dfcu
...with pleasure

dfcu GROUP ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

CHAMPIONING OUR **CUSTOMER**

MAKING MORE POSSIBLE

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ABC	-	Anti-bribery and Corruption
ADC	-	Agribusiness Development Centre
AGM	-	Annual General Meeting
ALCO	-	Asset and Liability Committee
AML	-	Anti-Money Laundering
ATM	-	Automated Teller Machine
BCP	-	Business Continuity Planning
BIS	-	Bank for International Settlement
BOU	-	Bank of Uganda
CAR	-	Capital Adequacy Ratios
CB	-	Corporate Banking
CDC	-	Common Wealth Development Corporation
CDO	-	Cotton Development Organisation
CSI	-	Corporate Social Investment
CSR	-	Corporate Social Responsibility
EAD	-	Exposure at Default
ECL	-	Expected Credit Loss
FIA	-	Financial Institutions Act (2016)
FVOCI	-	Fair Value Through Other Comprehensive Income
FVTPL	-	Fair Value Through Profit and Loss
ICPAU	-	Institute of Certified Public Accountants of Uganda
IEASBA	-	International Ethics Standards Board for Accountants
IFC	-	International Finance Corporation (IFC)
IFRS	-	International Financial Reporting Standards
ISA	-	International Standards on Auditing
IT	-	Information Technology
GDP	-	Gross Domestic Product
GOU	-	Government of Uganda
GRI	-	Global Reporting Initiative
KPIs	-	Key Performance Indicators
KYC	-	Know Your Customer
LGD	-	Loss Given Default
NPL	-	Non Performing Loans
NSSF	-	National Social Security Fund
OECD	-	Organisation for Economic Co-operation and Development
OCI	-	Other Comprehensive Income
PBB	-	Personal and Business Banking
PD	-	Probability of Default
RoE	-	Return on Equity
RoU	-	Right of Use
SACCOs	-	Savings and Credit Cooperative Organisations
Shs M	-	Shillings in Millions
Shs Bn	-	Shillings in Billions
Shs Trn	-	Shillings in Trillions
SME	-	Small and Medium Enterprise
UGX	-	Uganda Shillings
ULS	-	Uganda Law Society
USE	-	Uganda Securities Exchange
USSD	-	Unstructured Supplementary Service Data
WiB	-	Women in Business

About dfcu

George Ochom
General Manager **dfcu** Limited

Who we are

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

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

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

arise – Investing in Africa's Local Prosperity	58.70%
IFU – Investment Fund for Developing Countries	9.97%
NSSF – a better life	7.46%
	23.87%

What we do

Real Estate and Property Management

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

dfcu Bank

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

Investor Relationships

- Shareholder Engagements
- Regulatory Compliance

Agriculture Development Centre

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

Our Journey

1964

Established

dfcu Limited established by CDC & GOU

1999/2000

Banking

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

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

2004

Listed

Listed on Uganda Securities Exchange

2008

Consolidation

All Financial Services were consolidated into the Bank.

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

2013

Agribiz

Strategic Partner Rabobank with significant experience in Agribusiness

2014/2015

Building

Moved Head Office to **dfcu** Towers

Acquired Global Trust Bank

2017/19

Acquisition

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

Acquired some assets and liabilities of Crane Bank

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

Our Business

Our Purpose

→ Making More Possible

Our Vision

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

Our Mission

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

Our Values

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

Our Strategic Aspirations

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

Our Business Areas

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

MARKET STANDING

Customer Reach

- **56** Branches
- **1,543** Active Agents
- **68** Cash Deposit ATMs
- **OMNI** Online Banking Platform Internet, Mobile and App
- **VISA** Contactless Credit and Debit Cards
- **SAVINGS** App
- **450** ATM points (including Interswitch)

MARKET STANDING

Financial Strength

DEPOSIT FUNDING OF 59%

TIER 1 CAPITAL RATIO OF 22%

Talent

1,059 employees

51% female staff

Reaching and Serving millions of **Ugandans with 56 branches** and **over 100 ATMs,** countrywide.

OUR BRANCHES IN KAMPALA

- 6th Street Branch
- Acacia Branch
- Banda Branch
- Bugolobi Branch
- Bwaise Branch
- Entebbe Road Branch
- Impala Branch
- Jinja Road Branch
- Kampala Road
- Kawempe Branch
- Kikuubo Branch
- Kireka Branch
- Kyadondo Road Branch
- Lugogo Branch
- Luwum Street
- Makerere Branch
- Market Street Branch
- Naalya Branch
- Nabugabo Branch (Gagawala Shauliyako)
- Nateete Branch
- Ndeeba Branch
- Nsambya Branch
- Ntinda Branch(Capital Shoppers)
- Ntinda II Branch(Ntinda Trading Centre)
- Owino
- Sun City Branch
- William Street Branch
- Wilson Lane
- Kyengera Branch

*450 ATM points (including Interswitch)
*68 Cash Deposit ATMs

Strategy Update

A new Strategic Plan "Customer Obsessed Strategy"

During the year, a new strategic plan was developed for the Bank which is focused on customer obsession. Customer Obsession means designing policies and procedures with the customer in mind, embedding customer obsession in our culture and the way we do things, building Teams that have this obsession as the driver of their efforts and it means building structures in the bank with the customer in mind. Ultimately it is a way of life in the Bank and before saying "We are customer obsessed as a Bank," it begins with "I am Customer Obsessed as an individual Team member of the Bank."

Research done on over 260 leading global companies across 14 industries shows that a relentless focus on customer experience pays enormous dividends. It can cause a 15% increase in sales lead conversion, increase employee engagement by up to 30% and even lower cost to serve by up to 50% because of the way that needless processes and waste is cut out, ultimately leading to a 20% increase in customer satisfaction. This therefore demonstrates the potential impact that focusing customer obsession will have on the Bank.

The Strategy Development Process

In developing the new strategy, the bank carried out a comprehensive diagnostic assessment and a wide range of participatory engagements both internally and externally which were well participated in. For example, we had the Customer Experience Maturity Assessment survey which was participated in by over 700 staff, and we also had the Organizational Health Index Survey which was participated in by over 800 staff. We also leveraged internal and external data sources and most importantly talked to our customers because we are doing this for them. All these were used to look at where we are and develop where we need to go and what needs to be done to get there.

To give this context, the previous strategy, which was done in 2017 and lapsed in 2021, looked at four wining aspirations for Market Leadership, Universal Bank, Bank 4.0 and Superior Financial Performance. From the diagnostic assessment, it was noted that whereas the Bank has key strengths in local market knowledge, brand strength, good partners and a young dynamic Team, there were some challenges in asset quality and provisions that affected our profitability, in addition to dormancy, system challenges and manual processes underscored by a need to align institutional culture. However, there are opportunities that in terms of the growing SMEs and key sectors of the economy such as agriculture, oil and gas and infrastructure, CASA deposit mobilization to reduce our reliance on Fixed deposits, digital offerings to enhance our Customer Value proposition and partnering with Fintechs. Though these partnerships are good, they also present a threat because Fintechs were given license to operate in the Financial Services space under the National Payment Services Act and other threats remain such as the pandemic and its aftereffects, talent shortages particularly for technology and the rise of customer activism against Banks in general.

A renewed Vision and Refined Mission

After the diagnostic assessment, the Bank embarked on reviewing the vision and mission upon which the new strategy would be anchored to deliver the overarching goal of the new strategy. the old vision was "To be the preferred Ugandan financial institution providing a broad range of quality products to our chosen customer segments," but now the renewed vision is "Transforming lives and businesses through innovative solutions and empowered people which speaks specifically to impact for people especially our customers.

The mission on the other hand was refined to maintain only the critical elements that focus on impact but at the broader level which is the economy and our partners. The old mission was "To grow shareholder value while playing a key role in transforming the economy and enhancing the well-being of our people. Through our dynamic and responsive teams, we will provide innovative financial solutions and maintain the highest levels of customer service and professional integrity." This has now been refined and is, "To grow shareholder value while playing a key role in transforming the economy and enhancing the well-being of our People."

Strategic Pillars and Themes

The new strategy is driven by the new vision collaborated by aspirational key performance indicators to check success towards that vision in the area of market share and returns for our partners, asset quality, cost management and customer activity levels which check the effectiveness of our customer obsession. This is underpinned by three strategic pillars the first being, "To embed customer obsession with winning propositions; the second "Being a digital and data driven organization and the final pillar which is, "To build a high-performance culture."

Flowing from the strategic pillars are seven strategic themes, the first is Segmentation and CVP, the core theme dealing with Personal Banking, Business Banking and Corporate Banking Customers Segments; The second is Digital and Customer Centricity which deals with the front facing side of our technology and customer service; The third is Risk Management which looks at collections, approvals and credit monitoring processes across the company; Then we have Productivity which looks at cost management and how we continued to drive efficiencies to lower the cost to serve our customers; In addition, we have Data and Technology which looks at the back end of our technology, electricity, servers, data bases etc… all of which drive the front-end digital systems; Then we have the sixth which is Talent and Organization which deals with human capital development and institutional culture and finally the seventh and last strategic theme is Execution, which addresses how we will consistently deliver results on the strategy.


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24/7 CARDLESS
CASH DEPOSITS

Our Leadership

dfcu Limited Board of Directors and Management

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

Retired Chairman of **dfcu** Limited: 30th September, 2021.

Dr. Aminah Zawedde
Non-Executive Director

Appointed to the Board: August 2020.
Acting Chairperson starting October 2021.

Friedrich Pelser
Non-Executive Director

Appointed to the Board: October 2018.

Kironde Lule
Non-Executive Director

Appointed to the Board: September, 2012.

Barbara T. Arimi
Non-Executive Director

Appointed to the Board: June, 2019.

Albert Jonkergouw
Non-Executive Director

Appointed to the Board: December, 2013.
Resigned 2022.

George Ochom
General Manager

Appointed General Manager: January, 2018.

dfcu Bank Board of Directors

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

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

Jackie Aneno Obol-Ochola
Non-Executive Director

Appointed to the Board: October 2020.

Stephen Caley
Non-Executive Director

Appointed to the Board: June, 2016.

Albert Jonkergouw
Non-Executive Director

Appointed to the Board: December, 2013.

Grace Makoko
Non-Executive Director

Appointed to the Board: July 2019.

Willem Cramer
Non-Executive Director

Appointed to the Board: June, 2016.

Øivind Solvang
Non-Executive Director

Appointed to the Board: September 2019.

Mathias Katamba
Managing Director

Since December, 2018.

William Sekabembe
Executive Director

Since August, 2016.

Angelina Namakula-Ofwono
Company Secretary

Since October 2019.

Dr. Winifred T. Kiryabwire
Non-Executive Director

Appointed to the Board: July 2019.

dfcu Bank - Women Business Advisory Council

Dr. Gudula Naiga Basaza

Chairperson

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

Rosemary Mutyabule

Enterprise Development Specialist

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

Patricia Karugaba Kyazze

Managing Director, Nina Interiors

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

Belinda Namutebi

Communications Professional

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

dfcu Bank - Senior Management Team

Mathias Katamba
Chief Executive Officer

William Sekabembe
Chief Commercial Officer

Kate K. Kiiza
Chief Financial Officer

Angelina Namakula-Ofwono
Chief Legal Officer

Hope Ekudu
Chief Operating Officer

Veronica Sentongo
Chief Change & Innovation Officer

Victor Rugeiyamu
Chief Risk Officer

Jimmy D. Mugerwa
Chairman **dfcu** Limited

Chairman's Statement

*"The Board believes implementation of the new 5-year strategic plan will enable **dfcu** capitalize on the opportunities in the market to drive long-term value for our Shareholders."*

Dear Shareholders,

It is my pleasure to present the 2021 Annual Report.

Overview

dfcu continues to carry a rich legacy of supporting Uganda's economic growth through financing key sectors of the economy, driving financial inclusion through our extensive branch network and electronic banking solutions. In 2021, we focused on execution to deliver our commitments to investors having taken stringent actions to secure our future following the economic downturn resulting from the Covid-19 pandemic.

The operating environment presented us with challenges and opportunities. A combination of the Presidential and Parliamentary elections at the start of the year coupled with the 2nd wave of Covid-19 pandemic and resultant lock down dampened business sentiments and slowed down the anticipated economic recovery. GDP growth was sluggish in the first half of 2021 but picked up following the gradual reopening of the economy and grew in the range of 6.5-7.0 percent.

The anticipated domestic economic recovery promises to reverse the severe impact witnessed by some of our business customers during the year. The company's underlying business continues to be strong, evidenced by the strong growth in top-line earnings clearly showed the financial resilience of the company.

Results

In 2021, the group net income grew substantially by 21% from UGX 304 Billion to UGX 368 Billion driven by 23% increase in Fee Income, 3% increase in Interest Income and a significant 26% or UGX 29 Billion reduction in Interest Expenses. This was achieved mainly by rationalization of our business operations and increased use of our digital platforms.

On the other hand, a few customers with large exposures experienced tough covid related business challenges and the bank had to make higher than anticipated provisions for loans and advances. This resulted in an increase in impairment of loans and advances of 384% or UGX 118 Billion which consequently resulted in a decline in Profit After Tax from UGX 24 Billion in 2020 to UGX 9 Billion in 2021.

On the balance sheet side, total assets declined by 10% from UGX 3.5 Trillion in 2020 to UGX 3.1 Trillion in 2021 as the business improved balance efficiency by reducing the quantum of high-cost fixed deposits thus, improving the deposit mix and consciously refocusing the business to make higher yielding loans and advances. This has resulted in an increase in Interest Income and substantial Interest Cost savings as highlighted above.

Regulatory and Operating Environment

Regional and Global regulatory bodies continued to issue stricter monitoring and reporting requirements aimed at liquidity preservation in banks and other compliance measures such as Anti Money Laundering regulations.

There were some notable amendments made to the Regulatory landscape in which **dfcu** Limited operates, key among them is the Uganda Securities Exchange (USE) Listing Rules of 2021.

Further, following the enactment of the National Payments systems Act 2020, the Central Bank issued several regulations such as the National Payments System Regulations 2021, National Payments System (Agents) regulations 2021 and the National Payments Systems (Sanbox) Regulation 2021 to streamline operations of FinTechs which under the Act are now allowed to offer some financial services which brings more competition to the traditional providers of the service. The Central Bank granted approval to a regional bank take over the operations of a local bank and also issued a license for a third Credit Reference Bureau.

Cybercrime continued to evolve as a major threat to the financial services industry which we recognize as a threat to the well-being of the industry and as **dfcu** we are prepared to address the threat having enhanced our security systems and protocols.

Equity Market

The protracted recovery of the economy from the effects of the pandemic was mirrored on the Uganda Securities Exchange with trading activity gradually improving. The turnover traded in 2021 rose from UGX 9.07 Billion ($2.56Million) in half one of 2021 nearly tripling in half two of 2021 closing the year at UGX 23.42 Billion ($6.57Million). Investor sentiment was also demonstrated by MTN Uganda's listing which doubled overall local market capitalization to UGX 8.69 Trillion ($2.44Bn)

dfcu traded an annual turnover of UGX 24.25 million ($6,851) in stock in contrast to the UGX 2.44 Billion ($0.66Million) traded in 2020. Despite repressed share prices on the counter demonstrated by some local listed companies share prices dropping by as much as 43%, **dfcu** maintained a relatively stable trading price range of UGX 624-UGX 580 shillings losing only 7.1% across the year.

Total Assets

UGX 3.136

Trillion

UGX **2.282** Trillion

Customer Deposits

UGX **1.508** Trillion

Loans and advances

Strategy

In 2021, the trading entity, **dfcu** bank, embarked on preparation of a new strategic plan that defines the strategic direction of the bank for the next 5years. This new strategic plan dubbed “Customer Obsessed Strategy” is aimed at revolutionizing the overall Customer experience and enhancing Customer Value Propositions across all segments anchored by a renewed vision which is “Transforming Lives and Businesses through innovative solutions and empowered people.

The business will focus on substantially increasing our market share at sector and industry level, improve Return on Equity, further reduce the Cost to Income Ratio and average cost to service for customers by improving operational efficiency, to drive down Non-Performing Loans and increase the active customer base.
At the group level, our team is working on a new strategic plan aimed at harnessing group synergies by introducing new products and business lines that are ordinarily not offered by the main trading entity.

As a Corporate citizen, we are cognizant of the challenges experienced by communities within our operating environment and need to give back to our communities. We shall continue to support communities in our areas of focus and leverage the unique value proposition offered by the Agricultural Development Centre, our Farmer Based Organization’s incubator to improve financial literacy and farming practices for small and medium farmers. That way we shall improve the lives of many rural communities whose principal activity is farming.

Corporate Governance

I was honored to be appointed **dfcu** Limited board chairman in 2022 following the early retirement, of our long serving Chairman, Dr. Hon. Elly Karuhanga who had served the group for 15 years. I am grateful to him for the quality of the Board I have taken over. Before my appointment, the board appointed Dr. Aminah Zawedde as Acting Chairperson.

The Board wishes to thank Dr. Hon. Elly Karuhanga for stewardship of the group, which saw the trading subsidiary **dfcu** bank grow to one of the leading financial institutions in Uganda and Dr. Aminah who provided leadership to the Company in the interim which enabled a seamless transition for myself as the new Board Chairman.

We are delighted to welcome Dr. Echookit Akello Christine to the Board of dfcu Limited following her appointment as a Non-Executive Director to fill a casual vacancy in 2022. Dr. Christine possesses 24 years working experience and is an advocate of the Courts of Judicature in Uganda. Her appointment brings a wealth of experience to the Board.

During the year, we bid farewell to Mr, Øivind Solvang, a Non-Executive Director on the Board of **dfcu** Bank who had served on the Board since 2019 and chaired the Assets and Liabilities Committee (ALCO). We appreciate the wealth of experience in banking and finance spanning over 30 years that he shared with us and wish him all the best in his new endeavors.

This year 2022, we also bid farewell to Mr. Willem Cramer a Non-Executive Director who served on the Board of **dfcu** Bank since 2016 and chaired the Risk Committee of the Bank (RISCO). We shall also dearly miss Willem’s experience in banking that spanned over 35 years and wish him the best in his new endeavors.

Additionally, this year 2022, Mr Albert Jonkergouw who served on both the Board of **dfcu** Limited and **dfcu** Bank retired from the Board of **dfcu** Limited but remains on the Board of dfcu Bank where he chairs the Nominations Committee. We continue to benefit from Mr. Albert’s wealth of experience in Banking and Risk management and congratulate him upon his appointment as Chief Financial Risk Officer and Acting CEO at Arise B.V our largest shareholder.

Stakeholder Engagement

In the current environment where Corporate Governance continues to take a centre stage, we adhere to the principals of transparency and accountability. During the year, the disclosures were made by the Company to appraise the Shareholders of material events that had occurred. We continue to provide details of the Company performance when the financial results are released by sharing a narrative through the facts behind the figures presentation. We have productive two way engagements with other stakeholders who include the Regulators, Customers, Suppliers and Staff.

Dividend

While the Directors are optimistic of an economic recovery, the recent economic trends point to a possible prolonged delay in the recovery. To prepare the company for any adverse effects resulting from economic shocks, the Board of Directors are not proposing payment of dividends for the year 2021. However, this position will be closely monitored, and Shareholders advised on any developments.

Sustainability

Environmental, Social and Governance (ESG) has gained significant importance and as dfcu we are aware of our responsibility towards our stakeholders and the environment in which we operate. dfcu strives to conduct its business in a responsible and sustainable manner both directly in its business activities and indirectly through the financing extended to its customers.

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

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

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

A detailed ESG statement can be found on page 77 of this Report.

Looking Ahead

The Group will vigorously implement its long-term plan anchored on three pillars namely: Customer Obsession, Digital and Data Driven Business and High-Performance Culture. This will help to scale up our business operations unlock the innate potential available in the market to bring benefits of new growth and income avenues as well as seek potential organic growth opportunities.

The new strategic focus aims at scaling up our Retail and Personal Banking through strategic partnerships, Become the Preferred bank in the fast-growing SME space and win in primary sectors through differentiated offerings in the Corporate Banking Division. This should result in significant growth in market share, Return on Equity and Active Customer Ratios while drastically reducing the Cost to Income Ratio.

Our Human Resource is the backbone of the Group's success, and the Group will continue to invest in its people by, building their capabilities through targeted recruitments and training, engaging, and motivating them and helping them to develop strong career paths that are aligned with the Group's goals.

In Appreciation

The past financial year again tested the resilience of the Board, Management and Staff in steering the Company forward.

I take this opportunity to thank the **dfcu** directors for guiding the company and ensuring that the business remained firmly focused on its core mandate in 2021. I also thank our Shareholders, Regulators, Customers, Partners, and other stakeholders for your continued support and confidence in the company. None of the above could have been achieved without the dedicated efforts of our employees who continue to make more possible by embracing our mission 'To grow shareholder value while playing a key role in transforming the economy and enhancing the well-being of our People'.

I thank You

Mr. Jimmy D. Mugerwa
Chairman, Board of Directors
dfcu Limited

Dr. Winifred T. Kiryabwire
Chairperson **dfcu** Bank

Statement from the Board Chairperson **dfcu** Bank

dfcu Bank demonstrated resilience in 2021 showing continued improvement in most of the top line figures driven by strong income growth and cost control. Operating income grew by 21% year on year while cost to income ratio improved to 49%, an indication that the Bank is beginning to reap benefits due to efficiencies derived from its investment in technology and cost optimisation.

The Bank booked large loan impairments during the year resulting from the adverse effects of the pandemic related disruptions on many of our business customers. This consequently had a significant impact on the earnings for the period. While the economy was fully reopened in January 2022, we are cautious that some of our business customers may have a long recovery lag. The Bank will continue offering tailored interventions to selected sectors and business recovery loans to SME's who form the core of our business customers. Furthermore, the investments we are making in our digital transformation and payments ecosystem initiatives will continue to enable customer transactions, revenue growth and sustain our momentum on cost containment.

The challenges posed by the operating environment during the period have demonstrated that our solid balance sheet, stable capital base, committed shareholders and resilient staff place the Bank in a good state to rebound on the overall financial performance.

Looking forward, we will commence the implementation of our enhanced customer obsessed five-year strategy which should deliver the Bank to transforming lives and businesses with innovative solutions and empowered people. The Board would like to thank our regulators, shareholders, customers and staff as well as our other stakeholders for their commitment to the continued growth of our Bank. Thank You!

Mathias Katamba
Chief Executive Office

Message from the Chief Executive Office

strong leap forward was achieved on the core business metrics, but one area impacted our Customers and the Bank's earnings

2021 began with heightened political activity from presidential and parliamentary elections. There was a major achievement in the oil and gas sector as Uganda and Tanzania, signed of a 3.5 billion US Dollar agreement to build the Oil pipeline from the Albertine region in Uganda to the Port of Tanga in Tanzania. This was further boosted at the start of 2022 with the signing of the Final Investment Decision (FID) bringing a further 10 billion US Dollar investment opportunity to the Country.

The country experienced a third wave of Covid - 19 infections in mid-2021 culminating in a second nationwide lockdown that was later lifted in August, followed by a partial opening of the economy. The economy was eventually fully reopened in January 2022 and this has brought renewed optimism.

Outlook on the Business Environment

In terms of the economic outlook, the high frequency indicators of economic activity suggest a strong rebound for 2022. There is improvement in domestic demand following the full reopening the economy, with real GDP projected to grow by 6% in 2022 and improve to over 7% over the medium term. The risks to the outlook remain on funding of public infrastructure keeping in mind the need to maintain public debt at sustainable levels, climate shocks which affect food prices and now global geopolitics affecting fuel and commodity prices, hence escalating inflation.

Banking Sector Developments

The banking sector has remained strong and continues to support the economy. There were several key developments during the year including; the entry of new players in the traditional banking arena and the Central Bank licensing Fintechs to operate in the payments space. The sector also welcomed a third Credit Reference Bureau. To encourage the use of digital channels, there was a regulatory reduction in the cheque transaction limit by 50% to Ushs 10 million. There is a proposal to increase capital requirements for banks from Ushs 25 Billion to Ushs 150 Billion, however, dfcu Bank is comfortably above the proposed requirement.

Growing our Topline Revenue and Managing Operating Costs

We delivered strong topline growth with a 21% increase in operating income driven by a 17% increase in net interest income and a 35% increase in non-interest income. We also achieved a 26% reduction in interest expense, and improved operational efficiency demonstrated by a significant improvement in the cost to income ratio from 63% to 49%. Our strong topline growth was driven by our retail strategy where we introduced new solutions in the various customer segments focusing on small businesses and supporting financial inclusion. In doing so, we further reduced the composition of fixed deposits on our balance sheet.

In our quest to deepen the support for key business sectors, we widened our offerings in the global financial markets and trade finance space hence increasing our outreach and trading volumes. Our deliberate focus on improving the customer journey saw us increase investment in digital channels including expansion of the intelligent ATM fleet, new functionalities on both agent and online banking, and on boarding new partners supporting payments. These initiatives translated into increased utilization of our digital channels.

On the cost side, the Bank continued to invest in systems, technology and good practices in our pursuit of operational excellence. The benefits from process automation and digitization of customer journeys as indicated earlier reduced the cost to serve customers, consequently bringing down our cost to income ratio significantly from 63% to 49% for the year.

Repositioning our Balance sheet in Loans and Advances and Customer Deposits

Due to the slow economic activity, the Bank took a cautious approach to credit growth focusing on the specific sectors that remained active in the period while providing relief to those had restrictions. The year was marked with the lowest growth on record for credit to the private sector across the Banking industry of 6.0% and whilst there was a reduction in dfcu Bank's loan book by 15%, it is important to note that the number of borrowing customers increased by 40% during the period, underpinning our retail focus and continued commitment to support our customers.

Furthermore, whereas there was a reduction in customer deposits of 12%, this was as a result of the deliberate efforts to minimize cost of funds as we gradually released or repriced deposits in expensive categories such as fixed deposits as we moved towards optimally priced deposit categories such as current and savings accounts. We are glad to note that this concerted effort resulted in a significant reduction of UGX 29 billion Shillings in interest expense for the year 2021.

Impact on Earnings Performance

We achieved a good leap forward on the core metrics with robust growth in total income and continued reduction in operating costs as noted earlier. The pre-provisioning profit i.e. profit before provisions, fair value losses and tax grew significantly by 67% from Ushs 114 Billion in 2020 to Ushs 190 Billion in 2021. The Bank's overall profit was significantly impacted by the loan impairment charge, resulting from the adverse impact of the Covid-19 pandemic, the associated containment measures on our customers businesses and the impairment of the financial asset. We continued to support our customers, especially those operating in sectors that remained locked down for an extended period, with credit relief and business recovery loans. The full reopening of the economy provides renewed optimism about the prospects of our business customers getting back to full operations which will improve their repayment ability, increasing demand for credit and providing a positive outlook for our performance.

21%
increase in operating income

17%
increase in net interest income

35%
increase in non-interest income

26%
reduction in interest expense

Our new Strategic Plan

During the year, we developed a new strategic plan for the Bank which is focused on "Customer Obsession" driven by a renewed vision of, "Transforming lives and businesses through innovative solutions and empowered people," and a renewed mission which is, "To grow shareholder value by playing a key role in transforming the economy and enhancing the well-being of our people." Our strategy is underpinned by three strategic pillars which are, "To embed customer obsession with winning propositions; "Being a digital and data driven organization and "Building a high-performance culture." This new "Customer Obsessed Strategy" speaks to the impact we create for people especially customers and the impact we create in communities we operate in across the country with our stakeholders and will be the thrust for us to drive growth and deliver results over the next five years 2022 to 2026.

Other Highlights for the year

During the year we intensified our engagement and interaction with customers, stakeholders and community at large using various platforms. The weekly Investment Club financial literacy sessions provided avenues for continuous engagement, feedback and learning. Furthermore, the Women in Business program continued to nurture the entrepreneurial spirit of women through regular tailored trainings.

The introduction of flagship lending solutions for small and informal businesses where they acquire credit with flexible collateral requirements has enabled us to support many upcoming entrepreneurs across the country. Additionally, through other programs such the Top 100 Medium Sized Company Survey done in conjunction with our partners we offered a platform and opportunities to harness value and build sustainable businesses.

Through the Agribusiness Development Centre, a partnership between dfcu and Rabobank foundation, we complemented efforts towards improving the skills set within the agriculture sector, by providing technical support to Farmer Based Organization's (FBOs) within the agricultural value chain.

Expectations Going Forward

Following the full reopening of the economy, we expect that economic activity, and our earnings performance will bounce back with real GDP projected to grow by 6% in 2022. We also expect demand for credit to return as businesses recover and reposition for growth.

We will continue to focus on the growth of our retail business, supporting businesses and individuals in the post covid recovery during 2022, in addition to building resilience in our loan book through rehabilitation and debt recovery programs.

Mathias Katamba
Chief Executive Officer
dfcu Bank Limited

Financial Review

Financial definitions

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

2021 Financial Highlights

	2021	2020
	Shs M	Shs M
Statement of Comprehensive Income (Shs M)		
Profit before tax	**5,885**	31,485
Profit after tax	**9,312**	24,077
Statement of Financial Position (Shs M)		
Total assets	**3,136,732**	3,498,577
Loans and advances to customers	**1,508,410**	1,775,316
Investment securities	**552,290**	517,005
Marketable securities	**6,700**	58,357
Customer deposits	**2,282,205**	2,595,347
Borrowed funds	**159,900**	181,852
Subordinated debt	**31,907**	36,560
Shareholders' equity	**594,026**	592,912
Financial performance (%)		
Return on equity	**2%**	4%
Cost to income ratio	**50%**	63%
Loans to deposits ratio	**59%**	61%
Liquidity ratio	**36%**	36%
Share statistics (Shs)		
Earnings per share - basic and diluted	**12.45**	32.18
Proposed dividends per share	**-**	17.38
Capital Adequacy		
Risk weighted assets (Shs M)	**2,432,361**	2,451,279
Core capital (%)	**22%**	19%
Total capital (%)	**23%**	21%
Cash flow information (Shs M)		
Net cash from operating activities	**18,263**	368,901
Net cash used in investing activities	**(12,997)**	(33,305)
Net cash (used in)/from financing activities	**(60,535)**	(85,981)
Cash and cash equivalents at end of the year	**542,866**	597,841

A snapshot of dfcu Group's performance

Profitability

Profit after tax
2021 – UGX 9.3bn
2020 – UGX 24.1bn

Earnings per share
2021 – UGX 12.45
2020 – UGX 32.18

Return on assets
2021 – 0.30%
2020 – 0.69%

Return on equity
2021 – 2%
2020 – 4%

Total Assets

UGX 3.136
Trillion

UGX 2.282 Trillion
Customer Deposits

Financial intermediation

Maturity transformation

UGX 1.508 Trillion
Loans and advances

Over 1 million
Customers

1,074
Employees

56
Branches

68
ATMs

Liquidity

Liquidity assets ratio
2021 – 36.30%
2020 – 36.00%

Liquidity coverage ratio
2021 – 198.33%
2020 – 112.44%

Share Information

Dividends per share
2021 – Nil
2020 – UGX 17.38

Market capitalization
2021 – UGX 434bn
2020 – UGX 471bn

Credit Quality

NPL ratio
2021 – 16%
2020 – 5%

Provision cover ratio
2021 – 65%
2020 – 67%

Stability

Tier 1 ratio
2021 – 22.28%
2020 – 20.93%

Total capital ratio
2021 – 23.46%
2020 – 22.53%

Kate K. Kiiza
Chief Financial Officer

Economic Review

Economic Outlook

The global economic recovery continued during the year 2021, even as the pandemic resurged. However, the growth momentum softened in the third quarter of 2021, partly due to the resurgence of new variants of the Covid-19 virus and persistent supply chain disruptions. In October 2021, the International Monetary Fund (IMF) revised global growth for 2021 to 5.9 percent and 4.9 percent in 2022, 0.1 percentage points lower for 2021 than in the July forecast. The downward revision for 2021 reflects a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, mainly due to worsening pandemic dynamics. This is partially offset by more robust near-term prospects among some commodity exporting emerging markets and developing economies. The rapid spread of the Delta variant and the threat of a new variant-Omicron increased pandemic-related uncertainty. Policy choices have become more complex, with little room to manoeuvre.

Global inflation continued to rise, reflecting pandemic-related supply-demand mismatches and higher commodity prices. The risks to global inflation are tilted to the upside over the medium term, including persistent supply chain disruptions and a more robust than anticipated pickup in demand. Central banks' policy actions varied according to the assessments of their economies' inflation pressures. Some central banks in advanced economies begun to increase their policy rates and scale back their bond purchases even as some emerging market central banks tighten policy significantly. The policy dilemma in most countries facing a sharp rise in inflation is whether the increase in inflation is transitory, permanent, or persistent.

Global liquidity conditions generally remained favourable despite concerns for higher inflation and widespread indications by several central banks to tighten monetary policy. The US dollar continued to strengthen in November 2021, supported by better sales data and higher nominal interest rates in September and October 2021. The sustained strengthening of the dollar weakened several emerging market currencies. In addition, emerging and developing economies, faced with tighter financing conditions and greater risk of de-anchoring inflation expectations, withdrew policy support more quickly despite larger shortfalls in output.

On the domestic scene, BOU's Monetary Policy Committee maintained the CBR at 6.5 percent in October 2021, in line with achieving the inflation target of 5 percent in the medium term. Interbank money market rates remained well-anchored around the Central Bank Rate (CBR). The 7-day interbank weighted average rate averaged 7.0 percent to November 2021. Yields on government securities generally reduced in November 2021, mainly reflecting eased liquidity conditions partly due to BoU's accommodative monetary policy stance. However, commercial banks' interest rates increased in October 2021, reflecting risk aversion due to uncertainty associated with the adverse impact of pandemic-related restrictive measures and expiry of credit relief measures, as well as deterioration in asset quality. The weighted average lending rate on the shilling-denominated loans rose gradually from 16.3 percent in July 2021 to 19.7 percent in October 2021.

The momentum in Private Sector Credit (PSC) growth continued in 2021, indicative of the effect of BOU's accommodative monetary policy and the associated lower cost of borrowing since June 2020, as well as a gradual easing of the lockdown since July 2021. Credit growth was dominated by lending to the manufacturing sector (a share of 12.5 percent of total outstanding credit), which grew by 16.9 percent in the quarter to December 2021. The proportion of Non-Performing Loans (NPLs) to total loans rose to 5.4 percent in September 2021 from 4.8 percent in June 2021. Revenue shortfalls constrained fiscal operations for the first four months of the FY2021/22. Tax revenue underperformed by Shs. 690.3 billion on account of lower than target direct domestic taxes, indirect domestic taxes, and international trade taxes. Government expenditure underperformed by Shs. 2,181.3 billion compared to the programmed expenditure, mainly due to underperformance in the development expenditure of Shs. 2,707.2 billion due to slow absorption (procurement process) by some government projects. The Covid-19 crisis exacerbated Uganda's fiscal position and development needs.

The fiscal target for FY2021/22 reflects post-Covid-19 consolidation, with a fiscal deficit to GDP ratio of 6.4 percent compared to 9.1 percent in FY2020/21. The Debt Sustainability Analysis (DSA) indicates that external debt burden and public debt indicators remain moderate. Annual headline inflation and core inflation rose to 2.6 by end of 2021. The upturn has largely been driven by rapidly increasing energy and food crop prices. Inflation forecasts, amid high uncertainty, suggest that inflation will likely continue to rise as the economy recovers further and spare capacity is absorbed and will return to target levels by mid-2023. In the last five years to November 2021, inflation has undershot the target, on average. Inflation will need to rise above the target for a time to anchor price expectations in a way that is compatible with close-to-target inflation. If monetary policy were to be tightened too soon, the risk is high that inflation will not be persistently close to target in the period ahead.

Financial Performance Review

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

Cash and Balances with Banks

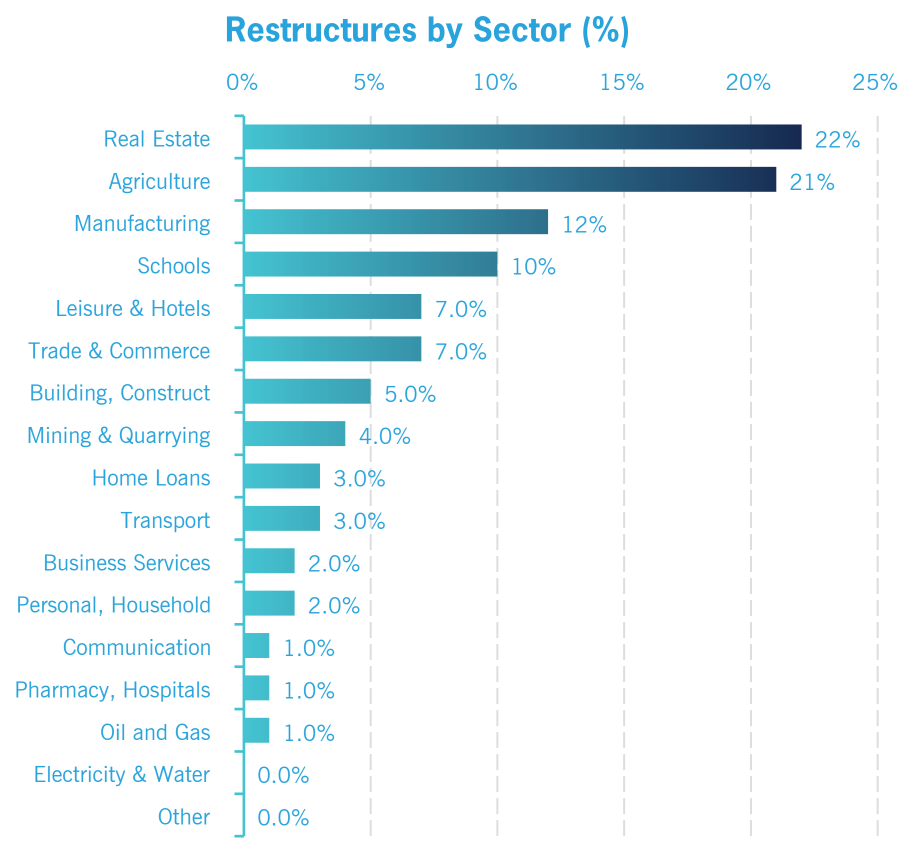
These are made up mainly of the cash we hold in our network, statutory cash reserves with Bank of Uganda, balances with other commercial Banks and repos and deposit auctions held with the Bank of Uganda for short periods awaiting suitable investment opportunities. The cash and balances with Banks reduced by 7% from Shs 802,191 million in 2020 to Shs 746,326 million in 2021, as a deliberate effort to invest more in the interest earning assets like investment government securities.

