KCB

PILLAR III ANNUAL DISCLOSURES

AS AT 31ST DECEMBER 2023

**For People.
For Better.**

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1. INTRODUCTION

KCB Bank Uganda Ltd (KCBU) was incorporated in 2007 in Uganda as a Tier 1 Commercial Bank. Risk Management is an integral process in the conduct of business within KCBU and is critical for decision making.

The Board has the mandate to determine the overall risk management practices of KCBU. The Board delegates its authority to management through establishment of policies, frameworks, guidelines and committees. Management exercises its delegated authority for risk management in the bank through establishment of committees, tools, procedures and guidelines that staff and other stakeholders observe in order to create a sustainable risk culture.

2. PILLAR III DISCLOSURES

The Pillar III Risk Management disclosures report provides an annual overview of KCBU's risk management structure which includes, regulatory capital profile and risk weighted assets as at the end of the period. This report has been prepared in conformance with the Bank of Uganda guidelines on Pillar III disclosures as stipulated in the Internal Capital Adequacy and Assessment Process and Pillar III Market Discipline requirements.
This report has been reviewed and approved by CMT and Board. The Bank was adequately capitalized as at 31st December 2023. The information contained in this report is unaudited.

3. BOARD ATTESTATION FOR THE PILLAR III DISCLOSURES

In accordance with Bank of Uganda requirements, the Board Confirms that the Pillar III Disclosures report for the one year period ending 31st December 2023 has been prepared in accordance with guidelines established by Bank of Uganda and agreed internal review processes.

Signed

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Edgar Byamah
Managing Director

Signed

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Constant Mayende
Board Chairman

4. DIS01 KEY METRICES

			a	b	c	d
		Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
	Available capital (amounts)					
1	Core capital	141,488,370	140,277,465	138,539,368	133,350,438	116,304,201
2	Supplementary capital	7,525,991	7,175,064	6,725,771	6,245,153	5,916,521
3	Total capital	149,014,361	147,452,529	145,265,139	139,595,591	122,220,722
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	937,338,126	922,860,210	843,578,231	801,347,362	812,895,941
	Risk-based capital ratios as a percentage of RWA					
5	Core capital ratio (%)	15.09%	15.20%	16.42%	16.6%	14.31%
6	Total capital ratio (%)	15.89%	15.98%	17.22%	17.4%	15.04%
7	Capital conservation buffer requirement (2.5%)	2.5%	2.5%	2.5%	2.5%	2.5%
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 (%)	2.5%	2.5%	2.5%	2.5%	2.5%
	(row 7 + row 8 + row 9)					
11	Core capital available after meeting the bank's minimum capital requirements (%)	2.59%	2.70%	3.92%	4.14%	1.81%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	1,539,575,139	1,486,498,611	1,386,693,087	1,291,678,425	1,203,445,023
14	Basel III leverage ratio (%) (row 1 / row 13)	9.19%	9.44%	9.99%	10.32%	9.66%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	290,600,889	297,869,084	307,869,450	228,025,104	199,408,938

16	Total net cash outflow	216,005,853	263,009,255	233,355,540	155,993,578	96,289,440
17	LCR (%)	135%	113%	132%	146%	207%
	Net Stable Funding Ratio					
18	Total available stable funding	1,059,629,486	1,063,072,905	1,104,438,107	1,027,661,675	985,185,290
19	Total required stable funding	724,983,808	643,685,914	611,127,082	570,379,590	535,077,828
20	NSFR	146.2%	165.2%	180.7%	180.2%	184.1%

5. DIS02 RISK MANAGEMENT APPROACH

Purpose: Description of KCBU's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the KCBU's risk tolerance/appetite in relation to its main activities and all significant risks.

(a)	The risk governance structure: responsibilities attributed throughout the SFI (e.g. oversight and delegation of authority; breakdown of responsibilities by type of risk, business unit etc); relationships between the structures involved in risk management processes (e.g. board of directors, executive management, separate risk committee, risk management structure, compliance function, internal audit function).	The bank has committees both at board and senior management level for risk management oversight for instance the Board Risk Committee, Board Asset & Liability Committee, Management Risk Committee and Management Asset & Liability Committee. This is complemented by a Risk Management Department, Internal Audit Department and Compliance department charged with ensuring checks and balances on the bank's internal control environment in line with the different bank policies and procedures.
(b)	Channels to communicate, decline and enforce the risk culture within the SFI (e.g. code of conduct; manuals containing operating limits or procedures to treat violations or breaches of risk thresholds; procedures to raise and share risk issues between business lines and risk functions).	The bank enforces risk culture through its established policies, procedures and frameworks within which the bank's risk appetite is articulated along with consequences of breach. The bank also has a code of conduct guides on the expected staff conduct to which staff attest on an annual basis. In addition, communication of the risk culture within the bank is also done through staff trainings on related subject matter.
(c)	Description of the process of risk information reporting provided to the board and senior management, in particular the scope and main content of reporting on risk exposure.	Risk information reporting to senior management and board is on a monthly and quarterly basis overall although there is ad hoc/ interim reporting as need arises to ensure prompt information sharing for attention, guidance &/ decisioning. This is done through reports and physical meetings/engagements.
(d)	Qualitative information on stress testing (e.g. portfolios subject to stress testing, scenarios adopted and methodologies used, and use of stress testing in risk management).	The Bank has a Stress Testing Framework approved by Board which guides the evaluation of the potential effects on a bank's financial condition, of a set of specified changes in risk factors corresponding to exceptional but plausible events. The material risks that the bank stress tests include Credit risk, Forex Risk, Liquidity Risk, Interest Rate Risk in the Banking Book, Operational Risk and related risks. The stress/risk factors included in the stress testing process shall include; Interest rates, NPL, Provisions, Sector performance, Foreign exchange rates and Macro-economic factors.
(e)	The strategies and processes to manage, hedge and mitigate risks that arise from the SFI's business model and the processes for monitoring the continuing effectiveness of hedges and mitigants.	The bank maintains a diversified portfolio of products and services to ensure sustained service delivery which is supported by reliable IT infrastructure coupled with a robust business continuity management programme for business resilience. In addition, the bank's Management Asset and Liability Committee determines appropriate action to ensure that the bank maintains an efficient balance sheet.

