PostBank
EMPOWERING YOU

PILLAR 3
MARKET DISCLOSURE REPORT

Effective 30th June 2023

1.0 Introduction.

PostBank Uganda Limited (hereinafter referred to as the 'Bank' or 'PBU') is a government owned commercial bank domiciled in Uganda. The Bank commenced its operations as a credit institution from 1998, and tier 1 banking license, pursuant to the approval received from the Bank of Uganda in December 2021.

It provides retail banking, small & mid corporate banking services and a wide range of financial services in urban, semi urban, and rural areas. There is no foreign operation of the Bank, and the bank does not have any subsidiary, associate, or joint venture for consolidation purposes.

The Basel II framework consists of three-mutually reinforcing pillars: -

- Pillar 1: Minimum capital requirements.
- Pillar 2: Supervisory review process of capital adequacy and
- Pillar 3: Market discipline.

Market discipline (Pillar 3) comprises a set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the different sections as will be discussed ahead.

The purpose of Pillar 3 is to complement the minimum capital requirements and the supervisory review process of Basel II. The minimum set of disclosure requirements is intended to allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution.

The minimum requirements of the quantitative information to be disclosed to the public on a quarterly basis are:

- primary capital, including the primary capital adequacy ratio.
- total capital, including the total capital adequacy ratio.
- the components of capital.
- the total required amount of capital and reserve funds; and
- any risk exposure or other item that is subject to rapid or material change.

The disclosure required semi-annually and annually is more comprehensive than the quarterly requirements as it encompasses both quantitative and qualitative information.

Capital Structure

As per the regulations, the bank's regulatory capital is classified into Tier – I and Tier – II capital.

Tier - I capital includes paid up equity share capital, statutory reserves, other disclosed free reserves eligible for inclusion in Tier - I capital that comply with requirement specified by Bank of Uganda.

Tier - II capital includes general provisions, investment fluctuation reserve and subordinate debt instruments eligible for inclusion in Tier – II capital.

Main features of capital instruments are detailed in the next section of key metrics of capital funds.

2.0 Key Metrics

This provides an overview of PBUL's prudential regulatory metrics.
The table below represents the key metrics for PostBank Uganda as of 30 June 2023 (Quarter 2, 2023).

Key Prudential Metrics

		a 30 Jun 23	b 31 Mar 23	c 31 Dec 22	d 30 Sep 22	e 30 Jun 22	Narrative
Available capital (amounts)							
1	Core capital	126,189,710	122,214,187	119,996,674	109,884,923	108,075,140	
2	Supplementary capital	7,999,221	7,875,725	7,812,599	7,896,407	7,723,834	
3	Total capital	134,188,931	130,089,912	127,809,272	117,781,330	115,798,974	Growth in core capital is majorly driven by growth in the bank's profits.
Risk-weighted assets (amounts)							
4	Total risk-weighted assets (RWA)	641,175,198	578,126,845	613,035,303	565,120,207	608,228,045	
	Risk-based capital ratios as a percentage of RWA						
5	Core capital ratio (%)	20%	21%	20%	19%	18%	
6	Total capital ratio (%)	21%	23%	21%	21%	19%	
Capital buffer requirements as a percentage of RWA							
7	Capital conservation buffer requirement (2.5%)	16,029,380	14,453,171	15,325,883	14,128,005	15,205,701	Driven by growth in the bank's loan book and investment securities during the period.
8	Countercyclical buffer requirement (%)						
9	Systemic buffer (for DSIBs) (%)						
10	Total of capital buffer requirements (%) (Row 7 + row 8 + row 9)	16,029,380	14,453,171	15,325,883	14,128,005	15,205,701	
11	Core capital available after meeting the bank's minimum capital requirements (%)	7.81%	77.4%	77.4%	79.9%	53.74%	Deficiency as at June 2023 increased and the bank considers a forward-looking capital requirement of 150bn Vs the 120bn considered in Q1 2023.
Basel III leverage ratio							
13	Total Basel III leverage ratio exposure measure	1,302,984,116	991,674,137	953,980,392	950,462,230	859,289,145	Growth in the balance sheet, majorly driven by deposits due to PDM accounts
14	Basel III leverage ratio (%) (row 1 / row 13)	9.68%	12.32%	12.60%	11.56%	12.58%	Reduction in the leverage ratio is attributed to the growth in the balance sheet base yet the bank's core capital for the period has remained relatively stable.
15	Total high-quality liquid assets (HQLA)	132,770,811	134,098,513	113,233,324	128,672,135	109,528,542	
16	Total net cash outflow	39,682,014	88,935,961	102,534,047	75,893,913	18,927,694	
17	LCR (%)	335%	151%	110%	170%	579%	The bank assessed the availability of high-quality liquid assets' (HQLAS') sufficiencycy to cover 100% of the Bank's stressed net cash requirements over 30 days calendar period on the assumption that cash inflows and outflows are uniform.

