Mastercard Foundation) as a hub, securing 1,914 enrolments throughout the year. We're currently on track to support and coach at least 680 participants to complete module training. Additionally, ADC guided 24 enterprises in the Women's Cohort through hub access, mentorship, and boot camp sessions, positioning them to compete for $20,000 seed funding each in Q1 2024."

03
Empowering Learners Through Online Training:

Embracing digital platforms to facilitate online training through SOMA, ADC enrolled 13,000 learners and certified 5,016 in agronomic and agribusiness courses. We launched extra courses on ESG and Gender Diversity Management (GDM) for SMEs, uploaded onto eLearning platforms, highlighting the business case for SMEs' involvement.

04
Innovating for Sustainability:

Through our collective efforts with the Agtuall and Rabo Foundation, ADC piloted BEAN BOOK with fourteen coffee enterprises, addressing price risk management for cocoa and coffee SMEs. The lessons we've learned from this initiative are more than just being leveraged to scale and commercialise it for sustainability. Still, they also promise a more resilient and profitable future for agribusinesses.

05
Advancing Agriculture Through Smart Training:

In partnership with aBi Development, ADC piloted a "Climate Smart Agriculture (CSA) training and intervention," establishing twenty-six coffee demonstration sites in the Eastern region, conducting three biogas demonstrations in the West, and facilitating twenty-six Training of Trainers (ToT) sessions. This pilot project has reached over seven hundred participants, empowering them to mitigate the negative impacts of climate change on their agribusinesses.

A leading farmer showcases exemplary agronomic practices at a Climate Smart Agriculture (CSA) training session, embodying the transformative potential of sustainable farming methods.

CEO **dfcu** Bank Limited, Mr. Charles M. Mudiwa alongside the ADC patron Her Excellency Karin Boven, the Dutch Ambassador to Uganda handover a cheque to Grace of Kikazi Millet flour for being the most improved enterprise in the Business Acceleration Program. This was during the graduation ceremony at the **dfcu** bank Limited Towers in Kampala.

dfcu Bank Limited Manager and ADC Business Advisor (East) facilitate a training at Mbale branch for Uganda Christian University during the regional SOMA activations.

Entrepreneurs during the SMEs ESG training and its launch on the Atingi elearning platform on 6th June 2023.

Sustainability Report

This report details **dfcu's** economic, social, and environmental performance for the fiscal year ending 31 December 2023. In preparing this report, we adhered to the regulations set by the Central Bank of Uganda, International Financial Reporting Standards, the Companies 2012, and the Listing Rules of the Uganda Securities Exchange. The report further includes compliance with the Global Reporting Initiative (GRI) G4 Guidelines and the GRI Financial Services Sector Supplement.

In preparing this report, we also considered salient aspirations and concerns arising from comprehensive stakeholder interactions and community engagement, focusing on **dfcu's** sustainable impact and our Corporate Social Investment (CSI) efforts to enhance sustainable social economic and environmental conservation.

dfcu's sustainability impact has been consistently published in our Annual Report since 2014. The Annual Report is published within the time frames stipulated by **dfcu's** Articles of Association, the Companies Act 2012, 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:

- Key material sustainability impact within and under the direct control of Statutory regulations impacts outside the organisation that are indirectly influenced through our engagement with stakeholders, and broader sustainability initiatives undertaken through the CSI programs and other groups.
- Results from both current and previous reporting periods.
- Information verification by internal teams and external assurance providers.
- All relevant information withholding anything.

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** for 2023 and 2022.

Sustainability highlights

YEAR		2023	2022
Shareholders and investors			
Profit after tax	Shs BN	28,720	29,476
Return on equity	%	4	5
Earnings per share	Shs per share	38.39	39.40
Proposed dividends	Shs per share	9.10	8.19
CUSTOMERS			
Number of customers		1,864,218	1,408,696
Number of branches		54	55
Number of ATMs		78	72
Number of Agents		2,015	1,800
SUPPLIERS			
Total procurement spend	Shs Million	131,604	96,333
% of procurement spend with local suppliers	%	92	91
EMPLOYEES			
Number of employees		1,237	1,174
Number of female employees		628	653
Training spend	Shs Million	1,216	1,080
SOCIETY AND COMMUNITIES			
Donations and CSI spend	Shs Million	1,665	1,090

Environmental, Social and Governance (ESG) Review

Our ESG review outlines our approach to our environment, customers, employees, and governance. It also explains how we aim to achieve our purpose, sustainably deliver our strategy, and build strong relationships with our stakeholders.

ESG Review Overview

dfcu, primarily through its banking subsidiary **dfcu** Bank Limited, operates with the strategic intent of "Transforming lives and businesses in Uganda." The bank aims to "sustainably grow stakeholder value with innovative solutions, inclusivity, and empowered people." The critical value drivers behind this purpose include Customer Engagement, Employee Engagement, Risk & Compliance, Operational Excellence, Financial Performance, and Socio-Economic Environment Impact.

dfcu is committed to responsible and sustainable business practices, both through direct activities and indirect financing. An ESG Framework guides **dfcu's** approach, outlining its stance on environmental, social, and governance (ESG) issues, and it is complete with comprehensive policies and procedures for assessing and managing ESG risks across its operations. **dfcu** adheres to national laws and aligns with international standards, including the United Nations Environment Programme Finance Initiative (UNEP-FI) codes and industry best practices. **dfcu** acknowledges the importance of the Paris Agreement on Climate Change and the Sustainable Development Goals (SDGs), recognising the global mandate for every sector to transition towards a low-carbon economy.

ESG Risk Assessment Procedure

The ESG risk assessment team within the Credit Control and Monitoring Unit of the Credit Department includes three members, with two ESG Analysts dedicated to analysing environmental (E) and social (S) risks. This team plays a crucial role in evaluating the bank's business and operations for potential environmental and social risks, mainly focusing on transactions in ecologically and socially sensitive sectors such as oil and gas, mining, building and construction, agriculture, real estate, trade, commerce, and manufacturing.

Essential procedures within the bank's Environmental & Social Management System (ESMS) include:

1. **Screening Transactions:** All transactions are initially screened against the bank's Exclusion List at the credit application stage to filter out activities that do not comply with the bank's ESG criteria.

2. **Risk Review and Identification:** Transactions are further reviewed to pinpoint specific environmental and social risks according to sector-specific E&S guidelines.

3. **Risk Categorisation:** Transactions are categorised based on their E&S risk levels into three categories: A (High risk), B (Medium risk), and C (Low risk).

4. **Due Diligence for High and Medium Risk Transactions:** Transactions categorised under A and B are escalated by Relationship Managers to ESG Analysts for in-depth due diligence to assess finer details of the associated risks.

5. **Incorporation of E&S Conditions:** Environmental and social conditions and action plans are formalised as covenants in offer letters. Periodic monitoring evaluates the client's adherence to these plans and compliance with the established E&S requirements.

ESG Framework

The Bank's ESG framework is aligned with the IFC performance standards categorisation system as seen below:

- A (high risk) - Business activities with potential significant adverse environmental or social risks and diverse, irreversible, or unprecedented impacts.
- B (medium risk) - Business activities with potential limited adverse environmental or social risks and impacts that are few, 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 impacts.

The primary referenced national environmental law is the National Environment Act 2019.

E & S Portfolio Review

As of December 31, 2022, **dfcu** Bank Limited's loan portfolio consisted of 10% Category A transactions, 17% Category B transactions, and 73% Category C transactions, with these percentages based on the outstanding loan values. It is important to note that despite being the smallest percentage, category A transactions carry the highest exposure, necessitating stringent monitoring to mitigate potential environmental and social (E&S) risks.

At **dfcu**, we adhere to a philosophy where finance is expected to yield returns for shareholders and bear social relevance and environmental responsibility. Our approach is characterised by a "do no harm" principle in our financing decisions. We actively seek opportunities that contribute to local benefits and community revitalisation.

Commitment to Sustainable Financing

dfcu is dedicated to promoting environmentally sustainable and socially beneficial financial investments. These investments include:

1. **Green Investments:** Directed towards environmental goods and services that aim to prevent or minimise environmental degradation and help conserve and manage natural resources.

2. **Social Good Investments:** These encompass sectors such as education, healthcare, infrastructure, waste management, housing, and gender equality. They also include initiatives that support financial inclusion, employment creation, poverty reduction, and women and youth empowerment. The bank focuses on stimulating growth in rural areas and supporting small to medium enterprises (SMEs).

3. **Support for Public Policies: dfcu** backs public policies that facilitate the green transformation of the economy, such as feed-in tariffs for renewable energies and initiatives for clean water access.

4. **Financial Instruments for Environmental Protection:** The bank utilises financial tools like green credits, green bonds, green stock indices, carbon finance, and products related to energy efficiency to further environmental conservation efforts.

Through these strategic investments and policies, **dfcu** is committed to aligning its financial operations with broader environmental and social goals, reinforcing its commitment to responsible banking.

Connecting with stakeholders

The diagram below demonstrates the stakeholder engagement process at **dfcu**, which reflects our ethos of having the best interests of all the stakeholders at heart, maintaining continuous and open engagement through multiple platforms and 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 group's capital management objectives, given the lacklustre 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 operate in a highly regulated industry and are a top-tier Domestic Systemically Important Bank.	Keep satisfied
Business partners	High to moderate – due to vendors' dependence on critical to less customised solutions.	Keep informed
Society and environment	High to moderate – due to the obligation to operate responsibly to secure its social license.	Keep informed

dfcu pursued wide-ranging initiatives to support the advancement and welfare of critical stakeholders and respond to their needs and requirements.

Stakeholders	How we have engaged with and served our stakeholders	Engagement mechanism and frequency		Critical topics raised and feedback provided
Investors	• We upheld the group's image and reputation as a strategically important player. As a fundamental 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 group's performance prospects and strategic orientations. Along the way, we shared dedicated analyses to provide comfort regarding our risk management and business growth foundations.	Engagement mechanism	Frequency	• Financial performance • Governance • Transparency and disclosure • Business expansion plans • Risk management • Sustainable growth • Resilience to the effects of the macro-economic conditions • Rising NPA and impairment charges • Dividend payments • Achieving sustainable business growth against accepted risks
		Annual reports and AGMs	Annually	
		Extraordinary General Meetings	As required	
		Interim financial statements	Semi-annually	
		Investor presentations	As required	
		Press conferences and releases	As required	
		One-to-one discussions	As required	
		Corporate website		
		Feedback surveys	As required	

Customers	Actions	Engagement mechanism	Frequency	Concerns
Customers	• 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 economic 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, improving the reach and appeal of our wide-ranging channels and allowing customers to make payments and transactions more efficiently, faster, and safely. • We adopted appropriate and carefully designed communication and reporting channels vis-à-vis our customers to provide transparent and timely advice and information about our offering and 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 efficiently and reasonably. Over 99% of customer complaints registered during the year were resolved within less than 24 hours (2022: 99%) • 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 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.	**Engagement mechanism**	**Frequency**	• Swift service • Customer security and privacy • Service quality • Affordability of services and convenience • Grievance handling mechanism • Financial education and literacy • 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
		Customer visits	As required	
		Complaints received	As required	
		Complaints resolution officer, relationship managers	As required	
		Investment clubs	Continuous	
		Branch network and call centre	Continuous	
		Media advertisements	As required	
		Corporate website	Continuous	
		Customer workshops	As required	

<table>
<tr>
<td rowspan="6">Societies and Communities</td>
<td rowspan="6">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 to promote 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, and health and education.
Our corporate social responsibility activities are channelled through Agribusiness Development Centre (ADC), which is a dedicated vehicle for the efficient and practical design, implementation, and management of initiatives meant to drive the Group’s engagement with the community. Various initiatives were done during the year, as indicated in this report.
It is worth highlighting that no political donations were made during the year (2022: None)
Through our personalised solutions and thoughtful channel distribution, we promoted financial inclusions through investment clubs’ discussions, thus enabling our low-income customers to access 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, continuously monitoring and assessing our direct environmental footprint to minimise the impact As a critical achievement, we progressively reduced energy and water usage in line with the objectives and targets set. This was backed by the systematic monitoring of consumption patterns, which helped us identify saving opportunities.</td>
<td>Engagement mechanism</td>
<td>Frequency</td>
<td rowspan="6">Responsible financing
Commitment to community
Financial inclusion, recruitment
Microfinance and SME
Ethics and business conduct
Environmental performance</td>
</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 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>
</table>

Government institutions and regulators	• 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** 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. 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 the Uganda Revenue Authority (URA), collecting several taxes from our customers on their behalf. During the year, Shs 98,956 million (2022: Shs 83,305 million) was collected and paid to URA.	**Engagement mechanism**	**Frequency**	• Compliance with directives and codes • Microfinance and SME development • Stability of the financial system • Migration to cashless payment platforms • Supporting economic recovery and growth
		Supplier relationship management	Annually	
		Directives and circulars	As required	
		Meetings and consultations	As required	
		Press releases	As required	
		Periodic returns	As required	
		Submissions to policymakers	As required	
		Responses to consultation papers on Directions and other regulations	As specified	

Employees	• As part of our strategy to entrench the organisation as an employer of choice, we continued to attract, develop and retain talent and empower our people to deliver their best while developing and capitalising on the collective skills, knowledge, and experience. Through surveys and culture audits, **dfcu** continues to engage with staff to understand and respond to their needs adequately. To realise its strategic objectives, **dfcu** continues implementing dedicated projects and programs as part of its ongoing HR Transformation Programme. While promoting an environment of trust, high aspiration, and achievement and fostering strategic talent acquisition, the underlying aim is to reinforce human resource frameworks in support of enhanced operational efficiencies and sound and balanced business growth.	**Engagement mechanism**	**Frequency**	
		Town hall meetings	Monthly	• 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
		Regional review meetings	As required	
		Training programmes	As required	
		Intranet	Continuous	
		Special staff events	Annually	
		Employee satisfaction survey	As required	

Wealth creation

As one of the largest financial institutions in the market, we continue to honour our commitment to driving Uganda's growth. Through our financing activities, we support financial inclusion and promote the growth of critical sectors of the economy in line with the Government's national development plan. Below, the numbers highlighted demonstrate our social, economic and environmental impact in all areas that touch and influence our clients, government, shareholders, employees, and communities:

	2023		2022	
	Ushs M	%age of wealth created	Ushs M	%age of wealth created
Interest income	349,664	285%	343,364	257%
Fee and commission income	65,403	53%	62,384	47%
Other income	34,087	28%	25,742	19%
Interest paid to depositors	(78,335)	-64%	(69,372)	-52%
Operating expenses	(248,003)	-202%	(228,441)	-171%
Income Generated	**122,816**	**100%**	**133,677**	**100%**
Distribution of wealth				
Employees	88,805	72%	69,232	52%
Government	22,428	18%	14,825	11%
Shareholders	6,808	6%	6,129	5%
Society	1,665	1%	1,090	1%
Retention to support growth	3,110	3%	42,401	32%
Wealth distributed	**122,816**	**100%**	**133,677**	**100%**

Business Continuity Management

Continuity of critical business operations is vital to **dfcu'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 comprises senior officers representing the **dfcu** essential business and service units.

