UBA

United Bank for Africa

Pillar 3 Risk Management Report For period ended September 30, 2024

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Introduction

The Bank is incorporated in Uganda under the Companies Act of Uganda, 2012 and is licensed to transact Commercial Banking business under the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act, 2016.

Risk taking is central to banking business. The Bank evaluates business opportunities in terms of the risk – reward relationship. The risks that the Bank takes are reasonable, controlled and within its financial resources and risk mandates. The diversity of the Bank's business requires the Bank to identify, measure and manage associated risks effectively. The risks are managed through a Risk Management Framework that enables process monitoring and is closely aligned with the activities .of the Bank and in line with the guidelines given by Bank of Uganda.

The Board of Directors has the overall and ultimate responsibility for risk management in UBA Uganda. The Board comprises of eight (8) directors, all contributing wide range of skills and experience to the Bank. The directors comprise of an independent non - executive chairperson, a Managing Director/ Chief Executive Officer, Executive Director – Business, four (4) independent non-executive directors and a non-executive director who is the Group Head Energy and Corporate Bank.

The Board carries out its responsibility through its standing committees. These are; Board Audit Committee (BAC), Board Risk Management Committee (BRMC), Board Finance and Compensation Committee (BFCC), Board Assets and Liabilities Committee (ALCO) and the Board Credit Committee (BCC).

The Board of Directors has delegated its powers and authority to the Senior Management of the Bank through the various management committees which are responsible for ensuring compliance with the overall Risk Management Framework through a dedicated Risk Management Committee which provides regular updates to Executive Management and the Board on the risk profile of the Bank. The Board is responsible and approves the Risk Appetite of the Bank.

The Pillar 3 Risk Management Report

The Pillar 3 Risk Management Report provides a quarterly overview of the Bank's Risk Management Framework, Liquidity Risk Management, Regulatory Capital Profile and overview of the Risk Weighted Assets as at the end of the reporting period. The report is in line with Bank of Uganda guidelines on Pillar 3 disclosures as stipulated in the Internal Capital Adequacy Process and Pillar 3 Market Discipline Disclosure Requirements as well as the Financial Institutions (Liquidity) Regulations 2023.

The report has been prepared by Management, reviewed by Internal Audit and approved by the Board. The Board has reviewed the capital adequacy position of the Bank and its Risk Management Framework and has deemed it appropriate to support the strategic aspirations of the Bank in the short and medium term. The Bank is adequately capitalised as at September 30, 2024. The information contained in this report is **unaudited.**

Certification of Pillar 3 Market Discpline Disclosure Report

The Board confirms that the Pillar 3 Market Discipline Disclosure Report for period ending September 30, 2024 has been prepared in accordance with guidelines established by Bank of Uganda and in accordance with established agreed internal control processes.

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Kenneth Kisambira	Mustapha Kigozi Ssebagala
Ag. Managing Director/CEO	Board Chairman

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Key Prudential Metrics

The table below summarises an overview of the Bank's prudential regulatory metrics. The reported amount is in UGX 000s

		a	b	c	d	e
		September 30, 2024	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023
	Available capital (amounts)					
1	Core capital	152,899,098	152,147,751	141,130,578	141,545,313	134,133,232
2	Supplementary capital	1,946,124	1,711,104	1,136,526	1,398,418	1,058,480
3	Total capital	**154,845,222**	**153,858,855**	**142,267,104**	**142,943,731**	**135,191,712**
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	448,260,597	474,233,133	404,674,689	402,075,788	417,654,654
	Risk-based capital ratios as a percentage of RWA					
5	Core capital ratio (%)	34.11%	32.08%	34.88%	35.20%	32.12%
6	Total capital ratio (%)	34.54%	32.44%	35.16%	35.55%	32.37%
	Capital buffer requirements as a percentage of RWA					
7	Capital conservation buffer requirement (2.5%)	11,206,515	11,855,828	10,116,867	10,051,895	10,441,366
8	Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
9	Systemic buffer (for DSIBs) (%)	0%	0%	0%	0%	0%
10	Total of capital buffer requirements (%) (row 7 + row 8 + row 9)	11,206,515	11,855,828	10,116,867	10,051,895	10,441,366
11	Core capital available after meeting the bank's minimum capital requirements (%)	20.04%	17.94%	20.66%	21.05%	17.87%
	Basel III leverage ratio					
12	Total Basel III leverage ratio exposure measure	944,705,133	924,909,615	765,869,928	783,688,089	782,135,176
13	Basel III leverage ratio (%) (row 1 / row 13)	16.18%	16.45%	18.43%	18.06%	17.15%
	Liquidity Coverage Ratio (LCR)					
14	Total high-quality liquid assets (HQLA)	146,377,383	109,705,849	141,812,449	140,376,717	116,721,588
15	Total net cash outflow	35,472,832	34,515,075	27,421,015	38,223,537	41,337,441
16	LCR (%)	412.65%	317.85%	517.17%	367.25%	282.36%
	Net Stable Funding Ratio (NSFR)					
18	Total available stable funding	509,732,330	477,245,468	383,862,416	493,700,414	469,683,357
19	Total required stable funding	132,653,556	128,632,572	111,597,106	135,738,834	120,009,083
20	NSFR	384.26%	371.01%	343.97%	363.71%	391.37%

