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# FINCA UGANDA LIMITED

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## PILLAR 3: MARKET DISCIPLINE DISCLOSURES

DECEMBER 31, 2023

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## **INTRODUCTION**

This report provides the MDI's Pillar 3 market discipline disclosures as at December 31, 2023. The disclosures were introduced by Bank of Uganda effective April 30, 2023 to reduce information asymmetry and help to promote comparability of supervised financial institutions' (SFI) risk profiles, and to promote market discipline through these regulatory disclosures.

The disclosures herein focus on the regulatory capital and risk exposures with the purpose of increasing transparency and confidence about an SFI's exposure to risk and the overall adequacy of its regulatory capital.

The information in this report is unaudited.

**DIS01: KEY PRUDENTIAL METRICS- AS AT DECEMBER 31, 2023**

		Dec, 23	Mar 23	Jun, 23	Sep, 23
		T	T-1	T-2	T-3
<b>Available capital (amounts)</b>					
1	Core capital	39,741,412.45	40,034,790.96	38,420,415.14	38,946,727.99
2	Supplementary capital	5,431,180.27	5,770,869.91	5,837,654.07	5,734,915.32
3	Total capital	45,172,592.72	45,805,660.87	44,258,069.21	44,681,643.31
<b>Risk-weighted assets (amounts)</b>					
4	Total risk-weighted assets (RWA)	177,335,948.89	167,778,672.27	172,641,674.54	171,726,735.04
<b>Risk-based capital ratios as a percentage of RWA</b>					
5	Core capital ratio (%)	22.41%	23.86%	22.25%	22.68%
6	Total capital ratio (%)	25.47%	27.30%	25.64%	26.02%
<b>Capital buffer requirements as a percentage of RWA</b>					
7	Capital conservation buffer requirement (2.5%)	4,433,398.72	4,194,466.81	4,316,041.86	4,293,168.38
8	Countercyclical buffer requirement (%)	0	0	0	0
9	Systemic buffer (for DSIBs) (%)	0	0	0	0
10	Total of capital buffer requirements (%) (row 7 + row 8 + row 9)	4,433,398.72	4,194,466.81	4,316,041.86	4,293,168.38
11	Core capital available after meeting the bank's minimum capital requirements (%)	26,600,392.33	25,166,800.84	25,896,251.18	25,759,010.26
<b>Basel III leverage ratio</b>					
13	Total Basel III leverage ratio exposure measure	228,945,759.36	209,888,475.77	219,956,254.28	219,327,632.28
14	Basel III leverage ratio (%) (row 1 / row 13)	17.36%	19.07%	17.47%	17.76%
<b>Liquidity Coverage Ratio</b>					

15	Total high-quality liquid assets (HQLA)	NA			
16	Total net cash outflow	NA			
17	LCR (%)	NA			
	<b>Net Stable Funding Ratio</b>				
18	Total available stable funding	NA			
19	Total required stable funding	NA			
20	NSFR	NA			

## **DIS02: RISK MANAGEMENT APPROACH**

### **2.0 Risk Management Approach**

FINCA Uganda Limited (FUL) takes the approach of identifying and assessing risks and opportunities that are in its internal and external environments, and proactively identifying and mitigating emerging risks.

The MDI ensures effective risk management through:

- i. Building a strong risk culture, which is integral to FUL's culture.
- ii. Assessing principal risks, assignment of risk ownership and accountability using appropriate risk practices, tools and techniques.
- iii. Oversee and manage assurance through a combined assurance model with clear accountability across the three lines of defence.
- iv. Upholding the risk governance structure with clear Board escalation and oversight.
- v. Complete and coordinated processes for evaluating, responding to and monitoring risks.
- vi. Oversight of the network wide assurance through a combined assurance approach with clear accountability across the three lines of defence.

#### **2.1.1 Risk Governance**

##### **a) Board of Directors**

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

The Board delegates its Risk Management oversight responsibilities to specific Board sub-committees which focus on different aspects of Risk Management. The full Board is regularly updated on the key risks facing FUL and these are compared with the approved 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 FUL.