The BCP Committee developed a formal Business Continuity Plan in accordance with the requirements and guidelines of the Bank of Uganda (BOU), which has been formally approved by the Board. The Plan addresses operational risks and strives to minimise any threats posed by shortcomings or failures of internal processes and systems and external events, including natural disasters.

As **dfcu** relies heavily on information technology, we have established disaster recovery sites at remote locations and conducted periodic role swap exercises to test **dfcu's** ability to withstand any disaster situation. These exercises aim to identify issues in switching machines and minimise downtime and data loss.

Procurement

dfcu subscribes to openness, integrity, and fairness principles in its drive to implement best practices in international procurement. We endeavour to give as many suppliers as possible an opportunity to tender. **dfcu** is committed to excellent corporate governance and a very high standard of ethics. In general, **dfcu** supports the purchase of goods and services on the local market. Whereas **dfcu** applies standard procurement terms and conditions to all procurements, **dfcu** 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** also proactively supports local suppliers in the economy. By supporting local businesses in the supply chain, we attract additional investment to the local economy. The proportion of local spending is also significant in contributing to the local economy and maintaining community relations. Our procurement policy prioritises local suppliers while ensuring alignment with **dfcu's** standards for solution quality, sustainability, and commercial viability.

Summary of procurement spend:

		2023	2022
Total procurement spend	Shs M	131,604	96,333
Amount spent on local suppliers	Shs M	121,075	87,663
Amount spent on foreign suppliers	Shs M	10,529	8,670
Percentage spent on local suppliers		92%	91%

Our Employees

dfcu employed 1,237 employees (2022: 1,174), of which 51% are female (2022: 56%). **dfcu** ensures that all its people train at least once a year to enhance skills and productivity. **dfcu** spent a total of UGX 1,216 Million (2022: UGX 1,080 Million) on training staff.

	2023	2022
Total employees (number)	1,237	1,174
Total staff costs (Shs M)	88,805	69,232
Staff composition (Female: Male)	51% : 49%	56% : 44%
Staff training spend (Shs M)	1,216	1,080

Financial enablement for staff

Through our employee value proposition, we enabled staff to acquire homes and finances for personal development. As of 31 December 2023, the total advances to employees amounted to UGX 34,088 Million (2022: UGX 29,667 Million). There was no credit to employees that was neither past due nor impaired.

	2023		2022	
	Number of staff	Shs M	Number of staff	Shs M
Staff personal dev- loans	737	17,355	663	15,224
Staff home loans	117	16,733	91	14,443
Total	854	34,088	754	29,667

Performance measurement

To monitor an employee's contribution, **dfcu** developed a performance measurement tool with 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 the bank's future capability requirements, as well as personal development needs and aspirations. The performance measurement is done twice a year.

Staff feedback:

dfcu 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 allocated a human resource business partner to help coordinate the difficulties identified by employees in that department.

Talent management and succession planning

dfcu people management philosophy is to build its talent pool to support its growth progressively. 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.

Consolidated and Separate Financial Statements

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Financial statements:

GROUP INFORMATION

DIRECTORS

JD Mugerwa*	-	Chairman
A. Zawedde*	-	Non-executive Director
L. Kironde*	-	Non-executive Director
Fred Pelser***	-	Non-executive Director
BT Arimi*	-	Non-executive Director
CE Akello*	-	Non-executive Director

*Ugandan ***South African

CORPORATION SECRETARY

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

AUDITOR

Ernst & Young
Certified Public Accountants
EY House
Plot 18 Clement Hill Road
Shimoni Office Village
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

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

Bank of China
Zhongyin Tower
Yincheng Zhong Road
Shangai, China

Kenya Commercial Bank (KCB)
Kencom House, Moi Avenue
Nairobi, Kenya

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

GROUP'S SOLICITORS

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

S&L 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

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 2023, 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 3.158 trillion in 2023 (2022: Ushs 3.243 trillion), net loans and advances of Ushs 1.126 trillion (2022: 1.361 trillion) and customer deposits of Ushs 2.319 trillion (2022: Ushs 2.411 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 28.7 billion (2022: Ushs 29.5 billion) has been added to retained earnings. During the year, there were no interim dividends paid (2022: Nil). The directors recommend the payment of a final dividend for the year ended 31 December 2023 of Ushs 6,808 million (2022: Ushs 6,129 million) or Ushs 9.10 per share (2022: Ushs 8.19 per share).

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 115.

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, will not seek re-appointment at the annual general meeting in accordance with Section 167 (2) of the Companies Act of Uganda, having completed the fourth year of continuous service as stipulated under Section 67 of the Financial Institutions Act 2004 (as amended 2016).

ISSUE OF CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The consolidated and separate financial statements were authorised for issue in accordance with a resolution of the directors dated 26 March 2024.

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: 26 March 2024

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 2023, 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 material accounting policy information 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 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 26 March 2024 and were signed on its behalf by:

....	....
Director	**Director**

....

Secretary

Date: 26 March 2024

The independent auditor's report to the shareholders of dfcu Limited

Report on the audit of the consolidated and separate financial statements

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 125 to 230, which comprise the consolidated and separate statements of financial position as at 31 December 2023, 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 material accounting policy information.

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 2023, 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.

The key audit matters only apply to the audit of the consolidated financial statements.

No.	Key Audit Matter	How our audit addressed the key audit matter
1	**Accounting for expected credit losses on loans and advances to customers**	
	As disclosed in Note 23 to the financial statements, as at 31 December 2023, the Group had an allowance for expected credit losses of Ushs 40.247 billion (2022: Ushs 62.683 billion) charged on gross loans and advances of Ushs 1.166 billion (2021: Ushs 1.424 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.	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 financial statements agreed to the audited balances and information, and whether they were in accordance with IFRS 9.

No.	Key Audit Matter	How our audit addressed the key audit matter
1	**Accounting for expected credit losses on loans and advances to customers (Continued)**	
	• Application of additional overlay adjustments to reflect factors that are not considered in the applied expected credit loss model. Due to changes in the business environment, management re-assesses 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 financial statements provide information about the key assumptions made in the determination of ECLs. Due to changes in the business environment, management re-assesses 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 financial statements provide information about the key assumptions made in the determination of ECLs. 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(g), 6B and 23 to the financial statements for the accounting policies and explanatory notes on expected credit losses on loans and advances to customers.	
2	**Valuation of non-performing loans acquired from Crane Bank Limited (in receivership)**	
	As disclosed in Note 27 to the 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 9.108 billion as at 31 December 2023 (2022: Ushs 26.501 billion). A fair value loss of Ushs 3.381 billion was recognised for the year ended 31 December 2023 (2022: Ushs 4.93 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 also entails considering the impact of changes in the business environment on the counterparties. We also considered that the related disclosures in Note 27 to the 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 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 Bank. • Assessed whether the disclosures made in the financial statements are complete.

Other information

The directors are responsible for the other information. The other information comprises the information included on pages 115 to 119 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 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.

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 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 and Company's internal control.

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements (continued)

- 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 account have been kept by the Group and the Company, so far as appears from our examination of those books; and,

iii) the consolidated and separate statements of financial position and the consolidated and separate statements of comprehensive income are in agreement with the books of account.

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: 27 March 2024

Consolidated statement of comprehensive income for the year ended 31 December 2023

	Note	2023 Ushs M	2022 Ushs M
Interest income calculated using the effective interest method	9(a)	**346,824**	339,058
Other interest and similar income	9(b)	**2,840**	4,306
Interest expense calculated using the effective interest method	10	**(91,978)**	(74,577)
Net interest income		**257,686**	**268,787**
Fees and commission income	13	**65,403**	62,384
Net trading and other income	11	**19,823**	24,980
Net income from other financial instruments at FVTPL	12	**14,264**	762
Total operating income		**357,176**	**356,913**
Operating expenses	14	**(248,003)**	(228,441)
Fair value losses on other financial assets at fair value through profit or loss	27	**(3,381)**	(4,930)
Credit loss expense on financial assets	18	**(82,714)**	(88,190)
Profit before tax		**23,078**	**35,352**
Income tax credit / (expense)	20(a)	**5,642**	(5,876)
Profit for the year		**28,720**	**29,476**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net loss on FVOCI financial assets net of tax	20(b)	**(11,052)**	8,924
Changes in ECL on FVOCI financial instruments	20(b)	**(39)**	107
Total other comprehensive income		**(11,091)**	**9,031**
Total comprehensive income for the year		**17,629**	**38,507**
Attributable to:			
Equity holders of the Company		**17,629**	38,507
Non-controlling interest		**-**	-
		17,629	**38,507**
Earnings per share:			
Basic earnings per share	19	**38.39**	39.40
Diluted earnings per share	19	**38.39**	39.40

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

Company statement of comprehensive income for the year ended 31 December 2023

	Note	2023 Ushs M	2022 Ushs M
Interest income	9	**160**	80
Interest expense	10	**(1,942)**	(2,324)
Net interest expense		**(1,782)**	(2,244)
Fees and commissions	13	**707**	640
Dividend income		**12,257**	-
Other income	11	**6,931**	6,479
Operating income		**18,113**	4,875
Operating expenses	14	**(8,827)**	(4,407)
Profit before tax		**9,286**	468
Income tax expense	20(a)	**(2,346)**	(1,635)
Profit / (loss) for the year		**6,940**	(1,167)
Other comprehensive income:			
Profit / (loss) for the year		**6,940**	(1,167)
Other comprehensive income		**-**	-
Total comprehensive income / (loss) for the year		**6,940**	(1,167)

Consolidated statement of financial position as at 31 December 2023

	Note	2023 Ushs M	2022 Ushs M
Assets			
Cash and balances with Bank of Uganda	21	**530,176**	482,298
Deposits and balances due from other banks	22	**255,165**	216,771
Government and other securities:			
Trading assets	26	**18,288**	46,757
Investment securities at FVOCI	25	**597,222**	655,189
Investment securities at amortised cost	25	**371,415**	247,190
Loans and advances to customers	23	**1,125,816**	1,361,445
Assets held for disposal	29 (b)	**29,089**	29,089
Investment in equity shares	24	**6,065**	6,980
Other assets	27	**29,791**	41,288
Derivative financial instruments	44 (b)	**228**	567
Deferred tax assets	31	**65,226**	33,411
Property, equipment, and right-of-use assets	29	**83,208**	77,110
Investment property	28	**19,295**	19,784
Intangible assets	30	**27,142**	25,178
Total assets		**3,158,126**	**3,243,057**
Liabilities			
Customer deposits	33	**2,318,572**	2,410,593
Derivative financial instruments	44 (b)	**273**	240
Deposits due to other banks	34	**35,033**	8,512
Other liabilities	35	**72,155**	62,409
Borrowed funds	37	**84,137**	123,689
Special funds	36	**1,193**	1,193
Income tax payable	20 (d)	**542**	1,550
Provisions	44 (a)	**2,188**	2,338
Total liabilities		**2,514,093**	**2,610,524**
Equity			
Share capital	38	**14,963**	14,963
Share premium	38	**185,683**	185,683
FVOCI reserve	41	**1,200**	12,291
Retained earnings	40	**427,310**	413,467
Regulatory reserve	39	**8,069**	-
Proposed dividend	17	**6,808**	6,129
Total equity		**644,033**	**632,533**
Total equity and liabilities		**3,158,126**	**3,243,057**

The consolidated and separate financial statements were approved for issue by the Board of Directors on 26 March 2024 and signed on its behalf by:

.... **Director**

.... **Director**

.... **Secretary**

Company statement of financial position as at 31 December 2023

	Note	2023 Ushs M	2022 Ushs M
Assets			
Amounts due from Group companies	46(b)	**4,558**	1,480
Other assets	27	**93**	102
Income tax recoverable	20(d)	**677**	655
Deferred tax assets	31	**-**	1,005
Investment in subsidiaries	32	**203,293**	203,293
Investment property	28	**38,043**	39,546
Total assets		**246,664**	246,081
Liabilities and equity			
Liabilities			
Other liabilities	35	**3,162**	3,108
Borrowed funds	37	**-**	4,759
Deferred tax liability	31	**291**	-
Amounts due to Group companies	46 (a)	**20,328**	16,142
Total liabilities		**23,781**	24,009
Equity			
Share capital	38	**14,963**	14,963
Share premium	38	**185,683**	185,683
Accumulated profits		**15,429**	15,297
Proposed dividends	17	**6,808**	6,129
Total equity		**222,883**	222,072
Total equity and liabilities		**246,664**	246,081