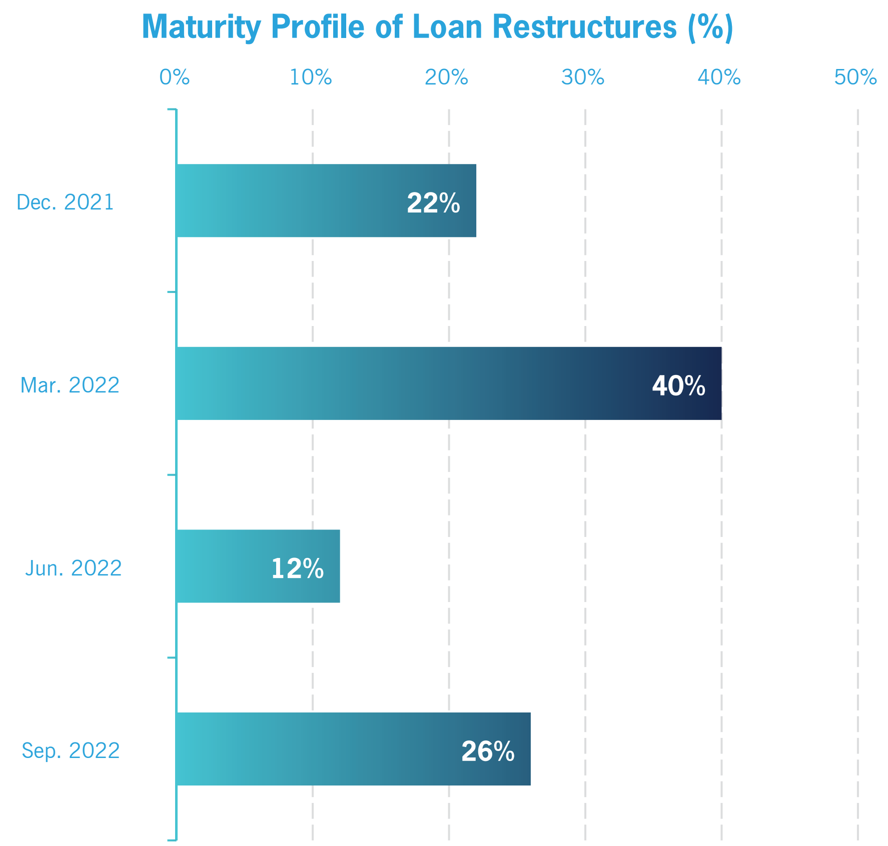
Government securities

The stock of financial investment government securities increased by 7%. The increase was part of the liquidity management strategy to take advantage of the rising interest rates in the market. The Group exited trading positions in line with our risk management policies to prevent significant trading losses as the market moved with rising interest rates towards year end.

Loans and advances to customers

Loans and advances to customers dropped by 15% from Shs 1,775,316 million in 2020 to 1,508,410 million in 2021 due to the impact of Covid-19 and containment measures on customers businesses driving low credit uptake. The Group provided credit relief with restructures and moratoriums to customers affected by impact of pandemic.





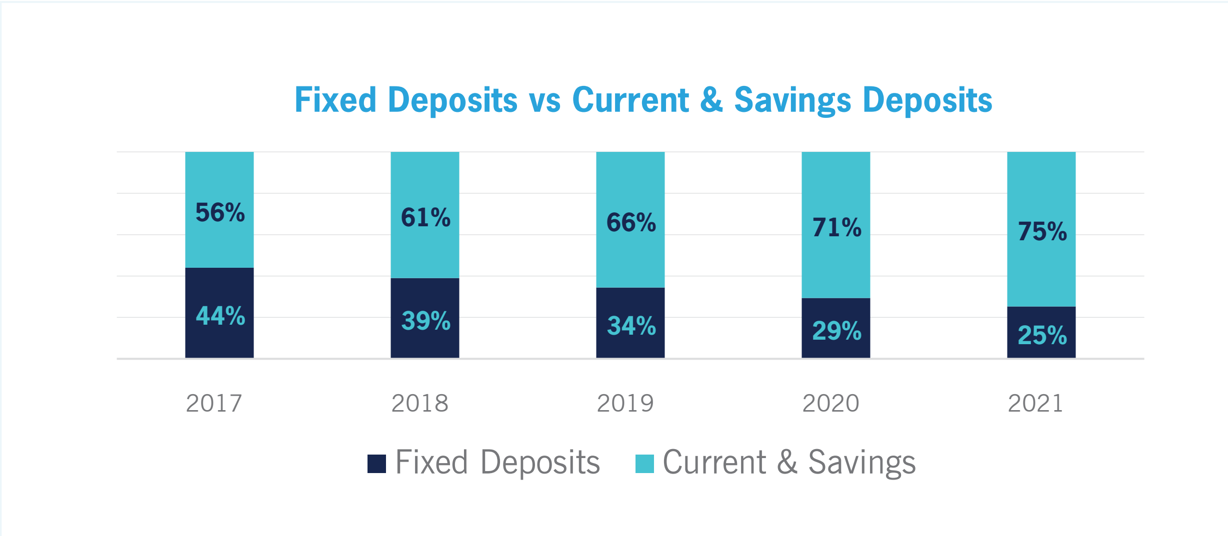
The Group continued to support customers and key sectors of the economy. Below is the composition of the loans and advances to customers by sector;

Credit by Sector	2020	2021	Trend
Agriculture	16%	18%	↑
Manufacturing	9%	9%	→
Trade and Commerce	12%	14%	↑
Communications and Transport	8%	7%	↓
Building and Construction	17%	14%	↓
Leisure, Hotels and Accommodation	4%	3%	↓
Home Loans	3%	3%	→
Private Individual	9%	12%	↑
Real Estate	14%	14%	→
Education	5%	5%	→
Other	1%	1%	→
Total	**100%**	**100%**	

Customer deposits

The Group's deposit reduced by 12% from Shs 2,595 billion in 2020 to Shs 2,282 billion in 2021. However, the composition of deposits has improved from over 30% Fixed Deposits to 25% as part of the deliberate move to optimize funding costs by shedding or repricing expensive FDs

Below is the composition of the customer deposits;



Borrowings

Borrowings reduced by 16% from Shs 229,380 million in 2020 to Shs 191,807 million in 2021 as facilities were repaid in the period, further improving our cost of funds.

Shareholders' funds

Shareholders' funds grew by 0.2% from Shs 592.9 billion in 2020 to Shs 594 billion in 2021 as result of increase in retained earnings.

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

Interest income

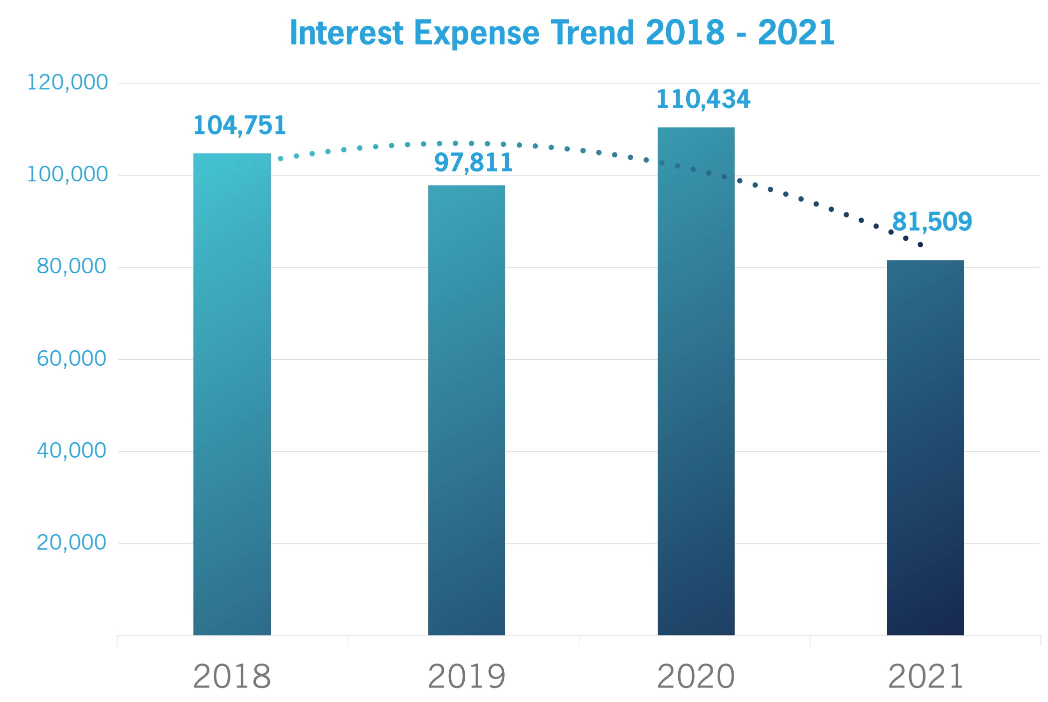
Interest income increased by 3% to Shs 354.7 billion in 2021 from Shs 343.8 billion in 2020 arising from the strategic direction to grow the higher yielding retail credit portfolio despite the smaller ticket size of facilities.

Fee and commission income

Fee and commission income increased by 23% year on year from Shs 50,773 million in 2020 to Shs 62,500 million in 2021. The increase was as a result of increased business activity during the year in addition to successfully growing the trade finance portfolio.

Interest expense

Interest expense reduced by 26% from Shs 110.4 billion in 2020 to Shs 81.5 billion in 2021. The Group took a deliberate strategy to shed or reprice expensive Fixed Deposits as part of wider efforts to bring down funding costs.



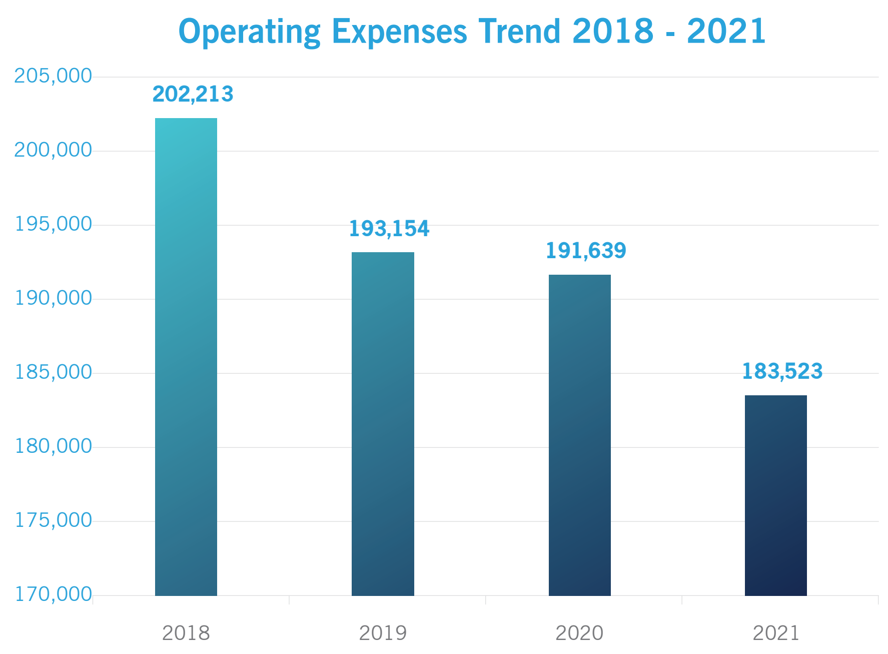
Net loan loss provisions and financial asset impairment charge

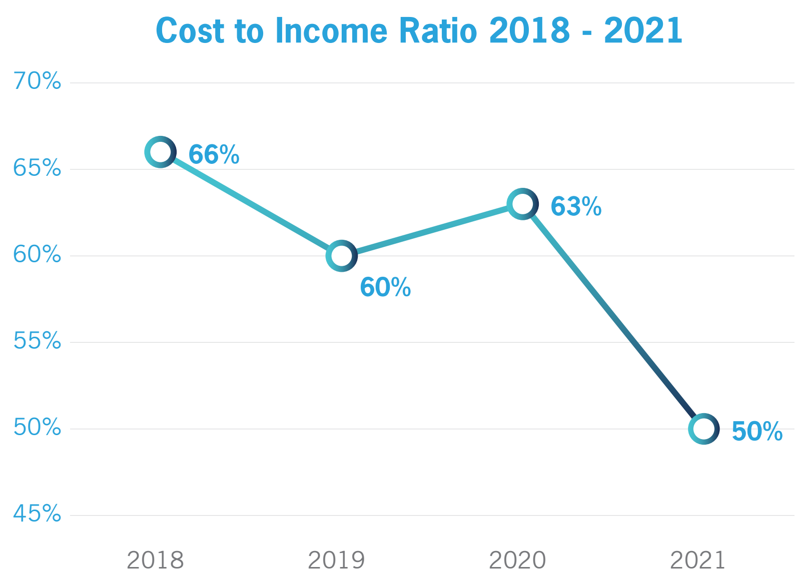
Net loan loss provisions increased by 385% from Shs 30 billion in 2020 to Shs 148 billion in 2021. The increase in impairment of loans and advances to customers is reflecting the impact of the pandemic on businesses.

Operating expenses

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

Operating expenses decreased by 4% year on year from Shs 191,639 million in 2020 to Shs 183,523 million in 2021. There was a sustained reduction in costs year on year as part of bringing down the cost to serve customers through alternative channels. Further detail on the cost performance on the various lines is included on Note 14 to the financial statements.

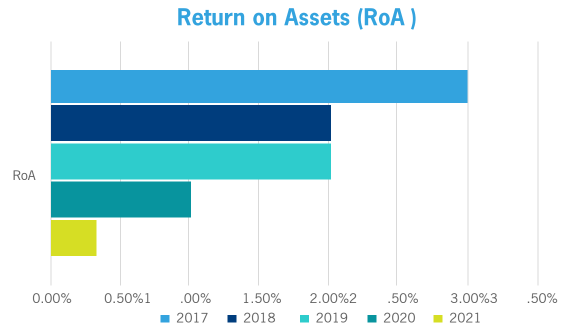
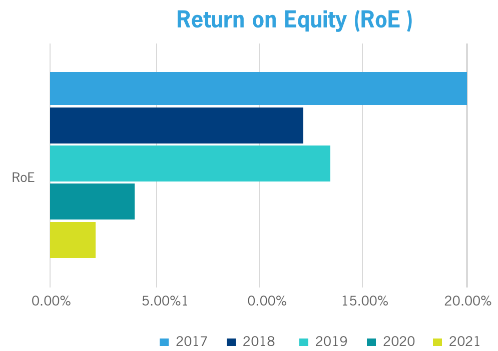
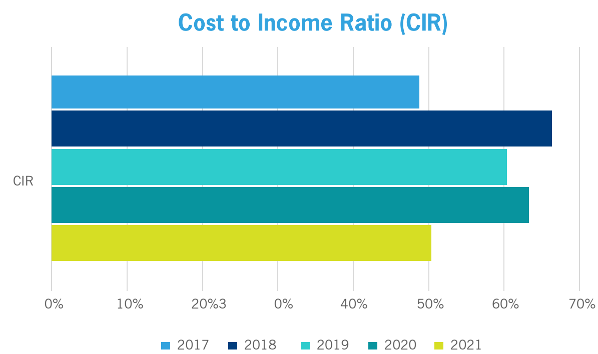

Operating Expenses Trend 2018 - 2021
205,000
200,000
195,000
190,000
185,000
180,000
175,000
170,000
202,213
193,154
191,639
183,523
2018
2019
2020
2021

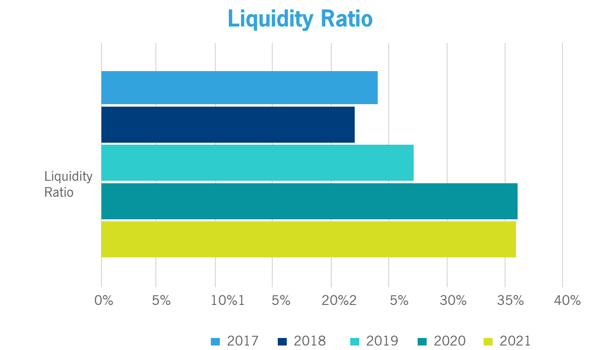
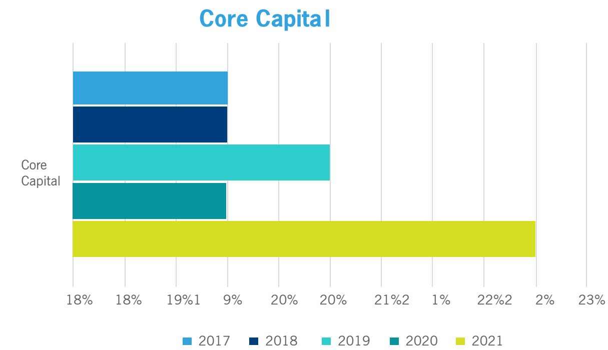
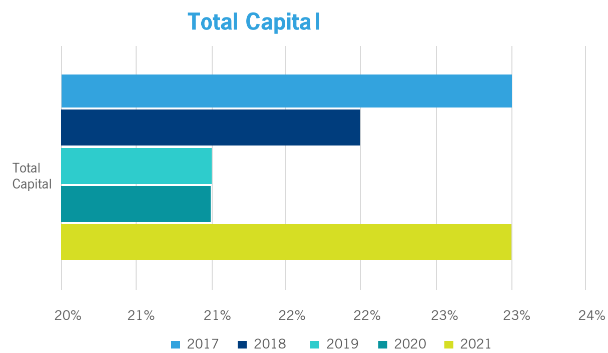

Cost to Income Ratio 2018 - 2021
70%
65%
60%
55%
50%
45%
66%
60%
63%
50%
2018
2019
2020
2021

5-year Financial Performance Overview

	2021	2020	2019	2018	2017
Statement of comprehensive income (Shs' m)					
Net interest income	273,290	233,388	227,498	221,172	215,451
Non-interest income	62,500	50,773	65,449	51,285	39,655
Credit impairment charge and fair value losses on other financial assets	179,219	81,120	24,879	18,836	48,652
Operating expenses	183,523	191,639	185,750	202,213	189,520
Profit before tax	5,885	31,485	100,966	84,469	147,816
Profit after tax	9,312	24,077	73,402	60,908	106,892
Statement of financial position (shs' m)					
Loans and advances	1,508,410	1,775,316	1,539,323	1,398,162	1,334,611
Total assets	3,136,732	3,498,577	2,958,143	2,915,582	3,057,476
Customer deposits	2,282,205	2,595,347	2,039,037	1,979,093	1,987,118
Borrowings	191,807	218,412	284,561	371,006	483,446
Shareholders' equity	594,026	592,912	569,779	521,536	532,338
Financial performance (%)					
Return on equity	2%	4%	13%	12%	20%
Return on assets	0.3%	1%	2%	2%	3%
Cost to income ratio	50%	63%	60%	66%	49%
Loans to deposits ratio	59%	61%	64%	52%	43%
Liquidity ratio	36%	36%	27%	22%	24%
Capital adequacy					
Core capital ratio	22%	19%	20%	19%	19%
Total capital ratio	23%	21%	21%	22%	23%
Risk weighed assets (shs' m)	2,432,361	2,451,279	2,276,976	2,167,607	1,975,505
Share statistics					
Number of shares in issue (in millions)	748	748	748	748	748
Earnings per share	12.45	32.18	98.11	81.41	189.33
Dividends per share	-	50.33	-	33.01	68.24
Other information:					
Number of staff	1,074	1,034	1,078	1,200	1,158

Key Performance Indicators

Strategic imperative	Key performance indicators	Target	Results	Trends performance
Financial	Return on assets (RoA)	Minimum of 3%	The RoA was 0.3% in 2021 compared to 1% in 2020. The underperformance was due to the decline in the current year profits as a result of higher impairment losses on loans and advances and the fair value loss on the financial asset arising from the 2017 transaction.	
	Return on equity (RoE)	Minimum of 16%	The RoE was 2% in 2021 compared to 4% in 2020. The underperformance was due to the decline in the current year profits as a result of higher impairment losses on loans and advances and the fair value loss on the financial asset arising from the 2017 transaction.	
Efficiency	Cost to income ratio (C/I)	Maximum of 70%	The C/I ratio was 50% in 2021, registering an increase from 63% in 2020. The increase was due to a 4% decrease in operating expenses as part of bringing down the cost to serve customers through alternative channels.	

	Liquidity ratio	Minimum of 20%	The group maintained a healthy liquidity ratio of 36% in 2021 similar to 2020. The Group maintained liquidity assets as a deliberate contingency plan in 2021.	
Capital adequacy	Core capital ratio (Tier 1 Capital)	Minimum of 8%	The core capital ratio remained above the statutory minimum of 8% at 22%. The position remains adequate to cover the asset growth registered during the year.	
	Total capital ratio (Tier 2 capital)	Minimum of 12%	The total capital ratio remained above the statutory minimum of 12% at 23%. The position remains strong and sufficient to cover the growth of the group.	

Commercial Business Report

Godfrey Mundua
Head Corporate Banking

Corporate Banking

Corporate Banking continued to support clients in providing capital and other banking services despite the tough economic environment brought on by Covid 19 pandemic. The business has sustained strong financial position through growth of sticky liabilities, reducing interest expense on deposits and attracting escrow accounts to facilitate mobile payment services for telecoms.

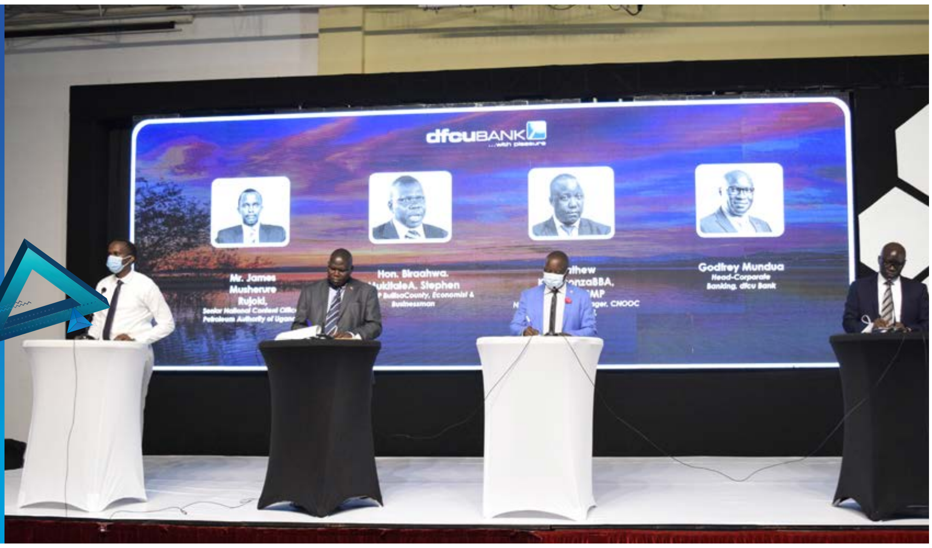
Our support to sectors like agriculture, manufacturing and services that boosted economic growth in 2021 increased in line with overall growth in the economy. With support of Rabo Bank, we also continue to offer innovative solutions in the agribusiness sector

Overall, business environment was challenging due to the pandemic and it impacted cashflows for businesses in sectors like construction, education, hospitality and real estate leading to increased provisions for assets. However, the Bank provided credit support measures through granting moratoriums and general restructuring of credit facilities to support the affected clients.

We remain committed to our transformation agenda to support businesses through digital innovations that enable clients make payments, collect funds and get transactional reports from comfort of their homes or offices.

We continue to play a key role in supporting investments, trade and transactional businesses. Our role is to transform businesses and create value to our customers through innovative and flexible solutions.

As the Country starts oil production, **dfcu** has developed various initiatives aimed at addressing the needs of customers that will be participating in this sector.



Robert Wanok
Head, Personal and
Business Banking

Personal and Business Banking

There was notable growth in consumer lending led by increased demand in personal loans. to schemes and the introduction of our mobile lending proposition. We continue to play a pivotal role in enabling our customers re bound post the lockdown restrictions.

On the SME side, dfcu supported small businesses and educational Institutions manage debt through easing moratoriums and extended SME credit relief measures to impacted sectors underpinning our role as a development partner in the economy.

Our SME Trade products also showed growth as global and regional markets begun to re-open and traders made bids into contract financing and seasonal activities.

dfcu remains committed to driving community initiatives to Small Holder Farmers, Cooperatives and actively participated in conducting financial literacy to Investment Clubs, grassroot SACCOs and government aided programs. We continue to align ourselves to National Development Plan initiatives to grow household wealth.

Digital First

We saw a significant growth in utilization of our online platforms with over 70% of traffic moving from Branch to the alternative channels. This shift was accelerated by enhanced functionality, stable platforms, deployment of our superior cash deposit ATMs are enabling customers to bank cardless 24/7, and the travel restrictions imposed as part of the Covid – 19 containment measures.

Technological and Card payments secure deployments to enable eCommerce payments, Instant Card issuance, Instant Account opening at Branch and through Agents.

We collaborated with several strategic partners to enhance our card offers with lifestyle benefits and rolled out several card-based promotions during the period.

dfcu looks to refining our customer journey through implementing strong relationship management and solutions for our customers.

Through our national coverage we will continue to play a key role in reducing barriers to financial inclusion through deployment of technology to deepen and broaden into key segments of Agriculture, Women and Youth empowerment measures to boost economic recovery and SMEs.

Julius Kateera
Head Financial Markets

Global Financial Markets

Global Financial Markets (GFM) serves customers through a team of product specialists, who work with Relationship Managers in Corporate, Personal and Business Banking to build a comprehensive understanding of each client's financial needs. Our 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.

We continued to consolidate our gains and registered solid performance on all the key lines of business. There was a significant growth in net trading income driven by strong forex sales and trade. We also enhanced the skill base for the team through a series of specialized trainings.

As one of the primary dealers, the new dealership system has been a success story in the development of our financial markets.

Looking ahead we will focus on prudently managing interest rate risk and foreign exchange risk in the face of evolving global macro risks such as the war in Ukraine, elevated commodity prices and the tightening monetary conditions. We will also continue to cement our place as thought leaders in the areas where we have expertise, providing the much-needed insight to our clients as they navigate an uncertain environment.

Joan Ntabadde
Head Customer Experience

Customer Experience

Taking the lessons learnt from the first wave of the pandemic and the associated containment measures, the next waves found the Bank better prepared to handle the continuous change in customer attitude, anxiety in dealing with their business and personal affairs as well as uncertainty for the future.

Both the Bank and our customers were more aware and took precautionary measures to safely thrive in a partially locked down economy. We adjusted the way we connected and served our customers focusing on four aspects to get the basics right. These were;

1. Engaging more with our customers and stakeholders,
2. Supporting our customers and our frontline through the times,
3. Standardizing the way we work across all our channels for a uniform experience and lastly
4. Delighting them through the customer journey.

The key success levers of these endeavours are shared below;

1. Leadership set the pace for customer centric change

Last year, as part of our alignment efforts in understanding the transformation we needed to achieve in being truly customer centric, we conducted a customer maturity assessment that evaluated our customer experience efforts comparatively to best in class players across the world. Our Blue Hearts (our staff) across all our regions and head office shared their honest evaluation of where we were as an organisation in rallying for the customer, culminating these efforts into a series of customer and executive workshops aligning around a customer-centric aspiration, an engaged workforce, and the associated financial performance metrics. We undertook a holistic approach to transform our customer experience, setting the pace for future seamless, frictionless, and efficient banking across various customer journeys. This approach incorporated a fundamental change in mind set and the way we run our business focusing on the customer in all we do, reviewing the customer propositions and technology among others. A governance roadmap and disciplines for the agreed executions and investments were set with leaders committing to sponsoring, leading and enabling the transformation. This commitment was not only showcased through revised internal score cards but as well through visible commitment made across various social media and internal platforms. We are excited about our new five-year` strategic aspiration – transforming lives and businesses through innovative solutions and empowered people - and strongly believe that this focus on the customer will bring our customers and shareholders the value they so deserve.

2. Relationship Management Framework

Beyond the leadership, closer and more frequent quality customer engagement and support was required through the prevailing conditions then. To this, we laid ground for the execution of the Relationship Management Framework through our Branch Managers, Retail Call Centre, Corporate Client Services and Relationship Managers. This framework was a way of standardizing how our relationship managers engaged and served our customers through the different segments, enabling the understanding of our service models, training capabilities required of the teams that speak to our customers, caseloads, to mention but a few. Several online sessions were held to enable a more empathetic, responsive, and proactive approach to dealing with our customer needs and solutioning before customers raised their pains. Success of these engagements were assessed on both quality and quantity of call interactions our teams had with customers. As a result, 85% of our relationship managers detailed their call engagements up from 65% earlier in the year bringing to light what was truly on our customers' minds in relation to the state of the economy, their jobs and businesses and the additional support the bank could accord. Customers were more than delighted with these engagements and proactive partnerships of stronghold.

3. Refreshed Interdepartmental service level agreements (SLAs) and Improved Internal Service Satisfaction

To ensure that our internal standardising efforts were starting with the customer and working backwards to improve the quality of service delivery, high service standards were set with internal departments to enable a fast, supportive and a flexible environment to our frontline so they could in turn serve our customers happily and in a timely manner. Through refreshed interdepartmental service level agreements, we rigorously tracked performance on a few critical SLA tasks that impact customers directly. The performance on these key service metrics internally promoted respectful debate with diverse input that enabled us drive objective outcomes that placed us on a trajectory to course correct teams quickly. To confirm that the improvement we were noticing in the SLA score card had a direct correlation with the service at the frontline, internal service surveys were held quarterly where the frontline confirmed an uplift in internal service satisfaction from 40% to 79%. The strides made confirmed that although we were not where we wanted to be, the teams at the back end had indeed embarked on this journey to providing faster and positive experiences that meet or exceed customer expectations.

4. Improving our customer journeys and self service

As customers worked from home and businesses repivoted their operations, self-service customer journeys were central in delighting and increasing customer satisfaction. With the noticeable rise in self-service channel onboarding and transactions, investment efforts were prioritised to address root causes of key pains in these journeys. The complaint landscape continued to improve as a result of investments such as;

a. the introduction of Trust Factor user 2-factor authentication that reduced the reliance on the One-time password.
b. the purchases and increase in the new real time depositing ATM fleet across the country that significantly reduced the complaints about our old ATM fleet thereby delighting customers with 24/7 queue-less banking.
c. the improved dfcu Visa Card acceptance across the world by almost 93% increment.
d. The redistribution and creation of dedicated back-office escalation support teams for self-service channels handling as well as the increased staff in our Contact Centre staff for a seamless experience. This stems from the noticeable increase in customer support calls coming through our key distribution channels such as the Contact Centre and branches.
e. The above notwithstanding, we remain cognizant of the increased need for customer education regarding our digital platforms and this is why we have recruited Digital ambassadors in our branches to support this endeavour.

In consideration of the above initiatives, our key Customer Experience metrics enabled us demonstrate progress and tied results back to customer value within business. Take for instance, the customer satisfaction index was used to determine how our customers perceived their experience and further interpretation helped our Blue Hearts to really understand what they as individuals could practically do to positively influence this experience. dfcu's Customer satisfaction score continued to improve year on year to 86% while our internal transaction NPS improved from 46 in January 2021 to 68.45 by December 2021.

5. Reward and Recognition

For our customers and in line with our Customer Service week celebrations and on our popular Happy Friday, our leaders and frontline teams celebrated loyalty and passion for service by delivering impromptu tokens of appreciation to various customers. Customers were delighted by the gifts and encouraged us to share more of these moments with them. With our outlook on various data points and customer behaviour we look forward to launching relevant 'out of the box' programs that enable delight and loyalty among our customers.

We are optimistic about the future and have set out to more intentionally prioritise key journeys that matter the most when dealing with us. We have aligned all future efforts and investments in data, digitization, and technology so as to attend to your needs while delivering winning propositions. We believe that these initiatives coupled with the right hiring practices and continuous rigorous training for agile and delightful customer support will drive value for you our customer. We recognize the need to achieve fast wins with inbuilt value and momentum for change.

Amidst all, the focus remains on creating moments of customer delight and fixing the pain points across all our prioritized customer journeys.

For our Blue Hearts as shared, high expectations have been set for our people to deliver for our customers while promoting fair practices that celebrate success and feedback sharing as a gift. Through our Reward and Recognition Framework, our quarterly Blue Stars Awards focused on rewarding staff who went above and beyond the call of duty to deliver the values (Customer Focus, Integrity, Professionalism, Teamwork and Courage) of the bank and whose behaviours enabled us win for the customer both at individual and team level. Last year 394 staff were nominated for the Quarterly Blue Star Awards up from 151 in earlier 2021. As a culmination of these, we held our first ever Blue Oscars virtual celebration utilising one of the 'Happy Fridays' and recognised our overall Gold, Bronze and Platinum Oscars winners from the quarterly recognitions. The event was a key 2021 highlight, enabling the recognition program to gain popularity in supporting staff engagement and customer delight efforts.

1 **Ben Olwol**
Blue Oscars Overall Gold Winner

2 **William Kagugube**
Blue Oscars Overall Silver Winner

Innovation and Transformation

Veronica Sentongo
Chief Change & Innovation Officer

Digital Transformation

Key Achievements And Next Steps – 2021

2021 was a year of reflection and planning as the **dfcu** Bank 5-yr strategic plan, launched in 2017, came to term. Current trends shaping the Banking industry include: responding to the evolving customer preferences, accelerated shift towards digital and data-driven insights, customer-induced product development, increased competition in the payments landscape and changing business and operational models to adjust to the new normal.

Looking forward to 2022, key priorities for the business will be to respond to these trends by building resilience, strengthening the foundation, focusing on productivity, and reinventing our market approach in order to thrive in this "post-crisis" world.

Key Achievements for 2021

a) **Customer Obsessed Strategy:** In collaboration with a leading global management consulting firm, the Bank charted the next phase of its five-year strategy. This was done by expounding on learnings from existing efforts, factoring the post-pandemic landscape with emphasis on customer centricity, technology, digital and data enablement, cost efficiency and overall business resilience.

b) **Retail Lending:** The Bank launched its Digital micro-loan dubbed "**dfcu** Mobi Loan" to grow its Retail Business to support our emerging entrepreneurs and personal account holders with a credit facility to meet their short-term needs.

c) **Online Security:** Given the industry challenges commonly experienced due to online frauds arising from sim card swaps and connectivity failures leading to failed or delayed SMS notifications, the Bank launched a 2- Factor authentication solution – Trust Factor. This solution would help to improve our customer's Mobile and Online Banking user experience, increase reliability, all the while providing increased security when transacting.

d) **Payments and Collections:** Through partnerships and direct integrations with numerous fintech's, telcos and other financial institutions, we increased our payments offering for our customers. This included: increasing our inward remittance channels, eCommerce payments, and provision of direct payment platforms for parastatals and other private institutions.

e) **Investment Club Enhancements:** Building on the success of **dfcu** Bank's Investment Club App, exciting features are to be introduced to the Application in response to the Voice of our customer based on their shared feedback and experiences.

f) **Ecosystem Offering for Corporate Customers:** We continued to innovate for our Corporate customers by providing platforms through which they could better utilize our wide agent and branch network to seamlessly do their business.

g) **Setting the Foundation for Data-driven Organization:** With the aspiration of being a customer-centric organization and enhancing internal efficiencies, several initiatives were undertaken to reduce administrative tasks relating to access to physical documents. This has been done by creating data rich databases for employee, loans, and customer information.

h) **Graduate Trainee Program:** Leveraging our partnership with MIIC (Makerere Innovation and Incubation Centre), we onboarded Technical Graduate trainees went through several internship programs to appreciate the business and gain relevant work experience. They have come up with great innovations that have been adopted by the Bank in respective areas where process automations were a great value add. With immense pleasure, the Bank now confirmed 2 of these Graduate Trainees talent as permanent Bank employees.

i) **Technical Assistance:** Our shareholders continue to cultivate value within the bank through their Technical Assistance programs. Through the Rabo partnerships, EKN and Arise, the Bank continues to build its core capabilities in Agriculture, Financial inclusion, Technology, Payments and Risk Management.