Other Board sub committees that oversee FUL's risks are; Board Audit Committee (BAC), Board Information Technology Committee (BIT), Board Human Resource Committee (BHRC), Board Asset and

Liability Committee (BALCO) and Board Credit Committee (BCC) with each committee focusing on different aspects of risk management. These work through the respective management committees that have daily oversight of all principal risks impacting FUL.

The Board of Directors delegates its powers and authority to the Executive Committee of FUL through the various management committees which are responsible for ensuring compliance with the Enterprise Risk Management Framework through the Management Risk Committee which provides regular updates to Executive Committee and the Board on FUL's risk profile.

**b) Board Risk Committee**

The Board Risk Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

**c) Management Risk Committee**

The routine monitoring of risk has been delegated to the Management Risk Committee by the Executive Committee. The Management Risk Committee has the overall responsibility to support the Board Risk Committee for the development and formulation of the risk strategies, procedures, policies, and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies.

**d) Risk Management Department**

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Committee. The department is responsible for credit risk, market risk, liquidity risk, Strategic risk operational risk, Information Security Risk and overall risk control.

**e) Compliance Department**

The Compliance function manages the compliance risk of the MDI. The Compliance function reports to the Board, through the Board Risk Committee and has sufficient authority, independence, resources, and access to the Board. The compliance function provides advice to the Board and management regarding the MDI's compliance with applicable laws, guidance and standards while providing support to comply with the same.

**f) Internal Controls function**

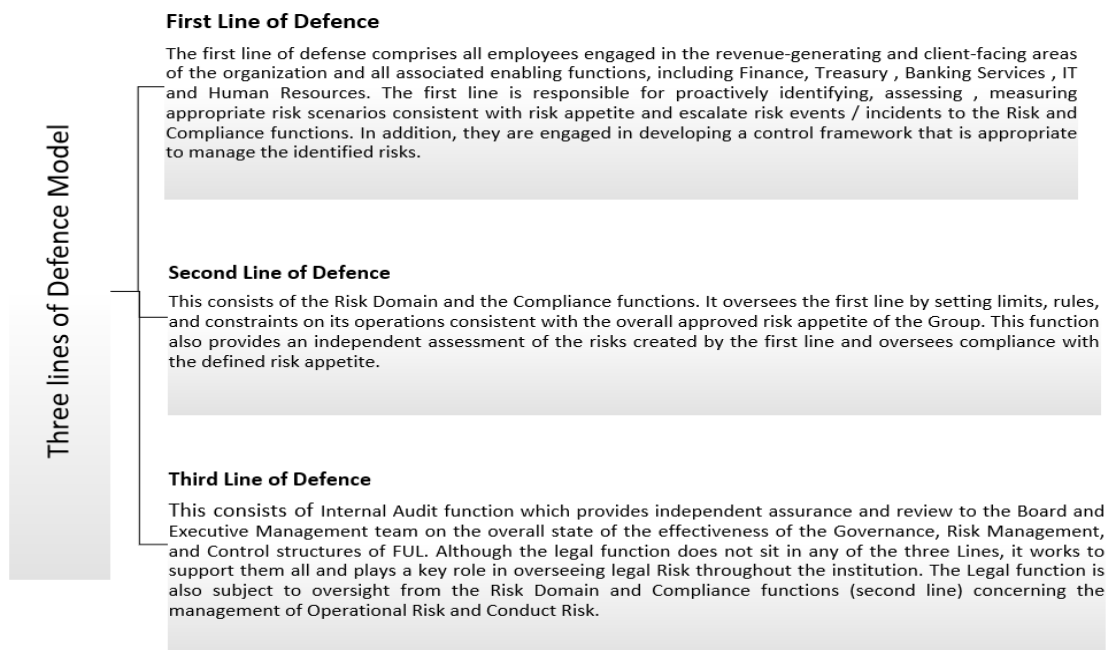
The internal controls function is responsible for assessing and conducting gap analysis of the control environment of the network through ensuring adherence to the policies and procedures. The Internal Controls function reports to the Board, through the Board Risk Committee and to management through the Management Risk Committee.