The consolidated and separate financial statements were approved for issue by the Board of Directors on 26 March 2024 and signed on its behalf by:

....
Director

....
Director

....
Secretary

Consolidated statement of changes in equity for the year ended 31 December 2023

	Note	Share capital	Share premium	Retained earnings	Regulatory reserve	FVOCI revaluation reserve	Proposed dividends	Attributable to equity holders of the parent	Total
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
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	20(b)	-	-	-	-	107	-	107	107
FVOCI revaluation	20(b)	-	-	-	-	8,924	-	8,924	8,924
Transactions with shareholders:									
Proposed dividends	17	-	-	(6,129)	-	-	6,129	-	-
As at 31 December 2022		**14,963**	**185,683**	**413,467**	**-**	**12,291**	**6,129**	**632,533**	**632,533**
As at 1 January 2023		**14,963**	**185,683**	**413,467**	**-**	**12,291**	**6,129**	**632,533**	**632,533**
Profit for the year		**-**	**-**	**28,720**	**-**	**-**	**-**	**28,720**	**28,720**
Loss allowance FVOCI	20(b)	**-**	**-**	**-**	**-**	**(39)**	**-**	**(39)**	**(39)**
FVOCI revaluation	20(b)	**-**	**-**	**-**	**-**	**(11,052)**	**-**	**(11,052)**	**(11,052)**
Increase in regulatory reserve	39	**-**	**-**	**(8,069)**	**8,069**	**-**	**-**	**-**	**-**
Transactions with shareholders:									
Dividends paid		**-**	**-**	**-**	**-**	**-**	**(6,129)**	**(6,129)**	**(6,129)**
Proposed dividends	17	**-**	**-**	**(6,808)**	**-**	**-**	**6,808**	**-**	**-**
As at 31 December 2023		**14,963**	**185,683**	**427,310**	**8,069**	**1,200**	**6,808**	**644,033**	**644,033**

Company statement of changes in equity for the year ended 31 December 2023

	Note	Share capital	Share premium	Accumulated losses	Proposed dividends	Total
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
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**
At 1 January 2023		**14,963**	**185,683**	**15,297**	**6,129**	**222,072**
Profit for the year		**-**	**-**	**6,940**	**-**	**6,940**
Transactions with shareholders:						
Dividends paid		**-**	**-**	**-**	**(6,129)**	**(6,129)**
Dividends proposed	17	**-**	**-**	**(6,808)**	**6,808**	**-**
At 31 December 2023		**14,963**	**185,683**	**15,429**	**6,808**	**222,883**

Consolidated statement of cash flows for the year ended 31 December 2023

	2023	2022
	Ushs M	Ushs M
Operating activities:		
Profit before tax	**23,078**	35,352
Adjustment for:		
Depreciation of property, equipment, and right-of-use assets (note 29(a))	**16,445**	15,272
Depreciation of investment property (note 28)	**489**	653
Amortisation of intangible assets (note 30)	**6,910**	9,128
Unrealised foreign exchange loss /(gain)(note 11)	**633**	(677)
Gain on disposal of fixed assets	**(128)**	(76)
Fair value losses on assets at fair value through profit and loss (note 27)	**3,381**	4,930
Credit loss expense on financial assets (note 18)	**82,714**	88,190
Reversals in provisions and employee benefits	**(73,974)**	(212,096)
Cash from operating activities before changes in operating assets and liabilities	**59,548**	**(59,324)**
Changes in operating assets and liabilities		
Increase in government and other securities	**(66,261)**	(350,220)
Increase / (decrease) in Bank of Uganda cash reserve requirement	**15,690**	(23,050)
Increase in loans and advances to customers	**258,064**	261,540
Decrease in other assets	**11,497**	76,859
Decrease in balances due to other banks	**26,521**	8,512
(Decrease)/increase in customer deposits	**(92,021)**	128,388
Increase in other liabilities	**7,020**	3,429
	220,058	46,134
Income tax paid	**(22,428)**	(14,825)
Net cash flows from operating activities	**197,630**	**31,309**
Investing activities		
Purchase of property and equipment (note 29(a))	**(25,041)**	(3,095)
Purchase of investment property (note 28)	**-**	(555)
Purchase of intangible assets (note 30)	**(8,874)**	(3,264)
Proceeds from sale of property and equipment	**464**	129
Net cash flows used in investing activities	**(33,451)**	**(6,785)**
Financing activities		
New borrowings received (note 37)	**12,844**	1,952
Principal paid on borrowings (note 37)	**(55,963)**	(84,572)
Interest paid on lease liability (note 43 (ii))	**(8,438)**	(3,253)
Principal paid on lease liability (note 43 (ii))	**(4,384)**	(8,448)
Dividends paid to shareholders (note 17)	**(6,129)**	-
Net cash flows used in financing activities	**(62,070)**	(94,321)
Net increase / (decrease) in cash and cash equivalents	**102,109**	(69,797)
Unrealised foreign exchange loss on cash and cash equivalents	**(147)**	(510)
Cash and cash equivalents at start of year	**472,559**	542,866
Cash and cash equivalents at end of year	**574,521**	**472,559**
Additional information on operational cash flows from interest and dividends		
Interest paid	**79,676**	75,916
Interest received	**347,145**	339,579
Dividends received	**729**	**1,037**

Company statement of cash flows for the year ended 31 December 2023

	2023	2022
	Ushs M	Ushs M
Operating activities:		
Profit before tax	**9,286**	468
Adjustment for:		
Depreciation of investment property (note 28)	**1,578**	2,146
Unrealised foreign exchange loss (note 11)	**67**	8
Reversals in provisions and employee benefits	**(46)**	(3,287)
Cash from operating activities before changes in operating assets and liabilities	**10,885**	(665)
Changes in operating assets and liabilities		
Increase in amounts due to group companies	**4,186**	1,509
(Decrease) / increase in other assets	**9**	(84)
Increase / (decrease) in other liabilities	**44**	(197)
	15,124	563
Income tax paid	**(1,072)**	(490)
Net cash flows from operating activities	**14,052**	73
Investing activities		
Purchase of investment property (note 28)	**(75)**	(562)
Net cash flows used in investing activities	**(75)**	**(562)**
Financing activities		
Principal paid on borrowings (note 37)	**(4,759)**	(916)
Dividends paid to shareholders (note 17)	**(6,129)**	-
Net cash flows used in financing activities	**(10,888)**	**(916)**
Net increase / (decrease) in cash and cash equivalents	**3,089**	(1,405)
Unrealised foreign exchange (loss) / gain on cash and cash equivalents	**(11)**	3
Cash and cash equivalents at start of year	**1,480**	2,882
Cash and cash equivalents at end of year	**4,558**	**1,480**
Additional information on operational cash flows from interest and dividends		
Interest paid	**568**	914
Interest received	**160**	80

1. General information

dfcu Limited ('the Company') is incorporated in Uganda under the Companies Act, 2012 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:

Company statement of cash flows for the year ended 31 December 2023
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 statements of financial position and the profit and loss account is represented by the consolidated and separate statements 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) as issued by the International Accounting Standards Board (IASB). They were authorised for issue by the Company's board of directors on 26 March 2024. 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. Material 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. While the specific areas of judgement did not change, the current economic environment including the impact of the on-going conflict and related sanctions in Russia, Ukraine and/or Belarus 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.

3. Material accounting judgements, estimates and assumptions (continued)

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.

3. Material accounting judgements, estimates and assumptions (continued)

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(W).

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 accounting policies

New and amended standards and interpretations.

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standards that became effective for the Group during the year

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. Effective 1 January 2023, IFRS 17 replaced IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies.

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

4. Changes in accounting policies (continued)

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The Group carried out an assessment of its contracts and operations and concluded that the adoption of IFRS 17 has had no effect on the Group's financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023.

The Group has revisited her accounting policy information disclosures to ensure consistency with the amended requirements.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments were effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

The amendments did not have a material impact on the Group's financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrows the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments did not have a material impact on the Group's financial statements.

International Tax Reform – Pillar Two Model Rules - Amendments to IAS 12

In May 2023, the Board issued amendments to IAS 12, which introduce a mandatory exception in IAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

The amendments clarify that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

4. Changes in accounting policies (continued)

The amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.

As at 31 December 2023, The Pillar Two Model Rules were not yet adopted in Uganda and as such the amendments did not have a material impact on the Group's financial statements.

New and revised International Financial Reporting 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 new and amended standards and interpretations, 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.

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1 (Effective for annual periods beginning on or after 1 January 2024).
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 (Effective for annual periods beginning on or after 1 January 2024).
- Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7 (Effective for annual periods beginning on or after 1 January 2024).
- Lack of Exchangeability – Amendments to IAS 7 and IFRS 7 (Effective for annual periods beginning on or after 1 January 2025)
- Sale or Contribution of Assets between an investor and its Associate or Joint Venture-Amendments to IFRS 10 and IAS 28 (Effective date postponed indefinitely pending the outcome of IASB's research project on the equity method of accounting).

5. Summary of 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 2023.

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.

5. Summary of accounting policies (continued)

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(l) and 6B.

5. Summary of accounting policies (continued

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.

5. Summary of accounting policies (continued)

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.

5. Summary of accounting policies (continued)

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.

5. Summary of accounting policies (continued)

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 for 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.

5. Summary of accounting policies (continued)

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. 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.

5. Summary of accounting policies (continued)

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.

5. Summary of accounting policies (continued)

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.

vi. Fair value measurement

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

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

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

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

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

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

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

5. Summary of accounting policies (continued)

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.

5. Summary of accounting policies (continued)

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 ECL 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 the credit loss expense on financial assets' in the statement of profit or loss.
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 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.

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.

5. Summary of accounting policies (continued)

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.

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.

5. Summary of accounting policies (continued)

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.

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

5. Summary of accounting policies (continued)

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.

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.

5. Summary of accounting policies (continued)

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 change in fair value and are used by the Group in management is its short-term commitments. Cash and cash equivalents exclude the cash reserves requirement held with the central Bank.

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

5. Summary of accounting policies (continued)

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.

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.

5. Summary of accounting policies (continued)

The right-of-use assets are presented within Note 29 Property, equipment and right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 5(u) - 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.

p) Dividends

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

q) 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.

r) 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.

5. Summary of accounting policies (continued)

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.

s) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss 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:

- 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.

t) 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.

u) 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.

5. Summary of accounting policies (continued)

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.

v) 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.

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.

w) 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. 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.

ii. 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.

5. Summary of accounting policies (continued)

x) 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.

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.

y) 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.

5. Summary of accounting policies (continued)

z) 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	2023	2022
Financial assets		**Ushs M**	**Ushs M**
Amortised cost:			
Cash and balances with Bank of Uganda	21	**530,176**	482,298
Deposits and balances due from other banks	22	**255,165**	216,771
Loans and advances to customers	23	**1,125,816**	1,361,445
Investment securities: measured at amortised cost	25	**371,415**	247,190
Other assets: measured at amortised cost excluding prepayments	27	**15,048**	9,412
		2,297,620	2,317,116
FVOCI			
Investment securities: Measured at fair value	25	**597,222**	655,189
		597,222	655,189
FVTPL			
Mandatorily at FVTPL			
Trading assets	26	**18,288**	46,757
Equity investments	24	**4,927**	5,589
Derivative financial instruments	44(b)	**228**	567
Designated at FVTPL			
Other assets: measured at fair value	27	**9,108**	26,501
		32,551	79,414
		2,927,393	3,051,719
Financial liabilities			
Measured at FVTPL			
Derivative financial instruments	44(b)	**273**	240
Measured at amortised cost:			
Customer deposits	33	**2,318,572**	2,410,593
Balances due to other banks	34	**35,033**	8,512
Borrowed funds	37	**84,137**	123,689
Special funds	36	**1,193**	1,193
Other financial liabilities	35	**52,625**	43,962
		2,491,560	2,587,949
		2,491,833	2,588,189

		Company	
	Note	**2023**	2022
		Ushs M	Ushs M
Financial assets			
Measured at amortised cost:			
Amounts due from Group Companies	46(b)	**4,558**	1,480
Other assets: Measured at amortised cost excluding prepayments	27	**2**	9
		4,560	1,489
Financial liabilities			
Measured at amortised cost:			
Amounts due to Group Companies	46(a)	**20,328**	16,142
Borrowed funds	37	**-**	4,759
Other financial liabilities	35	**3,162**	2,911
		23,490	23,812

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	
	2023	2022
	Ushs M	Ushs M
Balances with Bank of Uganda (note 21)	317,968	288,471
Loans and advances to banks (note 22)	255,165	216,771
Loans and advances to customers (note 23)	1,125,816	1,361,445
Government securities (notes 25 and 26)	986,925	949,136
Other assets excluding prepayments (note 27)	24,156	35,913
Credit risk exposures on off-statement of financial position items (note 42)		
- Guarantee and performance bonds	248,979	350,596
- Commitments to lend	23,742	26,957
	2,982,751	3,229,289

	Company	
	2023	2022
	Ushs M	Ushs M
Amounts due from Group Companies	4,558	1,480
Other financial assets (note 27)	2	9
	4,560	1,489

The above represents the worst-case scenario of the Group and Company's credit risk exposure as at 31 December 2023 and 2022, 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, 38% of the total maximum exposure is derived from loans and advances to banks and customers (2022: 42%), whilst 33% represents investments in government securities (2022: 29%).