3.0 Risk Governance Structure & Relationship

PostBank Uganda Limited is 100% owned by the Government of Uganda and is run by the Board of Directors and its attendant sub-committees such as the Board Assets and Liabilities Committee, Board HR Committee, Board Risk and Credit Committee and the Board Audit Committee.

The Bank's day-to-day operations are run by a management team headed by the Managing Director/ CEO.

3.1 BOARD OVERSIGHT

All the committees are led by experienced and competent Non-Executive Directors, in line with best Corporate Governance practices. The Board Audit Committee is strictly comprised of the Independent Non-Executive Directors.

The Board of Directors is supported by the below Sub-Committees with a clearly defined set of responsibilities.

These Board Sub-Committees through their defined responsibilities and operating model support the Board of Directors in the identification, assessment, control/mitigation, monitoring and reporting of risk. Management presents management reports to these subcommittee quarterly or as and when required by the Board and vice versa.

3.2 BOARD COMMITTEES

No	Board Committee Name	Responsibility
	Board Risk & Credit Committee. (Consists of 3 members).	• Advises the Board on its oversight responsibilities in relation to risk management activities including strategic, compliance, credit, market, liquidity, operational, product, stakeholder, reputational, technological/cyber, country, and other risks. • Reviews and approves or declines credit applications. • Review and recommends reasonable prudent lending policies, standards, and procedures. • Approves all bank policies.
	Board Asset & Liability Committee (Consists of 3 members).	• Assesses the Bank's Liquidity adequacy, Funding, Capital policy and position, and performance of the Bank in relation to Budget.
	Board HR Committee (Consists of 3 members).	• Provides oversight over the bank's people strategy in terms of talent acquisition, talent growth, learning and development, remuneration and compensation, staff welfare, talent retention, staff disciplinary matters among others. • The Board HR committee is crucial regarding compensation of directors, officers, and key management personnel of the Bank. • Approval of structural changes etc.
	Board Audit Committee (Consists of 3 members).	• Ensures that there is an effective system of internal control, governance, and risk management by giving independent assurance.

3.3 MANAGEMENT COMMITTEES

The Management committees through the Board delegated authority and their defined responsibilities support the Board of Directors in the identification, assessment, monitoring, mitigation and reporting of risk within PostBank.

No	Management Committee Name	Description
	Executive Committee (EXCO)	• The Executive Committee is aided by an effective and experienced management team that is responsible for delivering and cascading the strategy of the bank with focus on the score card that includes the following strategic pillars; i. Performance, ii. Risk and Governance, iii. Service iv. Business Technology and; v. People. • The EXCO lineup includes the Managing Director/CEO, Executive Director/Chief Digital Financial Services Officer, Chief Business Officer, Chief Finance Officer, Chief HR Officer, Chief Legal Officer, Chief Credit Officer, Chief Operating Officer, and the Chief Risk Officer. • The EXCO is accountable for the bank's strategy implementation process and ownership of Board directives with the prerogative to pass on identified tasks to different responsibility centres and enforce execution through the bank's organizational and corporate governance structures/framework.
	Contracts Committee	• Has the mandate to preside over all business procurement and disposal transactions.
	Human Resources Management / Disciplinary Committee	• The committee responsible for enterprise resource planning, recruitment, training and development, staff welfare etc. • Has the mandate to preside over all staff disciplinary and grievances cases. • Has the authority to conduct and/or direct any investigation required to fulfil its mandate as it considers necessary from time to time.
	Risk Management Committee	• Ensures that there is an established risk management framework in the Bank and, its structural layout and implementation processes are in full compliance with the Bank of Uganda Risk Management Guidelines and, all other relevant laws, regulations, and prudential guidelines. • Evaluates the bank's risk profile and overall level of risk appetite monthly. • Reviews and recommends all risk management policies for Board approval. • Promotes and sustains a high level of risk management culture within the Bank.

