FINANCE trust BANK

Putting Women First

Pillar 3 Market Disclosures

December 2024

Index

Introduction

The Finance Trust Bank (FTB) Pillar 3 Market disclosures follow the requirements set forth by Bank of Uganda, about the rules on risk and capital management in financial institutions and which represented a significant advance in the governance of financial institutions.

The objectives of supervising the Basel II requirements are: (i) promote the security and soundness of the Financial System, (ii) maintain capital at appropriate levels, (iii) improve the competitiveness conditions of the financial market, and (iv) establish a more comprehensive approach to risks. The Basel II requirements are based on a "three pillar" structure: (1) "Minimum capital required", (2) "Supervisory Review" and (3), "Market discipline", allowing public access to key information related to the capital adequacy of financial institutions in a structured and standardized manner.

Finance Trust Bank affirms its commitment to transparency in all its activities, in compliance with the requirements of regulatory bodies.

Scope of document

In accordance with the requirements, we present the information regarding Key prudential metrics related to regulatory capital, leverage ratio and liquidity standards, FTB risk management approach, the calculation of the amount of risk-weighted assets (RWA), changes in stock of defaulted loans and debt securities, and the calculation of the Reference Equity.

DIS01: Key metrics

		a	b	c	d	e
		2024-12	2024-09	2024-06	2024-03	2023-12
Available capital (amounts)						
1	Core capital	63,734,380	60,870,964	59,126,804	58,835,333	56,157,501
2	Supplementary capital	3,555,744	3,299,591	3,167,726	2,966,158	2,900,938
3	Total capital	67,290,124	62,294,530	61,801,491	59,058,438	58,179,987
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	359,978,116	380,531,434	375,179,018	350,363,056	331,699,862
Risk-based capital ratios as a percentage of RWA						
5	Core capital ratio (%)	17.71%	16.00%	15.76%	16.79%	16.93%
6	Total capital ratio (%)	18.69%	16.37%	16.47%	16.86%	17.54%
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	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)	2.50%	2.50%	2.50%	2.50%	2.5%
11	Core capital available after meeting the bank's minimum capital requirements (%)	5.06%	3.35%	3.11%	4.14%	4.28%
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	557,344,302	568,252,139	526,800,219	466,483,306	469,760,028
14	Basel III leverage ratio (%) (row 1 / row 13)	11.44%	10.71%	11.22%	12.61%	11.95%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA)	82,534,918,114	133,015,121,109	114,825,790,409	64,257,721,026	74,085,124,672
16	Total net cash outflow	12,137,387,577	59,170,868,064	30,931,454,263	40,128,808,265	46,394,598,645
17	LCR (%)	680%	225%	371%	160%	160%
Net Stable Funding Ratio						
18	Total available stable funding	318,960,806	534,488,581	495,500,023	438,885,082	443,134,228
19	Total required stable funding	266,536,880	186,854,860	170,912,081	146,762,251	145,941,374
20	NSFR	120%	286%	290%	299%	304%

Comments:

- The contraction in the Risk Weighted Assets was driven by the reduction in the Credit Risk Weighted Assets. This was on account of the decrease in loans under the Other Retail exposures.
- The significant increment in the LCR is premised on the contraction in the Total net cash outflow.

DIS02: Risk management approach

For FTB, the establishment of an efficient risk management structure is a critical task, fulfilled through policies and procedures aligned with risk goals and appetite, as well as prudential principles, rules, laws and regulatory practices.

Risk management comprises independent and integrated monitoring of globally established risk categories, which are:

Compliance Risk: Defined as that arising from legal or regulatory sanctions capable of causing material financial losses, as well as causing reputational damages arising from non-compliance with laws, rules, regulations or codes of conduct of self-regulation.

Credit Risk: Defined as the possibility of occurrences of losses associated with disability or noncompliance by the borrower or the borrower of their respective financial obligations under the agreed terms, the devaluation of the credit agreement resulting from the deterioration in the risk rating of the borrower, the reduction of gains or remunerations, the advantages granted in the renegotiation and the costs of recoveries.

Strategy Risk: Defined as the result of incorrect assumptions about internal or external factors; inadequate business plans, outside the main or ambiguous segments of operations; poor execution of business strategy or inability to react timely to changes in competitive, macroeconomic or regulatory environments.