**g) Internal Audit**

Internal Audit provides independent assurance to the Board over the effectiveness of governance, risk management and control over current, systemic, and emerging/evolving risks.

**h) Three Lines of Defense and Combined assurance**

FUL utilizes three lines of defence model in blend with the combined assurance model to control risk across all businesses and functions. There are specific responsibilities assigned to each line of defence. All employees are responsible for ensuring that FUL operates within its risk appetite. These responsibilities are defined in terms of the employee’s role in the three lines of defence.



**2.1.2 Risk Management Process**

FUL’s risk management process is based on the ISO 31000 Risk Management standard where the risks are contextualized within the operating environment of the bank. The process is summarized below;

Risk Management Process	
Risk Assessment	<ul style="list-style-type: none"> <li>• Adoption of a vigilant and ongoing process of risk identification to understand risk within its explicit and implicit objectives and maintains a comprehensive risk register including new and emerging risks. This identification process is driven by the Risk Management department at FUL in coordination with all departments of the MDI, as supported by the risk champions in each department and branch.</li> <li>• Use of suitable tools for identifying risks such as stakeholder engagements, self-assessments, risk management Forums, audit findings, industry benchmarking, review previous losses, and use of expert judgement.</li> </ul>

Risk Management Process	
	<ul style="list-style-type: none"> <li>• Communicating and consulting with the relevant external and internal stakeholders in and throughout all steps of the risk management process. Communication involves obtaining feedback and information to support decision-making.</li> <li>• All staff of the MDI are responsible for risk management.</li> </ul>
Risk Evaluation	<ul style="list-style-type: none"> <li>• Measure risks in terms of impact and likelihood of occurrence</li> <li>• Categorising risks (Internal, external or Strategic) and matching them to an appropriate risk management process.</li> <li>• Assessing risks based on inherent and residual risks. Residual risk is benchmarked against the MDI's risk appetite to determine the need for further management intervention if any.</li> <li>• Analysing the root causes of identified risk event and the cause -and -effect relationships.</li> <li>• Risk ranking to determine priorities.</li> </ul>
Risk Treatment	<ul style="list-style-type: none"> <li>• Determining the appropriate risk treatment, which includes preventive, detective and corrective controls and deciding whether the remaining risk is acceptable and taking further action if needed.</li> <li>• Automating controls where possible, especially preventive risks controls.</li> <li>• Reviewing stress/scenario testing in response to the development of new and unanticipated external risks.</li> <li>• Taking care that no unintended consequences exist, there can be scenarios where the actions taken to control one risk could introduce other risks or undermine existing controls.</li> <li>• Deep dives analyses for significant risk events</li> </ul>
Continuous Monitoring	<ul style="list-style-type: none"> <li>• Analysing current risk profile and risk trends/events, using key risk indicators (KRIs) to understand changes in the risk environment, proactive monitoring of emerging risks that might impact business objectives and monitoring changes in risk materiality, likelihood and impact, and the appropriateness of existing controls.</li> <li>• Ensuring risks are maintained within set limits in the approved Risk Appetite statement.</li> <li>• Frequent and timely reviews applying a combined assurance model to boost overall assurance in the risk and control environment.</li> <li>• Checking that controls are functioning as intended and remain fit for purpose</li> </ul>

## 2.2. Risk Culture & Appetite

### 2.2.1 Risk Appetite

Risk appetite is defined as the level of risk which the group is prepared to accept in the conduct of their activities to deliver its business objectives. Risk Appetite reflects the risk management philosophy that the Board wants the institution to adopt and, in turn, influences its risk culture, operating style and decision-making. It represents a balance between the potential benefits of innovation and the threats that change inevitably brings.