Overview of Risk Weighted Assets

The table below provides an overview of the Bank's Risk Weighted Assets. The reported amount is in UGX 000s.

		a	b	c
		RWA		Minimum capital requirements
		September 30, 2024	June 30, 2024	March 31, 2024
1	Credit risk (excluding counterparty credit risk)	421,861,698	450,189,570	379,286,911
2	Counterparty credit risk (CCR)	0	0	0
3	Market risk	8,494,571	7,927,176	9,396,744
4	Operational risk	17,904,327	16,116,386	15,991,033
5	Total (1 + 2 + 3 + 4)	448,260,597	474,233,133	404,674,689

*Counter Party Credit Risk. The Bank did not hold derivative transactions as at the end of each reporting period.

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Composition of regulatory capital

The table below provides a breakdown of the Capital elements of the Bank for period ending September 30, 2024

	Common Equity Tier 1 capital: instruments and reserves	Amounts in UGX 000
1	Permanent shareholders equity (issued and fully paid-up common shares)	206,718,556
2	Share premium	0
3	Retained earnings	(63,178,939)
4	Net after tax profits current year-to date (100% only)	5,188,988
5	General reserves (permanent, unencumbered and able to absorb losses)	10,965,517
6	**Tier 1 capital before regulatory adjustments**	**159,694,122**
	Tier 1 capital: regulatory adjustments	
8	Goodwill and other intangible assets	497,663
9	Current year's losses	0
10	Investments in unconsolidated financial subsidiaries	0
12	Deficiencies in provisions for losses	0
14	Other deductions determined by the Central bank	0
26	Other deductions determined by the Central bank	6,297,360
28	**Total regulatory adjustments to Tier 1 capital**	6,795,023
29	**Tier 1 capital**	**152,899,098**
	Tier 2 capital: Supplementary capital	
46	Revaluation reserves on fixed assets	0
47	*Unencumbered general provisions for losses (not to exceed 1.25% of RWA)*	1,946,124
48	Hybrid capital instruments	0
49	*Subordinated debt (not to exceed 50% of core capital subject to a discount factor)*	0
58	**Tier 2 capital**	1,946,124
59	**Total regulatory capital (= Tier 1 + Tier 2)**	**154,845,222**
60	**Total risk-weighted assets**	**448,260,597**

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Composition of regulatory capital Cont'd

	Capital adequacy ratios and buffers	
61	**Tier 1 capital (as a percentage of risk-weighted assets)**	34.11%
63	**Total capital (as a percentage of risk-weighted assets)**	34.54%
64	**Total Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus systemic buffer, expressed as a percentage of risk-weighted assets)**	2.50%
65	Of which: capital conservation buffer requirement	11,206,515
66	Of which: countercyclical buffer requirement	0
67	Of which: bank specific systemic buffer requirement	0
68	**Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements**	0.65%
	Minimum statutory ratio requirements	
70	Tier 1 capital adequacy ratio	10.0%
71	Total capital adequacy ratio	12.0%

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Asset Quality

The table below provides a comprehensive picture of the credit quality for both on- and off-balance sheet assets for period ending September 30, 2024 in UGX 000s

		a	b	d	e	f	g
		Gross carrying values of		Provisions as per FIA2004/MDIA2003		Interest in suspense	Net values (FIA/MDIA) (a+b-d-e)
		Defaulted exposures	Non-defaulted exposures	Specific	General		
1	Loans and advances	12,359,739	190,194,943	5,654,211	1,946,124	1,388,082	194,954,347
2	Debt Securities	0	267,756,337	0	0	0	267,756,337
3	Off-balance sheet exposures	0	299,753,902	0	0	0	299,753,902
4	***Total***	***12,359,739***	***757,705,182***	***5,654,211***	***1,946,124***	***1,388,082***	***762,464,586***

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Changes in stock of defaulted loans and debt securities

The table below shows the stock of defaulted loans and debt securities for period ending September 30, 2024

		Amount in UGX 000
1	**Defaulted loans & advances, debt securities and off balance sheet exposures at end of the previous reporting period**	12,224,544
2	Loans and debt securities that have defaulted since the last reporting period	292,479
3	Returned to non-defaulted status	54,114
4	Amounts written off	(405,642)
5	Other changes	(508,812)
6	**Defaulted loans & advances, debt securities and off balance sheet exposures at end of the reporting period** (1+2-3-4+5)	12,359,738

*Other changes relate to repayments of loans that were previously in default

Qualitative disclosure on SFIs' use of external credit ratings under the standardised approach for credit risk.

