



dfcu Bank Limited
Pillar 3 Market Discipline Disclosures Report
For the quarter ended 31 December 2023

The Report

This report sets out dfcu Bank Limited disclosures in accordance with the Bank of Uganda Pillar 3 Market Discipline: Guidelines on Disclosure Requirements.

Shareholders are advised that the information provided in this report has not been reviewed nor reported on by our external auditors.

All amounts are in millions of Shillings unless otherwise stated.

Table of Contents

- 1. Key prudential regulatory metrics 4
 - 1.1 DIS01: Key Prudential Metrics 4
 - 1.2 DIS03: Overview of RWA 5
 - 1.3 DIS04: Composition of regulatory capital..... 5
 - 1.4 DIS05: Asset Quality 5
 - 1.5 DIS06: Changes in stock of defaulted loans and debt securities 5
- 2. Risk Management 6
 - 2.1 Risk Management overview..... 6
 - 2.2 Risk universe..... 6
 - 2.3 Risk appetite..... 6
 - 2.4 Stress testing 7
 - 2.4.1 Types of stress tests 7
 - 2.5 Risk reporting 7
 - 2.5.1 The Bank risk profile report 8
 - 2.5.2 The Key Risk Indicator (KRI) report 8
 - 2.6 Risk Architecture 8
 - 2.6.1 Risk culture 8
 - 2.6.2 The three lines of defense model..... 9
 - 2.6.3 Risk Governance structure 9
- 3. Use of external credit ratings under the standardized approach for credit risk. 11

1. Key prudential regulatory metrics

The following tables provide an overview of dfcu Bank Limited prudential regulatory metrics.

1.1 DIS01: Key Prudential Metrics

	Amounts (Shs' Million)	Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
Available Capital						
1	Core capital	487,340	507,775	526,375	530,954	528,479
2	Supplementary capital	11,419	11,990	11,819	13,168	17,437
3	Total capital	498,759	519,765	538,194	544,122	545,915
Risk weighted assets						
4	Total risk weighted assets (RWA)	1,757,584	1,811,312	1,831,571	1,956,336	2,062,544
Risk-based capital ratios as a percentage of RWA						
5	Core capital ratio (%)	27.73%	28.03%	28.74%	27.14%	25.62%
6	Total capital ratio (%)	28.38%	28.70%	29.38%	27.81%	26.47%
Capital buffer requirements as a percentage of RWA						
7	Capital conservation buffer requirement (2.5%)	2.50%	2.50%	2.50%	2.50%	2.50%
8	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Systemic buffer (for DSIBs) (%)	0.50%	0.50%	0.50%	0.50%	0.50%
10	Total of capital buffer requirements (%) (row 7 + row 8 + row 9)	3.00%	3.00%	3.00%	3.00%	3.00%
11	Core capital available after meeting the Bank's minimum capital requirements (%)	14.73%	15.03%	15.74%	14.14%	12.62%
Basel III leverage ratio						
12	Total Basel III leverage ratio exposure measure	3,400,894	3,394,316	3,635,002	3,517,865	3,611,830
13	Basel III leverage ratio (%) (row 1 / row 12)	14.33%	14.96%	14.48%	15.09%	14.63%
Liquidity Coverage Ratio						
14	Total high-quality liquid assets (HQLA)	677,373	677,373	829,704	671,028	682,222
15	Total net cash outflow	304,172	304,172	273,312	190,441	251,327
16	LCR (%)	222.69%	222.69%	303.57%	352.36%	271.45%
Net Stable Funding Ratio (NSFR)						
17	Total available stable funding	2,901,416	2,714,496	2,914,247	2,809,496	2,859,179
18	Total required stable funding	1,074,433	1,087,984	1,116,534	1,228,556	1,226,218
19	NSFR	270.04%	249.50%	261.01%	228.68%	233.17%

1.2 DIS03: Overview of RWA

Amounts (Shs Millions)	Risk Weighted Assets (RWA)		Minimum capital requirements*
	Dec-23	Sep-23	Dec-23
Credit risk (excluding counterparty credit risk)	1,530,812	1,557,549	229,622
Counterparty credit risk (CCR)	45,873	65,868	6,881
Market risk	25,059	33,279	3,759
Operational risk	155,840	154,616	23,376
Total (1+2+3+4)	1,757,584	1,811,312	263,638

* Measured at 15%

1.3 DIS04: Composition of regulatory capital

This section provides a breakdown of the constituent elements of the Bank's regulatory capital. The Bank has not disclosed this information on account of unpublished information, until the official release of the audited year-end financial results.