Liquidity Risk: Defined as that arising from the possibility of the Bank not being able to honor the expected and unexpected obligations, current or future, including those arising from binding of guarantees, without affecting its daily operations and without incurring significant losses.

Market Risk: Defined as the risk of losses resulting from fluctuations in market variables that may negatively affect the value of their assets and liabilities or otherwise negatively affect results.

Operational Risk: Defined as that resulting from losses of external events or systems, people and internal processes inadequate or deficient, inherent to all the activities of the Bank.

Reputational Risk: Defined as that resulting from negative perceptions of conduct and business practices adopted by the Bank that may affect profitability and its operations. Reputational risk may come from negative perception by key stakeholders including clients, counterparties, investors, regulators, rating agencies, scrutiny of outside parties including politicians, consumers, media groups and the continuing threat of legal proceedings.

These factors can impact profitability and options, hindering the ability to establish relationships or maintain current relationships with key players (investors, regulators, employees and the community).

Environmental and Social Risk: The Bank has an Environmental and Social Risk Responsibility Policy, which includes climate risk and establishes guidelines for identification, assessment, monitoring, control and mitigation of social and environmental risk. Additionally, credit risk policies establish specific requirements for the management of social and environmental risks.

Anti-Money Laundering and Combating Terrorism: Reputational risk and regulatory sanctions related to financial crimes of money laundering, economic sanctions and combating terrorism is managed by Anti-Money Laundry policy and procedures, and commitment from the entire organization.

Information Security and Cybersecurity: A Data protection officer and Cyber security Manager were appointed, and a Data Protection policy was approved. Processes for hiring relevant technology service providers were approved by the Board.

Risk management governance

The Finance Trust Bank Risk Management Framework establishes functions and responsibilities for risk management across the different areas of the Bank, consistent with risk management guidelines and segmented into three lines of defence. In addition, it advises senior management decision making by delegation of responsibilities to committees and their executives and establishes the appetite for risks and limits related to activities.

The responsibilities of the three lines of defence are:

First line of defence – lines of businesses - primary responsibility for day-to-day management of risks associated with their activities.

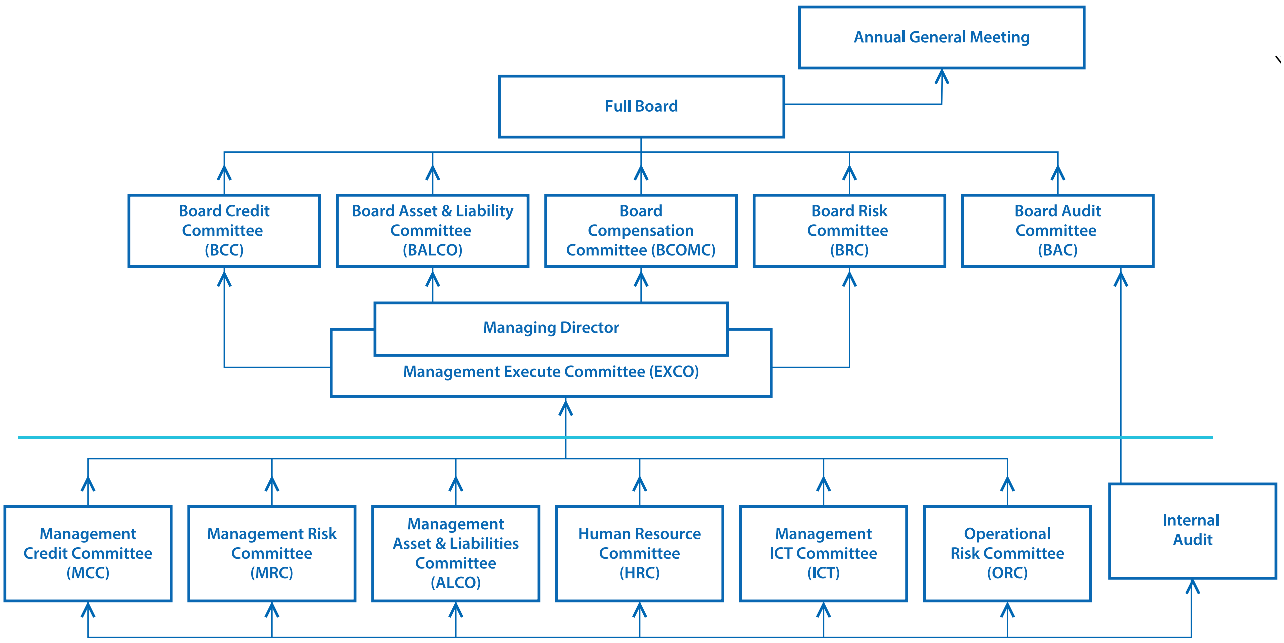
Second line of defence - risk management by the various risk areas and control functions, carried out through timely, integrated, and independent analysis of business areas; The second line of defence comprises of the Risk department and the Compliance department.