Looking Forward to 2022

a) **Strategy Execution:** We have embarked on further syndications to align all stakeholders to the new Strategy. A Transformation Office has been set up to ensure that there is a keen focus on Execution, and firmly establish the key building blocks in the first year to set the foundation for our Customer Obsessed Strategy.

b) **Architectural Modernization:** The Bank will also embark on the implementation of a modernized payments architecture in the context of future-proofing the bank's payments value chain. This will ensure that a flexible, agile, and cost-effective platform is installed to achieve the set out strategic objectives.

c) **Comprehensive Credit Review:** With an increased focus on the value that the Bank delivers to transform the economy and improve livelihoods of our people, a review of our Credit processes, structures, products, and digitization of the loan disbursement channels will be critical. This is particularly vital considering the aftermath of the pandemic and its impact on our customers and their businesses.

d) **Agent Banking Optimization:** The Bank is looking to optimize its Agent Banking channel to create consistency, reliability, and stability across its network.

e) **Platform/ Value Chain Enablement:** We will continue to Leverage our key strategic partnerships to connect the dots within various value chains within the SME and Agriculture space.

f) **Adoption of New Ways of work:** To increase our time to market and promote process efficiencies for our front-line staff who service our customers, we are focusing on adopting the Agile way of work, Lean process optimization, and Innovation Incubation across the bank.

Finally, we have diversified the skill set and talent that we are recruiting, particularly in the Digital, Innovation and Technology space as we future-proof our business for the "role-of-future" that we are beginning to see is relevant now,

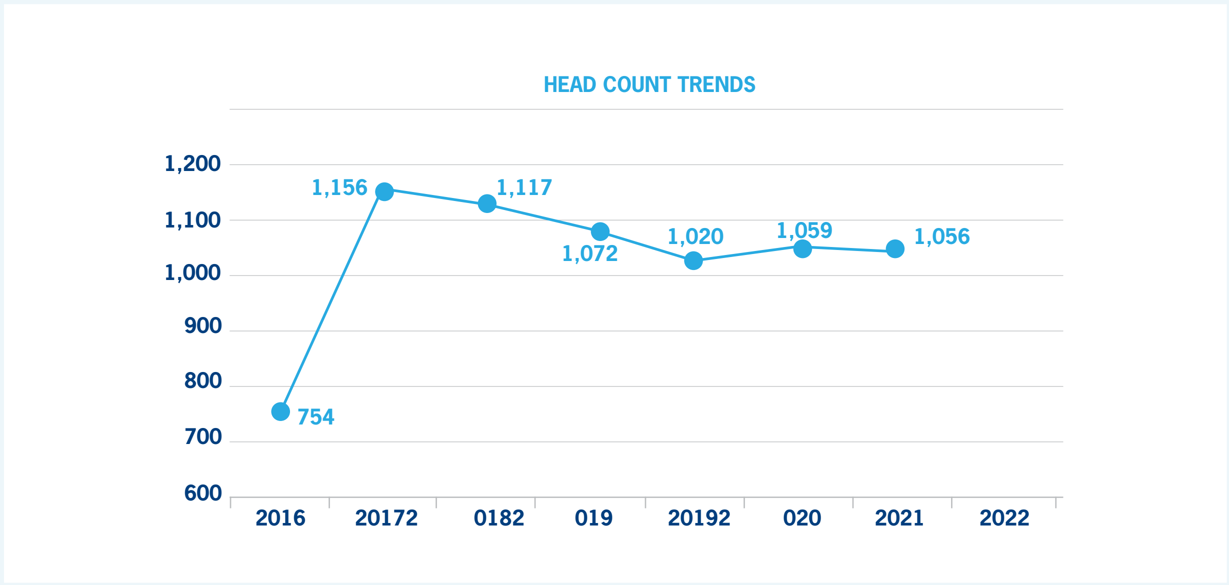
Supporting Our Staff

Human Capital Annual Report as at end of year 2021

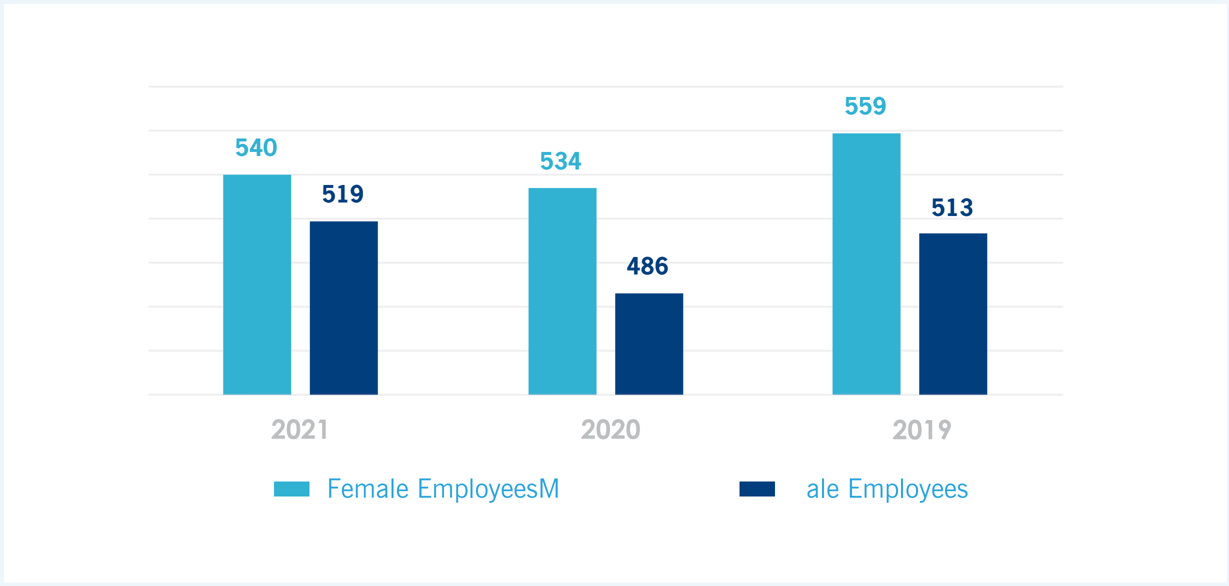
The figures below show the demographic statistics of the Bank.

	2021	2020	2019
Staff Head count	1,059	1,020	1,072
Female Employee	540	534	556
Male Employees	519	486	513
Employee Turn over	6.2%	2.3%	4.1%

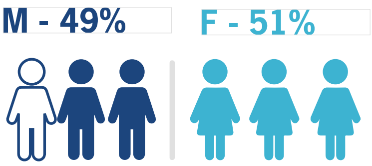
Head count



Gender composition



THE BANK HAS CONSISTENTLY MANTAINED GENDER DIVERSITY



Creating a sense of purpose for employees in the Bank

In 2021, we focused on the reconnection with our staff (whom we fondly refer to as the Blue Hearts) in the BetterU BetterBlue campaign. A key aspect of the staff engagement sessions was conducted through Branch Visits and Departmental sessions where staff pain points were identified, and an action plan adopted. The Human Capital team accomplished 86% of the Engagement action plan and in 2022, we plan to host an HR townhall to share accountability with our Blue Hearts.

In line with our Reward and Recognition framework, we held our first ever Blue stars awards virtual celebration where we staff who had conducted exemplary performance in various categories that drive our strategy, were rewarded. Some of these categories include: Courage, Teamwork, Customer centricity etc.

The Bank also launched monthly bank-wide Happy Fridays in 2021. Happy Fridays occur on the last Friday of every month. The focus is on letting loose and being merry after a long month of flawless execution. These physical and virtual sessions are meant to celebrate team wins and foster team cohesion, as well drive usage of the different Bank products and services among our staff, hence building internal brand ambassadors.

Prudential Award Best HR Practices Survey – 2021

Prudential Uganda and PricewaterhouseCoopers Limited (PwC) launched the Prudential Best HR Practices Survey 2021, whose aim was to highlight key opportunities as well as share best employment practices and recognize organizations that are championing best employment practices in the country.

As a Bank, we participated in the survey as opportunity for us to showcase the ways in which we adapted to the new ways of working amidst the pandemic and support our staff wellness.

The survey gave us an opportunity to have insights in the HR Best Practices as we rethink our Employee Value Proposition (EVP) to compete for, attract and retain our talent.

dfcu Bank was nominated and rated 3rd Runner up in the Reward and Recognition category. We went on to win the award in the category Best Practices in Employee Wellness and Well-being.

Employee Assistance Program

We continue to partner with Minet to offer psycho-social support to our employees and their dependents. This includes counselling, group therapy and the monthly wellness sessions where we discuss numerous topics of interest with the staff (e.g., Fertility and Reproductive Health, Managing your mental health, Financial wellness, Men and Marriage, Vaccination etc.).

The Bank continues to extend free Health club membership for all bank employees in Kampala and supports participation in the monthly Corporate league activities.

Covid 19 – Update

With the discovery of the new variant Omicron, towards the end of 2021, we registered a drastic increase in the number of staff who fell sick. However, as most opted for home care and self-testing, only a few positive cases were reported.

Vaccination drive update: In 2021, we carried out several vaccination campaigns where we offered free vaccination for our staff, their friends and family. We continue to emphasize the need for staff to follow the SOPs and to get vaccinated as the vaccines have been made accessible through our local health centre facilities.

Staff Retention

Our staff turnover rate was 6.2% in 2021, which is lower than the average sector rate of 10%, making us rank favorably as an employer of choice. In 2022, as we prepare for the Workforce of the Future, we continue to train our staff and open them up to various roles that they could grow in to – ensuring an even deeper focus on staff retention.

Diversity

The Bank had a total Headcount of 1059 staff in 2021, of which majority are female (51%). Out of 251 staff holding managerial positions, 45% of these employees in 2021 were female. The Bank provides equal opportunities to all Ugandans and hire is based on merit.

Women hold 57% of **dfcu** Bank executive management positions.

The wellbeing of our employees

At **dfcu** Bank, we believe that employee health, well-being, and improved quality of life impact their productivity. We strive to create an environment that proactively engages and encourages our employees to adopt a lifelong commitment to making healthy choices which address their physical, mental & social wellness.

When reviewing our people strategies, we believe and consider performance, engagement, and organisational health. We have partnered with Jubilee Insurance Company Uganda Limited for access to the best health care in Uganda and the region.

We also cover the management of acute cases. The Bank pays up to 100% of the medical care cost. Through Jubilee Insurance, employees can access over 100 service providers spread out in different areas in the country, making accessibility to health solutions convenient for our employees.

The Bank has partnered with various gym facilities to enable staff work out and keep physically fit and healthy.

The Bank has focused on providing support through the comprehensive wellness program not only focused on health but financial wellness as well.

New Ways of Working

As a bank, we have adopted the Hybrid way of work across most teams that are able to work remotely and still maintain highest levels of productivity. To ensure that it is being conducted effectively we focus on the following aspects of the employee's wellbeing:

Themes	Focused Actions Taken
Monitoring Productivity	1. One of the themes in the new strategy is focused on monitoring productivity. The initiatives here in will enhance monitoring of performance and productivity of all staff working both on premise and remotely- ensuring that we are able to attain the best out of our employees.
	2. We engaged a team from Rabobank who facilitated knowledge share sessions with cross functional teams around managing staff during the pandemic.
	3. Plans are in place to introduce a Customer Relationship Management (CRM) tool that will enable tracking of sales and service productivity of our staff as they engage and service our customers.
Remote Working Tools	1. We continue to leverage the available tools like Microsoft Teams, Jira, GitLab, Skype to foster communication within teams
	2. We budgeted and acquired tools to facilitate Remote Working for our staff (e.g., laptops, data, airtime etc.)
Trainings	1. We also organized a session with Ethan Mussolini on Emotional Intelligence Mastery for our Leaders as this is a key competence while managing remote working teams
	2. Our 2021 training plan focused on specific interventions required for managing remote teams
	3. The Human Capital team continues with the refresher trainings to the line managers as well as the team members.
Team Engagements	1. Weekly and daily team catchup sessions to discuss key focus areas and support required
	2. Targeted staff engagement initiatives for all staff onsite and working remotely
	3. Human Capital teams have carried out engagement sessions with the different teams to get to know how they feel with regular surveys to ensure this way of working is still relevant and effective.

Sports Gala and Corporate League (Royal Blue Team)

The Bank also sponsors our employees to participate in sports activities like the monthly Corporate Leagues & Bankers' Gala to enhance fitness, continuous community presence and brand loyalty. The Bank also sponsors the team to participate in country marathons like the MTN, NSSF, Kabaka's Birthday run and Cancer Marathons. In 2021, the Bank participated in the virtual Bankers' Gala and won a Bronze medal.

People & Culture

Our people are our greatest asset. Our aim is to build a high-performance culture, by living the Bank values to promote customer service excellence among all employees.

We strive to create a great place to work where our people feel deeply connected with our purpose and our clients, are empowered, and recognised for delivering against our strategic objectives and given opportunities to reach their full potential. How our people think and feel about work directly correlates with our client satisfaction levels and our ability to deliver our strategy.

The Bank hosts annual cultural activities to celebrate the diversity of its staff and clientele; these include: Eid, Women's Day, Labour Day, and various CSR activities. The Bank also celebrates annual designated holidays.

Finally, we will continue to invest in our people, our key asset, to ensure they have the required competencies to meet their individual objectives and exceed our customers' expectations

Risk Management and Control

Victor Rugeiyamu
Chief Risk Officerr

1.0 Risk Management

The Covid-19 pandemic has been the single largest shock to the global economy and health sector in recent times. We are quite fortunate that as dfcu Group, we were able to demonstrate resounding resilience in the face of the pandemic thanks to our deep financial and human resources. There were several business disruptions resulting from the abrupt lockdowns which were satisfactorily contained by our robust business continuity management framework and procedures. More specifically, pandemic-related restrictions on workplaces and the desire for contactless services created the need to expedite our digitization strategy while also heightening our focus on the end-to-end management of Cyber Security Risk.

dfcu Group defines Risk as the danger of possible losses or profits foregone due to internal or external factors. In Risk Management, we normally distinguish between Financial (quantifiable) and non-Financial (non-quantifiable) types of risk. Financial Risks are those to which a value can normally be attached in financial statements or in terms of regulatory capital requirements, while non-Financial Risks include risks which are not as overtly quantifiable, such as Compliance and Reputational Risk.

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

Executive Management throughout the course of 2021 remained closely involved in important Risk Management decisions and initiatives, which focused particularly on managing all key Principal Risks as well as preserving appropriate levels of liquidity and capital.

2.0 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.

2.1 Risk Governance

dfcu Group is responsible for developing and implementing the Group-wide risk management policies and guidelines for Financial and non-Financial risks as laid down by the Board of Directors. It is the CEO's responsibility, assisted by the Group's Risk Management Committee through principally the Chief Risk Officer to manage the risk profile of the Group.
The Chief Risk Officer periodically reports to the Board of Directors (on a quarterly basis) and to the Management Risk Committee (on a monthly basis) on the overall risk situation and profile within the Group.

As of December 31st, 2021, the Chief Risk Officer Domain comprised of the following units: Operational Risk Management, Credit Risk Management, Financial Crime Management, and Integrated Risk Management.

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

2.2 Reporting and Committee Structures

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

2.3 Three Lines of Assurance

The First Line of Assurance is comprised of the revenue generating and client-facing areas of the Group along with all associated support functions, including Finance, Treasury, Human Capital, Operations and Business Technology. The First Line identifies the risks, sets and evaluates controls and escalates risk events to the Second Line of Assurance. The Second Line of Assurance consists of the Risk Domain and the Compliance function and oversees the First Line by setting limits, rules and constraints on their operations consistent with the overall approved risk appetite of the Group. The Second Line also conducts independent monitoring and review of the activities of the First Line in order to ensure adherence to the Group's risk appetite. The Third Line of Assurance is the Internal Audit function, and it provides independent assurance and review to the Board and Executive Management team on the overall state of effectiveness of the Governance, Risk Management and Control structures of the Group.

Although the Legal Function does not sit in any of the Three Lines, it works to support them all and plays a key role in overseeing Legal Risk throughout the Group. The Legal function is also subject to oversight from the Risk Domain and Compliance functions (second line) with respect to the management of Operational Risk and Conduct Risk.

2.4 Risk Appetite

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

Risk Appetite articulates the level of risk an entity is prepared to accept to achieve its strategic objectives. Risk appetite frameworks help Management understand a company's risk profile, find an optimal balance between risk and return, and nurture a healthy Risk culture in the organization. It explains the risk tolerance of the company both qualitatively and quantitatively. Qualitative measures are by nature not easily quantifiable, but relate to the guard rails, controls and containment measures that the Group sets in place in order to ensure the successful realization of the Group's main business goals and strategies.

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

The Group implements its risk appetite in the form of various limits and thresholds as well as Risk-Adjusted Performance Measures to determine its risk profile as encapsulated in the Group's Risk Appetite Statement.

The Board establishes the Group's parameters for risk appetite by:

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

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

2.5 Stress Testing

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

Stress tests are used for proactively managing the Group's risk profile, as well as for strategic business and capital planning. Stress testing is an integral component of the group's internal capital adequacy assessment process and is used to assess and manage the adequacy of regulatory capital, as well as the group's own internal capital buffer limits.

The Executive Management team and Board of Directors periodically reviews the outcomes of the stress tests performed with the key focus being their impact on Earnings and Capital Adequacy. This then informs the Group's decision-making in terms of pursuing or avoiding certain opportunities or activities based on their impact on earnings or capital. Under all scenarios, the Group should never greenlight a course of action that would expose it to the risk of potentially going below its minimum capital threshold requirements. The framework that Management and the Board established to regularly review and discuss the outcomes of our stress testing regimen further matured during 2021, and where necessary appropriate decisions were made to minimize and manage the risks induced by potential stress events and scenarios.

The stress tests conducted in 2021 were based on the guidance received from the Bank of Uganda for financial institutions to conduct Bottom-Up-Stress-Tests (BUST's) Although in 2022 the Group intends to enhance its stress testing framework by developing a more robust Integrated stress testing tool and framework.

3.0 Risk Universe

Our Risk Universe represents the Principal Risks that are core to our business. We annually review these for changes to ensure the list remains relevant. These are categorized in terms of Financial and Non-Financial Risks

3.1 Financial Risks

3.1.1 Credit Risk

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

Measurement and Management of Credit Risk

In 2021 the Group adjusted its Credit Risk Management measures to address the unprecedented effects of the Covid-19 pandemic. Among initiatives taken were the following:

- Enhanced surveillance of the macroeconomic operating environment to ensure timely response to changes and adoption of relevant strategies to emerging risks.
- Proactive engagement of borrowers to ensure that well-tailored support is provided to alleviate the impact of Covid-19, while maintaining the effectiveness of debt collection activities.
- Proactive monitoring of credit portfolio concentrations with extra emphasis on counterparties and/ or sectors severely affected by the pandemic.
- Review and enhancement of credit policy, procedures and client risk grading mechanisms to accommodate the effects of the pandemic.
- We also endeavor to secure client's exposures as well as maximize all available risk sharing mechanisms as a fallback position if borrowers' cash flows become insufficient to meet obligations

3.1.2 Market Risk

Market Risk refers to the risk of losses in the Group's trading and banking books due to changes in equity prices, interest rates, foreign-exchange rates, and other securities whose values are set in a public market.
One of the primary objectives of the Risk Domain's Integrated Risk Management team is to ensure that our Business Units' Market Risk exposures are within the approved Appetite as per the Group's strategy. To achieve this objective, the Integrated Risk Management team works closely with the risk takers ("the Business Units") and other control and support functions. This is aimed at ensuring timely identification, measurement, mitigation and reporting of Market Risks to minimize losses.

Measurement and Management of Market Risk

The Risk Domain's Market Risk team exists for the purpose of effective oversight of the Group's Market risks, as well as to foster the timely escalation to the Assets and Liabilities Committee (ALCO) as well as to Senior Management and the Board of all issues in the Market Risk realm require Senior Management and Board input and decision-making. This team's focus is to accurately measure all types of Market Risks by utilizing a comprehensive set of risk metrics embedding accounting, economic and regulatory considerations.

These include but are not limited to metrics and measures such as:

- Stop Loss
- Net Open Position (NOP)
- PV01 and Value-at-Risk (Var)
- Prudential regulatory defined market risk approaches

The team also rationalizes its Market Risk limits every year to ensure that Business has limits that are sufficient to achieve business aspirations at an acceptable quantum of risk.

There are also policies in place for Interest Rate Risk, Foreign Exchange Risk and Market Risk that clearly set out the guidelines and responsibilities for all stakeholders in market risk management.

The beginning of 2021 saw the economy begin to slowly open, but we then went into another lockdown in June 2021 following a surge of third wave cases caused by the Delta variant of the Covid-19 virus. Notwithstanding the unprecedented times and market conditions, our Global Financial Markets team still managed to keep within their approved trading limits without any breaches, and this can in part be attributed to the diligent monitoring and support provided to the Global Financial Markets team by our Integrated Risk Management team.

3.1.3 Liquidity risk

Liquidity Risk is the risk that the Group does not have sufficient cash and cash-equivalents available at all times to meet its contractual and contingent cash flow obligations or can only secure these resources at excessive cost. Liquidity risk is monitored centrally by the Asset and Liability Committee (ALCO), whose responsibilities in relation to Liquidity Risk Management include but are not limited to:

- Setting Liquidity Risk strategy for the Group
- Reviewing and enforcing dfcu Group's Funding and Liquidity Policy
- Reviewing and monitoring dfcu Group's Contingency Funding Plan
- Maintaining internal and external Liquidity Risk limits
- Liquidity stress testing and scenario analysis; and providing the Executive Management team and the Board with regular liquidity updates

Management of Liquidity Risk

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

- Continuously maintain a sufficiently large liquidity buffer
- Ensure a structurally sound statement of financial position
- Manage short- and long-term cash flow
- Manage foreign currency liquidity
- Preserve a diversified funding base
- Undertake regular liquidity stress testing and scenario analysis
- Maintain adequate contingency funding plans

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

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

3.2 Non-Financial Risks

3.2.1 Cyber Security Risk

In 2021, the Group started tracking cyber security as a Principal Risk due to the global impact of cyber security on businesses plus the desire on the part of the Group to further automate its products and processes in order to enhance its overall efficiency in terms of serving its customers. During 2021 cyber security was also ranked as a top technological risk by the World Economic Forum and the world joined hands in many ways to fight cybercrime. In 2021 cyber security threat levels for the Group remained in amber or medium due to new world-wide developments in the cyber arena. New threats are continually emerging, and the Group continuously strived throughout 2021 to keep abreast of these new developments and take all necessary precautions to minimize the threats emanating from these risks.

The cyber risk landscape in 2021 included several organizations sitting on some zero-day vulnerabilities, with the most dangerous being the log4j which could be exploited remotely and affected many applications in the technology world. Ransomware also continued to threaten the existence of many businesses around the world and was mainly delivered to networks through phishing e-mails sent to the users.

Common types of cyberattacks include the deployment of malware to obtain covert access to systems and data and ransomware attacks that render systems and data unavailable through Encryption. Denial-of-Service and Distributed Denial-of-Service (DDoS) attacks are also common in the global context, while infiltration via business email compromise and social engineering (phishing, vishing and smishing) are still also prevalent threats worldwide. Furthermore, automated attacks using botnets and credential validation or stuffing attacks using login and password pairs from unrelated breaches are not uncommon.

A successful cyberattack of any type has the potential to cause serious harm to the Group or its clients and customers, including exposure to potential contractual liability, litigation, regulatory or other government action, loss of existing or potential customers, damage to the Group's brand and reputation, and other financial loss. The impact of a successful cyberattack is also likely to include operational consequences (such as unavailability of services, networks, systems, devices or data), remediation of which could come at significant cost.

In 2022, the Group plans to continue investing in technology to keep its cyber space secure and just as importantly to continue to create awareness amongst the staff and clients to protect them from cyberattacks. Daily users are typically the weakest link in terms of how an organization's cyber defenses can be breached and so it is imperative that the Group accelerates its efforts and tempo to ensure that the right levels of cyber security training and sensitization are availed to its employees and external stakeholders.

Measurement and Management of Cyber Security Risk

Cyber Risk management forms part of the day-to-day responsibilities of all users throughout the Group's network as they carry out their daily roles with the Group's computing resources. Key Risk Indicators to update Management and the Board on the level of compliance have been developed.

These include but are not limited to the following:

- People related indicators which include staff and clients' understanding of cyber risk and cyber threats and how to prevent them through various cyber security trainings, the creation of awareness flyers, phishing security simulations and incident response simulations. These are to empower users to support in the fight against cybercrime. Various initiatives of such a nature were conducted in 2021.

- Technical controls such as installation of monitoring tools and antivirus, then ensuring that they are updated to protect the computers on the bank's network. Also, the installation of patches in a timely manner to close any vulnerabilities discovered in a particular period. This is a daily embedded process for the Group's technology teams while the Group also conducts independent monitoring of the same from the Second Line of Assurance.

- The Group also tracks past experiences from cyber incidents that affected users/clients during the period of review and uses lessons learned to bolster controls in order to minimize the chances of reoccurrence.

3.2.2 Operational Risk

Operational Risk Management in 2021

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

Examples include:

a) Operational Resilience

The Group functions in a highly competitive market, with market participants that expect consistent and smooth business processes. The loss of or disruption to business processing is a material inherent risk within the Group and across the financial services industry, whether arising through impacts on the Group's technology systems, real estate including its retail branch network, or availability of personnel or services supplied by third parties. Failure to build resilience and recovery capabilities into business processes or into the services of technology, real estate or suppliers on which the Group's business processes depend, may result in significant customer detriment, costs to reimburse losses incurred by the Group's customers, and reputational damage.

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

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

b) Cyber Security

Cyberattacks continue to be a global threat that is inherent across most sectors, with the number and severity of attacks continuing to rise. The financial sector remains a primary target for cybercriminals, opportunists and hacktivists. The Group, like other financial institutions, experiences numerous attempts to compromise its cybersecurity.

The Group dedicates significant resources to reducing cybersecurity risks, but it is difficult to provide 100% absolute security against all cyberattacks.

Malicious actors are increasingly sophisticated in their methods, seeking to steal money, gain
unauthorized access in order to destroy or manipulate data, and disrupt operations, and some of their attacks may not be recognized until they are well underway. Cyberattacks can originate from a wide variety of sources and target the Group in numerous ways, including attacks on networks, systems, or devices used by the Group or parties such as service providers and other suppliers, counterparties, employees, contractors, clients, presenting the Group with a vast and complex defence perimeter.

For further details, refer to the Cyber Security Risk Management section 3.3.1

c) Information Technology Systems

Technology is fundamental to the Group's business and the financial services industry.
Technological advancements present opportunities to

develop new and innovative ways of doing business across the Group, with new solutions being developed both in-house and in association with third party companies.

Introducing new forms of technology, however, has the potential to increase inherent risk. Failure to evaluate, actively manage and closely monitor risk exposure during all phases of business development could introduce new vulnerabilities and security flaws and have a material adverse effect on the Group's business.

d) Internal and External fraud

The nature of fraud is wide-ranging and continues to evolve, as criminals continually seek opportunities to target the Group's business activities and exploit changes to customer behaviour and product and channel use (such as the increased use of digital products and enhanced online services) or exploit new products. Fraud attempts can be very sophisticated and are often orchestrated by highly organised crime groups who use ever more sophisticated techniques to target clients directly to obtain confidential or personal information that can be used to commit fraud.

e) Data Management and Information Protection

The Group holds and processes large volumes of data, including personal information, intellectual property, and financial data and the Group's businesses are subject to complex and evolving laws and regulations governing the privacy and protection of personal information of individuals.

Accordingly, the Group needs to ensure that its collection, use, transfer and storage of personal information complies with all applicable laws and regulations in all relevant jurisdictions (including as such new and existing regulations continue to be implemented, interpreted and applied).

In 2021, the Group's Operational Risk Profile was generally rated medium despite the Covid-19 pandemic and the resultant disruptions to business and operational activities. Operational risk losses from the Group's activities were minimized through targeted efforts aimed at strengthening the overall control environment. In 2022, an aggressive business growth strategy, increased reliance on third parties, investment in technology and regulatory changes require increased focus to support the Group's strategy.

Measurement and Management of Operational Risk

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

These tools include:

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

3.2.3 Compliance Risk

Compliance is an independent key risk management function that the Board and Management has prioritized in the wake of the Group being subject to extensive dynamic supervisory and regulatory regimes. Strategically, the compliance framework is directly supervised at the executive level by the Chief Executive Officer and the Compliance function, for its independence, has a reporting requirement to the Board. The Group's Compliance Risk framework is implemented through a centralised Compliance Risk Management structure. This is a specialised unit that provides oversight on all compliance related matters such as compliance with all relevant laws, coordination of the Anti-Money Laundering and Counter Terrorism financing (AML/CTF) program coordination of internal policy compliance and any other emerging legislative developments.
Core to the Compliance function is also the provision of requisite training and awareness on regulatory developments.

3.2.3.1 Money Laundering Control and Anti - Terrorism Financing

The past year has seen heightened focus on anti-money laundering (AML) and counter-financing of terrorism (CFT) with Regulators focusing on how supervised entities are managing the associated risks. From a regulatory development perspective, the 2nd Schedule to the Anti-Money Laundering Act 2013 was amended to include virtual asset providers (such as cryptocurrencies) as accountable persons. This is in line with the 2019 Financial Action Task Force (FATF) amendment to its recommendations requiring that virtual asset service providers be regulated for anti-money laundering and combating the financing of terrorism (AML/CFT) purposes, licenced or registered, and subject to effective systems for monitoring or supervision.
The Group continues work hand in hand with the Regulator to build and maintain robust defences to combat money laundering, sanctions and terrorism financing in close collaboration with Bank of Uganda through the Uganda Bankers Association and the Financial Intelligence Authority.

3.2.4 Reputational Risk

The Group's Reputational Risk policy sets out the principal sources of Reputational Risk driven by negative shifts in stakeholder perceptions as well as responsibilities, control and oversight standards for identifying, assessing, escalating and effectively managing Reputational Risk. The Group takes a structured approach to the assessment of risks associated with how individual client, transaction, product and strategic coverage decisions may affect perceptions of the Group's reputation and brand.

Whenever a potential for stakeholder concern is identified, the issue is subjected to discussion at Management level with the materiality of the issue being one of the primary considerations in the Management deliberations. Management may accept or decline the risk or impose conditions upon proposals in order to protect the Group's reputation.

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

Reputational Risk is monitored through our Reputational Risk assessments and metrics and the results compiled and assessed by the Second Line of Assurance and this process is integrated into the Group's broader Risk Management Framework.

Safeguarding the Group's reputation is of paramount importance to its continued success and is the responsibility of every member of staff. The Group strives to always minimize reputational damage. Our employee Code of Conduct document provides guidance on acceptable behavior for all staff members and provide structure and guidance for non-quantifiable decision making thereby assisting in the management of the Group's reputation.

3.2.5 Environmental and Social Governance risk

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

The nature of most of our activities means that we have an impact on society and the environment. In many cases this impact will be positive, for example when we are involved in financing projects beneficial to society e.g. education, infrastructure, hospitality, health, manufacturing among others. However, a potential negative impact during the execution of some projects by our customers cannot be ruled out. Environmental risks include any adverse impact on vulnerable ecologies and ecosystems. dfcu Group has an Environmental Social and Governance (ESG) policy updated from time to time that provides guidance to staff and clients on how to manage aspects related to the ESG and ensure that the projects are compliant.

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

3.2.6 Model risk

Model Risk can be defined as the incorrect or inappropriate use of a model and fundamental errors in models that may produce inaccurate outputs that are not aligned to design objectives and intended business uses. Dfcu Group has established a Model Governance framework and committee to oversee the process of model development and reviews in order to minimize the likelihood and potential impact of this risk.

3.2.7 Strategic Risk

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

Strategic Risk may arise from changes to the competitive landscape or regulatory framework or ineffective positioning in the macroeconomic environment. The Group enhanced its strategic risk key performance indicators which are measured and reviewed on a monthly basis by the Management Risk Committee and presented to the Board on a quarterly basis.
In 2021, the group worked towards formulating a new five-year customer obsessed strategy which will run from 2022-2026. This will be cascaded down to all staff during 2022, complete with new Key Risk Indicators for the proper monitoring of the bank's strategic risk profile as per the bank's new five-year medium-term plan.

4.0 Looking ahead

The economic impact of Covid-19 is expected to continue beyond 2021 with different levels of severity in various sectors where the Group is exposed to.

Looking forward to 2022 and beyond, the Risk Management Domain will focus on delivering timely risk data and insights to stakeholders to inform decision making and managing the Group's risk profile within its set Risk Appetite.

- From a Credit Risk perspective, the Group will continue to adapt an aggressive approach towards improving portfolio quality. Among the strategies to be adapted is leveraging on data and technology to improve the Group's end-to-end credit management process
- The Group will upgrade its stress testing framework to an integrated one
- The Group will refresh its Risk Appetite in line with its new five-year medium-term plan
- The Group will continue to put the health and safety of staff and customers at the center of its activities through provision of innovative products and putting in place programs that ensure provision of sustainable options for customers and staff to remain safe. The business resilience programs will further be enhanced through further business impact analysis and a robust scenario analysis and stress testing framework that will be rolled out in 2022 to ensure sound operational resilience.
- The Group will regularly conduct internal third-party risk management maturity assessments to assess the third-party risk management programs and activities to ensure adequate oversight and depth of the activities, and to proactively anticipate and manage emerging risks in that area.
- 2021 saw unprecedented growth in the popularity of digital and e-commerce transactions. These transactions provide opportunity for fraudsters to perpetuate fraud on customer accounts and breach sensitive card data. In 2022, the Group will strive to maintain a balance between Customer Experience and security measures by analyzing data to profile customer transaction data and rapidly flag suspicious transactions. The Group favors a proactive stance in the monitoring of transactions in order to quickly interdict fraudulent transactions and in the process reduce potential and actual losses. The Group will also invest in 3D Secure technology to improve security for customers while executing card-not-present transactions.
- The Group will continue to invest in improving the uptime and capabilities of its systems as well as its cyber security posture. The Business Technology (BT) Security and IT Risk Management functions will continue to monitor the Group's cyber risk profile to ensure timely detection and adequate mitigation of cyber security threats.
- Additional focus will be placed on improving risk culture through investing in tooling and upskilling staff to effectively support the business. A robust training and awareness program will be put in place for all staff, and risk management activities linked to the performance management program of the Group to shift risk culture.
- The Group will aim to comply with the evolving regulatory landscape through research on emerging laws, regulations and guidelines, enhancing internal policies and procedures and putting in place a robust training and awareness monitoring program to ensure timely and effective compliance.
- We shall enhance our capabilities to monitor attempts by fraudsters and other bad actors, including working with industry participants to prevent, detect and create awareness about fraud.
- The Group will invest in additional capabilities to protect against cyber threats and improve client security awareness and authentication controls by rolling out Verified by Visa.
- The Group will also further manage the risk of further Covid-19 infection surges and its impact on the mental state and emotional wellbeing of our staff by emphasizing strict adherence to all standard operating protocols as well as providing material and emotional to staff and other stakeholders on a regular basis.

Corporate Governance, Audit Committee and Nominations Report

Corporate Governance Statement 2021

Corporate governance comprises all principles relating to the management and monitoring of a company. dfcu's approach to corporate governance is designed to promote accountability, transparency, fair dealing, and the protection of its stakeholder interests, including customers, shareholders, employees and community.

One of the key elements and drivers of good Corporate Governance is a Board of Directors that remains adaptable to the changing times. The operating environment in 2021, remained versatile, requiring high levels of adaptability for both the Board of Directors and the management team in view of the new normal ushered in by the Covid-19 pandemic.

Therefore, this statement is a snapshot of the Company's activities, progress and changes in regard to governance aspects in the financial year 2021.

Our Corporate and Governance Structure

dfcu Limited (the Company) is a holding company listed on the Uganda Securities Exchange with 3,835 shareholders as at 31st December 2021. 58.7% of the shares in the company are held by ARISE B.V., an investment and development company established by Norfund, FMO and Rabobank under joint ownership. (See page______of the Annual Report).

The Company wholly owns **dfcu** Bank Limited.

dfcu Group continues to strive towards having a separate Board of Directors from that of **dfcu** Bank Limited with only one Non-Executive Director still serving on both boards as at 31st December 2021. The Director subsequently retired in 2022.

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

Successful companies appreciate the importance of diversity on their Boards and delivering value for shareholders through engaging a versatile Board with a wide spectrum of experiences and skill sets. We are delighted to have a diverse Board with robust skill sets and nationality. To ensure gender diversity we have two (2) female directors on the Board of **dfcu** Limited and 3 female directors on the Board of **dfcu** Bank.