1.4 DIS05: Asset Quality

		Gross carrying values of		Provisions as per FIA 2004/MDA 2003		Interest in suspense	Net values (FIA/MDIA) (a+b-c-e)
		Defaulted exposures	Non-defaulted exposures	Specific	General		
1	Loans and advances	108,175	1,085,619	36,897	11,419	15,041	1,141,856
2	Debt securities	-	-	-	-	-	-
3	Off-balance sheet exposures	-	272,721	-	-	-	272,721
4	Total	108,175	1,358,340	36,897	11,419	15,041	1,414,577

1.5 DIS06: Changes in stock of defaulted loans and debt securities

		Dec 23
1	Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the previous reporting period	189,633
2	Loans and debt securities that have defaulted since the last reporting period	8,080
3	Returned to non-defaulted status	200
4	Amounts written off	89,338
5	Other changes	
6	Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the reporting period (1+2-3-4+5)	108,175

2. Risk Management

2.1 Risk Management overview

Our risk management approach ensures consistent and effective management of risk and provides for appropriate accountability and oversight. The Bank identifies and assesses risks and opportunities arising from internal and external environments, and proactively identifies emerging risks. To ensure effective risk management, our approach is centered along the following lines:

- We recognize the importance of a strong risk culture, which is integral to the bank's overall culture.
- We consider key (principal) risks, clear ownership and accountability, and Bank-wide risk coverage.
- Risk management supports the Bank's strategy with a coherent risk management operating model and appropriate risk practices, tools, and techniques.
- We uphold the risk governance structure, with clear Board escalation and oversight.
- We follow comprehensive and structured processes for evaluating, responding to, and monitoring risks.
- We oversee and manage Bank-wide assurance through a combined assurance model with clear accountability across the three lines of defense.

2.2 Risk universe

Risk management is enterprise-wide, applying to all entity levels and is a crucial element in the execution of our Bank's strategy. Our risk universe represents the risks that are core to our business. The Risk universe is reviewed annually, to identify and respond to any new key enterprise risks. These top enterprise risks require focused management because they represent potential material impacts to the Bank's strategy. We regularly scan the environment for changes to ensure that our risk universe remains relevant. The risk universe is managed through the lifecycle from identification to reporting.

The Risk universe of dfcu Bank is described below:

1. Credit risk
2. Funding risk
3. Market risk
4. Operational risk
5. Strategic risk
6. Compliance risk
7. Reputational risk
8. Cyber security risk
9. Third party risk
10. People and conduct risk

2.3 Risk appetite

This is the aggregated level of risk the Bank is willing to assume within its risk capacity to achieve its strategic goals and objectives as defined in the business plan. Effective risk management requires clear articulation of the Bank's risk appetite and how it will be managed as a key component of our risk management.

Risk exposures are managed through different techniques and are monitored against a risk appetite that supports our strategy. Risk Appetite in dfcu Bank is proposed by Management and approved by the Board of Directors, via the Board Risk Committee (BRC). Executive Management led by the Chief Executive Officer is charged with the implementation of this Risk Appetite.

Risk information is subject to strong data and reporting controls. Risk reporting is also integrated into all business reporting and governance structures.

