BANK OF AFRICA
BMCE GROUP

# Pillar 3 Market Discipline

## Disclosures as at 31 December 2024

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## INTRODUCTION

In this report is the Bank of Africa Uganda Limited disclosures in accordance with the Bank of Uganda Pillar 3 Market Discipline: Guidelines on Disclosure Requirements as of December 2024.

The information in this report has not been reviewed nor reported on by our external auditors. All amounts are in shilling thousands unless otherwise stated.

## KEY PRUDENTIAL METRICS

The table below provides an overview for the bank's prudential statutory metrics.

| | Amounts Ushs' 000 | Dec-24 | Sep-24 | Jun-24 | Mar-24 | Dec-23 |
|---|---|---|---|---|---|---|
| | **Available capital (amounts)** | | | | | |
| 1 | Core capital | 177,705,476 | 173,412,514 | 170,142,622 | 178,826,817 | 163,170,683 |
| 2 | Supplementary capital | 4,953,305 | 4,430,643 | 4,430,643 | 4,430,643 | 4,430,643 |
| 3 | Total capital | 182,658,781 | 177,843,157 | 174,573,265 | 183,257,460 | 167,601,326 |
| | **Risk-weighted assets (amounts)** | | | | | |
| 4 | Total risk-weighted assets (RWA) | 782,974,369 | 802,019,352 | 818,677,530 | 739,350,460 | 733,868,922 |
| | **Risk-based capital ratios as a percentage of RWA** | | | | | |
| 5 | Core capital ratio (%) | 22.70% | 21.62% | 20.78% | 24.19% | 22.23% |
| 6 | Total capital ratio (%) | 23.33% | 22.17% | 21.32% | 24.79% | 22.84% |
| | **Capital buffer requirements as a percentage of RWA** | | | | | |
| 7 | Capital conservation buffer requirement (2.5%) | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| 8 | Countercyclical buffer requirement (%) | - | - | - | - | - |
| 9 | Systemic buffer (for DSIBs) (%) | - | - | - | - | - |
| 10 | Total of capital buffer requirements (%) (row 7 + row 8 + row 9) | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| 11 | Core capital available after meeting the bank's minimum capital requirements (%) | 7.70% | 6.62% | 6.62% | 5.78% | 9.19% |
| | **Basel III leverage ratio** | | | | | |
| 13 | Total Basel III leverage ratio exposure measure | 1,456,001,522 | 1,383,156,109 | 1,395,667,869 | 1,297,268,442 | 1,347,496,000 |
| 14 | Basel III leverage ratio (%) (row 1 / row 13) | 12.21% | 12.54% | 12.19% | 13.78% | 12.11% |
| | **Liquidity Coverage Ratio** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) | 161,693,276 | 195,223,374 | 128,394,925 | 149,477,296 | 173,613,816 |
| 16 | Total net cash outflow | 36,830,318 | 89,128,042 | 36,786,585 | 67,451,481 | 126,236,721 |
| 17 | LCR (%) | 439.0% | 219.0% | 349.0% | 221.6% | 137.5% |
| | **Net Stable Funding Ratio** | | | | | |
| 18 | Total available stable funding | 803,535,693 | 761,095,421 | 751,470,171 | 707,856,571 | 676,307,888 |
| 19 | Total required stable funding | 356,158,885 | 301,608,608 | 343,793,871 | 289,510,623 | 284,567,591 |
| 20 | NSFR | 225.6% | 252.3% | 218.6% | 244.5% | 237.7% |

The Core Capital available after meeting the bank's minimum capital requirements has slightly increased over the periods due to increasing profits earned by the bank.

Increase in the bank's risk-weighted assets has significantly increased in relation to extension of loans and advances to customers during the year.

## RISK MANAGEMENT APPROACH

Formal structures and channels of communication exist to facilitate risk management. Synergy between the Board and Management committees is vital for management and risk reporting. The management committees generate risk information which is discussed at the board for decision making and risk appetite setting.

The Bank is governed by a Board of Directors consisting of 10 members, 8 of which are non-executive. The Board functions through various committees constituted to manage risk in specific areas. The Board is constituted into five committees. The committees are chaired by non-executive directors. The Board approves policies or frameworks, and delegates day to day operations to management. Eight (8) management committees generate and review risk information.

The board risk committee oversees risk management plans and activities to ensure that the Bank's risk management framework (RMF) is respected. The RMF clearly assigns responsibilities to staff and various Bank committees. Specific terms of references are available to guide each Board and Management committee.

The risk appetite presents the aggregated level of risk that the Bank is willing to assume based on the capital capacity. The appetite is mainly derived from Bank policies, strategy, and product guidelines. The risk appetite is reviewed annually and presented in the ICAAP report to positions operations and strategy.

Every staff have a responsibility to play in the risk management process. The Bank uses the 'three lines of defense' model. The first line of defense owns the risks and is responsible for identifying, measuring, controlling risks. Every department documents their key risks and controls using standard risk register. The second line of defense challenges and facilitates the first line of defense on effective risk management. They work together to measure and summarize the risk reporting activities. Risk, Compliance and Permanent Control departments are notable players at this level. Internal Audit plays the third line of defense. Internal Audit provides independent assurances.

For risk monitoring and reporting, eleven major risk categories are tracked i.e., strategic, operational, cyber risk, liquidity, foreign exchange, interest rate risk, reputational, credit, concentration, cross border, and compliance risks. These risks have key risk indicators that are tracked and reported monthly.

Stress testing plays an important role in providing forward-looking assessments of risk that feed into capital and liquidity planning. Key risk categories are subjected to periodic stress testing guided by the RMF. Stress test models are subject to management reviews and approval. The Bank has a model risk management framework to ensure models are fit for purpose.