Risk appetite frameworks aids FUL to understand it's risk profile, find an optimal balance between risk and return, and nurture a healthy risk culture in the organization. FUL's risk appetite statement (RAS) is discussed and re-evaluated annually by the Board Risk Committee and approved by the Board to enable the alignment of FINCA Uganda's strategic plan with the agreed risk appetite. The Risk Appetite Statement can also be revised during the year whenever there are material changes in FINCA Uganda's strategy or business environment.

The risk appetite is then embedded into our internal processes and becomes the central point of discussions to keep business performance within the limits set for each risk, above which special attention is given to devise means and strategies to reduce the risks to acceptable levels. FINCA Uganda encourages a more conscious risk-taking behavior and reinforces risk culture within. A strong widespread risk culture is in turn an essential catalyst that elevates a risk appetite statement from a set of words into a statement of action.

### 2.2.2 Risk Culture

FUL has a staff code of conduct whose objective is to define the way staff think, work and act to ensure that the MDI delivers on its vision. The code of conduct sets out the conduct guard rails and provides guidance to staff. The code of conduct sets out the ethical and professional attitude and behaviour expected of the staff.

The risk management culture emphasizes careful analysis and management of risk in all business processes. Risks are identified, assessed, and managed at both an enterprise level ('top-down') and business level ('bottom-up'). The MDI embeds the right risk culture by driving accountability for risk decisions and control at all levels of the organization and enhance the strategic role of risk partners in supporting the growth of client business whilst managing risk appetite through three- line Defense model of risk management.

The risk management department is responsible for building a risk awareness culture within the MDI through appropriate education channels;

## **2.3. Risk Data & Reporting**

### 2.3.1 Risk Data

Internal and external data is utilized in meeting regulatory requirements and the management of risk. Internal data is owned and managed by the respective risk owners with regular assessment of data quality via their respective risk governance structures. All key datasets are subject to the requirements of the FUL's data policies and standards.

### 2.3.2 Risk reporting

The purpose of risk reporting is to provide timely, accurate, comprehensive, and useful information to the Board and senior management to facilitate informed decision-making. Board and Management Risk Committees determine their requirements in terms of content and frequency of reporting under both normal and stressed conditions. Risk reporting process flows from the Risk Management Department to the

Management Risk Committee then to the Board Risk Committee and the full Board. The content and level of aggregation are adjusted to suit the decision-making needs of the recipients. The risk management reports usually contain the following key information:

- I. Monitoring and management of the risk profile and key risk metrics per risk type against risk appetite and forecasts, including trend analysis.
- II. Monitoring of emerging risks and changes in the environment while assessing the potential impact on the Bank.
- III. Results of stress testing exercises – both to assess the adequacy of capital and ability to meet its strategic objectives using sensitivity to stressed conditions.
- IV. An assessment of the risk governance profile, including an assessment of the degree to which risk frameworks and policies are implemented throughout the MDI and assurance activities.

### 2.3.3 Risk Technology

Technology is a key factor for successful risk management practices, and to this end solutions are focused on: Data collection and storage, Risk analysis and modelling, Risk assessment, monitoring and control, Risk reporting and communication.

The MDI's investment in risk management related technology continues to prioritize cyber security, and Data analytics and robust reporting.

## 2.4 Stress testing

Stress testing and scenario analysis are key elements of the MDI's integrated planning and risk management processes. Using stress testing and scenario analysis, FUL can assess the performance and resilience of its business in the expected economic environment and also evaluate the potential impact of adverse economic conditions, using and applying the information in the process of setting risk appetite.

Credit, Strategic, Liquidity , Operational & Market risk stress tests are conducted to assess FUL's ability to meet its financial objectives in adverse situations. This is supported by a framework, policies, and procedures, adhering to internal and external stakeholder requirements, and benchmarked against best practice.

The stress testing results are reviewed by management & Board focus being on their impact on Earnings and Capital Adequacy; which informs the decision-making in terms of pursuing or preventing certain opportunities or activities based on their impact on earnings or capital. These have been incorporated into the MDI's Internal capital adequacy assessment process (ICAAP).