2.4 Stress testing

Stress testing is a key management tool within the Bank and is used to evaluate the sensitivity of the current and forward risk profile relative to different levels of risk. Stress testing supports several business processes, including the following key processes:

- Strategic and financial planning (budgeting)
- Informing the setting of the bank's risk appetite statement
- The internal capital adequacy assessment process (ICAAP), including capital planning and management, and the setting of capital buffers
- Liquidity planning and management
- Facilitating the development of contingency plans, including recovery planning, across a range of stressed conditions.
- Supporting communication with internal and external stakeholders, including industry-wide stress tests (Bottom-up stress tests) performed by Bank of Uganda.

2.4.1 Types of stress tests

a) Risk type stress testing

The most common type of stress testing the Bank uses is Risk type stress testing. This is where stress tests are performed for individual risk types and take the form of a scenario or sensitivity analysis.

b) Integrated stress testing

This is where different stress test scenarios are aggregated together to assess the impact on capital, liquidity and earnings.

b) Supervisory stress tests

From time-to-time, Bank of Uganda may call for the Bank to run a supervisory stress test or common scenario with prescribed assumptions and methodologies (Bottom-up stress testing). Bank of Uganda may use this stress test to assess the stability of the entire financial sector.

2.5 Risk reporting

Risks are reported and discussed in the risk governance structures and Executive Management committees. Risk reports are prepared on a monthly and quarterly basis for Management and the Board of Directors, respectively. The Board takes a more strategic approach whereas all Business units and branches ensure the daily implementation of the Bank's risk strategy.

2.5.1 The Bank risk profile report

The Board of Directors receives the Bank Risk Profile report on a quarterly basis while a more detailed reporting deck forms the basis for deliberation on risk issues in various Executive Management forums on a more frequent basis. The risk profile report typically assesses the Bank's performance and risk exposure by highlighting specific indicators that signal potential risks. It outlines key factors that could impact our Bank's objectives, providing insights in areas of concern. The report includes data on financial metrics, operational efficiency, regulatory compliance, and other relevant aspects that assist stakeholders to gauge the Bank's overall risk profile.

At a high level, it covers the most important risk areas of the Bank's strategic framework and can be viewed as a summary of other existing tactical reports.

The Bank risk profile report consists of a 3-month quantitative and qualitative trend analysis as well as a three-month forecast with action plans for any key risk indicators that might be in breach of our existing risk appetite.

2.5.2 The Key Risk Indicator (KRI) report

- The KRI report is an early-warning mechanism to alert Senior management and the Board of Directors of increasing risk exposures
- KRIs are also used to assist management with information about specific risks
- KRIs are periodically reviewed and refreshed
- KRIs must have the following qualities:
 - Measurability
 - Predictability
 - Comparability

2.6 Risk Architecture

"Risk architecture" typically refers to the overall framework and structure that an organization establishes to identify, assess, manage, and mitigate risks effectively. As dfcu bank, we look at this in three dimensions;

- a) Our Risk culture
- b) Our three lines of defence and combined assurance model
- c) Our governance structure for risk management within the bank.

2.6.1 Risk culture

Our risk culture reflects our vision and ethics. The Board and Executive Management team have established a firm tone at the very top of our bank in terms of conducting our business the right way, all the time, and ensuring we earn the trust of our customers and stakeholders with every decision that we make. The Bank has a well-defined code of conduct which plays a pivotal role in shaping the culture of risk management. Clear ethical guidelines and behavioral expectations are in place creating a framework that encourages employees to make decisions aligned with proper risk avoidance and mitigation best practices. A robust code of conduct fosters a culture of accountability, transparency, and adherence to regulatory standards, instilling a collective awareness of the importance of risk management.

We leverage the three lines of defense model to build and maintain a strong risk culture. We focus on multiple drivers to enhance our risk culture and emphasize doing business the right way. We educate our people on risk management principles throughout the year through awareness campaigns and utilize various learning tools and platforms to achieve this purpose. Our employees are empowered to act ethically and confidently in ways that place our customers at the center of everything that they do.

2.6.2 The three lines of defense model

Our bank utilizes a three lines of defense model, with the three lines functioning together in unison to achieve optimal control of the bank's risk environment by employing combined assurance methodologies.