## OVERVIEW OF RWA

The table below shows the bank's risk weighted assets as of December and September 2024.

| | | a | b | c |
|---|---|---|---|---|
| | | RWA | | Minimum capital requirements |
| | | Dec-24 | Sep-24 | Dec-24 |
| 1 | Credit risk (excluding counterparty credit risk) | 705,214,731 | 641,327,580 | 84,625,768 |
| 2 | Counterparty credit risk (CCR) | - | - | - |
| 3 | Market risk | 12,929,047 | 16,128,033 | 1,551,486 |
| 4 | Operational risk | 64,830,590 | 144,563,739 | 7,779,671 |
| 5 | **Total (1 + 2 + 3 + 4)** | **782,974,369** | **802,019,352** | **93,956,924** |

There was a reduction in the risk-weighted assets over the quarter mainly due to reduction in the operational risk impact. There was also an increase in the credit risk-weighted assets due to increase in advances extended to customers and placements with other banks.

## COMPOSITION OF REGULATORY CAPITAL

| | Amounts Ushs' 000 | Dec-24 | Jun-24 |
|---|---|---|---|
| | **Common Equity Tier 1 capital: instruments and reserves** | | |
| 1 | Permanent shareholders equity (issued and fully paid-up common shares) | 150,000,000 | 150,000,000 |
| 2 | Share premium | - | - |
| 3 | Retained earnings | 28,853,838 | 28,879,825 |
| 4 | Net after tax profits current year-to date (50% only) | 13,116,261 | 6,602,126 |
| 5 | General reserves (permanent, unencumbered and able to absorb losses) | - | - |
| 6 | **Tier 1 capital before regulatory adjustments** | **191,970,098** | **185,481,951** |
| | **Tier 1 capital: regulatory adjustments** | | |
| 8 | Goodwill and other intangible assets | (3,447,237) | (3,307,871) |
| 9 | Current year's losses | - | - |
| 10 | Investments in unconsolidated financial subsidiaries | - | - |
| 12 | Deficiencies in provisions for losses | - | - |
| 14 | Other deductions determined by the Central bank | (10,817,385) | (12,031,458) |
| 26 | Other deductions determined by the Central bank | - | - |
| 28 | **Total regulatory adjustments to Tier 1 capital** | **(14,264,622)** | **(15,339,329)** |
| 29 | **Tier 1 capital** | **177,705,476** | **170,142,622** |
| | **Tier 2 capital: Supplementary capital** | | |
| 46 | Revaluation reserves on fixed assets | - | - |
| 47 | Unencumbered general provisions for losses (not to exceed 1.25% of RWA) | 4,953,305 | 4,430,643 |
| 48 | Hybrid capital instruments | - | - |
| 49 | Subordinated debt (not to exceed 50% of core capital subject to a discount factor) | - | - |
| **58** | **Tier 2 capital** | **4,953,305** | **4,430,643** |
| **59** | **Total regulatory capital (= Tier 1 + Tier2)** | **182,658,781** | **174,573,265** |
| **60** | **Total risk-weighted assets** | **782,974,369** | **818,677,530** |
| | **Capital adequacy ratios and buffers** | | |
| 61 | **Tier 1 capital (as a percentage of risk-weighted assets)** | 22.70% | 20.78% |
| 63 | **Total capital (as a percentage of risk-weighted assets)** | 23.33% | 21.32% |
| 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% | 2.50% |
| 65 | Of which: capital conservation buffer requirement | 2.50% | 2.50% |
| 66 | Of which: countercyclical buffer requirement | - | - |
| 67 | Of which: bank specific systemic buffer requirement | - | - |
| 68 | **Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements** | 7.70% | 5.78% |
| | **Minimum statutory ratio requirements** | | |
| 70 | Tier 1 capital adequacy ratio | 12.5% | 12.5% |
| 71 | Total capital adequacy ratio | 14.5% | 14.5% |

The bank is within the regulatory limits and has adequate capital to remain in operation.

## ASSET QUALITY

The credit quality of the Bank's on- and off-balance sheet assets is reflected below through the disclosure of the gross carrying values of both defaulted and non-defaulted exposures as well as provisions and interest in suspense.

| | | 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 | 11,223,114 | 495,330,573 | 4,330,522 | 4,953,305 | 761,144 | 496,508,716 |
| 2 | Debt Securities | - | - | - | - | - | - |
| 3 | Off-balance sheet exposures | - | 249,458,374 | - | - | - | 249,458,374 |
| **4** | **Total** | **11,223,114** | **744,788,947** | **4,330,522** | **4,953,305** | **761,144** | **745,967,090** |

The bank's non-performing portfolio stood at 2.22% as of December 2024 from 1.70% in June due to mostly customers in the SME sector who were downgraded to default status.

## CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

The table below presents the movement in the balance of defaulted exposures between December 2023 and December 2024.

| | | a |
|---|---|---|
| 1 | Defaulted loans & advances, debt securities and off balance sheet exposures at end of the previous reporting period | 12,673,509 |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 7,665,706 |
| 3 | Returned to non-defaulted status | 598,889 |
| 4 | Amounts written off | 8,517,212 |
| 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) | 11,223,114 |

Reduction in defaulted exposures was registered at the end of the year compared to the June position, this was due to recoveries from some of the customers and write-off of others, but engagements also continue with both written-off and defaulted customers to make recoveries.

## QUALITATIVE DISCLOSURE ON THE BANK'S USE OF EXTERNAL CREDIT RATINGS UNDER THE STANDARDISED APPROACH FOR CREDIT RISK

Among the external credit assessment institutions that the bank uses include;

Fitch, Moody's, and S&P which provide information for rating other financial institutions which the bank has cash dealings with.

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