Third line of defence - Internal Audit – evaluates the adherence to the proposed structure, in a process of independent control of the other lines. The third line of defence comprises of the Internal Audit function complemented by External Audit.

All employees are committed to appropriate risk management and are responsible for identifying risks in their activities, escalating concerns about issues that may pose risks to the Bank and discussing and analysing any informed non-conformities in good faith, considering risks and returns, and implementing actions that result in better outcomes.

Organisational structure of the bank

The high-level organisation structure of the bank comprises of the Board and the different committees, and the Executive Committee and its committees chaired by the Board chair and Managing Director respectively.



The Bank has since established an Information and Technology Communication committee. The primary responsibility of the committee is to oversee the implementation of the IT strategy within the Bank.

The Board of Directors
The Board of directors of the Finance Trust Bank has the ultimate responsibility for the level of risk undertaken and approval of the overall business strategies and policies to ensure that senior management is fully capable of managing the Bank's operations. The Board constitutes of directors with different professional and academic backgrounds and operates through committees which oversee and report to it the key portfolios managed within the bank to ensure achievement of the strategic objectives.

The Board committees are chaired by Independent Non-executive directors.

Management Executive Committee
The Management Executive committee is responsible for implementing the approved strategies and policies in a manner that limits risks associated with the corporate strategy in a sustainable manner. Management is fully involved in the activities of the Bank and possess sufficient knowledge of all major business lines to ensure that appropriate policies, controls and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated and complied with. The Management Executive committee is also responsible for establishing and communicating a strong awareness of and need for effective internal controls and high ethical standards.

Risk Management Department
The bank has an independent risk management function that coordinates the implementation of the risk management processes within the Bank. The department which is headed by the Head of Risk reports to the Board Risk Committee on a quarterly basis and monthly to the Management Risk Committee.

The Risk Management Department pro-actively identifies, analyses, evaluates and develops treatment options and risk acceptance criteria for different risks. The Risk Management Department ensures that the Bank takes risks that are warranted i.e., risks that are understandable, measurable, and controllable and within the Bank's risk bearing capacity to readily withstand adverse results.

The Risk Management department is responsible for the coordination of development of policies & procedures and ensuring an adequate internal control environment that encourages mitigation of risks is in place. This is complemented by risk awareness and sensitization across all levels aimed at cultivating a culture of risk consciousness.

Compliance department
The Bank has an independent compliance function mandated to assess, monitor, and report on the compliance of the Bank with existing rules and regulations. The Compliance function reports to the Board, through the Board Risk Committee and has sufficient authority, independence, resources, and access to the Board.

The function provides advice to the Board and management regarding the Bank's compliance with applicable laws, guidance and standards while providing support for the operational support to comply with the same.

The Board is responsible for the oversight of the compliance function, which includes approval of its Policies and Procedures governing the identification, assessment, continuous monitoring and reporting of the compliance risks inherent in the Bank's operations.

Business Units
The Business units who are the first point of contact of the different risks have the responsibility of recognising, acknowledging, and mitigating the risks inherent in the various activities they engage in. They are responsible for ensuring that appropriate controls are consistently implemented to mitigate the risks that they interface with daily.

The business units are the first line of defence and are the process owners that generate and are responsible for management of risks on a day-to-day basis. They are tasked with the execution of a comprehensive internal control system.

Internal Audit
Internal Audit is mandated by the Board to provide independent and objective assurance and advisory services designed to add value and improve operations. Internal Audit provides assurance to the Board and Executive Management on the effectiveness of governance practices, risk management and controls designed to mitigate risks.