The first line of defense comprises of revenue generating and client facing functions of the bank, along with their immediate support teams. The first line is where risk is generated in the bank and each first line unit owns, identifies and manages its own risks. In addition, each first line unit works hand in hand with the second line of defense to establish the policies, standards and controls necessary to operate at an optimal level of risk control.

The Internal Control Unit (ICU) is a first line assurance function charged with ensuring the effectiveness of first line controls in the bank. The ICU serves as a key check point in the first line to ensure the effective implementation of controls as set out in the Bank's standards, policies, and procedures.

The second line of defense consists of the Risk, and Compliance functions and provides oversight of the first line, including the setting of guidelines and tolerance limits consistent with Bank's overall risk appetite. The second line is also responsible for ensuring the proper functioning of the Bank's risk management framework and is involved in several activities such as independent risk assessment, aggregation, and reporting. The second line also conducts a range of assurance activities while providing risk insights and advisory services to the first line as well as to Executive management and the Board.

The third line of defense is our Internal Audit function. This line periodically runs checks on the other two lines of defense to ensure they are functioning effectively. The Internal Audit function performs independent review and challenge of all first- and second-line business unit activities. Internal audit ultimately provides independent assurance to the Executive Management team, to the Board of Directors, and to all regulatory entities concerning the efficacy of the Bank's internal control environment.

2.6.3 Risk Governance structure

Our governance structure enables oversight and accountability through appropriately mandated Board and Management committees.

The Board of Directors.

- Our Board of Directors has the overall responsibility for risk oversight and management in the Bank
- The Board has established committees for managing and monitoring risks and to advise it on risk-related matters. Examples include the Board Risk Committee (BRC), The Board Asset and Liability Management Committee (BALCO), the Board Audit Committee (BAC), and the Board Credit Committee (BCC)

The Board Risk Committee (BRC)

- This committee oversees and monitors the implementation of the enterprise Risk management framework.
- This committee advises the main Board on whether to approve the annual Risk appetite proposal from Management as well as on any policy changes recommended by Management to the Board.

Bank Risk Management committee.

- Reviews the overall risk profile of the Bank, monitors all categories of risk and determines appropriate mitigating activities.
- Provides comfort on the Bank's internal control and assurance framework relative to the risk profile.
- Supports the Bank Chief Risk Officer in exercising Board-delegated risk management authority.

Chief Executive Officer.

- Recommends to the Board the appointment of the CRO and delegates to him/her the authority to manage the risk profile of the Bank.
- Appoints Executive Management which is accountable for design and implementation of the Bank's internal controls.
- Works with Executive Management to embed a strong risk culture within the Bank

Chief Risk officer.

- Chief Risk Officer is a member of the senior management team with a direct reporting line to the Chief Executive Officer.
- He/she develops and implements the Enterprise risk management framework for the bank.
- Performs ongoing monitoring, assessment, and management of the risk environment
- Leads and manages the Risk function

Risk Management Unit.

- Assist the CRO to develop and implement the Enterprise risk management framework (ERMF) and supporting policies.
- Identify, aggregate, treat and communicate risks at a Bank-wide perspective
- Provide effective oversight on the ERMF and risk appetite frameworks of the Bank

Internal controls.

- Ensure effective implementation of controls throughout the Bank
- Promote a risk-aware culture in the Bank

Business Unit managers.

- Build a risk aware culture within their respective units
- Agree together with second line on key risk performance targets and thereafter work towards achieving them
- Responsibility for identifying, recording, reporting, and managing their own risks ensuring that the right controls are in place to mitigate them

Employees.

- All employees are responsible for understanding and managing risks in the context of their roles and responsibilities in line with the Bank's values
- All employees are accountable for escalating risk issues to their line managers, business unit Heads and to the Risk Management Domain

Internal Audit.

- Provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Bank's risk management framework and control governance processes

3. Use of external credit ratings under the standardized approach for credit risk.

The bank does not use external Credit Ratings in any way for Credit risk management.