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;

- 86% 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:	2023	2022
	Ushs M	Ushs M
Neither past due nor impaired	1,000,709	1,169,627
Past due but not impaired*	57,179	146,822
Impaired	108,175	107,679
Gross	1,166,063	1,424,128
Less: Allowance for impairment (note 23)	(40,247)	(62,683)
Net carrying amount	1,125,816	1,361,445

*The decrease in amounts past due but not impaired relates to two facilities with an aggregate exposure of Ushs 85 billion that are now classified under the neither past due nor impaired category.

6 Financial risk management (continued)

6B Credit risk (continued)

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

Loans and advances neither past due nor impaired

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

	2023	2022
	Ushs M	Ushs M
Grades 1-9 (Low-fair / higher risk)	**1,000,709**	1,169,627

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:

	2023	2022
	Ushs M	Ushs M
Past due up to 30 days	**10,734**	12,886
Past due 31 - 60 days	**40,492**	124,283
Past due 61 - 89 days	**5,953**	9,654
	57,179	146,823

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 2023, the gross carrying amount of impaired loans and advances to customers amounted to Ushs 108,175 million (2022: Ushs 107,679 million) and the value of identifiable collateral held against those loans and advances amounted to Ushs 147,682 million (2022: Ushs 83,494 million).

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

	Loans		Overdrafts	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
Loans and advances	**104,374**	105,243	**3,801**	2,436
Fair value of collateral	**141,289**	83,166	**6,393**	328

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, and 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

	2023			
	Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	1,000,709	-	-	1,000,709
Grades 7-9 Higher risk	-	57,179	-	57,179
Grade 10: Sub standard	-	-	41,197	41,197
Grade 11: Doubtful	-	-	59,261	59,261
Grade 12: Loss	-	-	7,717	7,717
	1,000,709	57,179	108,175	1,166,063
Loss allowance	(11,769)	(4,439)	(24,039)	(40,247)
Carrying amount	988,940	52,740	84,136	1,125,816
	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

Balances with Bank of Uganda

	2023			
	Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1–6 Low-fair risk	318,040	-	-	318,040
Loss allowance	(72)	-	-	(72)
Carrying amount	317,968	-	-	317,968
	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

6 Financial risk management (continued)

6B Credit risk (continued)

Loans and advances to other banks

	2023			
	Ushs M			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grades 1-6 Low-fair risk	**255,250**	**-**	**-**	**255,250**
Loss allowance	**(85)**	**-**	**-**	**(85)**
Carrying amount	**255,165**	**-**	**-**	**255,165**

	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

Other assets: receivables excluding prepayments

	2022		
	Ushs M		
	12-month ECL not credit impaired	Credit impaired	Total
Grades 1-6 Low-fair risk	15,072	-	15,072
Loss allowance	(24)	-	(24)
Carrying amount	15,048	-	15,048

	2021		
	Ushs M		
	12-month 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**

Investment securities at amortised cost

	2023			
	Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	**371,694**	-	-	371,694
Loss allowance	**(279)**	-	-	(279)
Carrying amount	**371,415**	-	-	371,415

	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

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 151 (2022: Ushs 190 million) and is recorded in the OCI. (See note 41)

Cash and cash equivalents

The Group held cash and cash equivalents of Ushs 574,521 million at 31 December 2023 (2022: Ushs 472,559 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	2023	2022	Principal type of collateral held
		Ushs M	Ushs M	
Balances with Bank of Uganda	21	**317,968**	288,471	None
Loans and advances to banks	22	**255,165**	216,771	None
Loans and advances to retail customers:	23			
Mortgage lending		**90,838**	74,715	Residential property
Personal loans		**378,119**	381,918	None
Loans and advances to corporate customers:	23			
Finance leases		**15,329**	24,126	Property and equipment
Others		**641,530**	880,686	Commercial property, floating charges over corporate assets
Trading assets	26	**18,288**	46,757	None
Investment debt securities	25	**968,637**	902,379	None
Other assets excluding prepayments	27	**15,048**	35,913	None
Off balance sheet items:				
-Guarantee and performance bonds	42	**248,979**	350,596	None
-Undrawn commitments	42	**23,742**	26,957	None

		Company		
		2023	2022	Principal type of collateral held
		Ushs M	Ushs M	
Amounts due from Group Companies	46(b)	**4,558**	1,480	
Other assets excluding prepayments	27	**2**	9	

6 Financial risk management (continued)

6B Credit risk (continued)

		Group		
31 December 2023	Note	Gross carrying amount	Total collateral	Associated ECL
		Ushs M	Ushs M	Ushs M
Balances with Bank of Uganda	21	**318,040**	**-**	**72**
Loans and advances to banks	22	**255,250**	**-**	**85**
Loans and advances to customers	23	**1,166,063**	**4,336,020**	**40,247**
Trading assets	26	**18,288**	**-**	**-**
Investment debt securities at fair value through other comprehensive income	25	**597,222**	**-**	**-**
Investment securities at amortised cost	25	**371,694**	**-**	**279**
Other assets excluding prepayments	27	**15,072**	**-**	**24**
Off-statement of financial position items:				
-Guarantee and performance bonds	42	**249,054**	**-**	**75**
-Undrawn commitments	42	**23,742**	**-**	**-**
		3,014,425	**4,336,020**	**40,782**

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
Loans and advances to 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	35,954	-	41
Off-statement of financial position items:				
-Guarantee and performance bonds	42	351,334	-	101
-Undrawn commitments	42	26,957	-	-
		3,294,049	3,743,894	64,123

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 2023, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to Ushs 44,886 million (2022: Ushs 44,681 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Ushs 61,280 million (2022: Ushs 73,302 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.

		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)	**4,558**	-	-
Other assets excluding prepayments	27	**2**	-	-
		4,560	-	-
31 December 2021				
Amounts due from Group Companies	46(b)	**1,480**	-	-
Other assets excluding prepayments	27	**9**	-	-
		1,489	-	-

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.

6 Financial risk management (continued)

6B Credit risk (continued)

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.	Internally collected data on customer behavior- e.g., utilisation of credit card facilities	Payment record - this includes overdue status as well as a range of variables about payment ratios
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.	Affordability metrics External data from credit reference agencies, including industry-standard credit scores	Utilisation of the granted limit Requests for and granting of forbearance Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

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

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

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

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

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

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

As a backstop, and as required by IFRS 9, the Group presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist.

In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

6 Financial risk management (continued)

6B Credit risk (continued)

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.

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).

6 Financial risk management (continued)

6B Credit risk (continued)

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 2023						
Key drivers	**ECL Scenario**	**2023**	**2024**	**2025**	**2026**	**2027**
		%	%	%	%	%
CPI trends	Upside	**145**	**163**	**174**	**183**	**191**
	Base case	**156**	**175**	**188**	**197**	**205**
	Downside	167	**188**	**201**	**212**	**220**

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

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 material accounting policies section and Note 3 - Material accounting judgements, estimates and assumptions.

The level of estimation uncertainty has increased since 31 December 2022 as a result of the economic disruption caused by the impact of the conflict and related sanctions in Ukraine, Russia and/or Belarus. 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.

6 Financial risk management (continued)

6B Credit risk (continued)

Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2023 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 2023					
Total corporate and retail lending	**40,247**	**-**	**-**	**40,247**	**0%**
31 December 2022					
Total corporate and retail lending	51,671	-	11,012	62,683	18%

Post-model adjustments

Post-model adjustments (both positive and negative) represent adjustments in relation to data and model limitations as a result of the economic disruption caused by the conflict and related sanctions in Ukraine, Russia and/or Belarus. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level.

Management overlays

Management overlays reflect the significant uncertainty as a consequence of the economic disruption caused by the conflict and related sanctions in Ukraine, Russia and/or Belarus. 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.

6 Financial risk management (continued)

6B Credit risk (continued)

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.

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 2023	**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	**50,920**	**-**	**48,241**	**48,241**
Retail loans	**6,260**	**-**	**1,899**	**1,899**
	57,180	**-**	**50,140**	**50,140**

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

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 2023				
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	**148,061**	**291**	**124,125**	**211**
Facilities that reverted to (Stage 2/3) LTECL having once cured	**910**	**19**	**717**	**109**
Total	**148,971**	**310**	**124,842**	**320**
31 December 2022				
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	32,526	102	12,529	257
Facilities that reverted to (Stage 2/3) LTECL having once cured	42,185	3,810	201	16
Total	74,711	3,912	12,730	273

6 Financial risk management (continued)

6B Credit risk (continued)

Measurement of ECL

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

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

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

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

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

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

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

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

6 Financial risk management (continued)

6B Credit risk (continued)

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

			External benchmarks used	
	Exposure Ushs	Moody's Rating	S&P Rating	
	2023	2022	PD	LGD
Government securities – Amortised cost	**371 bn**	247 bn	2.8% - 21.4%	6%
Government securities - FVOCI	**597 bn**	655 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.

	2023		2022	
	Loans and advances	Credit commitments	Loans and advances	Credit commitments
As at 31 December				
Agriculture	**11%**	**9%**	13%	7%
Manufacturing	**7%**	**6%**	11%	16%
Trade and commerce	**9%**	**57%**	12%	12%
Transport and communications	**5%**	**15%**	8%	23%
Building and construction	**12%**	**4%**	12%	20%
Leisure, hotels, and accommodation	**1%**	**0%**	3%	5%
Home loans	**8%**	**0%**	3%	0%
Private individual	**25%**	**7%**	17%	0%
Real estate	**16%**	**0%**	16%	0%
Schools	**6%**	**2%**	4%	8%
Other	**0%**	**0%**	1%	9%
	100%	**100%**	100%	100%

As at 31 December 2023 and 2022, 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).

6 Financial risk management (continued)

6C Liquidity risk

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

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Group's objective to managing liquidity is to ensure that there will always be sufficient liquidity to meet its liabilities and other obligations when they fall due under both normal and stressed conditions in line with the Group's Assets and Liabilities Management (ALM) policies without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

	2023	**2022**
At 31 December	**39.0%**	32.2%
Average for the period	**33.3%**	35.0%
Maximum for the period	**40.3%**	38.0%
Minimum for the period	**31.6%**	32.0%

The table below summarises the net position as at 31 December 2023 and 31 December 2022 based on contractual maturity.

Net position as at 31 December 2023 (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	**(775,712)**	**130,688**	**(70,787)**	**869,051**
Long / (short) cumulative gap	**(775,712)**	**(645,024)**	**(715,811)**	**153,240**
Cumulative gap / total assets	**-25%**	**-20%**	**-23%**	**5%**

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 2023 (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	**3,142**	**(1,130)**	**(11,482)**	**(9,459)**
Long / (short) Cumulative Gap	**3,142**	**2,012**	**(9,470)**	**(18,929)**
Cumulative Gap / Total Assets	**1%**	**1%**	**-4%**	**-8%**

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)	(2,304)	(12,423)	(23,729)
Cumulative Gap / Total Assets	0%	0%	-3%	-7%

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				
	Carrying	Gross nominal	Up to	1-3	3-12	Over
2023	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						
Customer deposits	2,318,572	2,596,801	2,120,411	168,214	300,967	7,209
Balances due to other banks	35,033	35,033	35,033	-	-	-
Derivative financial instruments	273	273	273	-	-	-
Other financial liabilities excluding lease liability	26,775	26,775	26,775	-	-	-
Lease liability	25,850	58,940	19,688	6,483	22,709	10,060
Borrowed funds	84,137	89,185	14,138	144	27,407	47,496
Special funds	1,193	1,193	1,193	-	-	-
Total liabilities	2,491,833	2,808,200	2,217,511	174,841	351,083	64,765
Financial assets by type						
Cash and balances with Bank of Uganda	530,176	530,176	530,176	-	-	-
Loans and advances to other banks	255,165	255,165	255,165	-	-	-
Loans and advances to customers	1,125,816	1,283,431	314,170	347,748	199,718	421,795
Government and other securities	986,925	1,105,357	189,343	35,172	191,586	689,256
Equity investments at fair value through profit and loss	4,927	4,927	-	-	-	4,927
Derivative financial instruments	228	228	228	-	-	-
Other assets excluding prepayments	15,048	15,048	2,224	5,958	6,080	786
Total assets	2,918,285	3,194,332	1,291,306	388,878	397,384	1,116,764
Net liquidity gap	(426,452)	(386,132)	926,205	(214,037)	(46,301)	(1,051,999)

6 Financial risk management (continued)

6C Liquidity risk (continued)

					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						
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	123,689	131,635	14,817	4,385	47,341	65,092
Special funds	1,193	1,193	1,193	-	-	-
Total liabilities	2,588,189	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	(463,783)	(434,354)	736,673	(142,704)	(81,022)	(947,302)

6C Liquidity risk (continued)

		Company				
		Contractual Cash flows				
	Carrying	Gross nominal	Up to	1-3	3-12	Over
2023	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	**20,328**	**23,784**	**-**	**-**	**12,717**	**11,067**
Other financial liabilities	**3,161**	**3,161**	**1,418**	**1,130**	**613**	**-**
Total liabilities	**23,489**	**26,945**	**1,418**	**1,130**	**13,330**	**11,067**
Financial assets by type:						
Amounts due from Group companies	**4,558**	**4,558**	**4,558**	**-**	**-**	**-**
Other assets excluding prepayments	**2**	**2**	**2**	**-**	**-**	**-**
Total assets	**4,560**	**4,560**	**4,560**	**-**	**-**	**-**
Liquidity gap	**(18,929)**	**(22,385)**	**3,142**	**(1,130)**	**(13,330)**	**(11,067)**

						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	5,569	-	-	2,634	2,935
Total liabilities	23,812	27,366	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)	(25,877)	713	(1,601)	(11,760)	(13,229)

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.