6. DIS03 OVERVIEW OF RISK WEIGHTED ASSETS (RWA)

Purpose: To provide an overview of total RWA forming the denominator of the risk-based capital requirements.

		a	b	c
		RWA		Minimum capital requirements
		Dec-23	Sep-23	Dec-23
1	Credit risk (excluding counterparty credit risk)	841,379,667	822,661,641	100,965,560
2	Counterparty credit risk (CCR)	9,102,152	18,996,040	1,092,258
3	Market risk	32,231,443	26,046,220	3,867,773
4	Operational risk	54,803,886	55,156,309	6,576,466
5	Total (1 + 2 + 3 + 4)	937,517,149	922,860,210	112,502,058

7. DIS04 COMPOSITION OF CAPITAL

Purpose: Provide a breakdown of the constituent elements of KCBU's capital.

		a	b
	Common Equity Tier 1 capital: instruments and reserves	Dec'23	Jun'23
1	Permanent shareholders equity (issued and fully paid-up common shares)	122,160,994	122,160,994
2	Share premium		
3	Retained earnings	33,541,568	33,541,495
4	Net after tax profits current year-to date (50% only)	15,503,239	8,576,527
5	General reserves (permanent, unencumbered and able to absorb losses)		
6	Tier 1 capital before regulatory adjustments	171,205,801	164,279,016
	Tier 1 capital: regulatory adjustments		
8	Goodwill and other intangible assets	6,810,829	2,488,360
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	316,150	660,835
26	Other deductions determined by the Central bank - (Deferred tax asset)	22,590,452	22,590,452
28	Total regulatory adjustments to Tier 1 capital	29,717,431	25,739,647
29	Tier 1 capital	141,488,370	138,539,369
	Tier 2 capital: Supplementary capital		
46	Revaluation reserves on fixed assets		
47	Unencumbered general provisions for losses (not to exceed 1.25% of RWA)	7,525,991	6,725,771
48	Hybrid capital instruments		
49	Subordinated debt (not to exceed 50% of core capital subject to a discount factor)		
58	Tier 2 capital	7,525,991	6,725,771
59	Total regulatory capital (= Tier 1 + Tier2)	149,014,361	145,265,140
60	Total risk-weighted assets	937,338,126	843,578,231
	Capital adequacy ratios and buffers		
61	Tier 1 capital (as a percentage of risk-weighted assets)	15.09%	16.42%
63	Total capital (as a percentage of risk-weighted assets)	15.90%	17.22%

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	2.50%	2.50%
	Minimum statutory ratio requirements		
70	Tier 1 capital adequacy ratio	12.75%	12.75%
71	Total capital adequacy ratio	14.75%	14.75%

8. DIS05 ASSET QUALITY

Purpose: Provide a comprehensive picture of the credit quality of KCBU (on- and off-balance sheet) assets.

		a	b	d	e	f	g
		Gross carrying values of		Provisions as per FIA2004		Interest in suspense	Net
							values (FIA)
		Defaulted exposures	Non-defaulted exposures	Specific	General		(a+b-d-e)
1	Loans and advances	40,960,173,515	730,619,850,953	14,416,033,170	7,525,991,440	4,564,847,275	752,599,144,024
2	Debt Securities		230,973,381				230,973,381
3	Off-balance sheet exposures		189,406,232,937				189,406,232,937
4	***Total***	***40,960,173,515***	***920,257,057,271***	***14,416,033,170***	***7,525,991,440***	***4,564,847,275***	***942,236,350,342***

9. DIS06 CHANGES IN DEFAULT

Purpose: Identify the changes in a KCBUs stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

		a
1	**Defaulted loans & advances, debt securities and off balance sheet exposures at end of the previous reporting period**	34,246,671,179
2	Loans and debt securities that have defaulted since the last reporting period	23,840,565,415
3	Returned to non-defaulted status	359,548,747
4	Amounts written off	15,233,449,742
5	Other changes	(1,534,064,590)
6	**Defaulted loans & advances, debt securities and off balance sheet exposures at end of the reporting period** (1+2-3-4+5)	40,960,173,515

10. DIS07 DISCLOSURE ON ECDs

Purpose: Qualitative data on the use of external ratings under standardized approach for credit risk

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the SFIs, and the reasons for any changes over the reporting period; KCBU uses Moody's rating agency to arrive at the Credit risk rating for the Uganda government securities and banking relationships for counter parties.

(b) The asset classes for which each ECAI or ECA is used; Uganda Government Securities.

Signed

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Frank Balabyeki
Head of Risk

Signed

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Edgar Byamah
Managing Director

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