The internal audit function constitutes the third line of defence and provides assurance to senior management and the Board that the first- and second lines' efforts are consistent with expectations.

The Bank's Risk Management Framework is composed of five principles:
The following principles form the foundation of our risk management strategy.

Risk management culture – A culture that instils the importance of managing risks well, ensures the appropriate focus on risk in all activities and emphasizes that risk is everyone's responsibility. It encourages the mindset and behaviour needed to enable effective risk management and promote robust risk-taking within our risk appetite. Individual responsibility is the cornerstone of our culture, which requires that risks be promptly identified, escalated and debated, thus benefiting the overall performance of the Bank.

Appetite and Risk Limits – The Bank Risk Appetite Statement defines the types and levels of risk we are willing to assume to achieve our goals, including qualitative and quantitative statements, as appropriate.

Risk Management Processes – Robust risk management includes processes to effectively identify, measure, monitor and control risk. Risk management is an essential component of our daily business activities and an integral part of our strategic, capital and financial planning processes.

Risk data management, aggregation and reporting – Effective risk reports provide a clear understanding of our risk profile. We leverage our data information and management systems to gain transparency and generate actionable insights.

Risk Governance – Our risk governance framework serves as the basis for comprehensive management of the risks faced by the Bank. It describes, among other items, clear ownership and accountability for managing risk in three lines of defence: frontline units, independent risk management and Internal Audit.

Risk culture dissemination channels

All employees, interns and contractors receive a copy of the Code of Conduct when they join the Bank. Each employee formally consents to adhering to the Code of Conduct by signing it upon their hiring. On an annual basis, all staff re-affirm their consent to adhere to the code of conduct by signing it.

Risk training forms a crucial aspect to building and sustaining a risk conscious culture across the Bank. The Bank sets aside substantial portion of its budget for training.

The Bank has a communication program directed to all employees focused on risk management culture. This program provides for the periodic sending of e-mails, memos, briefs, alerts, posters and advisories regarding the various risks to which the Bank is exposed.

It is also worth mentioning that the Risk Appetite Statement is available to all employees in Bank's risk management policies and procedures. The policies and procedures are available to all staff on the intranet with unlimited access.

Risk measurement process

The Bank's Risk Appetite Statement (RAS) defines and quantifies the amount of capital, revenue or liquidity that we are willing to put at risk to achieve our strategic objectives and business plans in accordance with applicable regulatory requirements.

Qualitative components include the Bank's risk management statements and objectives, which describe appetite and establish risk appetite direction and structure, and quantitative metrics, aligned with qualitative objectives, establish risk-taking parameters, and serve as a guideline for the Board, by delegation of authority to committees and executives and establishing limits for business areas in each type of risk.

The limits that make up the RAS indicate the amount of risk we want to assume and the metrics that demonstrate these levels of risk in the business. Risk appetite metrics are defined and calibrated annually, with a forward-looking view in scenarios based on macroeconomic stress conditions. In addition, the Bank maintains risk appetite metrics and limits related to key concentrations to ensure adequate visibility of risks that may manifest in business areas as part of our ongoing efforts to ensure that concentrations are effectively identified, measured, monitored and controlled.

Risk monitoring metrics were selected based on the principles, risks and relevance of these indicators to their respective business areas.

Risk reporting process

Board Risk Committee (BRC) is responsible for supervising the relevant risks faced by the Bank and monitoring risk appetite metrics. BRC reports to the Full Board

Quarterly, metrics are presented and discussed at BRC, and any breaches are discussed in the subcommittees for defining action plan. At least once a year and following the integrated stress test, BRC analyses and assesses compliance with the risk appetite levels documented in the Risk Appetite Statement (RAS), as well as their management strategies, considering both individually and integrated risks. In addition, BRC defines measures to optimize risk and return, ensuring that the Bank's financial capacity is in line with the RAS.

The RAS ratifies the risk profile acceptable to the Bank and is the responsibility of Head of Risk (HOR), which is also responsible for maintaining an integrated risk governance structure, appropriate to the size, complexity and risk profile of the Bank. The HOR maintains policies, processes, reports, systems and models in accordance with the strategic objectives and RAS of the Bank.