As at 31 December 2023	Up to 1 month Ushs M	1-3 months Ushs M	3-12 months Ushs M	Over 1 year Ushs M	Non-liquid items Ushs M	Non-financial items Ushs M	Total Ushs M
Assets							
Cash and balances with Bank of Uganda	530,176	-	-	-	-	-	530,176
Deposits and balances due from other banks	255,165	-	-	-	-	-	255,165
Loans and advances to customers	275,587	305,042	175,191	369,996	-	-	1,125,816
Government and other securities	169,056	31,404	171,058	615,407	-	-	986,925
Investment in shares	-	-	-	4,927	-	1,138	6,065
Other assets	1,173	5,320	5,429	2,635	9,599	5,635	29,791
Derivative financial instruments	228	-	-	-	-	-	228
Deferred income tax asset	-	-	-	-	-	65,226	65,226
Property and equipment	-	-	-	-	-	83,208	83,208
Investment property	-	-	-	-	-	19,295	19,295
Intangible assets	-	-	-	-	-	27,142	27,142
Assets held for disposal	-	-	-	-	-	29,089	29,089
Total assets	1,231,385	341,766	351,678	992,965	9,599	230,733	3,158,126
Liabilities							
Customer deposits	1,893,224	150,191	268,721	6,436	-	-	2,318,572
Derivative financial instruments	273	-	-	-	-	-	273
Balances due to other banks	35,033	-	-	-	-	-	35,033
Other liabilities	17,579	5,788	20,276	8,982	-	19,530	72,155
Borrowed funds	13,203	136	25,856	44,942	-	-	84,137
Special funds	1,193	-	-	-	-	-	1,193
Current income tax payable	-	-	-	-	-	542	542
Provisions	-	-	-	-	-	2,188	2,188
Total liabilities	1,960,505	156,115	314,853	60,360	-	22,260	2,514,093
Net liquidity gap	(729,120)	185,651	36,825	932,605	9,599	208,473	644,033
Net off-statement of financial position items	(46,592)	(54,963)	(107,612)	(63,554)	-	-	(272,721)
Overall net liquidity gap	(775,712)	130,688	(70,787)	869,051	9,599	208,473	371,312

6 Financial risk management (continued)

6C Liquidity risk (continued)

	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 2023	**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	4,558	-	-	-	-	-	4,558
Other assets	2	-	-	-	-	91	93
Current income tax recoverable	-	-	-	-	-	677	677
Investment in subsidiary	-	-	-	-	-	203,293	203,293
Investment property	-	-	-	-	-	38,043	38,043
Total assets	4,560	-	-	-	-	242,104	246,664
Financial liabilities							
Other liabilities	1,419	1,130	613	-	-	-	3,162
Amounts due to Group companies	-	-	10,869	9,459	-	-	20,328
Deferred tax liability						291	291
Total liabilities	1,419	1,130	11,482	9,459	-	291	23,781
Liquidity gap	3,141	(1,130)	(11,482)	(9,459)	-	241,813	222,883

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 2023, the Group had a net foreign exchange position of Ushs 53 million (2022: Ushs 31,671 million).

The Group's profit before income tax/ equity would decrease/ increase by Ushs 11 million (2022: Ushs 6,334 million) were the Ushs: US$ foreign exchange rate to change by 20% (2022: 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 2023. 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 2023 (Group)	USD	GBP	EURO	USHS	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets					
Cash and balances with Bank of Uganda	129,131	6,916	10,148	383,981	530,176
Loans and advances to other banks	188,220	5,363	30,246	31,336	255,165
Loans and advances to customers	312,814	-	-	813,002	1,125,816
Other assets	1,466	-	-	22,690	24,156
Equity investments	-	-	-	4,927	4,927
Government and other securities	-	-	-	986,925	986,925
Derivative financial instruments	-	-	-	228	228
Total assets	631,631	12,279	40,394	2,243,089	2,927,393
Liabilities					
Customer deposits	575,310	7,176	21,775	1,714,311	2,318,572
Derivative financial instruments	-	-	-	273	273
Balances due to other banks	-	-	-	35,033	35,033
Other liabilities	11,451	8,145	16,196	16,833	52,625
Borrowed funds	44,923	-	-	39,214	84,137
Special funds	-	-	-	1,193	1,193
Total liabilities	631,684	15,321	37,971	1,806,857	2,491,833
Net on-statement of financial position items	(53)	(3,042)	2,423	436,232	435,560
Net off-statement of financial position items	(115,291)	-	(2,343)	(155,087)	(272,721)
Overall open position	(115,344)	(3,042)	80	281,145	162,839

6 Financial risk management (continued)

6D Market risk (continued)

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	-	-	7,856	9,412
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**	**2,279,656**	**3,025,471**
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)**	**484,244**	**437,282**
Net off-statement of financial position items	(154,936)	-	(39,715)	(182,902)	(377,553)
Overall open position	**(186,607)**	**(1,432)**	**(53,574)**	**301,342**	**59,729**

As at 31 December 2023 (Company)	USD	GBP	EURO	USHS	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets					
Amounts due from Group companies	360	-	-	**4,198**	**4,558**
Other assets	-	-	-	**2**	**2**
Total assets	**360**	-	-	**4,200**	**4,560**
Liabilities					
Other liabilities	-	-	-	**3,162**	**3,162**
Amounts due to Group companies	-	-	-	**20,328**	**20,328**
Total liabilities	-	-	-	**23,490**	**23,490**
Overall open position	**360**	-	-	**(19,290)**	**(18,930)**

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	-	-	3,185	4,759
Total liabilities	**1,574**	**-**	**-**	**22,238**	**23,812**
Overall open position	**(1,322)**	**-**	**-**	**(21,001)**	**(22,323)**

Interest rate risk

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

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

The table below summarises the Group's fair value and cash flow interest rate risks at 31 December 2023 assuming a market interest rate decrease of 3% from the rates ruling at year-end (2022: 3%). This would have an impact on the profit before income tax of the Group as follows:

	2023			2022		
	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	**1,137**	**(341)**	**796**	1,037	(311)	726
Cash flow interest rate risk	**36,765**	**(11,029)**	**25,735**	33,528	(10,058)	23,470
	37,902	**(11,370)**	**26,531**	34,565	(10,369)	24,196

The table summarises the Group's interest risk on the debt instruments at FVOCI as at 31 December 2023 assuming a market interest rate decrease of 3% from the rates ruling at year end (2022: 3%)

	2023			2022		
	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	**(474)**	**142**	**(332)**	377	(113)	264
Movement in debt instrument at FVOCI	**(1)**	**-**	**(1)**	3	(1)	2
	(475)	**142**	**(333)**	380	(114)	266

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 2023 and 31 December 2022. 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 2023 (Group)	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						
Cash and balances with Bank of Uganda	-	-	-	-	530,176	530,176
Deposits and balances due from other banks	110,591	-	-	-	144,574	255,165
Loans and advances to customers	275,587	305,042	175,191	369,996	-	1,125,816
Government and other securities	169,056	31,404	171,058	615,407	-	986,925
Equity investments	-	-	-	-	4,927	4,927
Other assets	-	-	-	-	15,048	15,048
Derivative financial instruments	228	-	-	-	-	228
Total interest-bearing assets	**555,462**	**336,446**	**346,249**	**985,403**	**694,725**	**2,918,285**
Interest bearing liabilities						
Customer deposits	709,550	150,191	268,721	6,436	1,183,674	2,318,572
Derivative financial instruments	273	-	-	-	-	273
Balances due to other banks	35,033	-	-	-	-	35,033
Other liabilities	-	-	-	-	52,625	52,625
Borrowed funds	13,203	136	25,856	1,305	43,637	84,137
Special funds	-	-	-	-	1,193	1,193
Total interest-bearing liabilities	**758,059**	**150,327**	**294,577**	**7,741**	**1,281,129**	**2,491,833**
Interest re-pricing gap	**(202,597)**	**186,119**	**51,672**	**977,662**	**(586,403)**	**426,452**

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2022 (Group)	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						
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	-	-	-	-	9,412	9,412
Derivative financial instruments	567	-	-	-	-	567
Total interest-bearing assets	**858,455**	**278,135**	**393,787**	**901,242**	**593,853**	**3,025,472**
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**	**(712,872)**	**437,283**

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2023 (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	-	-	-	-	2	2
Amounts due from Group companies	4,558	-	-	-	-	4,558
Total interest-bearing assets	**4,558**	**-**	**-**	**-**	**2**	**4,560**
Interest bearing liabilities						
Other liabilities	-	-	-	-	3,162	3,162
Amounts due to Group companies	-	-	10,869	9,459	-	20,328
Total interest-bearing liabilities	**-**	**-**	**10,869**	**9,459**	**3,162**	**23,490**
Interest re-pricing gap	**4,558**	**-**	**(10,869)**	**(9,459)**	**(3,160)**	**(18,930)**

As at 31 December 2022 (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	-	-	-	-	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)**

6 Financial risk management (continued)

6E Fair values of financial assets and liabilities

i) Financial instruments measured at fair value

a) Valuation models

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market and retained interests in securitisations (as discussed below). Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

For measuring derivatives that might change classification from being an asset to a liability or vice versa - e.g., interest rate swaps - fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVAJ when market participants would take this into consideration in pricing the derivatives.

6 Financial risk management (continued)

6E Fair values of financial assets and liabilities (continued)

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.

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.

6 Financial risk management (continued)

6E Fair values of financial assets and liabilities (continued)

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.

2023	Hierarchy			
	Level 1	Level 2	Level 3	Total
	Ushs M	Ushs M	Ushs M	Ushs M
Treasury bills and bonds	-	18,288	-	18,288
Securities at fair value through OCI	-	597,222	-	597,222
Other assets at fair value through profit and loss	-	-	9,108	9,108
Equity investments at fair value through profit and loss	4,927	-	-	4,927
	4,927	615,510	9,108	629,545

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	5,842	-	-	5,842
	5,842	701,946	26,501	734,289

During the year ended 31 December 2023, there were no transfers into or out of Level 2 and level 1 fair value measurements.

iv) Level 3 fair value measurements

The following table shows the reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

	2023	2022
	Ushs M	Ushs M
At 1 January	26,501	72,664
Settlements against the asset	(14,012)	(41,233)
Fair value loss	(3,381)	(4,930)
At 31 December	9,108	26,501

6 Financial risk management (continued)

6E Fair values of financial assets and liabilities (continued)

v) Unobservable inputs used in measuring fair value

The following table sets out information about significant un-observable inputs used at 31 December 2023 and 2022 in measuring financial instruments categorised as Level 3 in the fair value hierarchy;

As at 31 December 2023

Significant unobservable inputs	Sensitivity of the inputs	Carrying amount	Impact on carrying amount		Adjusted carrying amount
Change in amount of expected cashflows by:	**-10%**	**9,108**	**(911)**	**-10.00%**	**8,197**
	10%	**9,108**	**911**	**10.00%**	**10,019**
Change in timing of cashflows by:	**-1 year**	**9,108**	**1,509**	**16.57%**	**10,617**
	+1 year	**9,108**	**(1,294)**	**-14.21%**	**7,814**
Change in discount rate	**-10%**	**9,108**	**246**	**2.71%**	**9,355**
	+10%	**9,108**	**(237)**	**-2.61%**	**8,871**
Change in discount rate amount of expected cashflows and timing of cashflows by:	**-1%; -10%; -1 year**	**9,108**	**2,784**	**30.56%**	**11,892**
	+1%; +10%; +1 year	**9,108**	**(2,317)**	**-25.44%**	**6,791**

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

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 Limited;
- 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 Limited (the Bank) is required to file information on capital adequacy with Bank of Uganda on a quarterly basis.

As of 31 December 2023, the Financial Institutions Capital Adequacy Requirements Regulations 2023 requires each bank to:

a) have a minimum paid up capital unimpaired by losses of Ushs 120 billion;
b) maintain core capital of not less than 13% of the total risk adjusted assets plus risk adjusted off statement of financial position items; and
c) maintain total capital of not less than 15% of the total risk adjusted assets plus risk adjusted off statement of financial position items.

The Financial Institutions (Capital Buffers and Leverage Ratio) Regulations, 2020 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 0% 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 Limited:

	2023	2022
	Ushs M	Ushs M
Before dividend declaration		
Tier 1 capital	**521,306**	544,413
Tier 1 + Tier 2 capital	**532,725**	561,850
After dividend declaration		
Tier 1 capital	**507,690**	532,156
Tier 1 + Tier 2 capital	**519,109**	549,594

6 Financial risk management (continued)

6F Capital management (continued)

	2023	2022
	Ushs M	Ushs M
FIA ratio (before dividend declaration)		
Tier 1 (FIA minimum -10%)	**29.59%**	26.20%
Tier 1 + Tier 2 (FIA minimum - 12%)	**30.24%**	27.04%
FIA ratio (after dividend declaration)		
Tier 1 (FIA minimum -10%)	**28.81%**	25.61%
Tier 1 + Tier 2 (FIA minimum - 12%)	**29.46%**	26.45%

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.