UBA Uganda Limited uses Moody's Analytics credit lens as External Credit Assessment Institution to conduct credit assessments for the Standardized Approach to Credit Risk. Moody's analytics is applied to the Banks market segments of Corporate, Commercial and SMEs to assess Credit ratings for Loans and Advances, Contingents (Off balance sheet items) using submitted audited financial statements to arrive at financial spreads and qualitative data in order to generate risk grading and scores as summarised below:

Description	Rating Bucket		Rating Bucket	Risk Range
Extremely Low Risk	AAA	1.0 - 1.99	90% - 100%	Low Risk Range
Very Low Risk	AA	2.00 - 2.99	80% - 89%	
Low Risk	A	3.00 - 3.99	70% - 79%	
Acceptable Risk	BBB	4.00 - 4.99	60% - 69%	Acceptable Risk Range
Moderately High Risk	BB	5.00 - 5.99	50% - 59%	
High Risk	B	6.00 - 6.99	40% - 49%	High Risk Range
Very High Risk	CCC	7.00 - 7.99	30% -39%	
Extremely High Risk	CC	8.00 - 8.99	0% - 29%	Unacceptable Risk Range
High likelihood of Default	C	9.00 - 9.99		
Default	D	Above 9.99		
Unrated portfolio				

*The results of the credit assessment are used to inform our lending decisions in the Corporate and Commercial space as well as selected SME transactions.

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Liquidity Position and Liquidity Risk Management

The Bank is cognizant of the critical need for liquidity to run the business of the Bank. The Board has the overall responsibility of liquidity risk management strategy in the Bank. The Board sets the liquidity appetite which defines the level of liquidity the Bank is willing to deal with and has delegated to Board Asset and Liability Management Committee to oversee the liquidity risk framework of the Subsidiary and meets on a quarterly basis to review the compliance status of the strategy set out to achieve the desired liquidity profile of the Bank.

Executive Management through the Asset and Liability Committee meets at least on a monthly basis to review the liquidity position of the Bank and the parameters set out in the liquidity risk management framework to ensure compliance and where any breaches are identified, remedial mechanisms put in place to regularise liquidity. The Country Treasurer is mandated to manage the optimum liquidity position of the Bank.

The Internal Audit function performs independent reviews on the liquidity position of the Bank and the strategies in place to ensure maintenance of optimum levels of liquidity to meet obligations as and when they fall due and regulatory expectations spelt out in Bank of Uganda regulations/guidelines on liquidity management. The Internal Audit review process is in line with the annual approved Audit plan for the Bank.

The Bank through Risk Function performs regular liquidity risk stress testing based on scenario and sensitivity analysis. The testing models, scenarios and methodologies are regularly reviewed and approved to align with existing operating environment and emerging risks.

The Bank has in place Liquidity and Capital Contingency Plans with guidelines for activation if early indicators are triggered from the stress tests or actual breaches do occur. The Liquidity Contingency plan is regularly tested for resilience, relevance and effectiveness in times of liquidity crisis.

The Liquidity Management Framework/Strategy has embedded the liquidity coverage ratio, net stable funding and liquidity assets ratio as key benchmarks for testing the effectiveness of the liquidity plan in place. These are reviewed on a weekly basis by the Market Risk function in line with the Financial Institutions (Liquidity) Regulations of 2023.

Commentary on key Liquidity ratios

Liquidity Coverage Ratio (LCR) is the ratio of stock of highly liquid assets held by the Bank to cover short term obligations over a 30-day period.

The increase in LCR is due to low utilisation of the Standing Lending Facility and interbank borrowing coupled with increased stock of highly liquid assets. The LCR-Consolidated as at September 30,2024 closed at 412.6%, LCR-LCY 159.7% and LCR-FCY 81.1% from 317.8%, 141.1% and 67.5% respectively as at June 30, 2024.

Net Stable Funding Ratio (NSFR) and is defined as the amount of available stable funding relative to the amount of required stable funding. Available stable funding in this case refers to the proportion of capital and liabilities expected to reliable over the time horizon considered by the NSFR, which extends to one year. The amount of required stable funding of the Bank considers the maturity profiles of both on-and off-balance sheet exposures. The ratio should always be greater or equal to 100%.

As at September 30 2024, the NSFR registered an upward movement to 384.26% from 371.01% in June 2024 due to a rise in the total deposits that increased the total available stable funding.

Plot 2 Jinja Road P.O .Box 7396,
Kampala Uganda
Tel: +256 800 100 030 (Toll Free)
Email: cfcuganda@ubagroup.com
Website: www.ubauganda.com