The stress tests are based on stress scenarios at varying and sufficient degrees of severity and applying various projection techniques.

The Board is responsible for approving the Stress Testing Framework and, through the Board Risk Committee.

## 2.5. Our Material Risks

## 2. 5.1. Risk Types

Risk Type	Description
<b>Strategic Risk</b>	This is the risk to FUL's earnings, capital, or reputation arising from changes in the environment the MDI operates in due to adverse strategic decisions, inadequate implementation of strategic decisions, or slow response to industry, economic or technological changes.
<b>Credit Risk</b>	This is the risk of financial loss , should our customers , clients or market counterparties fail to fulfil their contractual obligations. It's composed of obligor risk, concentration risk, and country risk. It represents the largest source of risk to which the group is exposed.
<b>Operational Risk</b>	Operational Risk is the risk of loss to the MDI arising from inadequate or failed processes, systems, human resource, or due to external events. This concept includes legal risk, but not strategic or reputational risk
<b>Market Risk</b>	This is the risk of losses to the Bank arising from changes in interest rates, foreign exchange rates. Market risk also includes capital risk that the if the Bank does not maintain sufficient capital ratios and buffers to allow it to meet its regulatory and internal capital buffer obligations and requirements.
<b>Funding &amp; Liquidity Risk</b>	This is the current or potential loss of earnings or capital arising from the inability to meet liabilities/financial obligations as they fall due without incurring unacceptable costs or losses.
<b>Cyber Security Risk</b>	Cybersecurity risks relate to the loss of confidentiality, integrity, or availability of information, data, or information (or control) systems and reflect the potential adverse impacts on organizational operations.
<b>Compliance Risk</b>	The risk of legal or regulatory sanction, financial loss or damage to reputation that FUL may suffer as a result of its failure to comply with laws, regulations, codes of conduct, internal policies, and standards of good practice applicable to its financial activities
<b>Reputational Risk</b>	The risk of potential or actual damage to which may impair the profitability and/or sustainability of its business.
<b>Third Party Risk</b>	This is the potential risk that arises from the MDI's use of outside parties to perform services or activities on its behalf.
<b>Group risk</b>	This is the risk that FUL is exposed to as a result of being part of integrated financial services group as a subsidiary and could be affected by problems arising within one or more members

## 2.5.2. Risk Mitigation

As part of its overall risk management, FUL uses various methods to manage exposures resulting from changes in credit risks, liquidity risks, market risks (including foreign exchange risk, and Interest rate risk), and operational risks.

FUL manages its credit risk exposures through having detailed policies and procedures that guide the MDI's lending activities. For impairment FUL applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9. In addition, as a measure to improve efficiency in making credit decisions, while improving customer experience (turn-around time), the evaluation process has been automated with a Credit Scoring system which uses Credit Reference Bureau data to identify clients with a poor credit history and eliminate them, thus ensuring a quality loan portfolio.

To guard against liquidity risk, management has diversified funding sources and assets are managed with overall liquidity in consideration maintaining a healthy and quality portfolio of liquid assets. FINCA Uganda maintains adequate liquidity by way of cash flow forecasts considering anticipated payments, deposit and loan maturities under both normal and stressed conditions. Contingency funding such as overdraft lines, maintaining a portfolio of liquid assets that can easily be liquidated, diversification of funding options/sources are in place.