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 2023;

		2023	2022
		Ushs M	Ushs M
Capital measure	Basel III Tier 1 capital	**507,690**	532,156
Exposure measure	on and off-balance sheet exposure (regulatory):		
	Total on balance sheet assets	**3,207,461**	3,280,956
	Off balance sheet items	**272,721**	377,553
		3,480,182	3,658,509
Leverage ratio:		**14.59%**	14.55%

6 Financial risk management (continued)

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 banking business are classified under IFRS 9 as mandatorily measured at FVTPL because they are held within a business model in which they are managed and their performance is evaluated on a fair value basis. 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:

	2023 (Ushs M)			2022 (Ushs M)		
Group	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets:						
Cash and balances with Bank of Uganda	**530,176**	**-**	**530,176**	482,298	-	482,298
Deposits and balances due from other banks	**255,165**	**-**	**255,165**	216,771	-	216,771
Government and other securities	**371,519**	**615,406**	**986,925**	522,294	426,842	949,136
Loans and advances to customers	**755,820**	**369,996**	**1,125,816**	887,045	474,400	1,361,445
Investment in equity shares	**-**	**6,065**	**6,065**	-	6,980	6,980
Other assets	**29,791**	**-**	**29,791**	41,288	-	41,288
Derivative financial instruments	**228**	**-**	**228**	567	-	567
Deferred income tax asset	**-**	**65,226**	**65,226**	-	33,411	33,411
Property and equipment	**-**	**83,208**	**83,208**	-	77,110	77,110
Investment property	**-**	**19,295**	**19,295**	-	19,784	19,784
Intangible assets	**-**	**27,142**	**27,142**	-	25,178	25,178
Assets held for disposal	**29,089**	**-**	**29,089**	29,089	-	29,089
Total assets	**1,971,788**	**1,186,338**	**3,158,126**	2,179,352	1,063,705	3,243,057
Liabilities:						
Customer deposits	**2,312,136**	**6,436**	**2,318,572**	2,396,118	14,475	2,410,593
Derivative financial instruments	**273**	**-**	**273**	240	-	240
Deposits due to other banks	**35,033**	**-**	**35,033**	8,512	-	8,512
Other liabilities	**63,173**	**8,982**	**72,155**	55,702	6,707	62,409
Borrowed funds	**39,195**	**44,942**	**84,137**	60,291	63,398	123,689
Special funds	**1,193**	**-**	**1,193**	1,193	-	1,193
Current income tax payable	**542**	**-**	**542**	1,550	-	1,550
Provisions	**2,188**	**-**	**2,188**	2,338	-	2,338
Total liabilities	**2,453,733**	**60,360**	**2,514,093**	2,525,944	84,580	2,610,524
Net assets	**(481,945)**	**1,125,978**	**644,033**	(346,592)	979,125	632,533

7 B. Classification of assets and liabilities (continued)

	2023 (Ushs M)			2022 (Ushs M)		
Company	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets:						
Amounts due from Group companies	**4,558**	**-**	**4,558**	1,480	-	1,480
Other assets	**93**	**-**	**93**	102	-	102
Current income tax recoverable	**677**	**-**	**677**	655	-	655
Deferred income tax asset	**-**	**-**	**-**	-	1,005	1,005
Investment in subsidiaries	**-**	**203,293**	**203,293**	-	203,293	203,293
Investment property	**-**	**38,043**	**38,043**	-	39,546	39,546
Total assets	**5,328**	**241,336**	**246,664**	2,237	243,844	246,081
Liabilities:						
Other liabilities	**3,162**	**-**	**3,162**	3,108	-	3,108
Borrowed funds	**-**	**-**	**-**	-	4,759	4,759
Deferred income tax liability	**-**	**291**	**291**	-	-	-
Amounts due to Group companies	**1,665**	**18,663**	**20,328**	7,344	8,798	16,142
Total liabilities	**4,827**	**18,954**	**23,781**	10,452	13,557	24,009
Net assets	**501**	**222,382**	**222,883**	(8,215)	230,287	222,072

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 47% of the Group's total revenue for the year ended 31 December 2023 (2022: 57%).

During the year 29.41% (2022: 20.06%) 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 2023 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	**7,638**	**97,707**	**(5,855)**	**99,490**
Income from transactions with operating segments of the same entity	**12,257**	**-**	**(12,257)**	**-**
Interest income	**160**	**351,459**	**(1,955)**	**349,664**
Interest expense	**(1,942)**	**(91,990)**	**1,954**	**(91,978)**
Other operating expenses	**(8,827)**	**(331,125)**	**5,855**	**(334,098)**
Profit / (loss) before tax	**9,286**	**26,050**	**(12,258)**	**23,078**
Income tax expense	**(2,346)**	**7,988**	**-**	**5,642**
Profit / (loss) for the year	**6,940**	**34,038**	**(12,258)**	**28,720**

8 Segment information (Continued)

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 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

As at 31 December 2023				
	dfcu Limited	**dfcu Bank**	**Intra-segment items**	**Group**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Total assets	**246,664**	**3,204,007**	**(292,545)**	**3,158,126**
Total liabilities	**23,782**	**2,578,807**	**(88,496)**	**2,514,093**
Capital expenditure	**75**	**33,840**	**-**	**33,915**

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	-	7,558

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 2023	**160**	**349,504**	**349,664**
Year ended 31 December 2022	80	343,284	343,364

9 Interest and similar income

	Group		Company	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
(a) Interest calculated using the effective interest method				
Loans and advances	**209,012**	243,340	**-**	-
Placements and investments with other banks	**5,852**	9,171	**160**	80
Government and other securities	**131,960**	86,547	**-**	-
	346,824	339,058	**160**	80
(b) Other interest and similar income				
Interest income on finance leases	**2,840**	4,306	**-**	-
Total interest income	**349,664**	343,364	**160**	80

10 Interest and similar expenses

	Group		Company	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
Borrowed funds	**6,944**	13,143	**1,942**	2,324
Customer deposits	**71,391**	56,229	-	-
Interest expense on lease liability	**13,643**	5,205	-	-
	91,978	74,577	**1,942**	2,324

11 Net trading and other income

	Group			Company
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
Net unrealised foreign exchange (loss)/gain	**(633)**	677	**(67)**	(8)
Fixed trading income	**17,957**	22,538	-	-
Rental income	**1,831**	1,689	**6,998**	6,482
Other income	**668**	76	-	5
	19,823	24,980	**6,931**	6,479

12 Net income from other financial instruments at FVTPL

	Group		Company	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
Recoveries from other assets measured at FVTPL	**14,264**	762		

- -

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	
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Major service lines				
Domestic commissions	**55,381**	50,192	**707**	640
Foreign commissions	**5,834**	5,827	**-**	-
Total fee and commission from contracts with customers	**61,215**	56,019	**707**	640
Financial guarantee contracts and loan commitments	**4,188**	6,365	**-**	-
Total fee and commission income	**65,403**	62,384	**707**	640

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 obligations, including significant payment terms 2023	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 customers 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 - 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. Timing of revenue for guarantees-Quarterly 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. Term / tenor of Guarantees range from 1-5 years	- Enforceable arrangement with customers 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 is necessary. - 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 customers 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 customers 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 is 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 a 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 customers 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	
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Employee benefits expenses (note 15)	**88,805**	69,232	**763**	764
Depreciation of property and equipment (note 29)	**16,445**	15,272	**-**	-
Depreciation of the investment property (note 28)	**489**	653	**1,578**	2,147
Amortisation of intangible assets (note 30)	**6,910**	9,128	**-**	-
Auditors' remuneration	**847**	850	**177**	181
Occupancy expenses	**12,887**	10,506	**19**	31
Professional and consultancy fees	**39,780**	46,742	**4,131**	479
Communication costs	**35,476**	29,735	**36**	39
Transport and travel costs	**2,969**	2,009	**31**	30
Advertising and publicity costs	**6,059**	4,473	**45**	47
Other expenses (note 16)	**37,336**	39,841	**2,047**	689
	248,003	228,441	**8,827**	4,407

15 Employee benefits expenses

	Group		Company	
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Wages and salaries	78,298	60,430	676	678
Retirement benefits costs	3,505	2,816	21	21
National Social Security Fund contributions	7,002	5,986	66	65
	88,805	69,232	763	764

The average number of employees of the group during the year was 1,140 (2022: 1,174)

16 Other expenses

Other expenses (note 14 above) comprise of the following:

		Group		Company
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Stationery and printing	**3,303**	2,625	**1**	-
Contribution to the deposit protection fund	**7,828**	7,153	**-**	-
Insurance expenses	**3,154**	2,803	**371**	368
Staff medical and welfare	**4,880**	4,136	**-**	-
Staff training	**1,216**	1,080	**-**	-
Electricity and water	**2,754**	2,649	**-**	-
Security expenses	**2,664**	2,744	**-**	-
Machine and furniture repairs and maintenance	**1,887**	1,627	**-**	-
Office cleaning and maintenance	**1,149**	1,176	**-**	-
Director fees and board expenses	**2,913**	1,605	**765**	-
Bank of Uganda clearing and cash processing fees	**878**	4,035	**-**	-
Other expenses	**4,710**	8,208	**910**	321
	37,336	39,841	**2,047**	689

17 Dividends

During the year, no interim dividend was paid (2022: Nil). At the next Annual General Meeting proposed to be held in June 2024, the directors plan to recommend the payment of a final dividend for the year ended 31 December 2023 of Ushs 6,808 million (2022: 6,129 million) or Ushs 9.10 per share (2021: Ushs 8.19 per share). 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)

	2023	2022
	Ushs M	**Ushs M**
Increase in allowances for impairment on loans and advances (note 23)	105,321	117,529
Recoveries and allowances on loans and advances no longer required (note 23)	(12,522)	(10,959)
Recoveries on loans and advances previously written off (note 23)	(9,206)	(18,568)
Movement in expected credit losses on loans and advances to customers	**83,593**	**88,002**
(Decrease) / increase in allowances for impairment on balances with Bank of Uganda (note 21)	(840)	810
(Decrease) / increase in allowances for impairment on balances with other banks (note 22)	(25)	11
Decrease in allowances for impairment on other assets (note 27)	(17)	(764)
Recoveries and allowances no longer required on investment securities (note 25)	3	131
Movement in expected credit losses on other assets	**(879)**	**188**
Credit loss expense on financial assets	**82,714**	**88,190**

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.

	2023	2022
Net profit attributable to equity holders of the Company (Ushs M)	**28,720**	29,476
Weighted average number of ordinary shares in issue	**748,144,033**	748,144,033
Basic earnings per share (Ushs)	**38.39**	39.40
Diluted earnings per share (Ushs)	**38.39**	39.40

Profit attributable to ordinary shareholders

	2023	2022
	Ushs M	**Ushs M**
Net profit attributable to equity holders of the Company	**28,720**	29,476

There were no potentially dilutive shares outstanding at 31 December 2023 and 2022.

20 Income tax

a) Income tax credit / (expense)

	Group		Company	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
Current income tax	**(21,420)**	(16,589)	**(1,050)**	(486)
Deferred tax credit	**27,062**	10,713	**(1,296)**	(1,149)
Income tax credit / (expense)	**5,642**	(5,876)	**(2,346)**	(1,635)

b) Amount recognised in OCI – Group

	2023		
	Ushs M		
	Before tax	Tax benefit	Net of tax
Movement in liability credit reserve	**(15,806)**	**4,754**	**(11,052)**
Movement in debt instrument at FVOCI	**(39)**	**-**	**(39)**
	(15,845)	**4,754**	**(11,091)**

	2022		
	Ushs M		
	Before tax	Tax expense	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

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:	2023		2022	
	Effective tax rate	Ushs M	Effective tax rate	Ushs M
Profit before income tax		**23,078**		35,352
Tax calculated at a tax rate of 30% (2020: 30%)	**30%**	**6,923**	30%	10,605
Tax effect of:				
Under provision of current and deferred tax in previous years	**2.44%**	**562**	8.36%	2,957
Expenses not deductible for tax purposes1	**25.91%**	**5,980**	9.86%	3,486
Net interest income which is subject to final tax2	**(82.79%)**	**(19,107)**	(31.60%)	(11,172)
Income tax (credit) / expense	**(24.44%)**	**(5,642)**	16.62%	5,876

[1]These include items like depreciation expenses in non-qualifying assets, donations, entertainment, and unrealised loss on the transfer of non-qualifying assets.

[2]Includes the income tax differential between interest income on government securities of Ushs 131,960 million (2022: Ushs 86,547 million) taxed at the statutory rate of 30% and withholding tax which is a final tax..

20 Income tax (continued)

Company:				
	2023		**2022**	
	Effective tax rate	**Ushs M**	**Effective tax rate**	**Ushs M**
Profit before income tax		**9,286**		468
Tax calculated at a tax rate of 30% (2020: 30%)	**30%**	**2,786**	30.00%	140
Tax effect of:				
Under provision of current and deferred tax in previous years	**6.06%**	**562**	184.19%	862
Expenses not deductible for tax purposes	**40.12%**	**3,725**	446.79%	2,091
Net interest income which is subject to final tax1	**(50.91%)**	**(4,727)**	-311.54%	(1,458)
Income tax expense	**25.27%**	**2,346**	349.44%	1,635

1Income taxed at other rates refers to rental income taxed separately from the other business income. Further information on deferred tax is presented in note 31.

d) Current income tax payable / (recoverable)

The movements in current tax payable are as follows:

	Group		**Company**	
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
At 1 January	**1,550**	(214)	**(655)**	(651)
Current income tax expense for the year	**21,420**	16,589	**1,050**	486
Current tax paid during the year	**(22,428)**	(14,825)	**(1,072)**	(490)
At 31 December	**542**	1,550	**(677)**	(655)

21 Cash at hand and balances with Bank of Uganda - Group

	2023	**2022**
	Ushs M	**Ushs M**
Cash in hand	**212,208**	193,827
Balances with Bank of Uganda	**318,040**	289,383
Expected credit loss adjustment	**(72)**	(912)
	530,176	482,298

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 210,820 million (2022: Ushs 226,510 million).