What we do

The **dfcu** Group is engaged in the following:

Banking	Corporate Banking
	Business Banking
	Personal Banking
	Gloibal Financial Markets
	Bancassurance
Investor Reslations	Stakeholder Engagement
	Regulatory Compliance
Real Estate	Property Management
ADC	The Agricutural Development Centre(ADC) provides financial literacy to small and medium size farmer groups

Codes and Regulations

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

The Company's corporate governance is guided by the Uganda Securities Exchange Listing Rules 2021, the Capital Markets Authority corporate governance guidelines, the Companies Act 2012 and its Articles of Association. The subsidiary's governance framework on the other hand is regulated by the Financial Institutions Act 2004 as amended, the Financial Institutions (Corporate Governance) Regulations 2005, the Companies Act 2012 and its Articles of Association

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 to achieve sustainable growth. The Board of Directors seeks accountability of Management in creating long-term sustainable growth leading to the fulfillment of stakeholders' aspirations. It also provides leadership and strategic guidance within a framework of controls designed to assess and manage risk to further ensure long-term sustainable development and growth.

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 of directors has established Committees to 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.

Appointment of Directors and Composition as at 31st December 2021

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 General Meeting. In selecting directors, the Company seeks individuals who are of high integrity and with passion for the sectors the Company is involved with.

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

As at 31st December 2021, the Board of Directors of **dfcu** Limited comprised of six (6) Non-Executive Directors as indicated on page 15 of the Annual Report. The Board of Directors comprises of highly renowned professionals drawn from diverse fields. They collectively bring with them a wide range of skills and rich experiences, which enhances the quality of the Board's decision-making process.

On the other hand, as at 31st December 2021, **dfcu** Bank Limited had ten (10) directors, as indicated on page 16 of the Annual Report.

Changes in the Board Membership: Director Resignations: **dfcu** Limited

We bid farewell to Mr. Elly Karuhanga who had served dfcu for over 15 (fifteen) years. He informed the Shareholders at the last General Meeting of his intention to retire early from the Board of **dfcu** Limited.

The Shareholders, Directors, Management and staff of **dfcu** Limited thank Mr. Elly Karuhanga for the invaluable contribution he made to the Company and dfcu as a whole. We also appreciate Mr. Karuhanga for his dedicated service and stewardship as Chairman of the Board of Directors.

Succession Planning

In order to provide leadership after the retirement of Mr. Elly Karuhanga, the Board appointed Dr Aminah Zawedde as interim Board Chairperson to steer the Board. Subsequently Mr. Jimmy Mugerwa was appointed as a Director and Board Chairman in 2022 to fill a casual vacancy that was created after the early retirement of Mr. Elly Karuhanga.

dfcu Bank

Mr. Øivind Solvang, a Non-Executive Director resigned from the Board of dfcu Bank Limited.

The Shareholders, Directors, Management, and staff of **dfcu** Bank Limited thank Mr. Solvang for the contribution made towards the Company.

Director Appointments:

There were no Director appointments in respect of **dfcu** Limited and **dfcu** Bank Board in the year 2021.

Board Meetings

Meetings of the Board continued to be held virtually and the same was embraced as the new normal. The Board meetings are held on a quarterly basis. The Board of Directors of the Company held the four quarterly mandatory meetings during the year, in addition to other special meetings that were held to discuss urgent matters.

The Board comprised the following persons, whose attendance of meetings during the year 2021 was as follows:

(a) dfcu Limited

Name	29th March	19th July	28th September	17th December
Mr. Elly Karuhanga (Chairperson)	√	√	√	N
Mr. Friedrich Pelser	√	√	√	√
Mr. Kironde Lule	√	√	√	√
Mr. Albert Jonkergouw	A	√	√	√
Dr. Aminah Zawedde	√	√	√	√
Ms. Arimi Barbra Teddy	√	√	√	√

N- Retired from the Board
A-Absent with apology

Composition of the Board of Directors of dfcu Bank Limited

During the year under review, the Board of Directors of **dfcu** Bank comprised of: Mr. Jimmy Douglas Mugerwa (Chairperson); Mr. Albert Jonkergouw; Mr. Willem Cramer,Mr. Stephen John Caley; Mr. Øivind Solvang;Dr. Winifred Mary Tarinyeba Kiryabwire; Ms. Grace Tibihikirra Makoko; Ms. Jackie Aneno Obol-Ochola;Mr. Mathias Katamba and Mr. William Sekabembe

Board Committees

To give more detailed attention to key aspects of the Company business, the Board delegates some of its functions to Committees that subsequently avail feedback on the deliberations held. Each Board committee has terms of reference that define its roles and responsibilities. There is clear communication between the Board and the Committees.

The Company has only two (2) committees due to its nature as a holding company. The Board of Directors of **dfcu** Limited delegated some of its roles to the:

i. Audit and Risk Committee which is mainly responsible for the integrity of the financial reporting and audit process.
ii. Nominations and Governance Committee which primarily deals with the Governance and Compliance requirements of the Company.

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

a) dfcu Limited

The **dfcu** Limited Board Committees comprised the following persons, whose attendance of meetings during the year 2021 was as follows:

Audit and Risk Commitee				
Name	29th March	19th July	28th September	17th December
Mr. Kironde Lule	√	√	√	√
Mr. Friedrich Pelser	√	√	√	√
Dr. Aminah Zawedde	√	√	√	x
Nominations and Governance Committee				
Name	29th March	19th July	27th September	17th December
Mr. Friedrich Pelser	√	√	√	√
Mr. Albert Jonkergouw	A	√	√	√
Ms. Arimi Barbra Teddy	√	√	√	√

X- Dr Aminah Zawedde had been appointed as the Acting Board Chair and as such did not attend the fourth quarter meeting of the Committee.
A-Absent with apology

b) dfcu Bank Limited.

dfcu Bank Limited Board delegated its authority to six (6) Board Committees whose composition and role is as follows:

1. Nominations and Governance Committee

The Committee's purpose 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 2021, the Committee was comprised of Mr. Albert Jonkergouw (Chairperson) and Mr. Jimmy D. Mugerwa.

2. 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 2021 were Mr. Stephen John Caley (Chairperson), Ms. Grace Makoko and Dr. Winifred Tarinyeba Kiryabwire.

3. Board Risk Committee

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

a) The identification, measurement, monitoring and treatment of key risks within the Bank so as to ensure that they support the Bank's business strategy.

b) The establishment of the Bank's credit policies and process and to ensure that the same are effective, efficient, and aligned to best practice in order to support business growth but at the same time ensure that credit risks are effectively managed.

The Committee members for the year 2021 were Mr. Willem Cramer (Chairperson), Mr. Øivind Solvang and Ms. Jackie Ochola.

4. Board Credit Committee

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to the establishment of the Bank's credit policies and process and to ensure that the same are effective, efficient, and aligned to best practice in order to support business growth but at the same time ensure that credit risks are effectively managed.

The Committee members for the year 2021 were Ms. Grace Makoko (Chairperson), Mr. Stephen John Caley and Mr. Willem Cramer.

5. Board Remuneration Committee

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

The Committee's members for the year 2021 were Dr. Winifred Mary Tarinyeba Kiryabwire (Chairperson), Mr. Albert Jonkergouw and Mr. Stephen John Caley.

6. Board Assets and Liabilities Committee

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to:
a) The establishment of effective asset and liability management policies for the Bank.
b) The establishment of key business performance indicators for the Bank, regularly reviewing performance against such indicators.
c) Ensuring that the Board is fully aware of the framework of the Bank's balance sheet structure by setting polices and guidelines for the Bank's tolerance for risk and expectation from investment.

The Committee members for the year 2021 were Mr. Øivind Solvang (Chairperson), Mr. Albert Jonkergouw and Ms. Jackie Ochola.

Board Remuneration

Non-Executive Directors receive fixed fees for their services on the Board and its Committees. These fees comprise of an annual retainer and sitting allowance, which are approved by the Shareholders at the Annual General Meeting. Non-Executive Directors do not receive short term incentives, nor do they participate in any long-term incentive schemes. For the year 2021, the directors total remuneration was as shown below:

	2021	2020
	Ushs M	Ushs M
Fees for services as directors	2,291	2,060
Other emoluments: short-term benefits (included in key management compensation)	-	-
	2,291	2,060

Please note that this is the same table in the financials under the disclosures for 'Related Parties'.

Company Secretary

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

The Company Secretary for **dfcu** Limited for the year ended 2021 was Ligomarc Advocates while the Company Secretary for the subsidiary **dfcu** Bank Limited was Mrs. Angelina Namakula-Ofwono.

Management of the Company

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

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

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

Separation of the role of the Chairman and Executive Officers

dfcu Limited

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

dfcu Bank

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

Shareholder Engagements

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

Corporate Citizenship

dfcu provided support in respect of community empowerment, preservation of the natural environment, arts and culture, youth development and sports as well as health and education. This was undertaken in partnership with relevant Stakeholders such as NGOs, and public sector entities towards promoting social welfare. Further, In a bid to foster financial inclusion, we developed personalized solutions and thoughtful channel distribution, in order to enable our customers get access to credit and improve their conditions.

Sustainability

dfcu appreciates the economic, social and environmental impact of its investment activities. In order to ensure compliance with Environmental, Social and Governance (ESG), **dfcu** has a team of ESG analysts dedicated to Environment and Social risk analysis.

During the year, **dfcu** Group pursued wide-ranging initiatives to underpin the advancement and welfare of key stakeholders, alongside responding to their needs and requirements. As a key focus area, the Group took dedicated actions to meaningfully reinforce its Stakeholder interactions in the wake of the exigent operating environment triggered by the Covid-19 pandemic. The detail of the ESG statement can be found on page 77 of the Annual Report.

BRIEF SHAREHOLDER ANALYSIS

Directors' interest in the shares of the Company as at 31st December 2021

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

Distribution of dfcu Limited shareholders as at 31st December 2021

	Description	No. of Investors	No of Shares Held	Percent Holding
1.	Between 1 and 1,000 Shares	1,813	748,102	0.10%
2.	Between 1,001 and 5,000 Shares	1,269	3,286,014	0.44%
3.	Between 5,001 and 10,000 Shares	211	1,531,842	0.20%
4.	Between 10,001 and 100,000 Shares	448	11,975,943	1.60%
5.	Between 100,001 and 1000,000 Shares	69	20,599,671	2.75%
6.	Above 1000,001 Shares	25	710,002,461	94.90%
		3,835	**748,144,033**	**100%**

List of the 20 Largest Shareholders of dfcu Limited as at 31st December 2021

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

ARISE B.V	439,176,097	58.70%
SCB MAURITIUS A/C INVESTMENT FUND FOR DEVELOPING COUNTRIES	74,580,276	9.97%
NATIONAL SOCIAL SECURITY FUNDS	56,543,204	7.56%
KIMBERLITE FRONTIER AFRICA NASTER FUND, L.P.-RCKM	54,958,626	7.35%
SSB RUSSELL INVESTMENT COMPANY PLC FUND NAS5	14,428,700	1.93%
NATIONAL SOCIAL SECURITY FUND-PINEBRIDGE	10,440,437	1.40%
SSB-CONRAD N HILTON FOUNDATION -00FG	9,180,658	1.23%
VANDERBILT UNIVERSITY VANDERBILT UNIVERSITY	9,155,182	1.22%
THE JUBILEE INSUARANCE COMPANY OF UGANDA	7,296,339	0.98%
BANK OF UGANDA DEFINED BENEFITS SCHEME- GENEAFRICA	4,811,165	0.64%
BANK OF UGANDA STAFF RETIREMENT BENEFIT SCHEME AIG	4,481,491	0.60%
THE PARLIAMENTARY PENSION SCHEME-STANLIB	2,924,455	0.39%
UGANDA REVENUE AUTHORITY STAFF RETIREMENT BENEFITS	2,850,292	0.38%
CENTENARY BANK STAFF DEFINED CONTRIBUTION SCHEME	2,806,087	0.38%
MR. SUDHIR RUPARELIA	2,165,575	0.29%
MR RAKESH GADANI	1,977,748	0.26%
UAP INSURANCE UGANDA LTD	1,836,146	0.25%
HOUSING FINANCE BANK/ UAP INSURANCE- GEN LIFE FUND	1,557,256	0.21%
MR. KEITH MUHAKANIZI	1,488,972	0.20%
BARCLAYS BANK UGANDA STAFF PENSION FUND	1,380,060	0.18%
Sub Total	704,038,766	94.10%
Others	44,105,267	5.90%
Total	748,144,033	100%

Director’s Report:
Board Nominations And Governance Committee Report

Introduction

The Board of Directors of **dfcu** limited (“the Company”) and the Board of its subsidiary, **dfcu** Bank (“the Bank”) are empowered to delegate some of their functions to Committees to ensure that they execute their mandate effectively and efficiently.

The Nominations and Governance Committee of **dfcu** limited (“the Company’s Nominations Committee”) is responsible for proposing new nominees for the Board and for assessing the performance and effectiveness of Directors to perform their role in the company. The Committee also offers oversight over any high-level governance matters affecting the operation of the Company or the performance of employees of the Company. Balancing decisions in a way that optimizes the Purpose of the Company requires a Board in which constructive challenge, openness and diversity of background and opinion are prized, along with a commitment to act fairly and in the interests of all stakeholders.

The Nominations and Governance Committee of **dfcu** Bank (the “Bank’s Nominations Committee”) assists 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 within the board (committees) effectively.

Membership of the Committee

The Nominations Committee of both **dfcu** Limited and **dfcu** Bank are currently comprised of Non-Executive Directors. The biographies of all the members of the Committee are available under the Corporate Governance Statement.

It is important to note that to maintain impartiality and transparency, no Director attends any discussion in regard to their own matters.

Key Highlights for the year 2021

Below we highlight some key considerations of the Committee both in the Company and its subsidiary for the year ended 31st December 2021.

Succession Planning

One of the key responsibilities of the Committee is to establish an adequate succession plan for both the Board of Directors for the Company and its subsidiaries and key executive staff. One of the main considerations in the year was updating of the succession plan in respect to various Director positions.

Therefore, the Company’s Nominations Committee considered several viable candidates for the positions who would ably fit into the dynamics of the Company and more importantly bring on a valuable skill set to the Board of Directors. Succession Planning is an ongoing consideration for the Committee which ensures that a versatile succession plan is always in place.

Key to note was the retirement of the Chairperson of the Company’s Board of Directors thus requiring adequate planning to have the position filled. Following this retirement, the Committee spear-led the nomination of an Acting Chairperson. Dr. Aminah Zawedde who ably served and steered the Board proceedings pending the appointment of new Non-Executive Directors to fill the casual vacancies that existed on the Board.

Notably, the Bank’s Nominations & Governance Committee embarked on the process of nominating three (3) directors to replace those that were retiring. Three (3) candidates were recommended and approved by the Board, subject to Bank of Uganda approval.

Remuneration

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

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

Evaluation

In 2021, the Company’s Nominations Committee ensured that a Board Evaluation is conducted. This involved review and assessment of the performance of the Board as a whole, the Chairman, the Individual Directors, the General Manager the Company Secretary and Board Committees was conducted. The specific areas for improvement were identified, discussed by the Board and an action plan was developed. The Committee continues to monitor the implementation plan of the agreed actions aimed at enhancing the effectiveness of the Board.

The Bank's Nominations & Governance Committee ensured that the Board annual review and assessment of the performance of the Board, the Chairman, the Individual Directors, the Chief Executive Officer/ Managing Director, the Executive Director, the Company Secretary and Board Committees was conducted. The specific areas for improvement were identified, discussed by the Board and an action plan was developed. The Committee monitored the implementation of the agreed actions aimed at enhancing the effectiveness of the Board. Further peer reviews were conducted and the feedback provided to each director.

Training and Development

Training and Development opportunities remained virtual because of the new normal presented by the Covid-19 Pandemic. Trainings were undertaken in the areas of Anti-Money Laundering, Data Privacy and Protection, and Cyber Security, Internal Capital Adequacy Assessment Process and Stress Testing.

Areas of focus for the year 2022

The areas of focus for the year 2022 for the Company's Nominations Committee are as follows;

The enhancement of the succession Plan is key for the Committee in 2022 for both the Board and Management. The plan will consinder current and future business needs, balance of skills, experience and effectiveness.
Effective succession planning should consider contingency planning (for any unforeseen departures or unexpected absences), medium-term planning (orderly refreshing of the Board, Committees and the ExCo) and long-term planning (looking ahead to the skills that may be required on the Board and the ExCo in the future). This is especially critical in view of the new appointments on the Board as a whole. Orientation for new Directors and the new Chairperson of the Board of Directors shall be duly undertaken and progress monitored.

The areas of focus in 2022 for the Bank's Nominations & Governance Committee are as follows;

Succession planning for the Board and Management, considering the company's strategic priorities and the main trends and factors affecting the long-term success and future viability of the company. Induction for the new directors shall be undertaken.

Board training to ensure that Board members remain up-skilled in view of the changing business environment, to enhance governance practices within the Board itself and in the interest of the company.

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

Director's Report: Board Audit And Risk Committee Report

Ensuring the independence and effectiveness of the internal and external audit functions.

Introduction

This report is provided by the Audit and Risk Committee of **dfcu** Limited in respect of the year ended 31st December 2021. This Report takes into account the reports of the Audit, Risk and Credit Committees of the subsidiary **dfcu** 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 Committees 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) 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 subsidiary, **dfcu** Bank ("the Bank") also operates an Audit Committee which is separate from the Risk Committee. The Audit, Risk and Credit Committees are regulated by the 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 as a whole have recent and 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 in the Corporate Governance Statement.

Following the retirement of Mr. Elly Karuhanga as Chairperson of the Board of Directors in September, 2021, Dr. Aminah Zawedde was appointed as the Acting Chairperson. During the period in which she was the Acting Chairperson, she did not attend the meetings of the Audit Committee of the Company. Therefore, for the last four months of 2021, the Committee was comprised of two(2) independent non-executive Directors.

In 2021, the Bank's Board Audit, Risk and Credit Committees were comprised of three (3) Non-Executive Directors. The details of the directors are set out in the Annual report.

Other Attendees

The attendees of the Committee include the designated heads of business, the group Chief Finance Officer and the external auditors. The Committee reserves the right to invite any other person it requires to attend.

Key Highlights for the year 2021

dfcu Limited

Some key considerations of the Committee for the year ended 31st December 2021 included;

Cash Flow Management

This remained a key issue for the Company due to the continued far-reaching consequences of the COVID-19 pandemic and the need to ensure keen monitoring of the cash flows. The cash flows of the Company include rental income, property management fees, insurance commissions and dividends from the subsidiary dfcu Bank. Notably, the real estate business was affected by the COVID-19 Pandemic with more entities closing offices. This meant that the occupancy levels dropped intermittently. Although full occupancy of the Company's headquarters building has been restored, monitoring of rental income remained critical. 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.

Audit Plan for the year 2021

Following the re-appointment of Ernst and Young as the External auditors for the year 2021, The key audit focus areas for the audit exercise to be undertaken as approved by the Committee included:

a) Impairment of goodwill and **dfcu** Limited as a cash-generating unit; and

b) Fair valuation of the investment property for disclosure purposes;

The findings and conclusions for the above aspects are detailed in the External Auditors Report for the year ended 31st December 2021.

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 approved the terms of the audit engagement letter and associated fees, on behalf of the Board.

dfcu Bank

The key considerations for the year 2021 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, of 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 on internal audit and the Management Systems Information report.
d) Review of the updates on resolution of issues raised from the external audit Management Letter, the external audit ICT systems audit, internal audit and the Bank of Uganda on-site examination.
e) Review of quarterly litigation reports.
f) Review of quarterly reports and updates on compliance matters, including anti-bribery and whistle blowing matters.
g) Review of quarterly Fraud and Investigations reports.
h) Approval of the internal audit plan for 2022.
i) Review of the 2022 external audit fees.

Areas of focus for the year 2022

dfcu Limited

The areas of focus for **dfcu** Limited's Board Audit Committee for the year 2022 are as follows;

- Review of the Company's quarterly, half-yearly and annual financial statements.
- Review of the Cash flows;
- 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 2022, the Committee will continue to monitor the key International Financial Reporting Standard (IFRS) 9 processes, particularly considering the anticipated economic growth and recovery following the full opening up and impact upon the Group.

dfcu Bank

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

- Review of quarterly reports.
- Review of the Bank's quarterly, half-yearly and annual financial statements.
- Continued performance review of the efficacy of both external and internal auditor performance and monitoring of corrective actions taken.

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

Sustainability Reporting

Sustainability Report

Report Scope

This report covers the economic, social and environmental performance of **dfcu** Group for the year ended 31 December 2021. In reporting both financial and non-financial matters, we have acted in compliance with the provisions stipulated by the Central Bank of Uganda, International Financial Reporting Standards, the Companies Act Cap 110 and the Listing Rules of Uganda Securities Exchange (USE). The report also adopts the Global Reporting Initiative (GRI) Guidelines, version G4 and the GRI's G4 Financial Services Sector Supplement for sustainability reporting.

Inclusivity

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

Report content and Materiality

In drawing up content for this report, we have taken into account the topics that can have a material impact on our business, including risks, opportunities, regulations and sector trends. As a Group involved in the banking business, we recognise that we have a direct economic, social and environmental impact, but also a significant indirect impact through our lending and investment activities. **dfcu** Groups non-financial data reporting protocol describes key performance indicators related to our material topics. We report data on these and other relevant key performance indicators in the value creation model section below. We continuously listen to our stakeholders and adapt our strategy and reporting to meet their evolving expectations. As part of our materiality analysis in 2019, we consulted key stakeholder groups - retail customers, business clients, investors, financial regulators, employees and senior management – in a qualitative and quantitative engagement process. The results of our materiality analysis were used to define the content of this report.

Reporting Cycle

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

Report Quality

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

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

Precautionary Approach

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

Assurance

We value the accuracy and reliability of all information and data in this report, both financial and non-financial. Therefore, assurance for the non-financial information in this report is drawn from published material from our regulators. Ernst and Young audited the financial statements of dfcu Group for the year 2020 and 2021.

Sustainability highlights

Year		2021	2020
Shareholders and investors			
Profit after tax	Shs M	9,312	24,077
Return on equity	%	2	4
Earnings per share	Shs per share	12.45	32.18
Proposed dividends	Shs per share	-	50.33
Customers			
Number of customers		1,040,000	1,022,200
Number of branches		56	58
Number of ATMs		61	100
Number of Agents		1,400	1,390
Suppliers			
Total procurement spend	Shs Million	96,333	132,521
% of procurement spend with local suppliers	%	91	89
Employees			
Number of employees		1,074	1,034
Number of female employees		545	536
Training spend	Shs Million	667	479
Society and Communities			
Donations and CSR spend	Shs Million	839	741

Environmental, Social and Governance (ESG)

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

ESG risk assessment procedure

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

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

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

Revision of ESG Framework

The Bank's ESG framework was reviewed in 2021 to ensure that it is updated to effectively guide the evolving E and S risk analysis and management. In the review, the risk categorization classes were changed from A, B+, B and C to A, B and C in order to align them with the IFC performance standards categorization system. The revised categories are described as below:

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

The main referenced national environmental law was changed from National Environment Management Act, 1995 (Cap 153) to National Environment Act, 2019. The former was repealed.

E & S Portfolio review

As of 31st December 2021, the bank portfolio had 10% category A transactions, 17% category B transactions and 73% category C transactions. This calculation was based on outstanding value of loans. It should be noted that category A had the highest exposure although it had the least number of transactions. Therefore, these clients' activities are closely monitored to mitigate any E & S risk that may arise.

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

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

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

Connecting with stakeholders

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

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

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

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

Stakeholders	How we have engaged with and served our stakeholders	Responding to Covid-19	Engagement mechanism and frequency	Key topics raised and feedback provided
Investors	• We continued to hold open, constructive, and regular dialogues with local and international agencies with a view to reporting on the performance prospects of the Group as well as its strategic orientations. Along the way, we shared dedicated analyses to provide comfort as regards our risk management and business growth foundations. • We continuously liaised with players across the global markets amidst our efforts to consolidate our foreign currency funding resources.	• We upheld the image and reputation of the Group as a strategically important player. As a key principle, the Group aims to generate comfortable earnings to reward its shareholders and investors. • While keeping our external stakeholders abreast of material developments influencing the Group's operations and activities, we have regularly informed them about specific initiatives taken by the Group to cope with the impact of the pandemic on the Group and key business segments. • We reinforced our communication and interactions with correspondent banks to reassure them of the inherent resilience of our operations and the soundness of our key financial metrics.		• Financial performance • Governance • Transparency and disclosure • Business expansion plans • Risk management • Sustainable growth • Resilience to the effects of the pandemic • Rising NPA and impairment charges • Dividend payments • Achieving sustainable business growth against accepted risks

<table>
<tr>
<td>Customers</td>
<td>

Backed by a thorough understanding of exigencies and requirements across market segments, we provided clients with increasingly simplified and personalised financial solutions to help them meet their goals, thus contributing to their prosperity and financial well-being. We made further headway in building life-long relationships with clients and accompanying them in good and bad times. We pursued the digitalisation of our operations and serves, alongside improving the reach and appeal of our wide-ranging channels to allow customers undertake payments and transactions in an easier, faster, and safer way.

</td>
<td>While reinforcing proximity with customers to understand their needs and requirements, the Group has, amidst the difficult content taken immediate and short-term measures to assist individuals and corporate clients in coping with challenges faced, alleviating their financial burden, and sustaining their activities. We delivered well structured financial solutions after collaborating with the Central Bank and the authorities, which helped banking players in their endeavours, notably through guarantees for working capital facilities, execution of relief programs and provision of funding lines. At the same time, to underpin healthy portfolios and sound operations, the Group has, when supporting its client base, been guided by clearly determined conditions and criteria.

Individuals
Provision of moratorium/repayment holiday offered in respect of capital repayments and if necessary, interest repayment.
Temporarily waiving of fees to alleviate customers' financial burden, mainly transactional related fees.
Setting up a dedicated help desk, which is operational on a 24/7 mode, to attend to queries and banking needs of clients who were stranded following lockdowns.</td>
<td>
<table>
<tr><td>Engagement mechanism</td><td>Frequency</td></tr>
<tr><td>Customer visits</td><td>As required</td></tr>
<tr><td>Complaints received</td><td>As required</td></tr>
<tr><td>Complaints resolution officer, relationship managers</td><td>As required</td></tr>
<tr><td>Investment clubs</td><td>Continuous</td></tr>
<tr><td>Branch network and call centre</td><td>Continuous</td></tr>
<tr><td>Media advertisements</td><td>As required</td></tr>
<tr><td>Corporate website</td><td>Continuous</td></tr>
<tr><td>Customer workshops</td><td>As required</td></tr>
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<td>

Swift service
Customer security and privacy
Service quality
Affordability of services and convenience
Grievance handling mechanism
Financial education and literacy
Financial support for revival of business
Access to financial services
Enrolment to digital platforms
Growing interest in sustainable investing among private sector
Need of Financial support for women entrepreneurs

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	• We adopted appropriate and carefully designed communication and reporting channels vis-à-vis our customers to provide them with transparent and timely advice and information about our offering as well as effectively attend to the queries. We regularly sought customer feedback on our solutions, notably via surveys and focus group discussions, towards improving our value proposition. We embraced dedicated initiatives to address customer complaints in an efficient and opportune manner. Of note, over 98% of customer complaints registered during the year were resolved within less than 24 hours (2019: 95%) • We preserved the security and confidentiality of transactions, alongside upholding customers' trust in the Group. We reinforced our internal platforms and processes, including our cyber risk management framework, to foster the safety of our customers' information, while ensuring that they can use our channels in a dependable way. • 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 on international business trends and dynamics. We remained active on social media platforms such as Facebook, Twitter, Youtube, Instagram and LinkedIn.	**SMEs** • Provision of working capital facilities with flexible repayment and pricing terms, to help companies, support critical payments and honour obligations towards suppliers. • Provision of flexible loan repayment solutions like moratorium/repayment holiday on both capital and interest payments, rescheduling of existing facilities over a longer period to assist clients withstanding cashflow difficulties. • Establishment of clear processes and mechanisms to quickly handle and respond to client requests. **Large Corporates** • Provision of working capital facilities with convenient repayment terms and collateral requirements aimed at assisting clients deemed to have the ability to steer their way through the crisis, while displaying resilient business models, financial fundamentals and risk management processes in undertaking critical operating expenses. • Deferment of capital repayments and potentially interest payments to help clients that are exposed to cashflow difficulties. • Provision of treasury services with the prioritisation of sales of foreign currency to clients.		

<table>
<tr><td></td><td></td><td>Promoting digital channels and payment solutions
• The Group has actively promoted its convenient and secure digital channels to underpin the conduct of round the clock customer transactions, backed by an intensification of communication and awareness campaigns on the social media.
• Particular focus laid on encouraging contactless card payments.
• Deployment of additional Point-of-sale terminals particularly agency banking.
• Revamped Quick banking platform to ensure that it is secure and user friendly.</td><td></td><td></td></tr>
<tr><td>Societies and Communities</td><td>• The Group has continued to foster the well-being and progress of the societies and communities in which we live and operate. We partnered with relevant stakeholders such as NGOs, and public sector entities towards promoting social welfare. We provided support in key focus areas, notably absolute poverty and community empowerment, preservation of the natural environment, arts and culture, youth development and sports as well as health and education.</td><td>• dfcu Group remained committed to helping societies and vulnerable families amidst difficult times.
• The Group also made contributions towards the Covid-19 task force aimed at enabling supply of food and other assorted groceries to vulnerable people.</td><td><table><tr><td>Engagement mechanism</td><td>Frequency</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</td><td></td></tr><tr><td>Communications</td><td>As required</td></tr><tr><td>Public events</td><td>As required</td></tr><tr><td>Corporate website</td><td>Continuous</td></tr></table></td><td>• Responsible financing Commitment to community
• Financial inclusion, recruitment
• Microfinance and SME
• Ethics and business conduct
• Environmental performance</td></tr>
</table>

	• Our corporate social responsibility activities are channelled via the dfcu Foundation, which is a dedicated vehicle for the efficient and effective design, implementation and management of initiatives meant to embed the Group's engagement with the community. During the year, various initiatives were done including the Group's contributions to the Covid-19 response initiatives as indicated in other business reviews. • It is worth highlighting that no political donations were made during the year (2020: None) • By means of our personalised solutions and thoughtful channel distribution, we promoted financial inclusions through investment clubs' discussions, thus enabling our low-income customers get access to credit and improve their conditions. • We encouraged the adoption of environment-friendly and energy saving practices in our operations, we worked towards effectively managing our carbon footprint, amidst endeavours to continuously monitor and assess our direct environment footprint in order to minimise the impact of our activities on the environment. • As a key achievement, we progressively reduced energy and water usage in line with objectives and targets set, backed by a systematic monitoring of consumption patters which helped us in identifying saving opportunities.			

<table>
<tr>
<td>Government institutions and regulators</td>
<td>
We financed key projects shaping the economic landscape and sustained our contribution to the real economy and the continued growth of the country’s businesses. dfcu Group remained 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 by means of 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 relation 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 attended to regulatory reviews with notable attention to detail and professionalism, while promptly reacting to matters raised. We submitted reports in a timely manner to regulatory bodies and forged transparent relationships with them to promote adequate monitoring of our activities and informed discussions about relevant issues.
We acted as tax agents for Uganda Revenue Authority (URA) where we collected several taxes on their behalf from our customers. During the year, Shs 62,678 million (2020: Shs 51,931 million) was collected and paid to URA.
</td>
<td>
We accompanied small, medium, and large sized businesses facing up to hardships and cashflow difficulties to, as far as possible, remain afloat, pursue their activities and mitigate job losses, thus helping to underpin resilient socio-economic development.
We interacted and collaborated with the Central Bank, URA and other authorities (directly or through banking and relevant business associations) amidst concerted endeavours to implement macro-financial measures that are deemed to be most effective to underpin supply of credit and the delivery of dedicated clients solutions, after making allowance for new realities and requirements engendered by the pandemic.
</td>
<td><table>
<tr><th>Engagement mechanism</th><th>Frequency</th></tr>
<tr><td>Supplier relationship Management</td><td>Annually</td></tr>
<tr><td>Directives and circulars</td><td>As required</td></tr>
<tr><td>Meetings and consultations</td><td>As required</td></tr>
<tr><td>Press releases</td><td>As required</td></tr>
<tr><td>Periodic returns</td><td>As required</td></tr>
<tr><td>Submissions to policymakers</td><td>As required</td></tr>
<tr><td>Responses to consultation papers on Directions and other regulations</td><td>As specified</td></tr>
</table></td>
<td>
Compliance with directives and codes
Microfinance and SME development
Stability of the financial system
Migration to cashless payment platforms
Supporting economic recovery and growth
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<tr>
<td>Employees</td>
<td>

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

</td>
<td>

The Group took prompt measures to preserve the health and safety of its employees during and after the lockdown period. It provided them with dedicated facilities that helped them undertake their activities, backed by clear policies and guidelines.
Phased and thoughtful adoption of work from home practice and prompt reorganisation of work processes with the operation of split/rotating teams as soon as lockdowns were announced and depending on the category of activities, underpinned by the delivery of dedicated technological and infrastructure support, key objective pursued is to maintain continuity of business operations, uphold the delivery of minimum service to customers and reduce risk so contamination of the virus.
Provision of transport shuttles to employees working on-site during the lockdown period and provision of accommodation facilities to key staff near the office premises to facilitate quicker support of the business operations.

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

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

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</table>

		• Upholding the adoption of strict health and safety protocols across premises and at all times, that is; compulsory wearing of masks by all staff and maintaining social distancing in all branches; provision of hydro-alcoholic solutions upon entry in our premises and leveraging of a control entrance system with use of calibrated non-contact thermometers for customers, and set up social distancing markings at entrances and service counters to mitigate contagion risks; conduct regular cleansing and disinfection of our premises and equipment across frontline spaces and common areas. • Conduct covid-19 rapid tests for employees having worked during the lockdown period. • Dedicated communication platforms leveraged to keep in touch with employees and reassure them during and after the lockdown period, while disseminating regular information on the virus spread and providing insights on steps taken to protect the health of employees and customers. Channels favoured include WhatsApp groups and emails from the Chief Executive Officer and key personnel.		

Material matters

The COVID-19 pandemic has changed people's lives and livelihoods fundamentally and perhaps irreversibly. It has also impacted the banking industry in a number of dimensions, ushering in a new competitive landscape, stifling growth in some traditional product areas, prompting a new wave of innovation, recasting the role of branches whilst accelerating digitization in almost every sphere of banking. Having navigated the immediate pressure of the COVID-19 crisis, banks play a pivot role in shaping the recovery and helping customers rebuild their financial security and business health. This requires banks to refocus on understanding their customers' needs, and in parallel, nimble adaptations of strategies and business models to ensure efficiency and resilience, and creativity in confronting challenges and seizing new opportunities presented by the changing environment. In adapting the Bank's strategy to face the "new normal", and play a significant role in shaping the recovery, the Bank analysed its external environment to identify matters arising from changes that were brought forth by the pandemic and emerging trends that were relevant to key stakeholder groups, as given below:

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

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

Materiality determination and integration

Below is the process of identification of material matters through a refreshed materiality assessment, to gain deeper insight and understanding into key areas of concern for stakeholders. The assessment also takes into consideration the impacts of the COVID-19 pandemic. Even as these trends present risks, opportunities or both, the impact of these trends is felt by the stakeholders. The risks emanating from the pandemic were felt across all of stakeholders at different magnitudes, and they outweighed the risks presented by other emerging trends. The matrices that follow, illustrate the topics that are material to the Group according to their impact on stakeholders and the Group itself. The Group defines material matters as those that significantly affect the Group's ability to create value over the short, medium and long term. The materiality of each matter has been determined by its relevance, the magnitude of its impact, and the probability of occurrence.