No	Management Committee Name	Description
	Management Credit Committee	• Ensures that there is an established credit risk management framework of the Bank and, its structural layout and implementation processes comply with the Bank of Uganda Risk Management Guidelines and, all other relevant laws, regulations, and prudential guidelines. • Adopts the PostBank's Credit Policies and all amendments thereto and ensuring compliance therewith. • Ensures that there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss, and maximize recoveries. • Reviews and recommends to the Board Credit Committee concentration risk policies, underwriting guidelines, and standard proposals within the Board's overall risk appetite. • Approve credit limits and take lending decisions within the limits delegated by the Board and further delegate credit limits internally as required. • Review all exceptions to policy and recommend to the Board for approval. • Approve new credit products and processes. • Reviews credit risk reports monthly. • Review and approve specific provisions for bad debts as well as the impairment model sufficiency. • Reviews the efforts of the recoveries team in recovery from the NPA/ written off portfolio.
	Management Assets & Liabilities Committee	• Ensures that there is an established liquidity, interest rate, foreign exchange, assets and liabilities and capital risk management framework in the Bank and, its structural layout and implementation processes are in congruence with the Bank of Uganda Risk Management Guidelines and, all other relevant laws, regulations, and prudential guidelines. • Reviews interest rates payable on various deposit accounts, products and set guiding principles for fixing of deposit interest rates. • Ensures asset-liability maturity patterns are monitored and adopt measures to minimize as far as possible, the interest rate risk and liquidity risk resulting from mismatched maturities. • Reviews optimum liquidity levels to be maintained for each currency. • Reviews liquidity, interest rate and foreign exchange limits to ensure that they are in adherence to regulatory and the bank's internal limits. • Reviews deposit funding trends, including deposit concentration, deposit product mobilization campaigns. • Ensures that all strategies conform to the bank's risk appetite and levels of exposure as determined by the Board Asset and Liability Management Risk Committee.

No	Management Committee Name	Description
	Projects Management Committee	• Ensures prioritization of key projects execution to support create operational efficiency, drive business growth and thus, leading to appropriate management of risks inherent the business projects and ultimate performance of the bank. • Ensuring that projects are management within the defined scope, time, and cost. • Tracking projects benefits realization. • Approve projects and initiatives based on agreed criteria. • Reviews approved portfolio and project status. • Evaluates and manages the project investment portfolio. • Prioritizes projects, allocation of funding, resources, sequencing, and dependencies within and between projects. • Approves variation in project delivery relating to timing, scope, and cost where outside the agreed tolerance initially defined for that respective initiative. • Ensure that regular monitoring and reporting is in place. • Ensure adherence to PostBank's project management and change governance processes. • Ensures that post implementation reviews are conducted on projects to evaluate whether project objectives were met and ensure business benefits are delivered. • Approve the constitution of the project team in consideration of the roles and responsibilities and balancing project work with Business as usual (except for the project team) • Approving the quality assurance standards for the project.
	Products Development Committee	**Responsible for:** • Identification and profiling of customer needs. • Spearheading the development of new products and services to ensure, products are appropriately costed and priced. • Spearheading modifications of existing products and services to suite evolving customer needs. • Coordinating the rollout of new products and services in the Bank. • Monitoring the performance of products and services by customer uptake and utilization in line with the business strategic goals and objectives. • Continuously monitoring of the competitive environment to ensure, the relevance of the Bank's products and services to its clientele is maintained through appropriate modifications and initiatives. • Spearheading all products and services awareness campaigns within and out of the Bank.