The balance with Bank of Uganda was classified as high grade, under stage 1 as at 31 December 2023 and 2022. There were no transfers between stages for both years.

The movement in expected credit losses was as follows:

	2023	**2022**
	Ushs M	**Ushs M**
At 1 January	**912**	102
Impairment (reversed) / recognized during the year	**(840)**	810
At 31 December	**72**	912

22 Deposits and balances due from banks - Group

	2023	2022
	Ushs M	Ushs M
Deposits with other banks	**144,574**	158,984
Placements with other banks	**110,676**	57,897
	255,250	216,881
Expected Credit Loss adjustment	**(85)**	(110)
	255,165	216,771

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 11% (2022: 13%). 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 2023 and 2022. There were no transfers between stages for both years.

The movement in expected credit losses was as follows:

	2023	2022
	Ushs M	Ushs M
At 1 January	**110**	99
Impairment (derecognised) / recognised during the year	**(25)**	11
At 31 December	**85**	110

23 Loans and advances to customers - Group

	2023	2022
	Ushs M	Ushs M
Loans and advances to customers at amortised cost	**1,150,734**	1,400,221
Finance leases	**15,329**	23,907
Less impairment loss allowance	**(40,247)**	(62,683)
	1,125,816	1,361,445

	Gross carrying amount	ECL allowance	Net carrying amount	Gross carrying amount	ECL allowance	Net carrying amount
	2023	2023	2023	2022	2022	2022
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Retail customers	**478,992**	**(10,035)**	**468,957**	477,580	(20,947)	456,633
Corporate customers	**687,071**	**(30,212)**	**656,859**	946,548	(41,736)	904,812
	1,166,063	**(40,247)**	**1,125,816**	1,424,128	(62,683)	1,361,445

The weighted average effective interest rate on loans and advances was 14.22% (2022: 14.60%)

23 Loans and advances to customers (continued)

Movements in allowance for impairment of loans and advances

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2023:	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
At 1 January 2023	**9,272**	**15,887**	**37,524**	**62,683**
Increase in allowances for expected credit losses	**2,497**	**-**	**102,824**	**105,321**
Recoveries and allowances no longer required	**-**	**(11,448)**	**(1,074)**	**(12,522)**
Debts written off during the year	**-**	**-**	**(115,235)**	**(115,235)**
At 31 December 2023	**11,769**	**4,439**	**24,039**	**40,247**

Charge to statement of comprehensive income (2023)

Increase in allowances for expected credit losses	**2,497**	**-**	**102,824**	**105,321**
Recoveries and allowances no longer required	**-**	**(11,448)**	**(1,074)**	**(12,522)**
Recovery of amounts previously written off	**-**	**-**	**(9,206)**	**(9,206)**
Net charge to profit or loss	**2,497**	**(11,448)**	**92,544**	**83,593**

	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

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:

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 2023	**1,169,626**	**146,823**	**107,679**	**1,424,128**
Changes in the gross carrying amount				
- Transfer to stage 1	**47,001**	**(47,001)**	**-**	**-**
- Transfer to stage 2	**(89,289)**	**89,289**	**-**	**-**
- Transfer to stage 3	**-**	**(115,731)**	**115,731**	**-**
New financial assets originated net of deferred fees	**356,087**	**-**	**-**	**356,087**
Payoffs and write-offs	**(482,716)**	**(16,201)**	**(115,235)**	**(614,152)**
Gross carrying amount as at 31 December 2023	**1,000,709**	**57,179**	**108,175**	**1,166,063**
Loss allowance as at 31 December 2023	**(11,769)**	**(4,439)**	**(24,039)**	**(40,247)**
Carrying amount	**988,940**	**52,740**	**84,136**	**1,125,816**

23 Loans and advances to customers (continued)

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 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 include finance lease receivables, which may be analysed as follows:

	2023 Ushs M	2022 Ushs M
Gross investment in finance leases:		
Not later than 1 year	**1,513**	5,150
Later than 1 year and not later than 5 years	**13,816**	16,981
Later than 5 years	**-**	1,776
Gross investment in finance leases	**15,329**	23,907
Unearned future finance income on finance leases	**(3,222)**	(8,256)
Net investment in finance leases	**12,107**	15,651

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

	2023 Ushs M	2022 Ushs M
Not later than 1 year	**1,195**	3,372
Later than 1 year and not later than 5 years	**10,912**	11,117
Later than 5 years	**-**	1,162
	12,107	15,651

Included in the allowance for impairment of loans and advances as at 31 December 2023 is Ushs 161 million (2022: Ushs 42 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

	2023 Ushs M	2022 Ushs M
Equity investments at fair value through profit or loss:		
New Vision Limited	55	56
Bank of Baroda (U) Limited	3,901	5,017
National Insurance Corporation	966	758
Kenya Commercial Bank Limited	5	11
	4,927	5,842
Other equity investments:		
Crane Financial Services	1,138	1,138
	6,065	6,980

24 Equity investments (continued)

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:

	2023	2022
	Number of shares	Number of shares
New Vision Limited	359,693	359,693
Bank of Baroda (U) Limited	260,060,500	59,019,400
National Insurance Corporation	148,645,383	148,645,383
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 2023 and 2022 were as follows:

	2023	2022
	Ushs per share	Ushs per share
New Vision Limited	153	155
Bank of Baroda (U) Limited	15	85
National Insurance Corporation	6.5	5
Kenya Commercial Bank Limited	526	1,123

During the year, the Group did not purchase any additional shares. The changes in equity investments at FVTPL during the year were as follows:

	2023	2022
	Ushs M	Ushs M
At 1 January	5,842	6,563
Shares de-recognised during the year	(5,804)	(279)
Increase in shares due to rights issue:		
National Insurance Corporation	-	253
Bank of Baroda	4,420	-
Fair value losses	469	(695)
	4,927	5,842

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 Group holds less than 20% of the voting rights of the investee companies and the Group 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:.

	2023			2022		
	Ushs M			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	493	(148)	345	559	(168)	391
10% decrease in share price	(493)	148	(345)	(559)	168	(391)

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

	2023	2022
	Ushs M	Ushs M
Amortised cost:		
Investment securities measured at amortised cost	**371,694**	247,466
Expected credit loss adjustment	**(279)**	(276)
	371,415	247,190
Investment securities measured at FVOCI - debt instruments	**597,222**	655,189
	968,637	902,379

Movement in investment securities:

	2023	2022
	Ushs M	Ushs M
At 1 January	**902,379**	552,290
Additions during the year	**528,646**	553,702
Maturities during the year	**(464,815)**	(208,851)
Fair value gain during the year	**2,430**	5,369
Movement in expected credit loss	**(3)**	(131)
At 31 December	**968,637**	902,379

Maturing as follows:

Maturing within 1 month	**150,768**	151,979
Maturing between 1-3 months	**31,404**	121,750
Maturing within 3-12 months	**171,058**	201,808
Maturing between 1-5 years	**615,407**	426,842
	968,637	902,379

The investment securities were classified as high grade, under stage 1 as at 31 December 2023 and 2022. There were no transfers between stages for both years.

	2023	2022
	Ushs M	Ushs M
At 1 January	**276**	145
Impairment recognized during the year	**3**	131
At 31 December	**279**	276

26 Trading assets - Group

	Trading assets		Trading liabilities	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
Non-derivatives	**17,940**	46,706	**-**	-
Trading assets FVTPL	**348**	51	**-**	-
	18,288	46,757	**-**	-
Maturing as follows:				
Maturing within 1 month	**-**	-	**-**	-
Maturing between 1-3 months	**-**	-	**-**	-
Maturing within 3-12 months	**18,288**	46,757	**-**	-
Maturing between 1-5 years	**-**	-	**-**	-
	18,288	46,757	**-**	

-

	Pledged trading asset	Non-pledged trading assets	Total trading assets	Pledged trading asset	Non-pledged trading assets	Total trading assets
	2023	2023	2023	2022	2022	2022
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Government bonds	**-**	**9,170**	**9,170**	-	30,328	30,328
Treasury bills	**-**	**9,118**	**9,118**	-	16,429	16,429
	-	**18,288**	**18,288**	-	46,757	46,757

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 13.7%. (2022: 12.6%)

27 Other assets

		Group		Company
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
Other assets at amortised cost (except prepayments):				
Sundry receivables	**9,599**	8,414	**-**	-
Other assets	**5,473**	1,039	**2**	9
Expected credit loss adjustment	**(24)**	(41)	**-**	-
	15,048	9,412	**2**	9
Other assets at FVTPL:				
Other financial assets at fair value through profit and loss	**9,108**	26,501	**-**	-
	24,156	35,913	**2**	9
Prepayments:				
Prepaid expenses	**5,635**	5,375	**91**	93
	29,791	41,288	**93**	102

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 the fair value.

The movement in expected credit losses was as follows:

	2023	2022
	Ushs M	Ushs M
At 1 January	**41**	805
Impairment derecognised during the year	**(17)**	(764)
At 31 December	**24**	41

The table below summarises the movement in other financial assets at fair value through profit or loss:

	2023	2022
	Ushs M	Ushs M
At 1 January	**26,501**	72,664
Settlements against the asset	**(14,012)**	(41,233)
Fair value loss	**(3,381)**	(4,930)
At 31 December	**9,108**	26,501

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 2023, 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
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Cost:				
At 1 January	**22,868**	21,226	**56,777**	56,215
Additions	**-**	555	**75**	562
Transfer from work in progress	**-**	-	**-**	-
Transfers from own use (property and equipment)	**-**	1,087	**-**	-
Write offs	**-**	-	**-**	-
As at 31 December	**22,868**	22,868	**56,852**	56,777
Depreciation:				
At 1 January	**3,084**	2,431	**17,231**	15,085
Charge for the year	**489**	653	**1,578**	2,146
Transfers from own use	**-**	-	**-**	-
Write offs	**-**	-	**-**	-
As at 31 December	**3,573**	3,084	**18,809**	17,231
Net Book Value	**19,295**	19,784	**38,043**	39,546
Amount allocated to investment property			**19,295**	19,784
Amount allocated to property and equipment			**18,748**	19,762
Total property and equipment			**38,043**	39,546

The fair value of the investment property is Ushs 69 billion (2022: Ushs 55 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$13 (Ushs 49,390) – US$ 18 (Ushs 68,387) per square metre depending on the attributes of the space. Gross annual rent is estimated at US$ 1,713,086.6 (Ushs 6,508 million)
	Service charge	US$ 4 (Ushs 15,917) per square metre and is charged separately. The annual service charge is estimated at US$ 328,991.52 (Ushs 1,250 million)
	Parking	Estimated annual rent of US$ 35,280 (Ushs 134 million)
	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.

28 Investment property (continued)

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).

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 the 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	
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Rental income derived from investment properties	**1,763**	1,689	**6,998**	6,482
Direct operating expenses (including repairs and maintenance)	**(1,794)**	(1,641)	**(6,107)**	(6,434)
Loss / profit arising from investment properties	**(31)**	48	**891**	48

29 (a) Property, equipment, and right-of-use assets - Group

As at 31 December 2023	Freehold land and buildings	Motor vehicle	Furniture and 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 2023	30,459	3,495	69,013	14,378	53,109	1,567	172,021
Asset reclassifications	-	-	(317)	317	-	-	-
Additions	-	664	2,389	1,245	8,317	12,426	25,041
Transfers from work in progress	-	1,723	3,646	5,518	-	(10,887)	-
Transfers to investment property	-	-	-	-	-	-	-
Write offs	-	(16)	(1,391)	(579)	-	(1,385)	(3,371)
Lease terminated during the year	-	-	-	-	(1,835)	-	(1,835)
Eliminated on disposal	-	(1,425)	(1,048)	(112)	-	-	(2,585)
At 31 December 2023	30,459	4,441	72,292	20,767	59,591	1,721	189,271
Depreciation:							
At 1 January 2023	5,277	2,534	48,736	12,563	25,801	-	94,911
Asset reclassifications	-	-	159	(159)	-	-	-
Charge for the year	718	719	4,851	1,342	8,815	-	16,445
Write offs	-	(16)	(1,211)	(570)	-	-	(1,797)
Lease terminated during the year	-	-	-	-	(990)	-	(990)
Eliminated on disposal	-	(1,371)	(1,023)	(112)	-	-	(2,506)
At 31 December 2023	5,995	1,866	51,512	13,064	33,626	-	106,063
Net carrying amount	24,464	2,575	20,780	7,703	25,965	1,721	83,208

29 (a) Property, equipment and right-of-use asset – Group (continued)

As at 31 December 2022	**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

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 (2022: nil).

(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 2023, **dfcu** Group was still 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.

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 2023	**463**	**67,494**	**34,984**	**4,643**	**107,584**
Additions	**-**	**383**	**-**	**8,491**	**8,874**
Transfers from WIP	**-**	**321**	**-**	**(321)**	**-**
Write offs	**-**	**-**	**(34,984)**	**-**	**(34,984)**
At 31 December 2023	**463**	**68,198**	**-**	**12,813**	**81,474**
Amortisation					
At 1 January 2023	**-**	**47,422**	**34,984**	**-**	**82,406**
Charge for the year	**-**	**6,910**	**-**	**-**	**6,910**
Write offs	**-**	**-**	**(34,984)**	**-**	**(34,984)**
At 31 December 2023	**-**	**54,332**	**-**	**-**	**54,332**
Net carrying amount	**463**	**13,866**	**-**	**12,813**	**27,142**
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

Computer software comprises of software for the Group's core banking systems.

Other intangible assets comprise 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 Limited 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 2023, the market capitalization of the Group was below the book value of the 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.

30 Intangible assets (continued)
Annual impairment test for goodwill (continued)

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 Group. 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 2023.