Identification of material matters to address

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

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Material Matters, Risks, Opportunities, and how we manage

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

Climate Change	Increasing frequency and magnitude of natural disasters may cause deterioration of asset quality, operational and reputational risks. The Group may outpace the competition by responsible lending through Social and Environmental screening.	Increasing awareness and tendency towards renewable energy and greening of buildings and processes bring about green financing opportunities. Initiatives in countering impacts of carbon emissions.	Though the Group's own footprint is minimal, we endeavour to minimise the same through adopting green processes, moving to green buildings, and generating solar energy for our operations. However, the Group could influence a much higher impact through our lending to renewal energy generation, greening of processes, and screening for environmental impacts on businesses we lend to.	GRI 302: Energy GRI 305: Emission
Partnerships for Goals	Interruption to critical services could disrupt smooth execution of the Group's operations. Unorthodox competition and financial disintermediation may threaten the survival.	Collaboration with Fin-Tech could open up new avenues to reach untapped markets and evolve alongside changing customer expectations.	The Group's continued its efforts on building win-win partnerships and constantly seek avenues to turn the risks of evolving new technology for the development of our own products, services, and delivery.	
Being Socially Responsible	Growing influence of social media and increasing awareness on socially accepted norms expected from business, if not properly managed could lead to losing social license to operate.	Social acceptance of being responsible augments the Group's leadership position within the banking system contributes to sustainable development.	We believe in sharing the value created with the society we operate in through our CSR initiatives, conducting capacity building programmes and supporting the preservation of environment.	
Macroeconomic and Geopolitical Risks	Though the severity has reduced overtime the pandemic-led disruptions continue to prevail with economies continuing to slowdown. Geopolitical tensions may impact certain sectors of the economy.	Increased collaboration with business community especially with SMEs and micro sector, through the extension of reliefs on best repayment, rescheduling and education leads to stronger and sustainable relationships. Social distancing has increased the demand for digital products and with already sound digital infrastructure the Group is poised for a higher share of the digital banking sphere.	Discussed within the Risk management section	GRI 201: Economic Performance GRI 203: Indirect Economic Impact GRI 207: Tax

1. INPUTS

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

FINANCIAL CAPITAL

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

MANUFACTURED CAPITAL

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

INTELLECTUAL CAPITAL

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

HUMAN CAPITAL

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

SOCIAL AND NETWORK CAPITAL

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

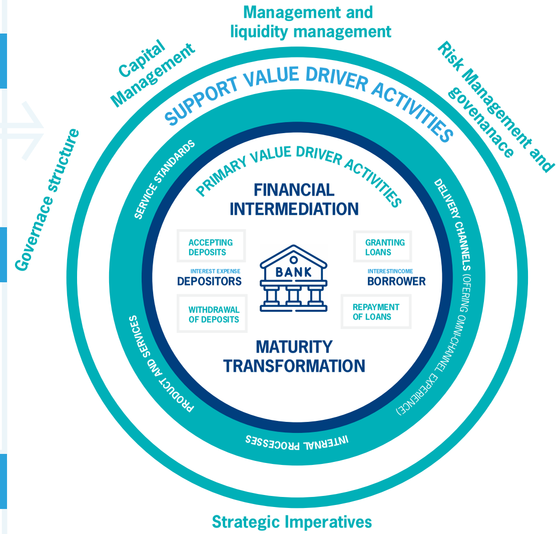
NATURAL CAPITAL

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

2. VALUE DRIVER ACTIVITIES

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

VISION



1. INPUTS

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

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

4. OUTCOMES

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

FINANCIAL CAPITAL

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

MANUFACTURED CAPITAL

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

INTELLECTUAL CAPITAL

- Innovation
- Creativity
- New products
- Simplicity
- Compliance

HUMAN CAPITAL

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

SOCIAL AND NETWORK CAPITAL

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

NATURAL CAPITAL

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


BANK
BANK
VALUE DRIVER ACTIVITIES
DELIVERING VALUE FORM
STAKEHOLDERS
DERIVING VALUE FORM
LEADS TO INTERNAL CAPITAL FORMATION
LEADS TO EXTERNAL CAPITAL FORMATION
TOTAL CAPITAL OF THE BANK
FINANCIAL CAPITAL
MANUFACTURED CAPITAL
INTELLECTUAL CAPITAL
HUMAN CAPITAL
SOCIAL & RELATIONSHIP CAPITAL
NATURAL CAPITAL
BUSINESS DOMAIN OF THE BANK

Wealth Creation Statement

	2021	2020
	Shs. M	Shs. M
Interest income	**354,799**	343,822
Fees and commission income	**62,500**	50,773
Net trading and other income	**30,835**	19,597
Net income from other financial instruments at FVTPL	**2,002**	486
Interest expense	**(81,509)**	(110,434)
Operating expenses	**(183,523)**	(191,639)
Wealth created	**185,104**	112,605

How we distribute value created

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

Total Wealth Created

UGX 185,104 Million

2020 ‣ 54%

Retention to Support Growth

28%
2020 ‣ 29%

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

Employees

30%
2020 ‣ 54%

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

Society

1%
2020 ‣ 1%

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

Shareholders

7%
2020 ‣ 0%

We provide shareholders with adequate dividend payout.

Authorities

34%
2020 ‣ 16%

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

Business Continuity Management

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

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

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

Procurement

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

Summary of procurement spend:

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

Our employees

dfcu Group employed 1,074 employees (2020: 1,034) of which 51% are female (2020: 52%). The Group ensures that all staff train at least once in a calendar year to enhance skills and productivity. The Group spent a total of Shs 667 million (2020: Shs 479 million) on training staff.

	2021	2020
Total employees (number)	1,074	1,034
Total staff costs (Shs M)	55,701	60,938
Staff composition (Female : Male)	51% : 49%	52% : 48%
Staff training spend (Shs M)	667	479

Financial enablement for staff

Through our employee value proposition, we enabled staff acquire homes and also acquire finances for their personal development. As at 31 December 2021, the total advances to employees amounted to Shs 25,096 Million (2020: Shs 29,814 Million). There was no credit to employees that was neither past due nor impaired.

	2021		2020	
	Number of staff	Shs M	Number of staff	Shs M
Staff personal development loans	565	11,243	557	14,006
Staff home loans	99	13,853	105	15,808
Total	664	25,096	662	29,814

Performance measurement

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

Staff feedback

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

Talent management and succession planning

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

GRI Index Reference

The 2021 Sustainability Report was completed in reference to the Global Reporting Initiative (GRI) guidelines and supported by the G4 Financial Services Sector Supplement

Disclosure number	Description	Required for CORE	Heading	Page Reference
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102-3	Location of headquarters	Core	Our business	10
102-4	Location of operations	Core	Our business	10
102-5	Ownership and legal form	Core	List of shareholders	71
102-6	Markets served	Core	Commercial business report	42-44
102-7	Scale of the organisation	Core	Our leadership	15-26
102-8	Information on employees and other workers	Core	Supporting our staff	51
102-9	Supply chain	Core	Commercial business report	42-44
102-10	Significant changes to the organisation and its supply chain	Core	Commercial business report	42-44
102-11	Precautionary principles or approach	Core		N/A
102-12	External initiatives	Core	Innovation and transformation	48-49
102-13	Membership of associations	Core		N/A
Strategy				
102-14	Statement from senior decision makers	Core	Our leadership	19-26
102-15	Key impacts, risks, and opportunities		Risk management and control	56-63
Ethics and integrity				
102-16	Values, principles, standards, and norms of behaviour	Core	Our business	8-10
102-17	Mechanisms for advice and concerns about ethics		Corporate governance statement	65-71
Governance				
102-18	Governance structure	Core	Corporate governance statement	65-71
102-19	Delegating authority		Our leadership	15-18
102-20	Executive-level responsibility for economic, environmental, and social topics		Sustainability report	77-104
102-21	Consulting stakeholders on economic, environmental, and social topics		Sustainability report	77-104
102-22	Composition of the highest governance body and its committees		Corporate governance statement	65-71
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102-25	Conflicts of interest		Corporate governance statement	65-71

102-26	Role of highest governance body in setting purpose, values, and strategy		Corporate governance statement	65-71
102-27	Collective knowledge of highest governance body			N/A
102-28	Evaluating the highest governance body's performance		Corporate governance statement	65-71
102-29	Identifying and managing economic, environmental, and social impacts		Sustainability report	77-104
102-30	Effectiveness of risk management processes		Risk management and control	56-63
102-31	Review of economic, environmental, and social topics		Sustainability report	77-104
102-32	Highest governance body's role in sustainability reporting		Sustainability report	77-104
102-33	Communicating critical concerns			N/A
102-34	Nature and total number of critical concerns			N/A
102-35	Remuneration policies		Supporting our staff	51
102-36	Process for determining remuneration		Supporting our staff	51
Energy				
302-1	Energy consumption within the organisation		Creating lasting interventions	105-111
302-2	Energy consumption outside of the organisation		Creating lasting interventions	105-111
303-3	Energy intensity		Creating lasting interventions	105-111
303-4	Reduction of energy consumption		Creating lasting interventions	105-111
303-5	Reductions in energy requirements of products and services		Creating lasting interventions	105-111
Water				
303-1	Water withdrawal by source		Creating lasting interventions	105-111
303-2	Water sources significantly affected by withdrawal of water		Creating lasting interventions	105-111
303-3	Water recycled and reused		Creating lasting interventions	105-111
Bio-Diversity				
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas			N/A
304-2	Significant impacts of activities, products, and services on biodiversity			N/A
304-3	Habitats protected or restored			N/A
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations			N/A
Emissions				
305-1	Direct (Scope 1) GHG emissions		Creating lasting interventions	105-111

305-2	Energy indirect (Scope 2) GHG emissions		Creating lasting interventions	105-111
305-3	Other indirect (Scope 3) GHG emissions		Creating lasting interventions	105-111
305-4	GHG emissions intensity		Creating lasting interventions	105-111
305-5	Reduction of GHG emissions		Creating lasting interventions	105-111
305-6	Emissions of ozone-depleting substances (ODS)		Creating lasting interventions	105-111
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		Creating lasting interventions	105-111
Effluents and Waste				
306-1	Water discharge by quality and destination			N/A
306-2	Waste by type and disposal method			N/A
306-3	Significant spills			N/A
306-4	Transport of hazardous waste			N/A
306-5	Water bodies affected by water discharges and/or runoff			N/A
Environmental Compliance				
307-1	Non-compliance with environmental laws and regulations			
			N/A	
Supplier Environmental Assessment				
308-1	New suppliers that were screened using environmental criteria			N/A
	Negative environmental impacts in the supply chain and actions taken			N/A
Employment				
401-1	New employee hires and employee turnover		Supporting our staff	51
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		Supporting our staff	51
401-3	Parental leave		Supporting our staff	51
Labour / Management Relations				
402-1	Minimum notice periods regarding operational changes			N/A
Occupational Health and Safety				
403-1	Workers representation in formal joint management–worker health and safety committees		Supporting our staff	51
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		Supporting our staff	51
403-3	Workers with high incidence or high risk of diseases related to their occupation		Supporting our staff	51
403-4	Health and safety topics covered in formal agreements with trade unions		Supporting our staff	51

Training and Education				
404-1	Average hours of training per year per employee		Creating lasting interventions	105-111
404-2	Programs for upgrading employee skills and transition assistance programs		Creating lasting interventions	105-111
404-3	Percentage of employees receiving regular performance and career development reviews		Creating lasting interventions	105-111
Diversity and Equal Opportunity				
405-1	Diversity of governance bodies and employees		Corporate governance statement	65-71
405-2	Ratio of basic salary and remuneration of women to men			N/A
Non-Discrimination				
406-1	Incidents of discrimination and corrective actions taken			N/A
Freedom of Association and Collective Bargaining				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk			N/A
Child Labour				
408-1	Operations and suppliers at significant risk for incidents of child labor			N/A
Forced and Compulsory Labour				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor			N/A
Security Practices				
410-1	Security personnel trained in human rights policies or procedures			N/A
Rights of Indigenous People				
411-1	Incidents of violations involving rights of indigenous peoples			N/A
Human Rights Assessment				
412-1	Operations that have been subject to human rights reviews or impact assessments			N/A
412-2	Employee training on human rights policies or procedures		Creating lasting interventions	105-111
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening			N/A
413-1	Operations with local community engagement, impact assessments, and development programs		Creating lasting interventions	105-111
	Operations with significant actual and potential negative impacts on local communities		Creating lasting interventions	105-111
Supplier Socio Assessment				
414-1	New suppliers that were screened using social criteria			N/A

414-2	Negative social impacts in the supply chain and actions taken			N/A
Public Policy				
415-1	Political contributions			N/A
Customer health and Safety				
416-1	Assessment of the health and safety impacts of product and service categories			N/A
	Incidents of non-compliance concerning the health and safety impacts of products and services			N/A
Marketing and Labeling				
417-1	Requirements for product and service information and labeling			N/A
417-2	Incidents of non-compliance concerning product and service information and labeling			N/A
417-3	Incidents of non-compliance concerning marketing communications			N/A
Customer Privacy				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data			N/A
Socioeconomic Compliance				
419-1	Non-compliance with laws and regulations in the social and economic area			N/A

Creating lasting interventions

We are committed to partnerships that promote the transformation and wellbeing of communities where we operate. We continued to support the entrepreneurial spirit of Ugandans, enhanced the stability of families and provided a sustainable approach to promoting the savings.

Contributing to agricultural transformation through the Agribusiness Development Centre

In 2021, **dfcu** in partnership with Rabo Foundation agreed to pave the way for a new strategic direction for the established Agribusiness Development Centre (ADC) to promote self-sufficiency of agribusinesses. The idea was to ensure overall sustainability, scalability, and impact of ADC's interventions as they contribute to the two entities 'own objectives.

The ADC envisions the success of agribusinesses through promotion of self-sufficiency by training them and strengthening them with the right expertise to access markets and finance for growth.

Despite the economic slowdown on account of the impact of the COVID 19 pandemic, the ADC was still able to cumulatively build capacities of 12,000 members from 171 Farmer Based Organizations (FBOs) and ensure that 75% of trained organizations are bankable (can open accounts, access facilities, repay them and self-sustain). By the end of the reporting period, the ADC leveraged funds received 1.1 times in terms of loans disbursed by funders to Agribusinesses linked.

Highlights in Numbers	
12,000 farmers trained	**5,580** are women
1,690 Bank accounts	**20%** increase in turnover

Findings from the 2021 impact assessment report shows that significant improvements in the economic value of the FBOs is evident, mirrored by an increase in the level of individual savings with over 1,690 individual and 37 enterprise accounts as of 2021 and an average increase of enterprise turnover of about 20%. As a result of this improvement of the FBOs, the interventions of ADC and dfcu by extension have contributed to the United Nations Sustainable Development Goals; (SDG 1,2,4,5,8 and 13).

Kyarushesha Dairy Cooperative is one of the 171 Farmer organizations ADC engaged. It comprises of 300 dairy farmers and a board which was trained in good governance and leadership, while the cooperative members were trained in financial management and literacy. ADC went further to support the Cooperative's management in cashflow modelling and business planning development which supported the eventual linkage of farmers to dfcu for loan facilities worth UGX 1.5 billion to build water wells, access silage and pasture, purchase paddocking equipment and fatten their bulls. This has increased their production capacity to 8,000 litres per day from the 3,000 litres produced in 2019.

"The cooperative members used the loans disbursed to improve their farms and we are soon disbursing to them a facility for adding value to their milk and buying tractors for their farm." Tom Busingye, Branch Manager dfcu Bank Hoima

The ADC is embracing more collaborations and partnerships in funding and implementation as well as broadening the target segment to reach more actors across entire value chain for more impactful interventions.

The ADC will work closely with dfcu to inaugurate a Business Accelerator Program whose main objectives will be to support business improvements and facilitate the necessary linkages for growth and sustainability. The accelerator targets to enable 350 businesses (40% women-led) to become self-sufficient and create at least 350 new jobs. The accelerator also targets to Influence youth and women inclusivity in the leadership of at least 50% businesses.

dfcu in partnership with Rabobank Foundation set up the Agribusiness Development Centre (ADC). The ADC complements the efforts towards improving the skills set within the sector, by providing technical support to Farmer Based Organization's (FBOs) that have potential to contribute to the agricultural value chain. The training is intended to transform Farmer Based Organisations and Cooperatives and make them bankable to work as vehicles for delivery of financing to smallholder farmers in an economically viable model.

TODAY! START YOUR AGRIBUSINESS LESSONS

1. Register
2. Choose a course
3. Complete course
4. Get Certificate

Agribusiness Development Centre

Powered by: dfcu BANK ...with pleasure Rabo Foundation

Building business capacity through SME TOP 100

The Purpose of the Top 100 initiative is to identify Uganda's fastest growing medium-sized companies to showcase business excellence and highlight some of the country's most successful entrepreneurship stories.

Our involvement in the Top 100 Medium Sized Company Survey (SME Top 100) also creates a platform to provide opportunities to create value and build sustainable businesses. Through this initiative, hundreds of businesses learn from each other; engage policymakers on their contribution to the economy, benchmark against other business operations and much more. Our belief is that this initiative is boosting the skillset of the selected companies, eventually translating to improved business practices and increased profitability for SMEs.

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

The 2021 activities were anchored on the following:

- Online forums/webinars/TV dialogues
- Sector-based forums all aimed at boosting capacity among SMEs.
- A survey to understand challenges, how SMEs navigated through the pandemic and support required.

The engagement dialogues covered the following areas:

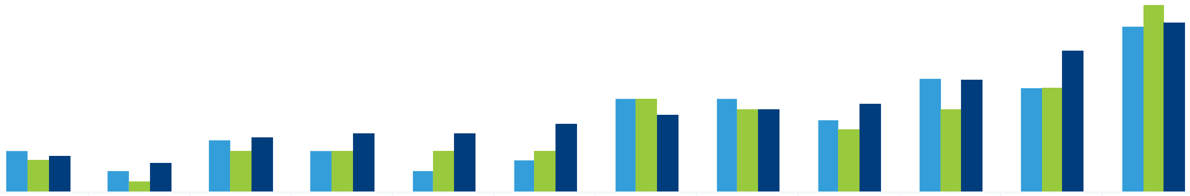
Television talk shows

- Managing and aligning with the new trends in the post covid-19 market environment
- SMEs consolidating innovations, achievements and processes achieved post the covid19 pandemic

Forums

- Retail and Manufacturing: Resourcing and supply chain management
- Hospitality: Business continuity planning amidst uncertain times
- Health and Education: Adapting your business model to the new normal
- Finance: How to remain tax compliant in difficult economic time

Participation by Sector



	Electronic & Print Media & Publishing	Advertising/ Public Relation	Health	Retail E.G Mini Super Market, Stationery	Transport And Travel (Bus Companies, Airlines, Trucking)	Art Design & Handicrafts	Manu facturing	Agriculture Horticulture	IT (Software & hardware)	Proffessional Services	Hospitality & Enter tainment (Hotels, Restaurants, Travel Agencies, Clubs)	Construction
2018	4%	2%	5%	4%	2%	3%	9%	9%	7%	11%	10%	16%
2019	3%	1%	4%	4%	4%	4%	9%	8%	6%	8%	10%	18%
2021	5%	3%	5%	5%	6%	7%	8%	8%	8%	11%	14%	16%

Contributing to financial inclusion and access

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

Three areas of our financial inclusion strategy

ACCESS

Help the unbanked and financially underserved groups to access and use basic financial services.

FINANCE

Offer tailored products and services to the underserved customer groups.

RESILIENCE

Programs and initiatives to improve financial knowledge and better financial decisions.

Deepening access to financial services

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

Branch network

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

Agent Banking

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

24/7 ATM cash deposits

A new ATM fleet was deployed, and customers can now deposit cash into their accounts at any of the 68 **dfcu** ATM points across the network. The deposit taking functionality has provided added convenience for customers to make cash deposits 24/7.

Contactless cards

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

Mobi loans

The digital micro-loan dubbed "**dfcu** Mobi Loan" allows emerging entrepreneurs and personal account holders to access short term credit facilities to bridge a temporary financial gap for emergencies that just can't wait. With the Mobi loan product, customers can access instant loans from as low as UGX 10,000 and up to Ugx 2,000,000= using

Online Banking

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

dfcu Investment Club App

dfcu has a history of promoting a savings and investment culture that dates as far back as 2007 with the introduction of the Savings and Investment Clubs proposition to foster group savings. The Investment Club App is central to our financial inclusion strategy by encouraging personal and group savings and investments in Uganda. The App simplifies the day to day management of group savings by providing a digital real time view of all financial activities. The App helps with tracking member contributions, managing group lending and collections; effective reporting and general administration anytime, anywhere.

Tailored products for underserved groups

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

Small business owners especially in the informal sector have challenges accessing capital yet they comprise the largest part of the Ugandan economy. The Baraka loan enables small businesses to acquire credit more quickly without having to worry about loan security and property valuations which slow down the process of acquiring a loan. The **dfcu** mobile loan

Promoting financial education

The **dfcu** financial inclusion strategy goes beyond providing access to banking services. We want people to have the skills to manage their finances, so they can make the right choices about what products and services meet their needs. Over sixty financial literacy sessions were held during the year to target groups including women, savings groups and SMEs.

60+

Financial literacy engagements

Changing lives in our communities

During 2021, **dfcu** made a positive contribution to the communities we serve through interventions in several areas. The highlights for the year included the following:

Partnering for innovation: dfcu, Makerere University and the Ministry of Finance, Planning & Economic Development implemented a strategic partnership that offered a platform for young entrepreneurs to advance ideas on innovative solutions for enterprises that create socio-economic impact in Uganda.

Signed a strategic partnership with Makerere University and the Ministry of Finance, Planning & Economic Development to advance innovation.

Community Health: We continued our support towards the health and safety of vulnerable groups through several activities:

Partnered with the Buganda Kingdom to drive awareness for HIV.

Through the Kabaka Run initiative (Men against HIV to save the Girl Child), we continued our partnership with the Kingdom of Buganda aimed at raising sustained understanding that testing for HIV is an essential gateway to HIV prevention, care, and treatment.

*The Katikiro of Buganda Kingdom, Owek. Charles Peter Mayiga chats up the **dfcu** Kabaka Run team*

Support to the Uganda Cancer Institute. We constructed a 100-seater shelter to provide the outpatients with a secure and decent waiting area as they access health services at the Institute. dfcu also refurbished the play area at the children's cancer ward.

Handover of Uganda Cancer Institute Shelter dfcu Limited

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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Financial statements:

DIRECTORS

Elly Karuhanga*	-	Chairman (Resigned 30 September 2021)
Dr. Aminah Zawedde*	-	Non-executive Director (Acting Chairperson)
Kironde Lule*	-	Non-executive Director
Albert Jonkergouw**	-	Non-executive Director
Friedrich C Pelser***	-	Non-executive Director
Barbara T. Arimi*	-	Non-executive Director

*Ugandan **Dutch ***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
Ernst & Young 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

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

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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
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Plot 6 Acacia Avenue
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P. O. Box 37366, Kampala

KSMO Advocates
5th Floor Crested Towers
17 Hannington Road
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Plot 13 Buganda Road, Kampala

Kalenge, Bwanika, Ssawa & Co. Advocates
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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 2021, 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 3.136 trillion in 2021 (2020: Ushs 3.498 trillion), net loans and advances of Ushs 1.508 trillion (2020: 1.775 trillion) and customer deposits of Ushs 2.282 trillion (2020: Ushs 2.595 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 9.3 billion (2020: Ushs 24 billion). The directors do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Ushs 13 billion).

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 1.

COMPANY REGISTRAR

The registrar of the Company is Deloitte (Uganda) Limited located at the address below:

Plot 1 Lumumba Avenue
3rd Floor Rwenzori House
P. O. Box 10314
Kampala
Uganda

AUDITOR

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

ISSUE OF CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The consolidated and separate financial statements were authorised for issue in accordance with a resolution of the directors dated 29 March 2022.

By order of the Board

....

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

COMPANY SECRETARY

Date:29 March 2022.

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 2021, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Companies Act, 2012 of Uganda.

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

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

The auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the International Financial Reporting Standards and the Companies Act, 2012 of Uganda.

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements of **dfcu** Limited, as identified in the first paragraph, were approved by the Board of Directors on 29 March 2022 and were signed on its behalf by:

.... Director

.... Director

.... Secretary

Date: 29 March 2022

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF DFCU LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our opinion

We have audited the separate financial statements of dfcu Limited (the ''Company'') and the consolidated financial statements comprising the Company and its subsidiary (together, the ''Group'') set out on pages 11 to 116, which comprise the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2021, and the consolidated and separate financial performance and consolidated and separate cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

No.	Key Audit Matter	How our audit addressed the key audit matter
1.	**Accounting for Expected Credit Losses on loans and advances to customers**	
	Level: Consolidated	

•	As described in Note 22, as at 31 December 2021, the Group has an allowance for expected credit losses of Ushs 177.258 billion (2020: Ushs 62.866 billion) charged on gross loans and advances of Ushs 1,686 billion (2020: Ushs 1,838 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:
	
	• Grouping of loans to customers 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 (life-time 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).
	• Segmentation 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 forecast of expected future cash flows from impaired (stage 3) loans and advances to customers and assessment of the financial condition of the counterparty, estimated recoverability and collateral realisation.
	• Expected utilisation of overdraft and other lending commitments over the lifetime of the commitments.
	• Application of additional overlay adjustments to reflect factors that are not considered in the applied expected credit loss models.
	
	Due to the uncertainty of the economic impact of COVID-19, management re-assessed the assumptions used to estimate ECLs, on account of changes in the market conditions and related observable inputs. The disclosures in Note 6B to the financial statements provide particularly important information about the changes in the assumptions made in the determination of ECLs and the market conditions as at 31 December 2021.
	
	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 require management to prepare adequate disclosures to explain the key judgments and the key inputs into the ECL computations.
	
	Refer to notes 5(i), 6B and 22 to the financial statements statements for accounting policies and the relevant detailed disclosures, respectively.
		Our audit procedures included, but were not limited to:
		
		• Reviewed the accounting policies for compliance with IFRS 9 requirements;
		• Reviewed the ECL models including whether the assumptions applied, and the functioning and application of the models were accordance with IFRS 9;
		• Reviewed the staging 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;
		• We 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.
		• We assessed whether disclosures made in the financial statements agreed to the audited balances and information, and whether they were in accordance with IFRS 9.

2.	**Valuation of non-performing loans acquired from Crane Bank Limited (in receivership)**	
	Level: Consolidated	
	As disclosed in Note 26 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 amounts to Ushs 72.664 billion as at 31 December 2021 (2020: Ushs 109.892 billion). A fair value loss of Ushs 30.861 billion has been recognised for the year ended 31 December 2021 (2020: Ushs 50.488 billion). The fair valuation of the financial asset is determined using the discounted cash flows method. The valuation of the financial asset is considered a key audit matter due to the significant amounts and judgments involved. The key judgements include estimating the future cashflows expected from the facilities and the time when the cash flows will be received. The estimation process is further complicated by the impact of the Covid-19 pandemic on the counterparties and general business environment. We also considered that the related disclosures in Note 26 are significant to the understanding of these 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, we evaluated the realizability and timing of cash flows expected from payments from counterparties and disposal of collateral, and where litigation is involved, the likely outcome of the litigation. Assessed whether assumptions made in previous periods continue to be reasonable by reviewing actual outcomes during the year and subsequent to the reporting date. Assessed whether management considered the impact of the Covid-19 pandemic, for example, on the realizability of expected cash flows including the impact of the pandemic on the valuation of collaterals. 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 1 to 5 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's internal control.

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

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

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

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

The Engagement Partner on the audit resulting in this independent auditor's report is CPA Julius Rwajekare – FM 1159.

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

....
Julius Rwajekare
Partner

Date: 30 March 2022


FINANCIAL
STATEMENTS

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2021	2020
		Ushs M	Ushs M
Interest income calculated using the effective interest method	9(a)	**347,311**	335,187
Other interest and similar income	9(b)	**7,488**	8,635
Interest expense calculated using the effective interest method	10	**(81,509)**	(110,434)
Net interest income		**273,290**	233,388
Fees and commission income	13	**62,500**	50,773
Net trading and other income	11	**30,835**	19,597
Net income from other financial instruments at FVTPL	12	**2,002**	486
Total operating income		**368,627**	304,244
Operating expenses	14	**(183,523)**	(191,639)
Fair value losses on other financial assets at fair value through profit or loss	26	**(30,861)**	(50,488)
Credit loss expense on financial assets	22	**(148,358)**	(30,632)
Profit before tax		**5,885**	31,485
Income tax credit / (expense)	19(a)	**3,427**	(7,408)
Profit after tax for the year		**9,312**	24,077
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net gain / (loss) on FVOCI financial assets net of tax	41	**4,776**	(978)
Changes in ECL on FVOCI financial instruments	41	**26**	34
Total other comprehensive income		**4,802**	(944)
Total comprehensive income for the year		**14,114**	23,133
Attributable to:			
Equity holders of the Company		**14,114**	23,133
Non-controlling interest		**-**	-
		14,114	23,133
Earnings per share:			
Basic earnings per share	18	**12.45**	32.18
Diluted earnings per share	18	**12.45**	32.18

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

Company statement of comprehensive income for the year ended 31 December

	Note	2021 Ushs M	2020 Ushs M
Interest income	9	**145**	13
Interest expense	10	**(2,720)**	(2,863)
Net interest income		**(2,575)**	(2,850)
Fees and commissions	13	**602**	526
Dividend income		**15,000**	-
Other income	11	**6,241**	6,235
Operating income		**19,268**	3,911
Operating expenses	14	**(8,856)**	(4,978)
Profit / (loss) before tax		**10,412**	(1,067)
Income tax credit	19(a)	**685**	827
Profit/(loss) for the year		**11,097**	(240)
Other comprehensive income:			
Profit / (loss) for the year		**11,097**	(240)
Other comprehensive income		-	-
Total comprehensive income for the year		**11,097**	(240)

Consolidated statement of financial position as at 31 December

	Note	2021 Ushs M	2020 Ushs M
Assets			
Cash and balances with Bank of Uganda	20	**516,802**	606,750
Deposits and balances due from other banks	21	**229,524**	195,441
Government and other securities:			
Trading assets	25	**6,700**	58,357
Investment securities at FVOCI	24	**339,849**	259,623
Investment securities at amortised cost	24	**212,441**	257,382
Loans and advances to customers	22	**1,508,410**	1,775,316
Investment in equity shares	23	**7,701**	9,651
Other assets	26	**118,147**	131,149
Derivative financial instruments	44(b)	**647**	-
Current income tax recoverable	19(d)	**214**	-
Deferred income tax asset	30	**26,336**	12,688
Property, equipment and right-of-use assets	28	**91,035**	107,208
Investment property	27	**18,795**	19,242
Intangible assets	29	**31,042**	36,681
Assets held for disposal	28(b)	**29,089**	29,089
Total assets		**3,136,732**	3,498,577
Liabilities			
Customer deposits	32	**2,282,205**	2,595,347
Derivative financial instruments	44(b)	**308**	97
Deposits due to other banks	33	-	10,968
Other liabilities	34	**66,196**	76,548
Borrowed funds	37	**190,614**	217,219
Special funds	36	**1,193**	1,193
Current income tax payable	19(d)	-	1,773
Provisions	44(a)	**2,190**	2,520
Total liabilities		**2,542,706**	2,905,665
Equity			
Share capital	38	**14,963**	14,963
Share premium	38	**185,683**	185,683
FVOCI reserve	41	**3,260**	(1,542)
Retained earnings	40	**390,120**	356,157
Proposed dividend	17	-	37,651
Total equity		**594,026**	592,912
Total equity and liabilities		**3,136,732**	3,498,577

The consolidated and separate financial statements were approved for issue by the Board of Directors on 29 March 2022 and signed on its behalf by:

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

Company statement of financial position as at 31 December

		2021	2020
		Ushs M	Ushs M
Assets			
Amounts due from Group companies	46(b)	**2,882**	197
Other assets	26	**186**	17
Current income tax recoverable	19(d)	**651**	949
Deferred income tax asset	30	**2,154**	1,164
Investment in subsidiary	31	**203,293**	203,293
Investment property	27	**41,130**	43,605
Total assets		**250,296**	249,225
Liabilities and equity			
Liabilities			
Other liabilities	34	**7,185**	3,649
Borrowed funds	37	**5,239**	4,502
Amounts due to Group companies	46 (a)	**14,633**	15,932
Total liabilities		**27,057**	24,083
Equity			
Share capital	38	**14,963**	14,963
Share premium	38	**185,683**	185,683
Accumulated losses	40(a)	**22,593**	(13,155)
Proposed dividends	17	-	37,651
Total equity		**223,239**	225,142
Total equity and liabilities		**250,296**	249,225

The consolidated and separate financial statements were approved for issue by the Board of Directors on 29 March 2022 and signed on its behalf by:

....
Director

....
Director

....
Secretary

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

	Note	Share capital	Share premium	Retained earnings	Other reserves	Regulatory reserve	FVOCI revaluation reserve	Proposed dividends	Attributable to equity holders of the parent	Total
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
As at 1 January 2020		14,963	185,683	343,563	12,113	14,055	(598)	-	569,779	569,779
Profit for the year		-	-	24,077	-	-	-	-	24,077	24,077
Other comprehensive income										
Loss allowance FVOCI		-	-	-	-	-	34	-	34	34
FVOCI revaluation		-	-	-	-	-	(978)	-	(978)	(978)
Total comprehensive income		-	-	24,077	-	-	(944)	-	23,133	23,133
Transfers from the regulatory reserve	39			14,055	-	(14,055)			-	-
Transfer from other reserves		-	-	12,113	(12,113)	-	-	-	-	-
Transactions with shareholders:									-	-
Dividends paid		-	-	-	-	-	-	-	-	-
Proposed dividends	17	-	-	(37,651)	-	-	-	37,651	-	-
As at 31 December 2020		14,963	185,683	356,157	-	-	(1,542)	37,651	592,912	592,912
As at 1 January 2021		**14,963**	**185,683**	**356,157**	-	-	**(1,542)**	**37,651**	**592,912**	**592,912**
Profit for the year		-	-	**9,312**	-	-	-	-	**9,312**	**9,312**
Other comprehensive income										
Loss allowance FVOCI		-	-	-	-	-	**26**	-	**26**	**26**
FVOCI revaluation		-	-	-	-	-	**4,776**	-	**4,776**	**4,776**
Total comprehensive income		-	-	-	-	-	**4,802**		**14,114**	**14,114**
Transactions with shareholders:									-	-
Dividends paid		-	-	-		-	-	**(13,000)**	**(13,000)**	**(13,000)**
Proposed dividends adjustment		-	-	**24,651**	-	-	-	**(24,651)**	-	-
Proposed dividends	17	-	-	-	-	-	-	-	-	-
As at 31 December 2021		**14,963**	**185,683**	**390,120**	-	-	**3,260**	-	**594,026**	**594,026**

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

	Note	Share capital	Share premium	Accumulated losses	Proposed dividends	Other reserves	Total
		Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January 2020		14,963	185,683	12,623	-	12,113	225,382
Profit for the year		-	-	(240)	-	-	(240)
Transfer from other reserves		-	-	12,113	-	(12,113)	-
Transactions with shareholders:							
Dividends proposed	17	-	-	(37,651)	37,651	-	-
At 31 December 2020		**14,963**	**185,683**	**(13,155)**	**37,651**	-	**225,142**
At 1 January 2021		**14,963**	**185,683**	**(13,155)**	**37,651**	-	**225,142**
Profit for the year		-	-	**11,097**	-	-	**11,097**
Transactions with shareholders:							
Dividends paid		-	-	-	**(13,000)**	-	**(13,000)**
Proposed dividends adjustment		-	-	**24,651**	**(24,651)**	-	-
Dividends proposed	17	-	-	-	-	-	-
At 31 December 2021		**14,963**	**185,683**	**22,593**	-	-	**223,239**

Consolidated statement of cash flows for the year ended 31 December

	Note	2021	2020
		Ushs M	Ushs M
Operating activities:			
Interest receipts		**365,454**	324,654
Interest payments		**(106,057)**	(107,257)
Fee and commission receipts		**62,500**	50,773
Net trading and other income received		**30,835**	18,995
Recoveries on loans previously written off	23	**3,460**	2,804
Recoveries from other assets measured at FVTPL		**2,002**	486
Interest paid on lease liability		**(2,040)**	(986)
Cash payments to employees and suppliers		**(215,819)**	(120,605)
Income tax paid		**(14,377)**	(17,977)
Cash from operating activities before changes in operating assets and liabilities		**125,958**	150,887
Changes in operating assets and liabilities			
(Increase) / decrease in government and other securities		**(35,284)**	(66,376)
Increase in Bank of Uganda cash reserve requirement		**890**	(46,050)
Increase in loans and advances to customers		**266,906**	(235,993)
Decrease/(increase) in other assets		**(10,164)**	3,609
Decrease in balances due to other banks		**(10,968)**	966
(Decrease)/increase in customer deposits		**(313,142)**	556,311
Increase in other liabilities		**(5,933)**	5,547
Net cash flows from operating activities		**18,263**	368,901
Investing activities			
Purchase of property and equipment		**(7,069)**	(20,813)
Purchase of investment property		**(14)**	(145)
Purchase of intangible assets		**(6,387)**	(12,644)
Proceeds from sale of property and equipment		**473**	297
Net cash flows used in investing activities		**(12,997)**	(33,305)
Financing activities			
New borrowings received		**60,714**	19,645
Principle paid on borrowings		**(96,381)**	(74,457)
Principle paid on lease liability		**(11,868)**	(31,169)
Dividends paid to shareholders		**(13,000)**	-
Net cash flows used in financing activities		**(60,535)**	(85,981)
Net increase / (decrease) in cash and cash equivalents		**(55,269)**	249,615
Unrealised gain on cash and cash equivalents		**294**	518
Cash and cash equivalents at start of year		**597,841**	347,708
Cash and cash equivalents at end of year	45	**542,866**	597,841

Company statement of cash flows for the year ended 31 December

	Note	2021	2020
		Ushs M	Ushs M
Operating activities:			
Interest receipts		**145**	13
Interest payments		**(904)**	(2,821)
Dividend income		**15,000**	-
Fees and commissions		**602**	526
Net foreign exchange and other income received		**6,241**	6,235
Cash payments to employees and suppliers		**(3,979)**	(1,908)
Income tax paid		**(6)**	-
Cash from operating activities before changes in operating assets and liabilities		**17,099**	2,045
Changes in operating assets and liabilities			
Increase/(decrease) in amounts due to group companies		**(1,299)**	1,680
Increase in other assets		**168**	-
(Decrease)/increase in other liabilities		**(410)**	(4,932)
Net cash flows from operating activities		**15,558**	(1,207)
Investing activities			
Purchase of investment property		**(190)**	(360)
Net cash flows used in investing activities		**(190)**	(360)
Financing activities			
New borrowings received		**500**	10,000
Principle paid on borrowings		**(220)**	(9,947)
Dividends paid to shareholders		**(13,000)**	-
Net cash flows used in financing activities		**(12,720)**	53
Net increase / (decrease) in cash and cash equivalents		**2,648**	(1,514)
Unrealised gain on cash and cash equivalents		**37**	(3)
Cash and cash equivalents at start of year		**197**	1,714
Cash and cash equivalents at end of year	45	**2,882**	197

1. General information

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

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

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

2. Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS). They were authorised for issue by the Company's board of directors on 25 March 2022. Details of the Group's accounting policies are included in Notes 4 and 5.