Stress Testing Program
The Stress Testing Program is a set of procedures and routines, comprising specific methodologies, documentation and governance, aiming mainly at identifying potential vulnerabilities to which the Bank may be exposed.

The exercise of stress tests involves a prospective assessment of the potential impacts arising from adverse events and circumstances related to the Bank or a specific portfolio using methodologies that allow the assessment of changes in impacts in a specific relevant parameter of capital or liquidity of the Bank and/or in a portfolio. In addition, the stress tests consider the adverse consequences of Bank decisions or market responses to the stress tests. The scenarios are stressed at different shock levels of minor, moderate and major with the latter representing the most severe of the three. The stress test scenarios relate to the material risks including Credit, Operational, Market and Strategic risks.

The Bank uses two methodologies for stress testing including Sensitivity Analysis and Scenario Analysis.

Sensitivity Analysis:
Sensitivity Analysis typically examines the short-term impact of change in some variable(s) (e.g. interest rate, equity prices or a combination of both) on the value of a portfolio/financial position. For instance, sensitivity tests may include (i) migration of loans from stage 1 to Stage 3 parallel (ii) depreciation of domestic currency by 15% and (iii) increase in operational losses by 2%.

Scenario Analysis:
Scenario Analysis assesses impact of extreme but plausible scenarios on a given portfolio/financial position of the Bank, using sophisticated modelling techniques, and typically incorporating macroeconomic variables. It considers correlations between risk factors, including Macroeconomic variables.

Risk Mitigation Strategies
The strong culture of risk management combined with a responsible growth strategy - which presupposes a judicious process of approval and review of customers, counterparties and suppliers - are the fundamental pillars of the risk mitigation strategies employed.

The Governance Framework provides risk management policies and strategies, documented through limits and procedures designed to maintain risk exposure in accordance with the levels set in the RAS. Adherence to the different established limits are monitored daily through management reports and regularly debated and scaled by the three lines of defence through the Committees structure. Additionally, the effectiveness of mitigation strategies is constantly evaluated by the adherence of metrics to the limits established in current and stressed co-broadcasts. At least once a year, the Board of Directors, with the help of the Risk Committee, evaluates the results of integrated stress and calibrates RAS metrics so that the Bank continues to present the appropriate capital and liquidity to achieve its business plan.

Capital Management
In compliance with regulatory requirements, the Bank has implemented a capital management structure that includes procedures for the assessment of sufficiency and adequacy of capital to cover the risks of current and projected activities.

The Head of Treasury is responsible, among other functions, for the capital management structure and his duties include:
- Responsibility for monitoring and maintaining capital resources above internal minimum rates and regulatory minimum requirements.
- Supervision, definition and execution of the activities of the Capital Management structure as well as the supervision of the performance of the structure, including its improvement.
- Responsibility for managing the capital plan and contingency plan and therefore its adequate consistency with the entity's objectives, scenarios and projections defined.

The following aspects are discussed in the Assets, Liabilities Committee (ALCO) in order to define strategies to balance, monitor and make decisions regarding the relationship between available capital, risk appetite and minimum capital requirements:
- Adherence to quantitative metrics related to capital;
- Variation and evolution of capital consumption.
- Explanations, if necessary, for the violation of internal or regulatory operational limits and their remediating actions;
- Decisions with relevant impacts on capital management;
- Approval of internal limits, capital and contingency plans and capital policy; and
- Relevant regulatory changes.

From the required capital projection point of view, the Capital Plan and Capital Contingency Plan (CCP) consolidates the actions implemented by the Bank for regulatory capital management purposes. The capital projection is carried out annually and provides a forecast of the sufficiency of available regulatory capital in view of the strategic and budgetary objectives, forecast of future profits, dividend distribution policy and corporate actions foreseen by the executive management. Specifically, the following elements are part of the Capital Plan:

- Alignment with expected profits and balance sheet, as well as other factors elaborated jointly by the Finance, Risks and Business areas, approved by the Bank's committees.
- Estimates for different types of risk-weighted assets (RWA) and capital indices.
- Demonstration of coverage for capital projections, as well as planned capital actions to ensure the adequacy of regulatory capital;
- Determination of premises for at least one base scenario and an adverse stress scenario, appropriate to the business model, risk appetite and the Bank's portfolios and;
- Evaluation and reporting of the capacity of the Bank to withstand adverse stressed scenarios from the point of view of regulatory capital.