Below is the summary of the valuation results:

	Low	High	Average
	Ushs M	Ushs M	Ushs M
Net assets as at 31 December 2023	**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 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

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 2023.

31 Deferred 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% (2022: 15%). Deferred tax assets and liabilities and the deferred tax credit as at 31 December 2023 are attributed to the following items:

	Group		Company	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	**(33,411)**	(26,336)	**(1,005)**	(2,154)
Deferred tax credit to P&L	**(27,062)**	(10,713)	**1,296**	1,149
Deferred tax credit to OCI	**(4,753)**	3,638	**-**	-
Deferred tax asset	**(65,226)**	(33,411)	**291**	(1,005)

31 Deferred tax (continued)

	Group			
2023	**At 1 January 2023**	**(Credit)/ Charge to P&L**	**(Credit)/ Charge to OCI**	**At 31 December 2023**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Property and equipment	**(3,456)**	**1,087**	**-**	**(2,369)**
Tax losses carried forward	**(12,053)**	**(30,256)**	**-**	**(42,309)**
Deferred fees and commissions income	**(13,589)**	**221**	**-**	**(13,368)**
Fair value of treasury bills and bonds	**(785)**	**(1,345)**	**-**	**(2,130)**
Fair value of customer relationships	**656**	**-**	**-**	**656**
Unrealised foreign exchange loss	**(42)**	**(18)**	**-**	**(60)**
FVOCI Fair value loss	**5,267**	**-**	**(4,753)**	**514**
Allowance for impairment of loans and advances	**(8,002)**	**2,979**	**-**	**(5,023)**
Allowance for contingent liabilities	**(702)**	**45**	**-**	**(657)**
Other temporary differences	**(327)**	**270**	**-**	**(57)**
Capped interest expense	**(378)**	**(45)**		**(423)**
Net deferred tax asset	**(33,411)**	**(27,062)**	**(4,753)**	**(65,226)**

2022	**At 1 January 2022**	**(Credit)/ Charge to P&L**	**(Credit)/ Charge to OCI**	**At 31 December 2022**
	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)	(1,484)	-	(8,002)
Allowance for contingent liabilities	(657)	(45)	-	(702)
Other temporary differences	(308)	(19)	-	(327)
Capped interest expense	(263)	(115)	-	(378)
Net deferred tax asset	**(26,336)**	**(10,713)**	**3,638**	**(33,411)**

Company

2023	**At 1 January 2023**	**(Credit)/ Charge to P&L**	**At 31 December 2023**
	Ushs M	**Ushs M**	**Ushs M**
Property and equipment	**776**	**321**	**1,097**
Tax losses carried forward	**(1,402)**	**1,037**	**(365)**
Capped interest expense	**(378)**	**(44)**	**(422)**
Unrealised foreign exchange loss	**(1)**	**(18)**	**(19)**
Net deferred tax (asset) / liability	**(1,005)**	**1,296**	**291**

31 Deferred tax (continued)

	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)**

32 Investment in subsidiary

	Shareholding	Company	
		2023	**2022**
		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 is 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

	2023	2022
	Ushs M	**Ushs M**
Demand deposits	**1,183,673**	1,218,068
Savings deposits	**597,168**	595,685
Fixed deposits	**537,731**	596,840
	2,318,572	2,410,593

The weighted average effective interest rates for the customer deposits are as follows:

	2023	2022
	%	%
Demand deposits	**2**	2
Savings deposits	**2**	2
Fixed deposits	**9**	9

34 Deposits due to other banks - Group

	2023	2022
	Ushs M	**Ushs M**
Balances due to other banks within 90 days	35,033	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 (2022: Nil). The carrying value of deposits due to other banks is approximately equal to its fair value.

35 Other liabilities

	Group	Company		
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Financial liabilities:				
Bills payable	**220**	187	**-**	-
Unclaimed balances	**4,795**	4,509	**-**	-
Other liabilities	**21,311**	14,726	**822**	815
Deferred rental income	**449**	331	**2,340**	2,096
Lease liability	**25,850**	24,209	**-**	-
Total financial liabilities	**52,625**	43,962	**3,162**	2,911
Non-financial liabilities:				
Accrued expenses and payables	**19,530**	18,447	**-**	197
Total liabilities	**72,155**	62,409	**3,162**	3,108

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 75 million (2022: Ushs 738 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.

	2023	**2022**
	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	
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Uganda Government (KFW V loan)	**12,444**	11,878	-	-
Bank of Uganda (ACF loan)	**24,271**	14,060	-	-
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	**-**	5,120	-	-
Abi-Finance	**3,298**	5,498	-	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO USD)	**-**	6,345	-	-
European Investment Bank – PEFF	**44,000**	56,257	-	-
East African Development Bank	**-**	756	-	-
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG)	**-**	18,809	-	-
UN Habitat	**124**	207	-	-
Jubilee Insurance	**-**	4,759	-	4,759
	84,137	123,689	-	4,759

37 Borrowed funds (continued)

The maturity analysis for borrowed funds has been disclosed in Note 6C.

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 demain	-		
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.
The carrying value of borrowed funds is approximately equal to its fair value.
The movement in borrowings is as follows:

	Group		Company	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	123,689	190,614	4,759	5,239
Additional drawdowns	12,844	1,952	-	-
Interest expense	2,922	12,580	147	384
Interest and principal repayment	(55,963)	(84,572)	(4,958)	(916)
Unrealised foreign exchange exchange (gains) / losses	801	3,215	52	52
Debt origination fees	(156)	(100)	-	-
At 31 December	84,137	123,689	-	4,759

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 2023 and 2022	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	
	2023
	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

	2023	2022
	Ushs M	Ushs M
At 1 January	-	-
Transfer to retained earnings during the year	8,069	-
At 31 December	8,069	-
The regulatory credit risk reserve is analysed as follows:		
Provision for impairment of loans and advances as per FIA 2004:		
Specific provisions	36,897	36,749
General provisions	11,419	13,719
Total regulatory provision	48,316	50,468
Provision for impairment of loans and advances as per IFRS		
Identified impairment (note 23)	(24,039)	(37,524)
Unidentified impairment (note 23)		
Stage 1	(11,769)	(9,272)
Stage 2	(4,439)	(15,887)
Total IFRS provision	(40,247)	(62,683)
Shortfall / (excess) of IFRS provision over regulatory provision	8,069	(12,215)

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 2023, the allowance of impairment of loans and advances computed in accordance with IFRS exceeded the regulatory provision and therefore the credit risk reserve was Ushs 8,069 million (2022: nil).

40 Retained earnings/ accumulated losses – Group

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 2023, retained earnings amounted to Ushs 427,310 million (2022: Ushs 413,467million). The movement in retained earnings / accumulated losses is shown in the statement of changes in equity.

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	**2023**	**2022**
	Ushs M	**Ushs M**
At 1 January	**12,101**	3,177
Net movement on revaluation of FVOCI	(15,805)	12,562
Deferred tax impact on FVOCI transactions	4,753	(3,638)
At 31 December	1,049	12,101
ECL on FVOCI financial assets		
At 1 January net of deferred tax	190	83
Increase in ECL	(39)	107
At 31 December	151	190
Total fair value reserve	1,200	12,291

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.

	2023	**2022**
	Ushs M	**Ushs M**
Contingent liabilities:		
Guarantee and performance bonds	**248,979**	350,596
Commitments:		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**23,742**	26,957
	272,721	377,553

The expected credit loss on contingent liabilities and commitments is Ushs 75 million (2022: Ushs 738 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 2023, the net carrying amount for the right-of-use assets is Ushs 25,965 million (2022: Ushs 27,308 million) (see Note 29).

43 Leases (Continued)

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).

	2023	2022
	Ushs M	Ushs M
At 1 January	**24,209**	29,474
New leases	**1,425**	1,586
Interest charge (note 10)	**13,643**	5,205
Unrealised loss/(gain) on foreign currency denominated leases	**193**	83
Leases terminated during the year	**(798)**	(438)
Interest paid	**(8,438)**	(3,253)
Principal paid	**(4,384)**	(8,448)
At 31 December	**25,850**	**24,209**

At 31 December 2023, the future minimum lease payments under non-cancellable operating leases were payable as follows.

iii. Amounts recognized in profit or loss

	2023	2022
	Ushs M	Ushs M
Leases under IFRS 16		
Interest on lease liabilities	**13,643**	5,205
Depreciation on right-of-use asset	**8,815**	6,318
Unrealised gain on foreign currency denominated lease liabilities	**193**	83
	22,651	11,606

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 2023 was 12% (2022: 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 1,831 million (2022: Ushs 1,689 million). The rental income recognised by the Company was Ushs 6,998 million (2022: Ushs 6,482 million).

44 Provisions, contingent liabilities and contingent assets – 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 322 billion (2022: Ushs 224 billion). Through legal advice management has determined that total expected losses to the Group are Ushs 2.1 billion (2022: Ushs 2.3 billion) for which a provision has been made in the consolidated financial statements. In the opinion of directors and after taking appropriate legal advice, no significant additional losses are expected to arise from these cases.

The movement in litigation provisions during the year was as follows:

	2023	2022
	Ushs M	Ushs M
At 1 January	**2,338**	2,190
Arising during the year	**-**	148
Utilised during the year	**(150)**	-
At 31 December	**2,188**	2,338

(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 2023 from the deal date. The unrealised loss on these contracts amounts to Ushs 45 million (2022: gain of Ushs 327 million) recorded in the statement of financial position. The financial instruments as split as indicated below:

	2023	2022
	Ushs M	Ushs M
Derivative financial asset	**228**	567
Derivative financial liability	**(273)**	(240)
At 31 December	**(45)**	327

(c) Other open litigation matters

In 2020, Crane Bank Limited (CBL) and some of its shareholders filed a claim in the English High Court against **dfcu** and others making allegations concerning the transaction relating to the acquisition of some of the assets and assumption of some of the liabilities of CBL by dfcu. **dfcu** and others challenged the jurisdiction of the English Court, arguing that the claim should be dismissed because the English Courts do not have authority to inquire into a claim which challenged the acts of the Bank of Uganda operating under the Laws of Uganda and acting within the sovereign state of Uganda, in respect of Ugandan assets. dfcu's jurisdiction challenge was successful before the English High Court.

Following an appeal by CBL and others, the English Court of Appeal stated that while **dfcu** may be right that the English Court does not have authority to consider the claim, the issues should not be decided at a preliminary stage through a jurisdiction challenge but should instead be determined through a trial in the English High Court.

dfcu and others sought permission to the Supreme Court of UK to appeal the decision of the Court of Appeal. On 8 January 2024, the UK Supreme Court referred the matter back to the English High Court for trial.

dfcu maintains that the claim is without merit and the same will be vigorously defended at trial in the English Courts.

45 Cash and cash equivalents

Analysis of cash and cash equivalents as shown in the consolidated statement of cash flows.

	Group		Company	
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Cash in hand (note 21)	**212,208**	193,827	**-**	-
Balances with Bank of Uganda (note 21)	**317,968**	288,471	**-**	-
Less: Cash reserve requirement	**(210,820)**	(226,510)	**-**	-
Amounts due from related companies (note 46(b))	**-**	-	**4,558**	1,480
Deposits and balances due from banks (note 22)	**255,165**	216,771	**-**	-
	574,521	472,559	**4,558**	1,480

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. On the other hand, **dfcu** Limited has significant shareholding in Umeme Limited and Airtel Uganda Limited. Transactions and balances with related parties are shown below:

a) Amounts due to related companies

	Group	Company		
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
dfcu Bank Limited - overdraft and term finance	**-**	-	**20,328**	16,142

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** 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 16% per annum.

b) Amounts due from related companies

	Company	
	2023	**2022**
	Ushs M	**Ushs M**
dfcu Bank Limited (subsidiary)	**4,558**	1,480

For the purpose of the Company statement of cash flows, cash and cash equivalents are represented by the above balances.

46 Related party disclosures (continued)

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

	2023	2022
	Ushs M	Ushs M
Interest expense incurred	**160**	80

Advances to customers include loans to directors and loans to employees as follows:

- At 31 December 2023, advances to employees amounted to Ushs 34,088 million (2022: Ushs 29,667 million).
- At 31 December 2023, there were no advances to non-executive directors and companies controlled by directors or closely connected persons (2022: Ushs Nil).

	2023	2022
	Ushs M	Ushs M
Interest income earned on advances to employees and directors / companies connected to directors	**1,065**	1,074
Deposits by directors (Group)		
At 1 January	**274**	526
Net decrease	**93**	(252)
At 31 December	**367**	274

c) Loans to directors - Group

There were no loans to directors indicated on page 115 (2022: Nil).

d) Key management compensation

	Group		Company	
	2023	2022	2023	2022
	Ushs M	Ushs M	Ushs M	Ushs M
Salaries and other short-term employment benefits	**4,678**	4,897	**384**	383
Post-employment benefits	**619**	738	**64**	64
	5,297	5,635	**448**	447
Directors' remuneration				
Fees for services as directors	**2,263**	1,477	**677**	691
Other emoluments: short-term benefits (included in key management compensation)	**-**	-	**-**	-
	2,263	1,477	**677**	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 2023, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Ushs 3,505 million (2022: Ushs 2,816 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 2023 the Group contributed Ushs 7,002 million (2022: Ushs 5,986 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	
	2023	**2022**	**2023**	**2022**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Authorised but not contracted	**-**	-	**-**	-
Authorised and contracted	**14,479**	6,210	**-**	-
	14,479	6,210	**-**	-

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).

Head Office: Plot 26 Kyadondo Road
Telephone: +256 (0) 312 300 152
Website: www.dfculimited.com
Email address queries@dfcugroup.com