The consolidated and separate financial statements are presented in Uganda Shillings (Ushs), which is the Group's functional currency. All amounts have been rounded to the nearest million (Ushs M), unless otherwise indicated.
The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies included in Note 4 and 5.

The preparation of the consolidated and separate financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated and separate financial statements, are disclosed in note 3.

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 7

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The Group considered the impact of COVID-19 in preparing these financial statements. While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event.

In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

3. Significant 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 Life Time ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

Going concern

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

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.
For further details about determination of fair value please see Note 6E.

Effective Interest Rate (EIR) method

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

Deferred tax assets

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

Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory assessments, arising in the ordinary course of the Group's business.
When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements.

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

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

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

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

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

Estimating the incremental borrowing rate

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

4. Changes in significant accounting policies

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective on or after 1 January 2021. The Group applied Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) for the first time. The nature and effect of the changes as a result of adoption of these amendments are described below. Several other amendments and interpretations apply for the first time in 2021, but do not have an impact on the Group's financial statements.

Covid-19-Related Rent Concessions – Amendment to IFRS 16 (effective for reporting periods beginning on or after 1 April 2021)
Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16 (effective for reporting periods beginning on or after 1 April 2021)

'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2)

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a Risk Free Rate (RFR).

The Phase 2 Amendments provide the following changes in respect of financial instruments that are directly required by the Reform:

- A practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted
- Reliefs from discontinuing hedge relationships
- Temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component
- Additional IFRS 7 disclosures

Regarding changes in the basis for determining the contractual cash flows, in its Phase 2 Amendments, the IASB identified four ways that changes in the basis for determining the contractual cash flows of a financial instrument might be made in order to achieve IBOR Reform:

- By amending the contractual terms (for instance, to replace a reference to an IBOR with a reference to an RFR)
- Through activation of an existing fallback clause in the contract
- Without amending the contractual terms, by changing the way that an interest rate benchmark is calculated
- A hedging instrument may alternatively be changed as required by the Reform by closing out an existing IBOR-related derivative and replacing it with a new derivative with the same counterparty, on similar terms except referencing an RFR or by combining the existing IBOR-related derivative with a new basis swap that swaps the existing referenced IBOR for the RFR.

The first three of these types of changes to the basis for determining contractual cash flows may have an effect on how interest is recognised on financial instruments recorded at amortised cost or at fair value through other comprehensive income. The fourth mainly affects hedge accounting, but all four are relevant to the assessment as to whether the change to the basis for determining contractual cash flows results in derecognition.

In respect to changes in the rate of interest, if an IBOR is amended to refer to an RFR, the Phase 2 Amendments require, as a practical expedient, for changes to cash flows that relate directly to the Reform to be treated as changes to a floating interest rate, i.e., the EIR is updated to reflect the change in an interest rate benchmark from IBOR to an RFR without adjusting the carrying amount. In effect, the change is treated as akin to a movement in the market rate of interest. The use of the practical expedient is subject to two conditions: First, the change in the basis for determining contractual cash flows must be a 'direct consequence of the Reform'; and Second, the new basis for determining the contractual cash flows must be 'economically equivalent' to the previous basis immediately preceding the change.

In respect to derecognition due to modification of non-derivative financial instruments, as addressed in IFRS 9 for financial liabilities, the key requirement is that a modification that results in a 'substantial change' in the expected cash flows will lead to the derecognition of the original liability and the recognition of a new one.

The Phase 2 Amendments only require an assessment of whether the derecognition criteria apply if changes are made to the financial instrument beyond those that qualify for the practical expedient discussed above.

It follows that changes that qualify for the practical expedient will not be regarded as sufficiently substantial that the instrument would be derecognised. However, after an entity applies the practical expedient, it must then separately assess any further changes that are not required by the Reform (e.g., a change in credit spread or a maturity date) to determine if they would result in derecognition.

In respect to classification of financial assets, any new financial assets, or any that have been derecognised and a new one recognised, because they have been subject to substantial modification as discussed above will need to be classified to determine their accounting treatment. A financial asset may only be accounted for at amortised cost or at fair value through other comprehensive income (FVOCI) if, at original recognition, the cash flows represent Solely Payment of Principal and Interest (SPPI). The Company will, therefore, need to apply judgement in assessing whether there are any modifications to the time value of money element in replacement RFRs and, if there are, whether these modifications will cause a financial asset to fail the SPPI test.

The Phase 2 Amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. Application is retrospective although hedge relationships may not be designated retrospectively.

The Phase 2 Amendments also affected IFRS 16 Leases and IFRS 4 Insurance Liabilities. The amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9.

Consequential amendments were made by the Phase 2 Amendments to IFRS 7, to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. As a result, entities should disclose information about: The nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform, and how the entity manages those risks; and their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

The Group has borrowing facilities for which interest is charged basing on country risk premiums. The nature of the risks arising from the reform could include changes in the amount of cash flows in respect to the interest paid on the affected borrowing facilities, for example, if the changes in interest rates because of the reform result into different cash flow requirements. The Group's management and directors are currently understanding the reform and the available alternative benchmark rates and expect to start discussions with the Group's lenders thereafter. As such, the extent of the risks to which the Group is exposed had not yet been quantified at the time of issuing these financial statements. However, the risks are expected to be managed by discussing with and engaging the lenders to ensure that changes in interest rates due to the reform do not result into material changes in the net cost of borrowing.

The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. As of 31 December 2021, the Bank's lenders had not communicated any alternative rates to be applied and there was therefore no impact on the financial statements. As at 31 December 2021, the Group had outstanding LIBOR loan exposures amounting to Ushs 100 million and outstanding LIBOR obligations amounting to Ushs 45 million.

Standards issued but not yet effective

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.
The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.
IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial

liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
The Group is still assessing the impact the amendments will have on the financial statements.

Standards issued but not yet effective that are not expected to have a material impact on the Group's financial statements include:

- IFRS 17 Insurance Contracts (effective for reporting periods beginning on or after 1 January 2023)
- Reference to the Conceptual Framework – Amendments to IFRS 3 (effective for annual reporting periods beginning on or after 1 January 2022)
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective for annual reporting periods beginning on or after 1 January 2022)
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time
- Adopter (effective for annual reporting periods beginning on or after 1 January 2022)
- IAS 41 Agriculture – Taxation in fair value measurements (effective on or after the beginning of the first annual reporting period beginning on or after 1 January 2022)
- Definitions of Accounting Estimates – Amendments to IAS 8 (effective for reporting periods beginning on or after 1 January 2023)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 (effective for reporting periods beginning on or after 1 January 2023)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (postponed indefinitely)

5. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated and seperat 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 2021.

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

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

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated.

Separate financial statements

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

b) Borrowing costs

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

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

c) Operating income

i. Interest income and expense

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.
For information on when financial assets are credit-impaired, see Note 5(i)(vii) and 6B.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.
Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost
Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.
Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

The Effective Interest Rate method

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

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

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

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

d) Fees and commission

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

Other fee and commission income, which includes fees and commissions from ledger fees, money transfers, low balance fees, statement fees, unpaid cheques charges, URA licensing, ATM commissions, letters of credit fees, letters of guarantee, telegraphic transfer fees, and other fees and commissions- is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated and separate financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.
The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer. More details on the various type of fees and commissions recognised in the scope of IFRS 15 are included in Note 13.

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

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

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

e) Net trading and other income

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

f) Net income from other financial instruments at fair value through profit or loss

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

g) Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment. Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

h) Foreign currency translation

Items included in the consolidated and separate financial statements are measured using the currency of the primary economic environment in which the entity operates (`the functional currency'). The consolidated and separate financial statements are presented in Uganda Shillings which is the Group's functional currency. Foreign currency transactions are translated into the functional currency at the spot exchange rates at the date of the transactions.

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.
Foreign currency differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

i) Financial assets and liabilities

i. Recognition and initial measurement

Date of recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated (e.g., Loans and advances to customers are recognised when funds are transferred to the customers' accounts and the Bank recognises balances due to customers when funds are transferred to the Bank). All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

Initial measurement of financial instruments

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

Day 1 profit or loss

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

ii. Classification

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.
  A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.
All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

- The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

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

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

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from

specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

Non-recourse loans

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

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

Contractually linked instruments

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

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

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.
Financial liabilities
The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

iii. Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in (O). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

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

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

asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities.

Financial liabilities

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

iv. Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

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

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.
If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Financial assets

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

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

v. Offsetting

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

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

vi. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.
When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

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

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

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.
The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii. Impairment

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

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

No impairment loss is recognised on equity investments 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'.

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

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:
Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

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

Write-off

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

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

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

Non-integral financial guarantee contracts

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

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

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

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

Measurement of impairment

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

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

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

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

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Reversal of impairment

- For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
- For debt security held at fair value through OCI (FVOCI): If in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

Any subsequent recovery in the fair value of an impaired debt security at FVOCI was always recognised in OCI.

Presentation

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

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

Forborne and modified loans

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

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

viii. Designation at fair value through profit or loss
Financial assets

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

Financial liabilities

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

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

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

Ugandan Financial Institutions Act 2004 requirements

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

i) A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Financial Institutions Credit Classification Regulations, 2005, as follows:
a) substandard assets with arrears period between 90 and 179 days – 20%;
b) doubtful assets with arrears period between 180 days and 364 days – 50%;
c) loss assets with arrears period over 365 days – 100%.
In addition to the arrears period, companies must follow subjective criteria in arriving at the classification attributable to the assets.
ii) A general provision of at least 1% of their total outstanding credit facilities net of specific provisions.

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

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for loan impairment in profit or loss.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

ix. Staff loans
In the normal course of business, the Group advances loans to employees at below market rate. These loans are measured initially at fair value. The favourable loan term offered to employees are dependent on the continued employment and therefore relate to services to be rendered in future periods.
The interest benefit is forfeited if the employee leaves the Group. The benefit is a long term benefit to the employees and the discount arising from the difference between the nominal value and the market value is treated as a prepayment and expensed in profit or loss in the period in which the services are rendered.

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

i. Recognition and measurement

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

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

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

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

ii. Subsequent cost

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

iii. Depreciation

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

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

Buildings	40 years
Furniture, fittings and equipment	6 – 7 years
Computer equipment	3 – 5 years
Motor vehicles	4 years
Work-in-progress	Not depreciated

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

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

k) Intangible assets

i. Recognition and measurement

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

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

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

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

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

ii. Subsequent expenditure

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

iii. Amortisation

Intangible assets with finite lives are amortised over their useful economic lives using the straight line method and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. The estimated useful life of the Bank's software is 5 years.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Amortisation methods, residual values and useful lives are reviewed at each reporting period and adjusted if appropriate.

iv. Derecognition

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

l) Income tax

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

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

ii. Deferred tax

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

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

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

iii. Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made. The Group considers IFRIC 23 Uncertainty over Income Tax Treatments in applying judgement for any open tax matters.

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

m) Cash and cash equivalents

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

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

n) Employee benefits

(i) Retirement benefit obligations

The Group makes contributions to a defined contribution benefit scheme for its eligible employees. A defined contribution benefit scheme is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (fund). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Group and employees. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The Group's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Termination benefits

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

(iii) Other entitlements

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

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

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

o) Leases

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

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

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

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

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

Right-of-use assets

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

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

Lease liabilities

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

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.
When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

Short-term leases and leases of low-value assets

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

Group as a lessor

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

p) Offsetting

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

q) Dividends

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

r) Earnings per share

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

s) Loans and advances

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

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental

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

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

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

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

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

t) Financial guarantees and loan commitments

Financial guarantees and loan commitments

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

Financial guarantees issued or commitments are initially measured at fair value. Subsequently, they are measured as follows:

- at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and

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

For other loan commitments:
- the Group recognises a loss allowance;

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

Contingent liabilities

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

u) Trading assets and liabilities

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

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

v) Impairment of non-financial assets

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

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

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

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

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

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

w) Deposits, debt securities issued and subordinated liabilities

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

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's consolidated and separate financial statements.
The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

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

Deposits and borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowing using the effective interest rate method. Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

x) Provisions

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

i. Restructuring

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

ii. Onerous contracts

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

iii. Group levies

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

y) Investment securities

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

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

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

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

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

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

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

z) Share capital and reserves

i. Share issue costs

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

ii. Retained earnings / accumulated losses

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

aa) Investment property

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

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

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

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

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

6. Financial risk management

The Group's financial assets are classified as amortised cost, fair value through profit and loss, and fair value through other comprehensive income and all financial liabilities are measured at amortised cost. The carrying amounts for each class of financial assets and financial liabilities are included in the table below;

	Note	2021	2020
Financial assets		**Ushs M**	**Ushs M**
Amortised cost:			
Cash and balances with Bank of Uganda	20	**516,802**	606,750
Deposits and balances due from other banks	21	**229,524**	195,441
Loans and advances to customers	22	**1,508,410**	1,775,316
Investment securities: Measured at amortised cost	24	**212,441**	257,382
Other assets: Measured at amortised cost excluding prepayments	26	**43,728**	9,748
		2,510,905	2,844,637
FVOCI			
Investment securities: Measured at fair value	24	**339,849**	259,623
		339,849	259,623
FVTPL			
Mandatorily at FVTPL			
Trading assets	25	**6,700**	58,357
Equity investments	23	**6,563**	8,513
Designated at FVTPL			
Other assets: Measured at fair value	26	**72,664**	109,892
Derivative financial instruments	44(b)	**647**	-
		86,574	176,762
		2,937,328	3,281,022
Financial liabilities			
Measured at FVTPL			
Derivative financial instruments	44(b)	**308**	97
Measured at amortised cost:			
Customer deposits	32	**2,282,205**	2,595,347
Balances due to other banks	33	-	10,968
Borrowed funds	37	**190,614**	217,219
Special funds	36	**1,193**	1,193
Other financial liabilities	34	**45,788**	58,175
		2,519,800	2,882,902
		2,520,108	2,882,999

		Company	
	Note	**2021**	2020
		Ushs M	Ushs M
Financial assets			
Measured at amortised cost:			
Amounts due from Group Companies	46(b)	**2,882**	197
Other assets: Measured at amortised cost excluding prepayments	26	**95**	17
		2,977	214
Financial liabilities			
Measured at amortised cost:			
Amounts due to Group Companies	46(a)	**14,633**	15,932
Borrowed funds	37	**5,239**	4,502
Other financial liabilities	34	**3,108**	3,517
		22,980	23,951

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.

6B Credit risk (continued)

Maximum exposure to credit risk before collateral held

	Group	
	2021	**2020**
	Ushs M	**Ushs M**
Balances with Bank of Uganda (note 20)	**357,698**	454,611
Deposits and balances due from banks (note 21)	**229,524**	195,441
Loans and advances to customers (note 22)	**1,508,410**	1,775,316
Government securities (notes 24 and 25)	**558,990**	575,362
Other assets excluding prepayments (note 26)	**116,392**	119,640
Credit risk exposures on off-statement of financial position items (note 42)		
- Guarantee and performance bonds	**443,974**	271,869
- Commitments to lend	**26,650**	37,289
	3,241,638	3,429,528

	Company	
	2021	**2020**
	Ushs M	**Ushs M**
Amounts due from Group Companies (note 46(b)	**2,882**	197
Other financial assets (note 26)	**95**	17
	2,977	214

The above represents the worst-case scenario of the Group and Company's credit risk exposure as at 31 December 2021 and 2020, 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, 47% of the total maximum exposure is derived from loans and advances to banks and customers (2020: 52%), whilst 17% represents investments in government securities (2020: 17%).
Loans and advances to major corporate borrowers and to individuals borrowing more than Ushs 30 million are secured by collateral in the form of charges over land and buildings and / or plant and machinery or corporate guarantees.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and debt securities based on the following:

- The Group exercises stringent controls over the granting of new loans;
- 76% of the loans and advances portfolio are neither past due nor impaired;
- 96% of the loans and advances portfolio are backed by collateral; and
- 99% of investments in debt securities are government securities and only 1% in a high quality corporate bond.

Loans and advances are summarised as follows:	**2021**	**2020**
	Ushs M	**Ushs M**
Neither past due nor impaired	**1,266,220**	1,501,335
Past due but not impaired	**145,399**	242,752
Impaired	**274,049**	94,095
Gross	**1,685,668**	1,838,182
Less: Allowance for impairment (note 22)	**(177,258)**	(62,866)
Net carrying amount	**1,508,410**	1,775,316

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

6B Credit risk (continued)

Loans and advances neither past due nor impaired

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

	2021	2020
	Ushs M	Ushs M
Grades 1-9 (Low-fair / higher risk)	**1,266,220**	1,501,335

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:

	2021	2020
	Ushs M	Ushs M
Past due up to 30 days	**79,383**	202,023
Past due 31 - 60 days	**55,494**	31,762
Past due 61 - 89 days	**10,522**	8,967
	145,399	242,752

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 2021, the gross carrying amount of impaired loans and advances to customers amounted to Ushs 284,049 million (2020: Ushs 94,095 million) and the value of identifiable collateral held against those loans and advances amounted to Ushs 98,260 million (2020: Ushs 58,704 million).

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

	Loans		Overdrafts	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Loans and advances	**273,594**	93,529	**455**	566
Fair value of collateral	**98,260**	58,704	**-**	239

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

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

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

		2020		
		Ushs M		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grades 1-6 Low-fair risk	1,501,335	-	-	1,501,335
Grades 7-9 Higher risk	-	242,752	-	242,752
Grade 10: Sub standard	-	-	25,991	25,991
Grade 11: Doubtful	-	-	29,951	29,951
Grade 12: Loss	-	-	38,153	38,153
	1,501,335	242,752	94,095	1,838,182
Loss allowance	(10,603)	(4,888)	(47,375)	(62,866)
Carrying amount	1,490,732	237,864	46,720	1,775,316

Balances with Bank of Uganda

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

		2020		
		Ushs M		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grades 1-6 Low-fair risk	454,829	-	-	454,829
Loss allowance	(218)	-	-	(218)
Carrying amount	454,611	-	-	454,611

6B Credit risk (continued)

Loans and advances to other banks

	2021			
	Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	**229,623**	-	-	**229,623**
Loss allowance	**(99)**	-	-	**(99)**
Carrying amount	**229,524**	-	-	**229,524**
	2020			
	Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	195,465	-	-	195,465
Loss allowance	(24)	-	-	(24)
Carrying amount	195,441	-	-	195,441

Other Assets: Receivables excluding prepayments

	2021		
	Ushs M		
	Lifetime ECL not credit impaired	Credit impaired	Total
Grades 1-6 Low-fair risk	**117,197**	-	**117,197**
Loss allowance	**(805)**	-	**(805)**
Carrying amount	**116,392**	-	**116,392**
	2020		
	Ushs M		
	Lifetime ECL not credit impaired	Credit impaired	Total
Grades 1-6 Low-fair risk	120,183	-	120,183
Loss allowance	(543)	-	(543)
Carrying amount	119,640	-	119,640

Investment securities at amortised cost

	2021			
	Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	**212,586**	-	-	**212,586**
Loss allowance	**(145)**	-	-	**(145)**
Carrying amount	**212,441**	-	-	**212,441**
	2020			
	Ushs M			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 Low-fair risk	257,508	-	-	257,508
Loss allowance	(126)	-	-	(126)
Carrying amount	257,382	-	-	257,382

6B Credit risk (continued)

Investment securities measured at FVOCI

The expected credit loss relating to investment securities measured at FVOCI amounted to Ushs 84 (2020: Ushs 57 million) and is recorded in the OCI. (See note 41)

Cash and cash equivalents

The Group held cash and cash equivalents of Ushs 542,866 million at 31 December 2021 (2020: Ushs 597,841 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	2021	2020	Principal type of collateral held
		Ushs M	Ushs M	
Balances with Bank of Uganda	20	**357,698**	454,611	None
Deposits and balances due from banks	21	**229,524**	195,441	None
Loans and advances to retail customers:	22			
Mortgage lending		**71,154**	72,513	Residential property
Personal loans		**504,157**	174,363	None
Loans and advances to corporate customers:	22			
Asset financing		**203,854**	69,721	Property and equipment
Others		**729,245**	1,458,719	Commercial property, floating charges over corporate assets
Trading assets	25	**6,700**	58,357	None
Investment debt securities	24	**552,290**	517,005	None
Other assets excluding prepayments	26	**116,392**	119,640	None
Off balance sheet items:		-		
-Guarantee and performance bonds	42	**443,974**	271,869	None
-Undrawn commitments	42	**26,650**	37,289	None

		Company		
		2021	2020	Principal type of collateral held
		Ushs M	Ushs M	
Amounts due from Group Companies	46(b)	**2,882**	197	
Other assets excluding prepayments	26	**95**	17	

Loans and advances to corporate customers

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

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

6B Credit risk (continued)

At 31 December 2021, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to Ushs 955,557 million (2020: Ushs 1,528,440 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Ushs 98,260 million (2020: Ushs 185,556 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Other types of collateral and credit enhancements

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

The tables below show the maximum exposure to credit risk by class of financial asset. They also show the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

31 December 2021	Note	Maximum exposure to credit risk	Total collateral	Net exposure	Associated ECL
		Ushs M	Ushs M	Ushs M	Ushs M
Balances with Bank of Uganda	20	357,800	-	357,800	102
Deposits and balances due from banks	21	229,524	-	229,524	99
Loans and advances to customers	22	1,685,668	98,260	1,508,410	177,258
Trading assets	25	6,700	-	6,700	-
Investment debt securities at fair value through other comprehensive income	24	339,849	-	339,849	-
Investment securities at amortised cost	24	212,441	-	212,441	145
Other assets excluding prepayments	26	116,392	-	116,392	805
Off-statement of financial position items:					
-Guarantee and performance bonds	42	443,974	-	443,974	102
-Undrawn commitments	42	26,650	-	26,650	-
		3,418,998	98,260	3,241,740	178,511

31 December 2020	Note	Maximum exposure to credit risk	Total collateral	Net exposure	Associated ECL
		Ushs M	Ushs M	Ushs M	Ushs M
Balances with Bank of Uganda	20	454,611	-	454,611	218
Deposits and balances due from banks	21	195,441	-	195,441	23
Loans and advances to customers	22	1,838,182	185,556	1,775,316	62,866
Trading assets	25	58,357	-	58,357	-
Investment debt securities at fair value through other comprehensive income	24	259,623	-	259,623	-
Investment securities at amortised cost	24	257,382	-	257,382	126
Other assets excluding prepayments	26	119,624	-	119,624	543
Off-statement of financial position items:					
-Guarantee and performance bonds	42	271,869	271,869	271,869	88
-Undrawn commitments	42	37,289	-	37,289	-
		3,429,378	457,425	3,429,512	63,864

6B Credit risk (continued)

		Company			
31 December 2021	**Note**	**Maximum exposure to credit risk**	**Total collateral**	**Net exposure**	**Associated ECL**
		Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Amounts due from Group Companies	46(b)	**2,882**	**-**	**2,882**	**-**
Other assets excluding prepayments	26	**95**	**-**	**95**	**-**
		2,977	**-**	**2,977**	**-**
31 December 2020					
Amounts due from Group Companies	46(b)	197	-	197	-
Other assets excluding prepayments	26	17	-	17	-
		214	-	214	-

ii. Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment
See accounting policy in Note 5.

Significant increase in credit risk

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

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.
Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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

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

6B Credit risk (continued)

Generating the term structure of PD

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

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

Determining whether credit risk has increased significantly

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

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

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

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

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

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

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

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

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

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on its contractual payments.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

6B Credit risk (continued)

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

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

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

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

The key driver for credit risk for the portfolio, retail unsecured and corporate models is the consumer price index (CPI).
The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

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

31 December 2020						
Key drivers	**ECL Scenario**	**2020**	**2021**	**2022**	**2023**	**2024**
CPI trends	Upside	186	199	200	207	214
	Base case	187	196	201	208	215
	Downside	188	197	202	209	216

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.

6B Credit risk (continued)

Assessment and calculation of ECL

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

The level of estimation uncertainty has increased since 31 December 2020 as a result of the economic disruption and consequential impact of the Covid-19 pandemic. This includes significant judgements relating to:

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

Impact on modelled ECL allowance

The Group's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the lack of experience of similar events could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Group expects that post-model adjustments will be applied for the foreseeable future.
Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2021 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 2021					
Total corporate and retail lending	**11,219**	**6,669**	**17,887**	**35,775**	**68%**
31 December 2020					
Total corporate and retail lending	49,036	7,544	6,286	62,866	28%

Post-model adjustments

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

Management overlays

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

Modified financial assets

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

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

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

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

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.
The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

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

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

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

31 December 2020			**Stage 2**		
	Gross carrying amount	**Temporary modification to T&Cs**	**Permanent modification to T&Cs**	**Refinancing**	**Total performing restructured loans**
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Corporate loans	163,986	8,199	19,678	11,479	39,357
Retail loans	78,766	14,966	11,027	6,301	32,294
	242,752	23,165	30,705	17,780	71,651

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

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 2021				
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	**13,523**	**49**	**7,903**	**151**
Facilities that reverted to (Stage 2/3) LTECL having once cured	**49,796**	**4,097**	**152**	**14**
Total	**63,319**	**4,146**	**8,055**	**165**
31 December 2020				
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	59,523	874	42,524	579
Facilities that reverted to (Stage 2/3) LTECL having once cured	23,527	758	19,527	258
Total	83,050	1,632	62,051	837

Measurement of ECL

The 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.

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

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

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

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

The groupings are subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

2021		**External benchmarks used**		
		Exposure Ushs	**Moody's Rating**	**S&P Rating**
	2021	**2020**	**PD**	**LGD**
Government securities – Amortised cost	**212 bn**	257 bn	**2.8% - 21.4%**	**6%**
Government securities – FVOCI	**339 bn**	259 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.

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

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.

	2021		2020	
	Loans and advances	Credit Commitments	Loans and advances	Credit Commitments
As at 31 December	%	%	%	%
Agriculture	18%	4%	16%	12%
Manufacturing	9%	6%	9%	9%
Trade and commerce	14%	18%	12%	14%
Transport and communications	7%	36%	8%	30%
Building and construction	14%	15%	17%	19%
Leisure, hotels and accommodation	3%	0%	4%	0%
Home loans	3%	0%	3%	0%
Private individual	12%	0%	11%	0%
Real estate	14%	6%	14%	1%
Schools	5%	6%	5%	0%
Other	1%	9%	1%	15%
	100%	100%	100%	100%

As at 31 December 2021 and 2020, the Group had no exposures to a single borrower or group of related borrowers exceeding 25% of the core capital of the subsidiary (dfcu Bank Limited).

6C Liquidity risk

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

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

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.

6 Financial risk management (continued)

6C Liquidity risk (continued)

	2021	2020
At 31 December	**36.3%**	36.0%
Average for the period	**34.0%**	31.0%
Maximum for the period	**41.0%**	39.0%
Minimum for the period	**28.0%**	27.0%

The table below summarises the net position as at 31 December 2021 and 31 December 2020 based on contractual maturity.

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

Net position as at 31 December 2020 (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	(735,326)	38,140	(163,928)	943,479
Long / (short) Cumulative Gap	(735,326)	(697,186)	(861,114)	82,365
Cumulative Gap / Total Assets	-21%	-20%	-25%	2%

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

Net position as at 31 December 2020 (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	(1,234)	(208)	(4,852)	(17,407)
Long / (short) Cumulative Gap	(1,234)	(1,442)	(6,294)	(23,701)
Cumulative Gap / Total Assets	-1%	-1%	-3%	-11%

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
2021	Amount	inflow/ (outflow)	1 month	months	months	1 year
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Financial liability by type						
Customer deposits	2,282,205	2,556,069	2,083,922	129,401	336,970	5,775
Derivative financial instruments	308	308	308	-	-	-
Other financial liabilities excluding lease liability	16,314	16,314	16,314	-	-	-
Lease liability	29,474	41,560	12,692	4,127	10,478	14,262
Borrowed funds	190,614	203,440	17,505	14,511	65,297	106,127
Special funds	1,193	1,193	1,193	-	-	-
Total liabilities	2,520,108	2,818,884	2,115,620	148,039	412,745	126,164
Financial assets by type						
Cash and balances with Bank of Uganda	516,802	516,802	516,802	-	-	-
Loans and advances to other banks	229,524	229,524	229,524	-	-	-
Loans and advances to customers	1,508,410	1,719,614	178,056	486,958	265,596	789,005
Government and other securities	558,990	626,068	49,393	41,025	168,830	366,820
Equity investments at fair value through profit and loss	6,563	6,563	-	-	-	6,563
Derivative financial instruments	647	647	647	-	-	-
Other assets excluding prepayments	116,392	125,045	52,154	25,301	44,898	2,692
Total assets	2,937,328	3,224,263	1,026,576	553,284	479,324	1,165,080
Net liquidity gap	(417,220)	(405,379)	1,089,044	(405,245)	(66,579)	(1,038,916)

6 Financial risk management (continued)

6C **Liquidity risk (continued)**

			Contractual Cash flows			
	Carrying	Gross nominal	Up to	1-3	3-12	Over
2020	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	2,595,347	2,906,789	2,196,352	143,495	565,261	1,681
Balances due to other banks	10,968	10,968	10,968	-	-	-
Derivative financial instruments	97	97	97	-	-	-
Other financial liabilities excluding lease liability	22,246	22,246	6,380	-	15,866	-
Lease liability	35,929	75,729	-	15,331	22,695	37,703
Borrowed funds	217,219	231,862	16,202	1,241	67,580	146,839
Special funds	1,193	1,193	1,193	-	-	-
Total liabilities	**2,882,999**	**3,248,884**	**2,219,314**	**160,067**	**671,402**	**198,101**
Financial assets by type						
Cash and balances with Bank of Uganda	606,750	606,750	606,750	-	-	-
Loans and advances to other banks	195,441	195,441	195,441	-	-	-
Loans and advances to customers	1,775,316	2,025,839	522,693	236,521	408,694	857,931
Government and other securities	575,362	644,860	148,783	54,054	148,832	293,191
Equity investments at fair value through profit and loss	8,513	8,513	8,513	-	-	-
Other assets excluding prepayments	119,640	119,640	34,092	21,487	45,763	18,298
Total assets	**3,281,022**	**3,601,043**	**1,516,272**	**312,062**	**603,289**	**1,169,420**
Net liquidity gap	**398,023**	**352,159**	**(703,042)**	**151,995**	**(68,113)**	**971,319**

6 Financial risk management (continued)

6C Liquidity risk (continued)

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

			Company			
			Contractual Cash flows			
	Carrying	Gross nominal	Up to	1-3	3-12	Over
2020	**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	15,932	18,640	-	-	1,665	16,975
Other financial liabilities	3,517	3,517	1,448	208	936	925
Borrowed funds	4,502	5,268	-	-	2,634	2,634
Total liabilities	23,951	27,425	1,448	208	5,235	20,534
Financial assets by type:						
Amounts due from Group Companies	197	197	197	-	-	-
Other assets excluding prepayments	17	17	17	-	-	-
Total assets	214	214	214	-	-	-
Liquidity gap	(23,737)	(27,211)	(1,234)	(208)	(5,235)	(20,534)

6 Financial risk management (continued)

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.

Group:	Up to	1-3	3-12	Over	Non-liquid items	Non-financial items	Total
As at 31 December 2021	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	516,802	-	-	-	-	-	516,802
Deposits and balances due from other banks	229,524	-	-	-	-	-	229,524
Loans and advances to customers	156,167	427,156	232,979	692,108	-	-	1,508,410
Government and other securities	44,101	36,629	150,742	327,518	-	-	558,990
Investment in shares	-	-	-	6,563	-	1,138	7,701
Other assets	45,002	22,590	40,087	2,403	6,310	1,755	118,147
Derivative financial instruments	647	-	-	-	-	-	647
Deferred income tax asset	-	-	-	-	-	26,336	26,336
Current income tax recoverable	-	-	-	-	-	214	214
Property and equipment	-	-	-	-	-	91,035	91,035
Investment property	-	-	-	-	-	18,795	18,795
Intangible assets	-	-	-	-	-	31,042	31,042
Assets held for disposal	-	-	-	-	-	29,089	29,089
Total assets	992,243	486,375	423,808	1,028,592	6,310	199,404	3,136,732
Liabilities							
Customer deposits	1,860,645	115,537	300,866	5,157	-	-	2,282,205
Derivative financial instruments	308	-	-	-	-	-	308
Other liabilities	26,097	3,685	9,356	6,650	-	20,408	66,196
Borrowed funds	15,747	13,690	61,368	99,809	-	-	190,614
Special funds	1,193	-	-	-	-	-	1,193
Provisions	-	-	-	-	-	2,190	2,190
Total liabilities	1,903,990	132,912	371,590	111,616	-	22,598	2,542,706
Net liquidity gap	(911,747)	353,463	52,218	916,976	6,310	176,806	594,026
Net off-statement of financial position items	(52,566)	(110,148)	(201,603)	(106,307)	-	-	(470,624)
Overall liquidity position	(964,313)	243,315	(149,385)	810,669	6,310	176,806	123,402

6C Liquidity risk (continued)

Company:	Up to	1-3	3-12	Over	Non-liquid items	Non-financial items	Total
As at 31 December 2021	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	1,182	-	1,700	-	-	-	2,882
Other assets	95	-	-	-	-	91	186
Current income tax recoverable	-	-	-	-	-	651	651
Deferred income tax asset	-	-	-	-	-	2,154	2,154
Investment in subsidiary	-	-	-	-	-	203,293	203,293
Investment property	-	-	-	-	-	41,130	41,130
Total assets	1,277	-	1,700	-	-	247,319	250,296
Liabilities							
Other liabilities	1,742	453	453	460	-	4,077	7,185
Borrowed funds	-	-	2,251	2,988	-	-	5,239
Amounts due to Group companies	-	-	3,266	11,367	-	-	14,633
Total liabilities	1,742	453	5,970	14,815	-	4,077	27,057
Overall liquidity position	(465)	(453)	(4,270)	(14,815)	-	243,242	223,239

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 2021, the Group had a net foreign exchange position of Ushs 3,002 million (2020: Ushs 7,124 million).