No	Management Committee Name	Description
	ICT Steering Committee	Committee mandate includes; • Monitoring and reviewing implementation of the Information Technology reliant projects, budget allocation and performance reporting with particular emphasis on quality, risk management, benefits realization, and change management. • Advising Management & the Board on strategic issues and policies relating to Information Technology. • Evaluating and making recommendations for investment in information technology and in the Information Technology Department. • Ensuring risk assessments are carried out for major IT projects undertaken in the Bank. • Reviewing and following up for closure of IT and systems security related risks/gaps in the business as reported by different stake. • Reviewing and approving a bank-wide disaster recovery plan and ensure its effective implementation. • Ensuring appropriate IT and Information Security policies and procedures are in place and, they are adequate, enforced and regularly reviewed for effectiveness to promote sound IT and information security management practices. • Ensures that all regulatory guidelines and standards for technology use are implemented by the bank to meet its compliance requirements. • Ensures optimal resource utilizations during ICT initiatives/ projects implementation including proper management of ICT infrastructure, human capital, and finances. • Facilitates alignment of ICT with the bank's business needs so that ICT initiatives and services facilitate achievement of the bank's strategic objectives.
	Basel II Implementation Committee.	The committee's mandate is as defined below; • To champion the implementation of Basel II within PostBank. • Communicate issues related to Basel II implementation throughout the bank. • Set a framework for Basel II and oversee the implementation process. • Build capacity based on the training needs of the institution. • Establish internal data requirements.

No	Management Committee Name	Description
	Change Advisory Board	• Change Management is the process of ensuring changes are properly assessed, approved, planned, communicated, built, and tested before being implemented. • The Change Advisory Board (CAB) delivers support to the change management team by approving requested changes and assisting in the assessment and prioritization of changes. • This committee is generally made up of Business Technology and Business representatives that include: a Change Manager, User Managers and Groups and Technical experts.
	Social Corporate Investment Committee	**Committee Mandate:** • Provide direction and oversee the development and implementation of the Corporate Social Investment ("CSI") initiatives of PostBank Uganda Limited. • Review, agree, establish, and approve the bank's Corporate Social Investment (CSI) strategy and plan and ensure that it remains an integral part of the bank's overall strategy. • Monitor, receive reports and review activities from all CSI activities for effective implementation. • Ensuring that appropriate CSI policies and procedures are in place and, they are adequate, enforced and regularly reviewed for effectiveness to promote sound CSI management practices. • Monitor compliance with the CSI policies and review performance of all initiatives against agreed targets. • Review the integration of CSI processes with the Bank's broader business, risk management and reputation management priorities. • Review management information on employee volunteering or other activities in support of the CSI initiatives, monitor internal and external feedback on the implementation of the CSI initiatives, and make recommendations to improve the coverage and effectiveness of the relevant initiatives. • Review best practice in key CSI areas by benchmarking where possible. • Advising Management & the Board on strategic CSI issues and policies. • Ensuring impact and risk assessments are conducted for major CSI projects undertaken in the Bank.

3.4 BANK POLICIES AND PROCEDURES

The bank has sound and adequate policies, procedures, and processes.

All policies and procedures are reviewed and updated on an annual basis to ensure regulatory compliance and relevance to the ever-changing business environment.

The bank's key Governance documents include:

1. Board Charter and Board Committee Terms of Reference.
2. Management Committee terms of reference.
3. The Risk Management framework
4. The Key Risk Indicator framework
5. The Stress testing framework
6. Incident Management policy
7. Whistle Blowing policy.
8. Fraud Management policy
9. Accounting Policy
10. Administration Policy
11. Agent Banking Policy
12. Financial Markets Policy
13. Compliance Policy
14. Compliance Charter
15. AML & CFT Policy
16. Bancassurance Policy
17. Business Continuity Management Policy
18. Marketing and Communications Policy
19. Corporate Social Investment Policy
20. Customer Service Policy
21. General ICT Policy
22. ICT Administration Policy
23. Information Security Policy
24. Software Acquisition and Development Policy
25. Liquidity Contingency Plan
26. Occupational Health & Safety Policy
27. Operations Policy
28. Products Development Policy
29. Projects Management Policy
30. Risk Appetite Statement
31. Strategic Planning Policy
32. The Capital Policy
33. ALCO Policy
34. Outsourcing Policy
35. Procurement & Disposal Policy
36. Records Management Policy
37. Credit Policy
38. Credit Reference Services Management Services Policy
39. Human Resource Policy
40. Internal Audit Charter
41. Policies and Procedures Management Policy.