DIS03: Overview of risk-weighted assets (RWA)

Table below shows a breakdown of the RWAs and Minimum Capital requirements for the Bank.
It is noteworthy that the Bank uses the standardized approach for the market risk and operational risk portion.

		RWA		Minimum capital requirements
		2024-12	2024-09	2024-12
1	Credit risk (excluding counterparty credit risk)	346,745,526	367,192,692	41,609,463
2	Counterparty credit risk (CCR)	0	0	0
3	Market risk	2,618,596	2,249,796	314,232
4	Operational risk	10,613,994	11,088,946	1,273,679
5	Total (1 + 2 + 3 + 4)	359,978,116	380,531,434	43,197,374

Comment:
The contraction in the Risk Weighted Assets was driven by the reduction in the Credit Risk Weighted Assets. This was on account of the decrease in loans under the Other Retail exposures.

DIS04: Composition of regulatory capital

		a
		Amounts
	Common Equity Tier 1 capital: instruments and reserves	
1	Permanent shareholders equity (issued and fully paid-up common shares)	59,657,984
2	Share premium	-
3	Retained earnings	3,824,417
4	Net after tax profits current year-to date (50% only)	5,080,845
5	General reserves (permanent, unencumbered and able to absorb losses)	
6	**Tier 1 capital before regulatory adjustments**	**68,563,245**
	Tier 1 capital: regulatory adjustments	
8	Goodwill and other intangible assets	4,828,865
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	**Total regulatory adjustments to Tier 1 capital**	**63,734,380**
29	**Tier 1 capital**	**63,734,380**
	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)	3,555,744
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**	**3,555,744**
59	**Total regulatory capital (= Tier 1 + Tier2)**	**67,290,124**
60	**Total risk-weighted assets**	**359,978,116**
	Capital adequacy ratios and buffers	
61	**Tier 1 capital (as a percentage of risk-weighted assets)**	**17.71%**
63	**Total capital (as a percentage of risk-weighted assets)**	**18.69%**
64	**Total Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus systemic buffer, expressed as a percentage of risk-weighted assets)**	**2.5%**
65	Of which: capital conservation buffer requirement	2.5%
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**	**4.93%**
	Minimum statutory ratio requirements	
70	Tier 1 capital adequacy ratio	12.65%
71	Total capital adequacy ratio	14.65%

DIS05: Quality of assets

In this section, the main figures for exposure to credit risk related to loans, debt securities and similar transactions that are not recorded in the Bank's financial statement are presented.

		a	b	d	e	f	g
		Gross carrying values of		Provisions as per FIA2004/ MDIA2003		Interest in suspense	Net values (FIA/ MDIA)
		Defaulted exposures	Non-defaulted exposures	Specific	General		(a+b-d-e)
1	Loans and advances	11,715,691	340,106,852	5,862,122	3,555,865	1,352,137	342,404,556
2	Debt Securities	0	0	0	0	0	-
3	Off-balance sheet exposures	0	9,314,154	0	0	0	9,314,154
4	Total	11,715,691	349,421,006	5,862,122	3,555,865	1,352,137	350,366,573

DIS06: Changes in stock of defaulted loans and debt securities

This section presents the changes in the stock of defaulted assets, as defined in the table.

		a
1	Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the previous reporting period	9,389,858
2	Loans and debt securities that have defaulted since the last reporting period	8,982,177
3	Returned to non-defaulted status	-13,558,246
4	Amounts written off	-1,172,066
5	Other changes	8,073,968
6	Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the reporting period	11,715,690
	(1+2-3-4+5)	

Comment:
The increase in NPA was largely attributed to deterioration in Agriculture portfolio driven by poor rainfalls and the impact of the outbreak of the foot and mouth disease.

DIS07: Qualitative disclosure on use of external credit ratings under the standardized approach for credit risk

As of 31st December 2024, the bank was yet to use external credit ratings for credit risk.

Board attestation.

The Board attests that the Pillar 3 Market Discipline Disclosure Reports for Quarter 4 2024 have been prepared in accordance with the regulatory requirements..

Board Chairperson	Managing Director