The Group's profit before income tax/ equity would decrease/ increase by Ushs 600 million (2020: Ushs 2,128 million) were the Ushs: US$ foreign exchange rate to change by 20% (2020: 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 2021. 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 2021 (Group)	USD	GBP	EURO	USHS	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets					
Cash and balances with Bank of Uganda	161,700	7,617	9,085	338,400	516,802
Loans and advances to other banks	112,811	6,644	49,351	60,718	229,524
Loans and advances to customers	538,833	-	-	969,577	1,508,410
Other assets	4,255	-	-	107,582	111,837
Equity investments	-	-	-	6,563	6,563
Government and other securities	-	-	-	558,990	558,990
Derivative financial instruments	-	-	-	647	647
Total assets	817,599	14,261	58,436	2,042,477	2,932,773
Liabilities					
Customer deposits	726,252	6,110	40,534	1,509,309	2,282,205
Derivative financial instruments	-	-	-	308	308
Other liabilities	11,451	8,145	16,196	9,996	45,788
Borrowed funds	76,894	-	-	113,720	190,614
Special funds	-	-	-	1,193	1,193
Total liabilities	814,597	14,255	56,730	1,634,526	2,520,108
Net on-statement of financial position items	3,002	6	1,706	407,951	412,665
Net off-statement of financial position items	(252,272)	-	-	(218,352)	(470,624)
Overall open position	(249,270)	6	1,706	189,599	(57,959)

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2020 (Group)	USD	GBP	EURO	USHS	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets					
Cash and balances with Bank of Uganda	88,520	6,371	10,711	501,148	606,750
Loans and advances to other banks	41,716	4,874	13,493	135,358	195,441
Loans and advances to customers	741,403	-	-	1,033,913	1,775,316
Other assets	23	-	-	119,617	119,640
Equity investments	-	-	-	8,513	8,513
Government and other securities	-	-	-	575,362	575,362
Total assets	**871,662**	**11,245**	**24,204**	**2,373,911**	**3,281,022**
Liabilities					
Customer deposits	684,907	6,104	20,453	1,883,883	2,595,347
Derivative financial instruments	-	-	-	97	97
Balances due to other banks	10,968	-	-	-	10,968
Other liabilities	25,998	5,137	2,945	24,095	58,175
Borrowed funds	142,665	-	-	74,554	217,219
Special funds	-	-	-	1,193	1,193
Total liabilities	**864,538**	**11,241**	**23,398**	**1,983,822**	**2,882,999**
Net on-statement of financial position items	**7,124**	**4**	**806**	**390,089**	**398,023**
Net off-statement of financial position items	(106,545)	-	-	(202,613)	(309,158)
Overall open position	**(99,421)**	**4**	**806**	**187,476**	**88,865**

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2021 (Company)	USD	GBP	EURO	USHS	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Assets					
Amounts due from Group companies	905	-	-	1,977	2,882
Other assets	90	-	-	5	95
Total assets	995	-	-	1,982	2,977
Liabilities					
Other liabilities	-	-	-	7,216	7,216
Amounts due to Group companies	-	-	-	14,633	14,633
Borrowed funds	1,574	-	-	3,665	5,239
Total liabilities	1,574	-	-	25,514	27,088
Overall open position	(579)	-	-	(23,532)	(24,111)

As at 31 December 2020 (Company)					
Assets					
Amounts due from Group companies	167	-	-	30	197
Other assets	-	-	-	17	17
Total assets	167	-	-	47	214
Liabilities					
Other liabilities	-	-	-	3,517	3,517
Amounts due to Group companies	-	-	-	15,932	15,932
Borrowed funds	-	-	-	4,502	4,502
Total liabilities	-	-	-	23,951	23,951
Overall open position	167	-	-	(23,904)	(23,737)

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 2021 assuming a market interest rate decrease of 3% from the rates ruling at year-end (2020: 3%). This would have an impact on the profit before income tax of the Group as follows:

			2021			2020
			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	1,181	(354)	827	1,154	(346)	808
Cash flow interest rate risk	38,182	(11,455)	26,727	37,306	(11,192)	26,114
	39,363	(11,809)	27,554	38,460	(11,538)	26,922

6 Financial risk management (continued)

6D Market risk (continued)

The table summarises the Group's interest risk on the debt instruments at FVOCI as at 31 December 2021 assuming a market interest rate decrease of 3% from the rates ruling at year end (2020: 3%)

		2021	
		Ushs M	
	Gross effect on OCI	Tax (expense)/ benefit	Net of tax effect on equity
Movement in liability credit reserve	208	(63)	146
Movement in debt instrument at FVOCI	1	-	1
	209	(63)	147

		2020	
		Ushs M	
	Gross effect on OCI	Tax (expense)/ benefit	Net of tax effect on equity
Movement in liability credit reserve	(37)	11	(26)
Movement in debt instrument at FVOCI	1	-	1
	(36)	11	(25)

The tables below summarise the Group's exposure to interest rate risk as at 31 December 2021 and 31 December 2020. 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 2021 (Group)	Up to	1-3	3-12	Over	Non - interest bearing	Total
	1 month	months	months	1 year		
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets						
Cash and balances with Bank of Uganda	-	-	-	-	516,802	516,802
Deposits and balances due from other banks	69,973	-	-	-	159,551	229,524
Loans and advances to customers	333,424	427,156	232,979	692,109	(177,258)	1,508,410
Government and other securities	44,101	36,629	150,742	327,518	-	558,990
Equity investments	-	-	-	-	6,563	6,563
Other assets	-	-	-	-	116,392	116,392
Derivative financial instruments	647	-	-	-	-	647
Total interest-bearing assets	448,145	463,785	383,721	1,019,627	622,050	2,937,328
Interest bearing liabilities						
Customer deposits	714,045	115,537	300,866	5,157	1,146,600	2,282,205
Derivative financial instruments	308	-	-	-	-	308
Other liabilities	-	-	-	-	45,788	45,788
Borrowed funds	17,251	13,690	61,368	55,570	42,735	190,614
Special funds	-	-	-	-	1,193	1,193
Total interest bearing liabilities	731,604	129,227	362,234	60,727	1,236,316	2,520,108
Interest re-pricing gap	(283,459)	334,558	21,487	958,900	(614,266)	417,220

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2020 (Group)	Up to	1-3	3-12	Over	Non - interest bearing	Total
	1 month	months	months	1 year		
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets						
Cash and balances with Bank of Uganda	-	-	-	-	606,750	606,750
Deposits and balances due from other banks	134,773	-	-	-	60,668	195,441
Loans and advances to customers	456,957	207,474	358,503	815,248	(62,866)	1,775,316
Government and other securities	128,446	48,697	134,083	264,136	-	575,362
Equity investments	-	-	-	-	8,513	8,513
Other assets	-	-	-	-	119,640	119,640
Total interest bearing assets	**720,176**	**256,171**	**492,586**	**1,079,384**	**732,705**	**3,281,022**
Interest bearing liabilities						
Customer deposits	725,588	128,121	504,697	1,501	1,235,440	2,595,347
Derivative financial instruments	97	-	-	-	-	97
Balances due to other banks	10,968	-	-	-	-	10,968
Other liabilities	-	-	-	26,631	31,544	58,175
Borrowed funds	2,202	1,138	52,416	107,283	54,180	217,219
Special funds	-	-	-	-	1,193	1,193
Total interest bearing liabilities	**738,855**	**129,259**	**557,113**	**135,415**	**1,322,357**	**2,882,999**
Interest re-pricing gap	**(18,679)**	**126,912**	**(64,527)**	**943,969**	**(589,652)**	**398,023**

6 Financial risk management (continued)

6D Market risk (continued)

As at 31 December 2021 (Company)	Up to	1-3	3-12	Over	Non - interest bearing	Total
	1 month	months	months	1 year		
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets						
Other assets	-	-	-	-	95	95
Amounts due from Group companies	2,882	-	-	-	-	2,882
Total interest bearing assets	**2,882**	**-**	**-**	**-**	**95**	**2,977**
Interest bearing liabilities						
Other liabilities	-	-	-	-	3,108	3,108
Amounts due to Group companies	-	-	3,266	11,367	-	14,633
Borrowed funds	-	-	2,251	2,988	-	5,239
Total interest bearing liabilities	**-**	**-**	**5,517**	**14,355**	**3,108**	**22,980**
Interest re-pricing gap	**2,882**	**-**	**(5,517)**	**(14,355)**	**(3,013)**	**(20,003)**

As at 31 December 2020 (Company)	Up to	1-3	3-12	Over	Non - interest bearing	Total
	1 month	months	months	1 year		
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Interest bearing assets						
Other assets	-	-	-	-	17	17
Amounts due from Group companies	197	-	-	-	-	197
Total interest bearing assets	**197**	**-**	**-**	**-**	**17**	**214**
Interest bearing liabilities						
Other liabilities	-	-	-	-	3,517	3,517
Amounts due to Group companies	-	-	1,665	14,267	-	15,932
Borrowed funds	-	-	2,251	2,251	-	4,502
Total interest bearing liabilities	**-**	**-**	**3,916**	**16,518**	**3,517**	**23,951**
Interest re-pricing gap	**197**	**-**	**(3,916)**	**(16,518)**	**(3,500)**	**(23,737)**

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.

6 Financial risk management (continued)

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

For measuring derivatives that might change classification from being an asset to a liability or vice versa - e.g. interest rate swaps - fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVAJ when market participants would take this into consideration in pricing the derivatives.
Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

Measurement on the basis of net exposures to risks

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. These adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, it takes into account any existing arrangements that mitigate the credit risk exposure - e.g. master netting agreements with the counterparty.

Valuation techniques

Government debt securities

Government debt securities are financial instruments issued by sovereign governments and include both long-term bonds and short-term bills with fixed or floating rate interest payments. These instruments are generally highly liquid and traded in active markets. When active market prices are not available, the Group uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Group classifies those securities as Level 2. The Group does not have Level 3 government securities where valuation inputs would be unobservable. The fair values of government securities are obtained from Bank of Uganda.

Equity instruments

The Group's equity instruments are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1.

Other assets at fair value through profit or loss

These comprise of loans and receivables designated at FVPL and mandatorily required to be measured at FVPL (those that did not meet the SPPI criteria), a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. These assets are classified under Level 3 as the assessment of credit quality is based on unobservable data.

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.

2021	Hierarchy			
	Level 1	Level 2	Level 3	Total
	Ushs M	Ushs M	Ushs M	Ushs M
Treasury bills and bonds	-	6,700	-	6,700
Securities at fair value through OCI	-	339,849	-	339,849
Other assets at fair value through profit and loss	-	-	72,664	72, 664
Equity investments at fair value through profit and loss	6,563	-	-	6,563
	6,563	346,549	72,664	425,776

2020	Hierarchy			
	Level 1	Level 2	Level 3	Total
	Ushs M	Ushs M	Ushs M	Ushs M
Treasury bills and bonds	-	58,357	-	58,357
Securities at fair value through OCI	-	259,623	-	259,623
Other assets at fair value through profit and loss	-	-	109,892	109,892
Equity investments at fair value through profit and loss	8,513	-	-	8,513
	8,513	317,980	109,892	436,385

During the year ended 31 December 2021, 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;

	2021	2020
	Ushs M	Ushs M
At 1 January	109,892	166,283
Settlements against the asset	(6,367)	(5,903)
Fair value loss	(30,861)	(50,488)
At 31 December	72,664	109,892

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 2021 and 2020 in measuring financial instruments categorised as Level 3 in the fair value hierarchy;

As at 31 December 2021

Significant unobservable inputs	Sensitivity of the inputs	Carrying amount	Impact on carrying amount		Adjusted carrying amount
Change in amount of expected cash flows by:	-10%	72,664	(7,239)	-10%	65,398
	+10%	72,664	7,239	+10%	79,930
Change in timing of cash flows by:	-1 year	72,664	10,497	14.5%	83,214
	+1 year	72,664	(10,714)	-14.8%	61,878
Change in discount rate, amount of expected cash flows and timing of cash flows by:	'-1%; -10%; -1 year	72,664	2,461	3.4%	75,150
	'+1%; +10%; +1 year	72,664	(5,863)	-8.1%	66,778

As at 31 December 2020:

Significant unobservable inputs	Sensitivity of the inputs	Carrying amount	Impact on carrying amount		Adjusted carrying amount
Change in amount of expected cash flows by:	-10%	109,892	(10,989)	-10%	98,903
	+10%	109,892	10,989	+10%	120,881
Change in timing of cash flows by:	-1 year	109,892	18,834	17%	128,726
	+1 year	109,892	(16,072)	-15%	93,820
Change in discount rate, amount of expected cash flows and timing of cash flows by:	'-1%; -10%; -1 year	109,892	7,908	7%	117,800
	'+1%; +10%; +1 year	109,892	(10,094)	-9%	99,798

Estimated cash flows are derived from the entity's business plan and historical comparison between plans and actual results.

vi) Financial instruments not measured at fair value

The fair values of the Group's and Company's other financial assets and liabilities that are measured at amortised cost approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates.

Short-term financial assets and liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts, which are net of impairment, are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity. Such amounts have been classified as Level 2 on the basis that no adjustments have been made to the balances in the statement of financial position.

6 Financial risk management (continued)
6F Capital management

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

- To comply with the capital requirements set by the Financial Institutions Act 2004 for purposes of the subsidiary, dfcu Bank;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as adapted and implemented by Bank of Uganda for supervisory purposes under the Financial Institutions Act, 2004 (FIA). dfcu Bank (the Bank) is required to file information on capital adequacy with Bank of Uganda on a quarterly basis.

As of 31 December 2021, the Financial Institutions Capital Adequacy Requirements Regulations 2021 requires each bank to:
a) have a minimum paid up capital unimpaired by losses of Ushs 25 billion;
b) maintain core capital of not less than 10% of the total risk adjusted assets plus risk adjusted off statement of financial position items; and
c) maintain total capital of not less than 12% of the total risk adjusted assets plus risk adjusted off statement of financial position items.

The 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:

	2021	2020
	Ushs M	Ushs M
Before dividend declaration		
Tier 1 capital	**517,120**	521,810
Tier 1 + Tier 2 capital	**545,476**	561,796
After dividend declaration		
Tier 1 capital	**517,120**	482,159
Tier 1 + Tier 2 capital	**545,478**	522,146
Tier 1 (FIA minimum -10%)	**22.28%**	20.93%
Tier 1 + Tier 2 (FIA minimum - 12%)	**23.46%**	22.53%
FIA ratio (after dividend declaration)		
Tier 1 (FIA minimum -10%)	**22.28%**	19.34%
Tier 1 + Tier 2 (FIA minimum - 12%)	**23.46%**	20.94%

6 Financial risk management (continued)

6G Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Recognising that operational risk cannot be entirely eliminated, the Group implemented risk mitigation controls including fraud prevention, contingency planning, information security and incident management and continues to enhance the same. Where appropriate, this strategy is further supported by risk transfer mechanisms such as insurance.

Over the past year, the Group has continued to invest heavily in technology/systems to create more digital channels, increase operational efficiency in a bid to leverage on IT to drive its strategy.

A failure to ensure this information is kept safe and used in a way that regulators and customers expect, may significantly impact relationships with these stakeholders and the broader community.

The Group has put in place measures to address the operational risks as highlighted below;

- The Group has and continues to invest significantly in data, analytics and cyber-security capabilities to better meet evolving customer needs and expectations, and to reduce the potential for data breaches.

- The Group actively engages with regulators to ensure that there is appropriate mutual understanding of the technology space and that evolution in regulation appropriately balances the value of giving customers control of their data, with the Group's duty to protect customers' privacy and security.

- The Group continuously invests in IT system security and identifies and accesses management controls to secure the confidentiality, integrity and availability of the Group's data.

- The employees undergo mandatory training modules to ensure they understand the importance of data security and their obligations in relation to the data they have access to.

- As the second line of defense, the Group's risk department was boosted with officers with IT security skills to monitor the activities of the first line of defense by performing risk assurance reviews, monitoring all user activity on key systems in order to timely detect any irregularity and advise adequate response.

7 A. Classification of financial assets and financial liabilities

The Group's accounting policies on the classification of financial instruments under IFRS 9 are indicated below. The application of these policies resulted in the classifications set out in the table above and explained below.

a) Certain loans and advances to customers held by the Group's investment business are classified under IFRS 9 as mandatorily measured at FVTPL because they are held within a business model in which they are managed and their performance is evaluated on a fair value basis. Internal reporting and performance measurement of these loans and advances are on a fair value basis.

b) The investment securities are measured at FVTPL because the contractual cash flows of these securities are not SPPI on the principal outstanding.

c) Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

d) Certain debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

e) Certain non-trading debt securities are held by the Group Central Treasury in separate portfolios and are managed with an objective of realising cash flows through sale. The Group primarily focuses on fair value information and uses that information to assess the securities' performance and to make decisions. In addition, certain asset-backed securities have contractual cash flows that are not SPPI. These assets are therefore measured at FVTPL under IFRS 9.

f) Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at FVOCI

7 B. Classification of assets and liabilities

The table below shows the classification of the assets and liabilities as current and non-current:

	2021 (Ushs M)			2020 (Ushs M)		
Group	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets:						
Cash and balances with Bank of Uganda	**516,802**	**-**	**516,802**	606,750	-	606,750
Deposits and balances due from other banks	**229,524**	**-**	**229,524**	195,441	-	195,441
Government and other securities	**231,472**	**327,518**	**558,990**	311,226	264,136	575,362
Loans and advances to customers	**816,301**	**692,109**	**1,508,410**	960,069	815,247	1,775,316
Investment in equity shares	-	**7,701**	**7,701**	**-**	9,651	9,651
Other assets	**107,679**	**10,468**	**118,147**	100,039	31,110	131,149
Derivative financial instruments	**647**	**-**	**647**	-	-	-
Current income tax recoverable	**214**	**-**	**214**	-	-	-
Deferred income tax asset	**-**	**26,336**	**26,336**	-	12,688	12,688
Property and equipment	**-**	**91,035**	**91,035**	-	107,208	107,208
Investment property	**-**	**18,795**	**18,795**	-	19,242	19,242
Intangible assets	**-**	**31,042**	**31,042**	-	36,681	36,681
Assets held for disposal	**29,089**	**-**	**29,089**	29,089	-	29,089
Total Assets	**1,902,639**	**1,205,004**	**3,136,732**	2,202,614	1,295,963	3,498,577
Liabilities:						
Customer deposits	**2,277,048**	**5,157**	**2,282,205**	2,593,846	1,501	2,595,347
Derivative financial instruments	**308**	**-**	**308**	97	-	97
Deposits due to other banks	**-**	**-**	**-**	10,968	-	10,968
Other liabilities	**39,138**	**27,058**	**66,196**	16,015	60,533	76,548
Borrowed funds	**90,805**	**99,809**	**190,614**	67,105	150,114	217,219
Special funds	**1,193**	**-**	**1,193**	1,193	-	1,193
Current income tax payable	**-**	**-**	**-**	-	1,773	1,773
Provisions	**2,190**	**-**	**2,190**	2,520	-	2,520
Total Liabilities	**2,410,682**	**132,024**	**2,542,706**	2,691,744	213,921	2,905,665
Net Assets	**(508,043)**	**1,072,980**	**594,026**	(489,130)	1,082,042	592,912

7 B. Classification of assets and liabilities (continued)

	2021 (Ushs M)			2020 (Ushs M)		
Company	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets:						
Amounts due from Group companies	2,882	-	2,882	197	-	197
Other assets	186	-	186	17	-	17
Current income tax recoverable	651	-	651	949	-	949
Deferred income tax asset	-	2,154	2,154	-	1,164	1,164
Investment in subsidiaries	-	203,293	203,293	-	203,293	203,293
Investment property	-	41,130	41,130	-	43,605	43,605
Total Assets	3,719	246,577	250,296	1,163	248,062	249,225
Liabilities:						
Other liabilities	7,185	-	7,185	2,724	925	3,649
Borrowed funds	-	5,239	5,239	-	4,502	4,502
Amounts due to Group companies	1,665	12,968	14,633	1,665	14,267	15,932
Total Liabilities	8,850	18,207	27,057	4,389	19,694	24,083
Net Assets	(5,131)	228,370	223,239	(3,226)	228,368	225,142

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 81% of the Group's total revenue for the year ended 31 December 2021 (2020: 61%).

During the year 16.23% (2020: 14.35%) 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 2021 were as follows:

	dfcu Limited	dfcu Bank	Intra-segment items	Group
	Ushs M	Ushs M	Ushs M	Ushs M
Fees and commission income and other operating income	6,843	83,741	(5,024)	85,559
Income from transactions with operating segments of the same entity	15,000	-	(15,000)	-
Interest income	145	366,844	(2,413)	364,577
Interest expense	(2,720)	(81,202)	2,413	(81,509)
Other operating expenses	(8,856)	(358,909)	5,024	(362,742)
(Loss)/profit before income tax	10,412	10,474	(15,000)	5,885
Income tax expense	685	2,741	-	3,427
(Loss)/Profit for the year	11,097	13,215	(15,000)	9,312

8 Segment information (Continued)

The segment results for the year ended 31 December 2020 were as follows:

	dfcu Limited	dfcu Bank	Intra-segment items	Group
	Ushs M	Ushs M	Ushs M	Ushs M
Fees and commission income and other operating income	6,760	69,029	(4,934)	70,855
Interest income	13	346,261	(2,452)	343,822
Interest expense	(2,863)	(110,023)	2,452	(110,434)
Other operating expenses	(4,977)	(272,714)	4,934	(272,757)
(Loss)/profit before income tax	(1,067)	32,553	-	31,486
Income tax expense	827	(8,236)	-	(7,409)
(Loss)/Profit for the year	(240)	24,317	-	24,077

As at 31 December 2021

	dfcu Limited	dfcu Bank	Intra-segment items	Group
	Ushs M	Ushs M	Ushs M	Ushs M
Total assets	**250,296**	**3,177,568**	**(291,132)**	**3,136,732**
Total liabilities	**27,057**	**2,602,732**	**(87,083)**	**2,542,706**
Capital expenditure	**190**	**13,647**	**-**	**13,837**

As at 31 December 2020

	dfcu Limited	dfcu Bank	Intra-segment items	Group
	Ushs M	Ushs M	Ushs M	Ushs M
Total assets	249,225	3,539,365	(290,013)	3,498,577
Total liabilities	24,047	2,967,546	(85,928)	2,905,665
Capital expenditure	360	31,343	-	31,703

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 2021	**145**	**366,844**	**364,577**
Year ended 31 December 2020	130	346,261	343,822

9 Interest and similar income

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
(a) Interest calculated using the effective interest method				
Loans and advances	**273,034**	254,210	**-**	-
Placements and investments with other banks	**11,011**	21,461	**145**	13
Government and other securities	**63,266**	59,516	**-**	-
	347,311	335,187	**145**	13
(b) Other interest and similar income				
Interest income on finance leases	**7,488**	8,635	**-**	-
Total interest income	**354,799**	343,822	**145**	13

10 Interest and similar expenses

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Borrowed funds	**10,344**	14,437	**2,720**	2,863
Customer deposits	**62,707**	89,579	**-**	-
Interest expense on lease liability	**8,458**	6,418	**-**	-
	81,509	110,434	**2,720**	2,863

11 Net trading and other income

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Net unrealised foreign exchange gain	**2,935**	601	**(21)**	11
Fixed trading income	**26,361**	16,913	**-**	-
Rental income	**1,603**	1,786	**6,262**	6,224
Other income	**(64)**	297	**-**	-
	30,835	19,597	**6,241**	6,235

12 Net income from other financial instruments at FVTPL

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Recoveries from other assets measured at FVTPL	**2,002**	**486**	**-**	**-**

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	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Major service lines				
Domestic commissions	**49,215**	40,468	**602**	526
Foreign commissions	**5,268**	4,585	**-**	-
Total fee and commission from contracts with customers	**54,483**	45,053	**602**	526
Financial guarantee contracts and loan commitments	**8,017**	5,720	**-**	-
Total fee and commission income	**62,500**	50,773	**602**	526

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 Net 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 2021	Revenue recognition under IFRS 15
Category A	These are transactional fees based on revenue that mainly comprise of but not limited to commissions on cheques cashed, statement charges, auxiliary charges, management fees, payments and collection related fees.	-Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides account transaction services - Transaction price – monthly fees in line with the contractual agreement. - Allocation of price to PO – single performance obligation, no allocation necessary. - PO satisfied – Revenue is currently recognised at the end of the month, for the services provided during that month (operational efficiency).
Category B	Annual Review Charge - It's an annual fee charged basing on the loans held in the year. This revenue is recognised annually on usually DIB loans. -	Enforceable arrangement with customer exists. Performance obligation (PO) – the Group provides loan review services. Transaction price – commission received as per agreement with the insurer. Allocation of price to PO – single performance obligation PO satisfied – at a point in time in the year when the loan review has been performed. Revenue should be spread over the period as services are provided before the next payment.
Category C	These are fees charged on card related transaction. These comprise of ATM commissions, Express Money commission, Visa Commissions, MoneyGram commissions and issuance fee of debit cards. It's a standard fee -	Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides card services at specific points of time and over time. - Transaction price – fee charged in terms of the arrangement with customer at point of transaction. - Allocation of price to PO – single performance obligation for each of the services, no allocation necessary. - PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.

Category D	Guarantees and commitment fees This is a transactional based fee on guarantees issued. Timing of revenue for guarantees- Quarterly fee collection/ recognition or upfront fees depending on contract with client. Most CB customers pay quarterly while DIB customers are largely upfront fees for entire tenor of facility. Term / tenor of Guarantees range from 1-5 years	Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides guarantees, custody fees and commitment fees - Transaction price – fee charged in terms of the arrangement with customer - Allocation of price to PO – Each service is a single performance obligation, no allocation necessary. PO satisfied - Commitment fees- Revenue currently recognised upfront - Performance guarantees- Revenue currently recognised upfront - Commitment and Guarantee fees -The performance obligation is satisfied over the term of the guarantee, thus revenue should be deferred over the term of the guarantee - Where drawdown of the facility is not probable, fees should be deferred over the term of the agreement, on a straight-line basis and recognised in NIR. Where drawdown is probable, fees should be deferred and as part of the EIR and recognised in NII The Group recognises the fee and commissions upfront because the difference as a result of deferring is immaterial.
Category E	These are fees charged on electronic banking transactions like Money Transfers, Foreign bills, Fx sundries, Telex Transfers	-Enforceable arrangement with customer exists. - Performance obligation (PO) – the Group provides a service (as noted alongside, for electronic banking transactions). - Transaction price – transaction based fees. - Allocation of price to PO – single performance obligation (for each of the service fees listed), no allocation necessary. - PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.

Category F	It's a transactional based fee on Incoming TTs and LCs depending on the transaction amount with a capped maximum amount Letters of credit are usually less than one year	Enforceable arrangement with customer exists. - - Performance obligation (PO) – Group to provide a service, provide inter account transfers that are done by customers and LCs - Transaction price – fee is charged per transaction and LCs depending on the transaction amount with a capped maximum amount - Allocation of price to PO – single performance obligation, no allocation necessary.
		PO satisfied: - TT's- Revenue recognised at a point in time, when service has been provided - Letters of credit-The performance obligation is satisfied over the term of the LC, thus revenue should be deferred over the term of the loan - Fees are currently recognised upfront. Business to monitor and reassess accounting treatment when amounts become material Where drawdown of the facility is not probable, fees should be deferred over the term of the agreement, on a straight-line basis and recognised in NIR. Where drawdown is probable, fees should be deferred and as part of the EIR and recognised in NII The Group recognises the fee and commissions upfront because the difference as a result of deferring is immaterial.
Category G	Sundries (BOU Chqs, S/O, URA, Mgt fees) KCCA Commission URA Licencing	Enforceable arrangement with customer exists. - - Performance obligation (PO) – Group to provide a service (as noted alongside, for electronic banking transactions). - Transaction price – transaction based fees. - Allocation of price to PO – single performance obligation (for each of the service fees listed), no allocation necessary. - PO satisfied – Revenue is currently recognised at a point in time, after the transaction is processed.

14 Operating expenses

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Employee benefits expenses (note 15)	**55,701**	60,938	**746**	774
Depreciation of property and equipment (note 28)	**19,621**	24,992	**-**	-
Depreciation of the investment property (note 27)	**461**	276	**2,666**	2,667
Amortisation of intangible assets (note 29)	**12,026**	13,700	**-**	-
Auditors' remuneration	**619**	758	**101**	121
Occupancy expenses	**10,870**	12,057	**12**	-
Professional and consultancy fees	**14,960**	6,071	**4,390**	177
Communication costs	**30,718**	25,979	**33**	29
Transport and travel costs	**1,252**	1,756	**27**	15
Advertising and publicity costs	**4,290**	3,482	**42**	2
Fair value loss on rescinded properties (note 28(b))	**-**	15,283	**-**	-
Other expenses	**33,005**	26,347	**839**	1,193
	183,523	191,639	**8,856**	4,978

15 Employee benefits expenses

	Group	Company		
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Wages and salaries	**48,481**	53,258	**659**	664
Retirement benefits costs	**2,369**	2,379	**21**	43
National Social Security Fund contributions	**4,851**	5,301	**66**	67
	55,701	60,938	**746**	774

The average number of employees of the group during the year was 1,074 (2020: 1,034)

16 Profit before tax

The following items have been charged in arriving at the profit before tax:

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Auditor's remuneration (note 14)	**698**	758	**179**	121
Depreciation of property and equipment (note 27)	**21,575**	22,069	**-**	-
Impairment loss on rescinded properties (note 28(b))	**-**	15,283	**-**	-
Amortisation of intangible assets (note 29)	**12,026**	13,700	**-**	-
Directors remuneration (note 46(d))	**2,291**	2,060	**691**	557

17 Dividends

During the year, no interim dividend was paid (2020: Nil). At the next Annual General Meeting proposed to be held in June 2022, the directors do not plan to recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Ushs 13 billion).

18 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.

	2021	2020
Net profit attributable to equity holders of the Company (Ushs M)	**9,312**	24,077
Weighted average number of ordinary shares in issue	**748,144,033**	748,144,033
Basic earnings per share (Ushs)	**12.45**	32.18
Diluted earnings per share (Ushs)	**12.45**	32.18

Profit attributable to ordinary shareholders

	2021	2020
	Ushs M	Ushs M
Net profit attributable to equity holders of the Company	**9,312**	24,077

There were no potentially dilutive shares outstanding at 31 December 2021 and 2020.

19 Income tax

a) Income tax expense

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Current income tax	**12,391**	15,783	**305**	570
Prior year over provision of corporation tax	**-**	1,184	**-**	-
Deferred income tax credit	**(15,818)**	(9,559)	**(990)**	(1,397)
Income tax expense/(credit)	**(3,427)**	7,408	**(685)**	(827)

b) Amount recognised in OCI – Group

	2021		
	Ushs M		
	Before tax	Tax (expense)/ benefit	Net of tax
Movement in liability credit reserve	**6,945**	**(2,169)**	**4,776**
Movement in debt instrument at FVOCI	**26**	**-**	**26**
	6,971	**(2,169)**	**4,802**

	2020		
	Ushs M		
	Before tax	Tax (expense)/ benefit	Net of tax
Movement in liability credit reserve	(1,237)	259	(978)
Movement in debt instrument at FVOCI	34	-	34
	(1,203)	259	(944)

19 Income tax (continued)

c) Reconciliation of effective tax rate

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

Group:

	2021		2020	
	Effective tax rate	Ushs M	Effective tax rate	Ushs M
Profit before income tax		5,885		31,485
Tax calculated at a tax rate of 30% (2020: 30%)	30%	1,766	30%	9,445
Tax effect of:				
Under provision of current and deferred tax in previous years	0%	-	-3.76%	(1,184)
Expenses not deductible for tax purposes1	53.21%	3,132	8.90%	2,801
Net interest income which is subject to final tax2	(141.43%)	(8,324)	(11.61%)	(3,654)
Income tax expense	(58.22%)	(3,427)	23.53%	7,408

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

2Includes the income tax differential between interest income on government securities of Ushs 73,044 million (2020: Ushs 55,916 million) taxed at the statutory rate of 30% and withholding tax which is a final tax.

Company:

		2021		2020
	Effective tax rate	Ushs M	Effective tax rate	Ushs M
Profit before income tax		10,412		(1,670)
Tax calculated at a tax rate of 30% (2020: 30%)	30%	3,124	30.00%	(320)
Tax effect of:				
Under provision of current and deferred tax in previous years	0.00%	-		(1,239)
Expenses not deductible for tax purposes1	37.48%	2,206	20.84%	1,893
Net interest income which is subject to final tax2	(102.19%)	(6,015)	8.75%	(1,161)
Income tax expense/(credit)	(11.65%)	(685)	29.59%	(827)

Income taxed at other rates refers to rental income taxed separately from the other business income. Further information on deferred income tax is presented in note 30.

d) Current income tax (recoverable) / payable

The movements in current tax payable are as follows:

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	1,773	2,783	(949)	(1,519)
Current income tax expense for the year	12,390	16,967	304	570
Current tax paid during the year	(14,377)	(17,977)	(6)	-
At 31 December	(214)	1,773	(651)	(949)

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

	2021	2020
	Ushs M	Ushs M
Cash in hand	159,104	152,139
Balances with Bank of Uganda	357,800	454,829
Expected Credit Loss adjustment	(102)	(218)
	516,802	606,750

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 203,460 million (2020: Ushs 204,350 million).

The balance with Bank of Uganda was classified as high grade, under stage 1 as at 31 December 2021 and 2020. There were no transfers between stages for both years. The changes in the gross carrying amounts of the balances with Bank of Uganda is due deposits, withdrawals and exchange differences (which are not material), the withdrawals in 2021 exceeded the deposits.

	2021	2020
	Ushs M	Ushs M
At 1 January	218	76
Impairment recognized during the year	(116)	142
At 31 December	102	218

21 Deposits and balances due from banks - Group

	2021	2020
	Ushs M	Ushs M
Deposit auction with Bank of Uganda	60,300	100,087
Deposits with other banks	159,551	60,691
Placements with other banks	9,772	34,686
	229,623	195,464
Expected Credit Loss adjustment	(99)	(23)
	229,524	195,441

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 7% (2020: 8%). 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 2021 and 2020. There were no transfers between stages for both years. The increase in the expected credit loss was due to the increase in the gross carrying amount by Ushs 34,159 as at 31 December 2021.

	2021	2020
	Ushs M	Ushs M
At 1 January	23	6
Impairment recognized during the year	76	17
At 31 December	99	23

22 Loans and advances to customers - Group

	2021	2020
	Ushs M	Ushs M
Loans and advances to customers at amortised cost	**1,481,814**	1,768,461
Finance leases	**203,854**	69,721
Less impairment loss allowance	**(177,258)**	(62,866)
	1,508,410	1,775,316

	Gross carrying amount	ECL allowance	Net carrying amount	Gross carrying amount	ECL allowance	Net carrying amount
	2021	2021	2021	2020	2020	2020
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Retail customers	**613,545**	**(38,235)**	**575,310**	253,758	(6,882)	246,876
Corporate customers	**1,072,123**	**(139,023)**	**933,100**	1,584,424	(55,984)	1,528,440
	1,685,668	**(177,258)**	**1,508,410**	1,838,182	(62,866)	1,775,316

The weighted average effective interest rate on loans and advances was 14.38% (2020: 14.41%)

Movements in allowance for impairment of loans and advances

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2021:	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January 2021	10,603	4,888	47,375	62,866
Increase in allowances for expected credit losses	145	4,836	156,605	161,586
Recoveries and allowances no longer required	-	-	(9,768)	(9,768)
Debts written off during the year	-	-	(37,426)	(37,426)
At 31 December 2021	10,748	9,724	156,786	177,258
Charge to statement of comprehensive income (2021)				
Increase in allowances for expected credit losses	145	4,836	156,605	161,586
Recoveries and allowances no longer required	(283)	-	(9,485)	(9,768)
Recovery of amounts previously written off	-	-	(3,460)	(3,460)
Net charge to profit or loss	(138)	4,836	143,660	148,358

The charge to statement of comprehensive income is analysed by asset class as follows:

Charge to statement of comprehensive income (2021)

Increase in allowances for impairment on loans and advances	145	4,836	156,605	161,586
Recoveries and allowances no longer required	-	-	(9,485)	(9,485)
Increase in allowances for impairment on balances with Bank of Uganda	(116)	-	-	(116)
Increase in allowances for impairment on balances with other banks	76	-	-	76
Increase in allowances for impairment on other assets	(262)	-	-	(262)
Recoveries and allowances no longer required on investment securities	19	-	-	19
Recoveries of amounts previously written off	-	-	(3,460)	(3,460)
Net charge to profit or loss	(138)	4,836	143,660	148,358

22 Loans and advances to customers (continued)

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2020:	**Ushs M**	**Ushs M**	**Ushs M**	**Ushs M**
At 1 January 2020	7,488	3,675	15,326	26,489
Increase in allowances for expected credit losses	2,458	1,213	42,241	45,912
Recoveries and allowances no longer required	657	-	(13,133)	(12,476)
Debts written off during the year	-	-	2,941	2,941
At 31 December 2020	10,603	4,888	47,375	62,866

Charge to statement of comprehensive income (2020)				
Increase in allowances for expected credit losses	2,458	1,213	42,241	45,912
Recoveries and allowances no longer required	657	-	(13,133)	(12,476)
Recovery of amounts previously written off	-	-	(2,804)	(2,804)
Net charge to profit or loss	3,115	1,213	26,304	30,632

The charge to statement of comprehensive income is analysed by asset class as follows:

Charge to statement of comprehensive income (2020)

Increase in allowances for impairment on loans and advances	4,036	1,213	40,663	45,912
Recoveries and allowances no longer required	-	-	(13,133)	(13,133)
Increase in allowances for impairment on balances with Bank of Uganda	142	-	-	142
Increase in allowances for impairment on balances with other banks	17	-	-	17
Increase in allowances for impairment on other assets	456	-	-	456
Recoveries and allowances no longer required on investment securities	42	-	-	42
Recoveries of amounts previously written off	-	-	(2,804)	(2,804)
Net charge to profit or loss	4,693	1,213	24,726	30,632

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 2021	**1,501,335**	**242,752**	**94,095**	**1,838,182**
Changes in the gross carrying amount				
- Transfer to stage 1	**1,229,105**	**(1,229,105)**	**-**	**-**
- Transfer to stage 2	**(2,179,619)**	**2,179,619**	**-**	**-**
- Transfer to stage 3	**-**	**(217,380)**	**217,380**	**-**
New financial assets originated net of deferred fees	**715,399**	**-**	**-**	**715,399**
Payoffs and write-offs	**-**	**(830,487)**	**(37,426)**	**(867,913)**
Gross carrying amount as at 31 December 2021	**1,266,220**	**145,399**	**274,049**	**1,685,668**
Loss allowance as at 31 December 2021	**(10,748)**	**(9,724)**	**(156,786)**	**(177,258)**
Carrying amount	**1,255,473**	**135,674**	**117,263**	**1,508,410**

22 Loans and advances to customers (continued)

Movements in allowance for impairment of loans and advances (continued)

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**
	Shs M	**Shs M**	**Shs M**	**Shs M**
Gross carrying amount as at 1 January 2020	1,399,813	76,882	89,117	1,565,812
Changes in the gross carrying amount				
– Transfer to stage 1	99,456	(99,456)	-	-
– Transfer to stage 2	(311,597)	311,597	-	-
– Transfer to stage 3	-	(46,271)	46,271	-
New financial assets originated net of deferred fees	313,663	-	-	313,663
Write-offs	-	-	(41,293)	(41,293)
Gross carrying amount as at 31 December 2020	1,501,335	242,752	94,095	1,838,182
Loss allowance as at 31 December 2020	(10,603)	(4,888)	(47,375)	(62,866)
Carrying amount	**1,490,732**	**237,864**	**46,720**	**1,775,316**

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

	2021	2020
	Ushs M	**Ushs M**
Gross investment in finance leases:		
Not later than 1 year	**8,967**	45,967
Later than 1 year and not later than 5 years	**112,257**	45,638
Later than 5 years	**82,630**	3,064
Gross investment in finance leases	**203,854**	94,669
Unearned future finance income on finance leases	**(70,827)**	(8,635)
Net investment in finance leases	**133,027**	86,034

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

	2021	2020
	Ushs M	**Ushs M**
Not later than 1 year	**5,852**	41,775
Later than 1 year and not later than 5 years	**73,254**	41,475
Later than 5 years	**53,921**	2,784
	133,027	86,034

Included in the allowance for impairment of loans and advances as at 31 December 2021 is Ushs 4,144 million (2020: Ushs 184 million) attributable to impairment of finance lease receivables.
The carrying value of loans and advances to customers is approximately equal to its fair value.