To manage all other risks, FUL has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

#### DIS03: OVERVIEW OF THE RISK WEIGHTED ASSETS(RWA)- AS AT DECEMBER 31, 2023

		RWA		Minimum capital requirements
		Q4, 2023	Q3, 2023	Q4, 2023
1	Credit risk (excluding counterparty credit risk)	134,723,975,000	130,018,928,000	11,222,507,118
2	Counterparty credit risk (CCR)	-	-	-
3	Market risk	-	-	-
4	Operational risk	6,743,151,000	6,442,950,000	809,502
5	Total (1 + 2 + 3 + 4)	141,467,126,000	136,461,878,000	11,223,316,620

#### DIS04: COMPOSITION OF REGULATORY CAPITAL-AS AT DECEMBER 31, 2023

		December, 2023	
		Amounts	
	<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Permanent shareholders equity (issued and fully paid-up common shares)	13,893,323.51	

2	Share premium	6,795,620.00	
3	Retained earnings	16,363,144.42	
4	Net after tax profits current year-to date (50% only)	2,689,324.52	
5	General reserves (permanent, unencumbered, and able to absorb losses)	953,628.58	
6	<b>Tier 1 capital before regulatory adjustments</b>		
	<b>Tier 1 capital: regulatory adjustments</b>	<b>40,695,041.03</b>	
8	Goodwill and other intangible assets	0	
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	0	
28	<b>Total regulatory adjustments to Tier 1 capital</b>	40,695,041.03	
29	<b>Tier 1 capital</b>	40,695,041.03	
	<b>Tier 2 capital: Supplementary capital</b>	<b>4,477,551.69</b>	
46	Revaluation reserves on fixed assets	0	
47	<i>Unencumbered general provisions for losses (not to exceed 1.25% of RWA)</i>	0	
48	Hybrid capital instruments	0	
49	<i>Subordinated debt (not to exceed 50% of core capital subject to a discount factor)</i>	4,477,551.69	
58	<b>Tier 2 capital</b>	4,477,551.69	
59	<b>Total regulatory capital (= Tier 1 + Tier2)</b>	45,172,592.72	
60	<b>Total risk-weighted assets</b>	177,335,948.89	
	<b>Capital adequacy ratios and buffers</b>		

61	<b>Tier 1 capital (as a percentage of risk-weighted assets)</b>	26,600,392.33	
63	<b>Total capital (as a percentage of risk-weighted assets)</b>	25.47%	
64	<b>Total Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus systemic buffer, expressed as a percentage of risk-weighted assets)</b>	0	
65	Of which: capital conservation buffer requirement	0	
66	Of which: countercyclical buffer requirement	0	
67	Of which: bank specific systemic buffer requirement	0	
68	<b>Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements</b>	22.95%	
<b>Minimum statutory ratio requirements</b>			
70	Tier 1 capital adequacy ratio	15%	
71	Total capital adequacy ratio	20%	

**DIS05: ASSET QUALITY- AS AT DECEMBER 31, 2023**

		a	b	d	e	f	g
		Gross carrying values of		Provisions as per FIA2004/MDIA2003		Interest in suspense	Net
		Defaulted exposures	Non-defaulted exposures	Specific	General		values (FIA/MDIA) (a+b-d-e)
1	Loans and advances	7,896,253.84	133,654,262.96	5,489,374.73	953,628.58	1,003,266.60	135,107,513.49
2	Debt Securities	0	0	0	0	0	0
3	Off-balance sheet exposures	0	0	0	0	0	0
4	<b>Total</b>	<b>7,896,253.84</b>	<b>133,654,262.96</b>	<b>5,489,374.73</b>	<b>953,628.58</b>	<b>1,003,266.60</b>	<b>135,107,513.49</b>

**DIS06: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES-AS AT DECEMBER, 31, 2023**

		Dec, 23
1	<b>Defaulted loans &amp; advances, debt securities and off balance sheet exposures at end of the previous reporting period</b>	7,896,253.84
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	4,750,443.60
5	Other changes	-
6	<b>Defaulted loans &amp; advances, debt securities and off balance sheet exposures at end of the reporting period</b>	3,145,810.24
	(1+2-3-4+5)	

**DIS07: QUALITATIVE DISCLOSURE ON SFIS' USE OF EXTERNAL CREDIT RATINGS UNDER THE STANDARDISED APPROACH FOR CREDIT RISK**

FINCA Uganda uses the Standardized Approach for computation of the capital charge for Credit Risk as per BOU July 2021 guidelines.