23 Equity investments – Group

	2021	2020
	Ushs M	Ushs M
Equity investments at fair value through profit or loss:		
New Vision Limited	**106**	113
Bank of Baroda (U) Limited	**5,938**	7,500
National Insurance Corporation	**505**	888
Kenya Commercial Bank Limited	**14**	13
	6,563	8,513
Other equity investments:		
Crane Financial Services	**1,138**	1,138
	7,701	9,651

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:

	2021	2020
	Number of shares	Number of shares
New Vision Limited	**359,693**	359,693
Bank of Baroda (U) Limited	**62,500,000**	62,500,000
National Insurance Corporation	**99,096,923**	99,096,923
Kenya Commercial Bank Limited	**10,000**	10,000

The trading prices per share at the last date of trading for the years ended 31 December 2021 and 2020 were as follows:

	2021	2020
	Ushs M	Ushs M
New Vision Limited	**297**	314
Bank of Baroda (U) Limited	**95**	120
National Insurance Corporation	**5**	9
Kenya Commercial Bank Limited	**1,389**	1,270

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

	2021	2020
	Ushs M	Ushs M
At 1 January	**8,513**	8,625
Fair value losses	**(1,950)**	(112)
	6,563	8,513

The Group's investment in equities that are designated at fair value through profit or loss represent equities for which there is an active market and where the Bank holds less than 20% of the voting rights of the investee companies and the Bank does not have significant influence over the financial and operating decisions of the investee companies.

23 Equity investments (continued)

Below is the sensitivity of the share prices to the bank's profit and loss and the resultant effect to the bank's equity;.

	2021			2020		
	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	**655**	**(197)**	**459**	850	(255)	595
10% decrease in share price	**(655)**	**197**	**(459)**	(850)	255	(595)

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).

24 Investments in securities – Group

	2021	2020
	Ushs M	Ushs M
Amortised cost:		
Investment securities measured at amortised cost	**212,540**	257,370
Other bonds	**46**	138
Expected credit loss adjustment	**(145)**	(126)
	212,441	257,382
Investment securities measured at FVOCI - debt instruments	**339,849**	259,623
	552,290	517,005

Other bonds include corporate bonds amounting to Ushs 46 million (2020: Ushs 138 million) issued by Stanbic Bank Uganda Limited.

Movement in investment securities:

	2021	2020
	Ushs M	Ushs M
At 1 January	**517,006**	486,771
Additions during the year	**200,393**	366,883
Maturities during the year	**(164,376)**	(335,369)
Fair value loss during the year	**(714)**	(1,237)
Movement in expected credit loss	**(19)**	(42)
At 31 December	**552,290**	517,006
Maturing as follows:		
Maturing within 1 month	**37,401**	128,445
Maturing between 1-3 months	**36,629**	48,697
Maturing within 3-12 months	**150,742**	75,727
Maturing between 1-5 years	**327,518**	264,136
	552,290	517,005

The investment securities were classified as high grade, under stage 1 as at 31 December 2021 and 2020. There were no transfers between stages for both years.

	2021	2020
	Ushs M	Ushs M
At 1 January	**126**	84
Impairment recognized during the year	**19**	42
At 31 December	**145**	126

The increase in the expected credit loss was due to the increase in the gross carrying amount of investment securities by Ushs 35,304 as at 31 December 2021.

25 Trading assets - Group

	Trading assets		Trading liabilities	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Non-derivatives	**6,610**	57,536	-	-
Trading assets FVTPL	**90**	821	-	-
	6,700	58,357	-	-
Maturing as follows:				
Maturing within 1 month	-	-	-	-
Maturing between 1–3 months	-	-	-	-
Maturing within 3-12 months	**6,700**	58,357	-	-
Maturing between 1-5 years	-	-	-	-
	6,700	58,357	-	-

	Pledged trading asset	Non-pledged trading assets	Total trading assets	Pledged trading asset	Non-pledged trading assets	Total trading assets
	2021	2021	2021	2020	2020	2020
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Government bonds	**-**	**1,542**	**1,542**	-	39,525	39,525
Treasury bills	**-**	**5,158**	**5,158**	-	18,832	18,832
	-	**6,700**	**6,700**	-	58,357	58,357

Treasury bills are debt securities issued by the Government of Uganda, and administered by the Bank of Uganda, for a term of three months, six months, nine months or a year. Treasury bonds are debt securities issued by the Government of Uganda and administered by the Bank of Uganda, for terms of two years, three years, five years, ten years and fifteen years. The weighted average effective interest rate on government securities was 12.07%. (2020: 11.9%)

26 Other assets

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Other assets at amortised cost (except prepayments)				
Prepaid expenses	**1,755**	11,509	**91**	-
Sundry receivables	**6,310**	6,500	**-**	-
Other assets	**38,223**	3,791	**95**	17
Expected credit loss adjustment	**(805)**	(543)	**-**	-
	45,483	21,257	**186**	17
Other assets at FVTPL			**-**	
Other financial assets at fair value through profit and loss	**72,664**	109,892	**-**	-
	118,147	131,149	**186**	17

Other financial assets at fair value through profit or loss relate to the fair valuation of written off and non-performing loans and advances acquired from Crane Bank Limited. The carrying value of other assets is approximately equal to its fair value.

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

	2021	2020
	Ushs M	Ushs M
At 1 January	**109,892**	166,283
Settlements against the asset	**(6,367)**	(5,903)
Fair value loss	**(30,861)**	(50,488)
At 31 December	**72,664**	109,892

27 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 2021, 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	
	2021	**2020**	**2021**	**2020**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Cost:				
At 1 January	**21,212**	8,913	**56,025**	56,125
Additions	**14**	145	**190**	360
Transfer from work in progress	**-**	218	**-**	-
Transfers from own use (property and equipment)	-	12,369	-	-
Write offs	**-**	(433)	**-**	(460)
As at 31 December	**21,226**	21,212	**56,215**	56,025
Depreciation:				
At 1 January	**1,970**	1,148	**12,419**	9,789
Charge for the year	**461**	276	**2,666**	2,667
Transfers from own use	**-**	575	**-**	-
Write offs	**-**	(29)	**-**	(37)
As at 31 December	**2,431**	1,970	**15,085**	12,419
Net Book Value	**18,795**	19,242	**41,130**	43,606
Amount allocated to investment property			**18,795**	19,242
Amount allocated to property and equipment			**22,335**	24,364
Total property and equipment			**41,130**	43,606

27 Investment property

The fair value of the investment property is Ushs 58 billion. The Group has assessed that the highest and best use of its investment property does not differ from their current use.

The valuation was carried out using the investment method of valuation. The valuer utilised the income capitalisation approach by reference to the net cashflows / rental income from the commercial building portion that is being rented out.

The significant unobservable inputs used in the valuation were as follows:

Significant unobservable input

		Range (weighted average)
Building	Estimated rental value	US$13 – US$ 18 per square metre depending on the attributes of the space. Gross annual rent is estimated at US$ 1,713,086.6
	Service charge	US$ 4 per square metre and is charged separately. The annual service charge is estimated at US$ 328,991.52
	Parking	Estimated annual rent of US$ 35,280
	Discount rate	6%- 8% (7%)
Land	Price per acre	Ushs 8 billion -Ushs 10 billion per acre

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.
Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield).

Valuation techniques for investment properties:

Land	**Market Approach** Land was valued by the sales comparison method taking into account factors such as location, services and accessibility.
Buildings	**Income capitalisation approach** The valuer used this approach to estimate the value of income-producing portion of the building. It is based on the expectation of future benefits. This method of valuation relates value to the market rent that a property can be expected to earn and to the resale value.

The fair value measurement for the investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Key underlying assumptions in valuation of the investment property included:

- The property and its value is unaffected by any statutory notice or condition of title where title deeds were not inspected, and that neither the property nor its condition, nor its use, nor its intended use, is or will be unlawful.
- No onerous easements, rights of way or encroachments exist by or on the subject properties other than those in favour of statutory bodies, applicable to all such properties, or which could be regarded as customary.
- The market value referred to in the valuation report excludes Value Added Tax and transfer costs
- The property is unaffected by environmental issues

The property is assumed to be free from any structural fault, rot, infestation or defects of any other nature whether exposed or unexposed, including inherent weaknesses due to the use in construction of deleterious materials. There is also an assumption that there are no unidentified adverse ground or soil conditions and that the load bearing qualities of the site of each property are sufficient to support the building constructed or to be constructed thereon.

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Rental income derived from investment properties	**1,603**	1,786	**6,262**	6,224
Direct operating expenses (including repairs and maintenance)	**(1,972)**	(181)	**(6,434)**	(181)
Profit arising from investment properties	**(369)**	1,605	**(172)**	6,043

28 (a) Property, equipment and right-of-use asset - Group

As at 31 December 2021	Freehold land and buildings	Motor vehicle	Furniture & equipment	Computer equipment	Right of Use asset	Work-In-Progress	Total
	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M	Ushs M
Cost:							
At 1 January 2021	31,574	3,099	104,997	25,879	53,181	7,162	225,892
Additions	-	176	982	1,491	1,431	2,989	7,069
Transfers from work in progress	-	213	5,012	83	-	(5,308)	-
Write offs	(29)	-	(14,565)	(2,243)	-	(1,079)	(17,916)
Lease terminated during the year	-	-	-	-	(689)	-	(689)
Eliminated on disposal	-	(251)	(5,161)	(661)	-	-	(6,073)
At 31 December 2021	31,545	3,237	91,265	24,549	53,923	3,764	208,283
Depreciation:							
At 1 January 2021	4,007	1,699	78,313	22,865	11,800	-	118,684
Charge for the year	732	540	9,480	1,939	8,288	-	19,621
Write offs	(4)	-	(14,067)	(2,243)	-	-	(16,314)
Lease terminated during the year	-	-	-	-	(167)	-	(167)
Eliminated on disposal	-	(251)	(5,032)	(651)	-	-	(5,934)
At 31 December 2021	4,735	1,988	68,694	21,910	19,921	-	117,248
Net carrying amount	26,810	1,249	22,571	2,639	34,002	3,764	91,035

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

As at 31 December 2020	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 2020	73,770	2,453	117,591	29,718	52,074	6,544	282,150
Additions	4,031	-	1,559	772	15,139	14,450	35,951
Transfers from work in progress	-	646	12,819	-	-	(13,683)	(218)
Write offs	(87)	-	(218)	(184)	(28)	(149)	(666)
Transfer to investment property	(12,369)	-	-	-	-	-	(12,369)
Disposals	-	-	(14,573)	(4,427)	-	-	(19,000)
Rescinded properties transferred to assets held for sale (Note 27b)	(33,771)	-	(12,181)	-	(14,004)	-	(59,956)
At 31 December 2020	31,574	3,099	104,997	25,879	53,181	7,162	225,892
Depreciation:							
At 1 January 2020	4,463	1,228	91,338	25,216	6,912	-	129,157
Charge for the year	3,139	471	11,458	2,257	7,667	-	24,992
Write offs	(15)	-	(208)	(184)	(8)	-	(415)
Transfer to investment property	(575)	-	-	-	-	-	(575)
Rescinded properties transferred (Note 27b)	(3,005)	-	(9,788)	-	(2,771)	-	(15,564)
Disposals	-	-	(14,487)	(4,424)	-	-	(18,911)
At 31 December 2020	4,007	1,699	78,313	22,865	11,800	-	118,684
Net carrying amount	27,567	1,400	26,684	3,014	41,381	7,162	107,208

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 (2020: nil). Adjustments to align the fixed assets relates to amendments into the IFRS 16-Leases model with actual payments and payment frequencies.

(b) Assets held for disposal

dfcu Group acquired some assets and liabilities from former Crane Bank Limited (In Liquidation) under an Agreement signed with Bank of Uganda (as the Receiver) on 25 January 2017. As per the provisions of the Agreement, dfcu exercised the option not to purchase the reversionary interest of the properties. As of 31 December 2021, dfcu Group was in the process of returning the properties to Bank of Uganda (as the Receiver). The expected amount to be recovered is Ushs 29,089 million, which has been recorded under assets held for disposal. An impairment amount of Ushs 15,283 million was recognised in other expenses in 2020.

29 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 2021	463	51,190	36,921	11,469	100,043
Additions	-	-	-	6,387	6,387
Transfers from WIP	-	8,637	-	(8,637)	-
Write offs	-	(173)	-	-	(173)
At 31 December 2021	463	59,654	36,921	9,219	106,257
Amortisation					
At 1 January 2021	-	30,659	32,703	-	63,362
Charge for the year	-	8,106	3,920	-	12,026
Write offs	-	(173)	-	-	(173)
At 31 December 2021	-	38,592	36,623	-	75,215
Net carrying amount	463	21,062	298	9,219	31,042
Cost					
At 1 January 2020	463	42,031	36,921	7,984	87,399
Additions	-	325	-	12,319	12,644
Transfers from WIP	-	8,834	-	(8,834)	-
At 31 December 2020	463	51,190	36,921	11,469	100,043
Amortisation					
At 1 January 2020	-	24,279	25,383	-	49,662
Charge for the year	-	6,380	7,320	-	13,700
At 31 December 2020	-	30,659	32,703	-	63,362
Net carrying amount	463	20,531	4,218	11,469	36,681

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

Other intangible assets comprises fair valuations of customer relationships acquired from Crane Bank Limited and fair valuations of customer deposits and ground rent. Work-In-Progress (WIP) relates to ongoing works in respect of the various software projects.

Annual impairment test for goodwill

The Group performed its annual impairment test of goodwill during the year. Goodwill was acquired through the business combination of the subsidiary, dfcu Bank as the Cash Generating Unit (CGU). The Group considers the relationship between its market capitalization and its book value among other factors when reviewing for indicators of impairment. As at 31 December 2021, the market capitalization of the Group was below the book value of its entity, an indication of a potential impairment of goodwill.

Management performed a Value in Use (VIU) estimation using the Dividend Discount Model (DDM) as the primary approach and the Market Multiples as a secondary approach.

The DDM involves discounting the expected earnings to shareholders (the dividends stream) at the Equity Required Rate of Return.

The following were the inputs into the DDM;

- Management's forecasts on equity capital requirements to satisfy Capital Adequacy Requirements (CAR) and derived the excess equity capital, distributable to shareholders as the forecast equity cashflows.
- The forecast cashflows were discounted at the low and high cost of equity of 23.12% and 24.36% (an average of 23.74%) derived using the Capital Asset Pricing Model.
- The terminal value was calculated using the long-term Ugandan inflation rate of 5.3%

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

The Market Multiples approach involved obtaining Price to Book (P/B) multiples of peer companies operating in the same industry as the company. The observed trading multiples were adjusted for country risk and size in order to arrive at an objective equity value. The implied P/B was calculated using the net asset value as at 31 December 2021.

Below is the summary of the valuation results:

	Low	High	Average
	Ushs M	Ushs M	Ushs M
Net assets as at 31 December 2021	**594,026**	**594,026**	**594,026**
Goodwill	**463**	**463**	**463**
Total	**594,489**	**594,489**	**594,489**
VIU (DDM)	**650,000**	**698,000**	**674,000**
Headroom/(impairment)	**55,511**	**103,511**	**79,511**
Net assets as at 31 December 2020	592,912	592,912	592,912
Goodwill	463	463	463
Total	593,375	593,375	593,375
VIU (DDM)	701,000	754,000	727,500
Headroom/(impairment)	107,625	160,625	134,125

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 2021.

30 Deferred income tax

Deferred tax is calculated on all temporary differences under the liability method using the principal tax rate of 30%), except for interest receivable on treasury bills and bonds where the enacted rate is 15% (2020: 15%). Deferred tax assets and liabilities and the deferred tax credit as at 31 December 2021 are attributed to the following items:

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	**(12,688)**	(2,870)	**(1,164)**	233
Deferred tax credit to P&L	**(15,817)**	(9,559)	**(990)**	(1,397)
Deferred tax credit to OCI	**2,169**	(259)	**-**	-
Deferred tax asset	**(26,336)**	(12,688)	**(2,154)**	(1,164)

30 Deferred income tax (continued)

	Group			
2021	**At 1 January 2021**	**(Credit)/ Charge to P&L**	**(Credit)/ Charge to OCI**	**At 31 December 2021**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Property and equipment	**(3,488)**	**(168)**	**-**	**(3,656)**
Tax losses carried forward	**(1,527)**	**(12,116)**	**-**	**(13,643)**
Deferred fees and commissions income	**(2,200)**	**272**	**-**	**(1,928)**
Fair value of treasury bills and bonds	**217**	**(1,045)**	**-**	**(828)**
Fair value of customer relationships	**370**	**(528)**	**-**	**(158)**
Unrealised foreign exchange loss	**4**	**(10)**	**-**	**(6)**
FVOCI Fair value loss	**(540)**	**-**	**2,169**	**1,629**
Allowance for impairment of loans and advances	**(4,947)**	**(1,571)**	**-**	**(6,518)**
Allowance for contigent liabilities	**-**	**(657)**	**-**	**(657)**
Provision for URA assessment	**(450)**	**142**	**-**	**(308)**
Capped interest expense	**(127)**	**(136)**		**(263)**
Net deferred tax asset	**(12,688)**	**(15,817)**	**2,169**	**(26,336)**

2020	**At 1 January 2020**	**(Credit)/ Charge to P&L**	**(Credit)/ Charge to OCI**	**At 31 December 2020**
	Ushs M	**Ushs M**	**Ushs M**	**Ushs M**
Property and equipment	3,276	(6,764)	-	(3,488)
Tax losses carried forward	(1,484)	(43)	-	(1,527)
Deferred fees and commissions income	(2,253)	53	-	(2,200)
Fair value of treasury bills and bonds	(5)	222	-	217
Fair value of customer relationships	1,359	(989)	-	370
Unrealised foreign exchange loss	(14)	18	-	4
FVOCI Fair value loss	(281)	-	(259)	(540)
Allowance for impairment of loans and advances	(3,468)	(1,479)	-	(4,947)
Provision for URA assessment	-	(450)	-	(450)
Capped interest expense	-	(127)	-	(127)
Net deferred tax asset	(2,870)	(9,559)	(259)	(12,688)

30 Deferred income tax (continued)

	Company		
2021	**At 1 January 2021**	**(Credit)/ Charge to P&L**	**At 31 December 2021**
	Ushs M	**Ushs M**	**Ushs M**
Property and equipment	**487**	**89**	**576**
Tax losses carried forward	**(1,528)**	**(933)**	**(2,461)**
Capped interest expense	**(127)**	**(136)**	**(263)**
Unrealised foreign exchange loss	**4**	**(10)**	**(6)**
Net deferred tax liability/(asset)	**(1,164)**	**(990)**	**(2,154)**

2020	**At 1 January 2020**	**(Credit)/ Charge to P&L**	**At 31 December 2020**
	Ushs M	**Ushs M**	**Ushs M**
Property and equipment	1,732	(1,245)	487
Tax losses carried forward	(1,485)	(43)	(1,528)
Capped interest expense	-	(127)	(127)
Unrealised foreign exchange loss	(14)	18	4
Net deferred tax liability/(asset)	233	(1,397)	(1,164)

31 Investment in subsidiary

	Shareholding	Company	
		2021	**2020**
		Ushs M	**Ushs M**
dfcu Bank Limited	100%		
As at 1 January and 31 December		**203,293**	203,293

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

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

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

32 Customer deposits - Group

	2021	**2020**
	Ushs M	**Ushs M**
Demand deposits	**1,146,600**	1,208,919
Savings deposits	**557,992**	624,039
Fixed deposits	**577,613**	762,389
	2,282,205	2,595,347

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

	2021	**2020**
	%	**%**
Demand deposits	**1**	**1**
Savings deposits	**2**	**2**
Fixed deposits	**9**	**8**

33 Deposits due to other banks - Group

	2021	2020
	Ushs M	Ushs M
Balances due to other banks within 90 days	-	10,968

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 (2020: 7%). The carrying value of deposits due to other banks is approximately equal to its fair value.

34 Other liabilities

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Financial liabilities:				
Bills payable	**466**	279	**-**	-
Unclaimed balances	**2,581**	834	**-**	-
Other liabilities	**13,011**	20,315	**1,289**	1,183
Managed funds (Note 35)	**-**	197	**-**	197
Deferred rental income	**256**	621	**1,819**	2,137
Lease liability	**29,474**	35,929	**-**	-
Total financial liabilities	**45,788**	58,175	**3,108**	3.517
Non-financial liabilities:				
Accrued expenses and payables	**20,408**	18,373	**4,077**	132
Total liabilities	**66,196**	76,548	**7,185**	3,649

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 102 million (2020: Ushs 88 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 Managed funds - Group

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

(a) CDO/ GOU Fund

During 2004, dfcu Limited entered into a tripartite agreement with the Government of Uganda and Cotton Development Organisation (CDO) to set up a revolving fund of Ushs 2.5 billion in cash, Ushs 720 million worth of tractors and US$ 300,000 to finance leases for cotton farmers in Uganda. Under the terms of the agreement, dfcu Limited provided leasing administration and management services only and received fees in this respect of up to 4% of each lease facility. Interest on the facilities was chargeable to a maximum of 10% and was credited to the fund. No time limit was set for the fund under the terms of the agreement.

36 Managed funds - Group (continued)

(b) Gomba Daals Fund

During 2007, dfcu Limited entered into a tripartite agreement with the Government of Uganda and Gomba Daals Spices (U) Limited to set up a revolving fund of Ushs 221 million. Under the terms of the agreement, dfcu Limited provided leasing administration and management services only and received fees in this respect of up to 2% of the lease facility. Interest on the facility was charged at 4% and is credited to the fund. No time limit was set for the fund under the terms of the agreement.

During the year there were no new lease facilities and no management fees earned on these funds.

37 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.

	2021	2020
	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.

38 Borrowed funds

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Uganda Government (KFW V loan)	**11,878**	11,878	**-**	-
Bank of Uganda (ACF loan)	**31,552**	39,344	**-**	-
Societe De Promotion Et De Participation Pour La Cooperation Economique (PROPARCO)	**10,638**	40,718	**-**	-
Abi-Finance	**7,591**	11,699	**-**	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO USD)	**17,947**	30,848	**-**	-
European Investment Bank – PEFF	**68,265**	31,431	**-**	-
East African Development Bank	**5,308**	9,867	**-**	-
Deutsche Investitions-Und Entwicklungsgesellschaft mbH (DEG)	**31,907**	36,560	**-**	-
UN Habitat	**289**	372	**-**	-
Jubilee Insurance	**5,239**	4,502	**5,239**	4,502
	190,614	217,219	**5,239**	4,502

38 Borrowed funds (continued)

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

Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG)

Included in borrowings is a subordinated debt from Deutsche Investitions-Und EntwicklungsgesellschaftmbH (DEG) whose tenure is 7 years and is due to mature in 2024. The interest rate on this debt is variable at an aggregate interest rate of 6.6% per annum plus the USD swap rate prevailing at the interest determination date. The debt is subordinated to ordinary liabilities of the Group and recognised by the Group as Tier 2 Capital for regulatory capital adequacy purposes of the Group in accordance with Bank of Uganda prudential regulations.

Agricultural Credit Facility (ACF)-BOU

The Government of Uganda through the central bank in partnership with commercial banks, Uganda Development Bank Ltd and micro-deposit taking institutions (MDIs) created the Agricultural Credit Facility. The facility was created for the provision of medium-term credit facilities to agriculture and agro-processing projects on more favorable terms as opposed to the open market. The credit facilities are advanced to customers at an interest rate of 12%. The other objectives of the facility include the promotion of commercial agriculture, increasing access to finance by agribusinesses, increased agricultural production thus food security as well as boosting the confidence of financial institution in lending to agriculture. The Group contributes 50% towards the lending and 50% is financed by the ACF. The Group repays the 50% financed by the ACF as and when the loans are repaid by the customers.

The terms and conditions relating to the other borrowings are tabulated below:

Group	**Tenure (years)**	**Interest rate**	**Fixed / variable**	**Currency**
Uganda Government (KFW V loan)	Due on 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

39 Borrowed funds (continued)

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	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
At 1 January	**217,219**	273,354	**4,502**	4,446
Additional drawdowns	**61,214**	19,645	**500**	10,000
Interest expense	**11,353**	14,171	**453**	2,863
Interest and principle repayment	**(96,886)**	(88,628)	**(220)**	(12,810)
Unrealised foreign exchange exchange (gains) / losses	**(1,873)**	(375)	**4**	3
Debt origination fees	**(413)**	(948)	**-**	-
At 31 December	**190,614**	217,219	**5,239**	4,502

39 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 2021 and 2020	**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	
	2021
	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.

40 Regulatory reserve - Group

	2021	2020
	Ushs M	Ushs M
At 1 January	-	14,055
Transfer to retained earnings during the year	-	(14,055)
At 31 December	-	-

The regulatory credit risk reserve is analysed as follows:		
Provision for impairment of loans and advances as per FIA 2004:		
Specific provisions	**87,836**	36,513
General provisions	**15,594**	18,051
Total regulatory provision	**103,430**	54,564
Provision for impairment of loans and advances as per IFRS		
Identified impairment (note 23)	**(156,786)**	(47,375)
Unidentified impairment (note 23)		
Stage 1	**(10,748)**	(10,603)
Stage 2	**(9,724)**	(4,888)
Total IFRS provision	**(177,258)**	(62,866)
(Excess) / shortfall of IFRS provision over regulatory provision	**(73,828)**	(8,302)

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 2021, the allowance of impairment of loans and advances computed in accordance with IFRS exceeded the regulatory provision and therefore the credit risk reserve was nil (2020: Nil).

41 Retained earnings/ accumulated losses

Retained earnings / accumulated losses comprises prior year brought forward earning plus current year profit less any dividends paid and proposed and transfers to credit risk reserve. As at 31 December 2021, retained earnings amounted to Ushs 390,120 million (2020: Ushs 354,157 million). The movement in retained earnings / accumulated losses is shown in the statement of changes in equity.

42 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	2021	2020
	Ushs M	Ushs M
At 1 January	**(1,599)**	(621)
Net movement on revaluation of FVOCI	**6,945**	(1,237)
Deferred tax impact on FVOCI transactions	**(2,169)**	259
At 31 December	**3,177**	(1,599)

ECL on FVOCI financial assets		
At 1 January net of deferred tax	**57**	23
Increase in ECL	**26**	34
At 31 December	**83**	57
Total fair value reserve	**3,260**	(1,542)

43 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.

	2021	2020
	Ushs M	Ushs M
Contingent liabilities:		
Guarantee and performance bonds	**443,974**	271,869
Commitments:		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**26,650**	37,289
	470,624	309,158

The expected credit loss on contingent liabilities and commitments is Ushs 102 million (2020: Ushs 88 million) and this is presented under other liabilities in note 34.

44 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 2021, the net carrying amount for the right-of-use assets is Ushs 34,002 million (2020: Ushs 41,381 million) (see Note 28).

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 34).

	2021	2020
	Ushs M	Ushs M
At 1 January	**35,929**	28,591
New leases	**-**	34,530
Interest charge (note 10)	**8,458**	6,418
Unrealised gain on foreign currency denominated leases	**(2,520)**	(1,455)
Leases terminated during the year	**(525)**	
Payments	**(11,868)**	(32,155)
At 31 December	**29,474**	35,929

At 31 December 2021, the future minimum lease payments under non-cancellable operating leases were payable as follows.

iii. Amounts recognized in profit or loss

	2021	2020
	Ushs M	Ushs M
Leases under IFRS 16		
Interest on lease liabilities	**8,458**	6,418
Depreciation on right-of-use asset	**8,288**	7,667
Unrealised gain on foreign currency denominated lease liabilities	**(2,520)**	(1,455)
	14,226	12,630

44 Leases (Continued)

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 2021 was 12% (2020: 12%).
Group as a lessor

The Group has entered into operating leases on its investment property portfolio consisting of certain office buildings (see Note 27). 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 1,603 million (2020: Ushs 1,786 million). The rental income recognised by the Company was Ushs 6,065 million (2020: Ushs 6,224 million).

45 Other contingent liabilities - Group
(a) Provisions

The Group is a defendant in various legal actions in the normal course of business. The total estimated contingent liability arising from these cases is Ushs 284 billion (2020: Ushs 254 billion). Through legal advice management has determined that total expected losses to the Group are Ushs 2.1 billion (2020: Ushs 2.5 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:

	2021	2020
	Ushs M	Ushs M
At 1 January	2,520	2,919
Arising during the year	-	-
Utilised during the year	(330)	(399)
At 31 December	2,190	2,520

(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 2021 from the deal date. The unrealised gain on these contracts amounts to Ushs 339 million (2020: 97 million) recorded in the statement of financial position. The financial instruments as split as indicated below:

	2021	2020
	Ushs M	Ushs M
Derivative financial asset	647	-
Derivative financial liability	(308)	97
At 31 December	339	97

46 Other contingent liabilities – Group (Continued)

(c) Other open litigation matters

As publicly announced during the year by the Company, a claim was issued in the English High Court against the Company, dfcu Bank Limited and other defendants. The claim was brought by certain shareholders of Crane Bank Limited (CBL) and in the name of CBL. The claim related to the transaction in which dfcu Bank Limited (the "subsidiary") acquired some assets and assumed some liabilities of CBL following the placement of CBL under Receivership in 2017.

The Company is not able to disclose all the details in relation to this matter because the matter is still in court.

47 Cash and cash equivalents

Analysis of cash and cash equivalents as shown in the consolidated statement of cash flows.

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Cash in hand (note 20)	**159,104**	152,139	**-**	-
Balances with Bank of Uganda (note 20)	**357,698**	454,611	**-**	-
Less: Cash reserve requirement	**(203,460)**	(204,350)	-	-
Amounts due from related companies (note 46(b))	**-**	-	**2,882**	197
Deposits and balances due from banks (note 21)	**229,524**	195,441	-	-
	542,866	597,841	**2,882**	197

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.

48 Related party disclosures

There are other companies that are related to dfcu Limited through common shareholdings or common directorships. National Social Security Fund is one of the top shareholders in dfcu Limited and it has significant shareholding in Umeme Limited. Transactions and balances with related parties are shown below:

a) Amounts due to related companies

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
dfcu Bank Limited-Overdraft and term finance	**-**	-	**14,633**	15,932

Amounts due to dfcu Bank Limited relate to term finance which earns interest at the prevailing market rates. Amounts due to other related companies include borrowings and deposits held with dfcu Limited and dfcu Bank Limited which both accrue interest at the prevailing market rates. The loans to related companies are neither past due nor impaired and bear an average interest rate of 17% per annum.

b) Amounts due from related companies

	Company	
	2021	2020
	Ushs M	Ushs M
dfcu Bank Limited	**2,882**	197

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. Amount due from Umeme Limited relates to an overdraft which earns interest at the prevailing market rates.

	2021	2020
	Ushs M	Ushs M
Interest expense incurred	145	13

Advances to customers include loans to directors and loans to employees as follows:

- At 31 December 2021, advances to employees amounted to Ushs 25,096 million (2020: Ushs 29,814 million).
- At 31 December 2021, there were no advances to non-executive directors and companies controlled by directors or closely connected persons (2020: Ushs Nil).

	2021	2020
	Ushs M	Ushs M
Interest income earned on advances to employees and directors / companies connected to directors	1,163	1,191
Deposits by directors (Group)		
At 1 January	651	136
Net increase	(125)	515
At 31 December	526	651

c) Loans to directors - Group

The loans to directors indicated on page 1 amount to Ushs 1,083 million (2020: Ushs 1,336 million) at interest rates ranging from 8% to 10%. These facilities were performing as of 31 December 2021 and 2020.

d) Key management compensation

	Group		Company	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Salaries and other short-term employment benefits	4,292	3,989	383	383
Post-employment benefits	636	583	64	64
	4,928	4,572	447	447

Directors' remuneration

	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Fees for services as directors	2,291	2,060	691	557
Other emoluments: short-term benefits (included in key management compensation)	-	-	-	-
	2,291	2,060	691	557

49 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 2021, the Group retirement benefit cost charged to profit or loss under the scheme amounted to Ushs 2,379 million (2020: Ushs 2,250 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 2021 the Group contributed Ushs 5,301 million (2020: Ushs 5,158 million), which has been charged to profit or loss.

50 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	
	2021	2020	2021	2020
	Ushs M	Ushs M	Ushs M	Ushs M
Authorised but not contracted	-	-	-	-
Authorised and contracted	12,983	18,630	-	-
	12,983	18,630	-	-

51 Covid-19 Pandemic

The Uganda Government continues to implement measures and provide guidance to help contain and delay the spread of Coronavirus (COVID-19). During the year, the Government implemented a 42-day lockdown in June and July 2021 and thereafter a 19:00 – 05:30 curfew.

In line with ongoing international response to the COVID 19 crisis, the Group recognizes the significance of maintaining business continuity and has therefore embedded specific COVID-19 responses into the business continuity management framework to mitigate the impact of the pandemic businesses, employees and customers. Crisis Management Meetings headed by the Chief Executive Officer continue to be held for coordination of several work streams within the Bank to address challenges related to the pandemic as and when they emerge.

52 Events after reporting date

There are no events after the reporting date that require disclosure in these financial statements.

53 Presentation currency

These consolidated and separate financial statements are presented in Uganda shillings rounded off to the nearest millions (Ushs M).

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

As at 31 December 2021

	Number of shares	%
Arise B.V	439,176,097	58.70%
SCB Mauritius A/C Investment Fund for Developing Countries	74,580,276	9.97%
National Social Security Fund	55,803,416	7.46%
Kimberlite Frontier Africa Naster Fund, L.P.-Rckm	54,958,626	7.35%
SSB Russell Investment Company Plc Fund Nas5	14,428,700	1.93%
National Social Security Fund-Pinebridge	10,440,437	1.40%
SSB-Conrad N Hilton Foundation -00fg	9,180,658	1.23%
Vanderbilt University Vanderbilt University	9,155,182	1.22%
The Jubilee Insurance Company of Uganda	7,296,339	0.98%
Bank of Uganda Defined Benefits Scheme- Geneafrica	4,811,165	0.64%
Bank of Uganda Staff Retirement Benefit Scheme Aig	4,481,491	0.60%
The Parliamentary Pension Scheme-Stanlib	2,924,455	0.39%
Uganda Revenue Authority Staff Retirement Benefits	2,850,292	0.38%
Centenary Bank Staff Defined Contribution Scheme	2,806,087	0.38%
Mr. Sudhir Ruparelia	2,165,575	0.29%
Mr Rakesh Gadani	1,977,748	0.26%
Uap Insurance Uganda Ltd	1,836,146	0.25%
Housing Finance Bank/ Uap Insurance- Gen Life Fund	1,557,256	0.21%
Keith Muhakanizi	1,488,972	0.20%
Barclays Bank Uganda Staff Pension Fund	1,380,060	0.18%
Other 3799 Shareholders	44,845,055	5.99%
	748,144,033	100.00%

As at 31 December 2020

	Number of shares	%
Arise B.V	439,176,097	58.70%
Scb Mauritius A/C Investment Fund For Developing Countries	74,580,276	9.97%
National Social Security Funds	55,803,416	7.46%
Kimberlite Frontier Africa Master Fund,L.P.-Rckm	54,958,626	7.35%
Ssb Russell Investment Company Plc Fund Nas5	14,428,700	1.93%
National Social Security Fund-Pinebridge	10,440,437	1.40%
Vanderbilt University Vanderbilt University	7,359,482	0.98%
Ssb-Conrad N Hilton Foundation -00fg	7,255,064	0.97%
Jubilee Investment Company Limited	5,695,259	0.76%
Bank of Uganda Staff Retirement Benefit Scheme Aig	4,481,491	0.60%
Bank of Uganda Staff Retirement Benefit Sch-Sim	4,443,245	0.59%
The Parliamentary Pension Scheme-Stanlib	2,924,455	0.39%
Uganda Revenue Authority Staff Retirement Benefits	2,850,292	0.38%
Cerudeb Staff Defined Contributory Scheme-Aig	2,806,087	0.38%
Mr. Sudhir Ruparelia	2,165,575	0.29%
Mr Rakesh Gadani	1,977,748	0.26%
Uap Insurance Co. Limited	1,636,146	0.22%
The Jubilee Insurance Company Of Uganda	1,601,080	0.21%
Housing Finance Bank/ Uap Insurance- Gen Life Fund	1,557,256	0.21%
Keith Muhakanizi	1,488,972	0.20%
Others	50,514,329	6.75%
	748,144,033	**100.00%**

Financial definitions

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

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