4.0 Communication channels & Risk culture

Management has put in place key communication channels for purposes of promoting good risk management practices and risk culture.

These include:

- Induction at staff onboarding level for all staff joining the bank.
- Continuous internal trainings – online and classroom/workshop set up on an ongoing basis; minimum annually.
- Targeted/specialized External trainings and Continuous Professional Development programs.
- Regular Town Halls and communication from the Leadership.
- E-mail communications on key aspects of strategy and risk management through our internal Marketing and Communications department.
- Whistleblowing channels to report misconduct, fraud, corruption or any other actual or suspected unethical behaviour.
- Communication of our zero-tolerance stance to fraud.

5.0 Scope and content of risk exposure and management

PostBank's risk profile and risk exposures are generated based on the assessment of inherent risks pertaining to the identified risks and the controls in place hence the ultimate residual risk and overall risk management assessment.

Our assessment is in line with the regulatory/Bank of Uganda guidance as defined below;

A.	Inherent Risk	
	Low	The volume, size and the nature of the activity is such that even if internal controls have weaknesses, the risk of loss is remote and of minimum consequence to PostBank's soundness.
	Moderate	The positions are moderate in relation to the PostBank's resources and in case of loss could be absorbed through the ordinary course of business.
	Above Average	The activity is fairly significant, or positions are fairly large in relation to PostBank's resources and in case of loss could cause a strain on the institution's financial soundness.
	High	The activity is significant, or positions are very large in relation to PostBank's resources and in case of loss could cause serious threats to the bank's financial soundness.

B.	Overall Risk Management	
	Strong	Indicates very strong risk management systems with low risk of negative impact on the institution. Management effectively identifies and controls all major types of risks by the relevant activity or function.
	Acceptable	Indicates a risk management framework where the PostBank's risk management systems, although largely effective, may be lacking to some modest degree. It reflects an ability to cope successfully with existing and foreseeable exposure that may arise in carrying out the bank's business plan.
	Needs Improvement	Indicates a risk management system that is lacking in some fairly important ways, which if not addressed could derail the institution's ability to achieve its objective.
	Weak	Indicates a risk management system that is lacking in important ways and therefore a cause of more than normal supervisory concern.

5.1 BOARD AND SENIOR MANAGEMENT REPORTING:

Board reporting happens on a quarterly basis.

Management through the EXCO leaders prepare, submit and present respective reports to the respective Board sub committees.

The discussions at the Board sub committees are documented and resultant actions/resolutions documented and tracked.

It is the responsibility of Management/EXCO through the Company Secretary to ensure that that the action items/Board resolutions or matters arising from all the Board sub committees and the main Board of Directors meeting are addressed.

On a quarterly basis, the Board of Directors is apprised on the level of implementation or closure of these action items.

At a Senior Management level, monthly meetings for the different committees as highlighted are held. Key risks and opportunities are discussed, and both the Board and Management action items tracked.

5.2 Bank's risk profile.

The Management Risk Committee and the Board Risk and Credit committee are central in discussing the overall risk profile of the bank.

The main content of the reports cover risks such as strategic risk, operational risk, market risk, credit risk, compliance risk, technology risk, cyber risk, legal risk, product risk, project risk, liquidity risk, outsourcing risk, reputational risk, stakeholder risk, country risk and Pandemic risk.

As at 30th June 2023; the bank's risk profile/risk exposure was scoped, assessed, and reported as Acceptable. The scope of the risks is indicated below;

S/N	Risk Type	Inherent Rating	Overall Net/ Residual Risk
1.	Operational Risk	High	Moderate
2.	Credit Risk	High	Moderate
3.	Compliance Risk	High	Moderate
4.	Technology/ Cyber risk	High	Moderate
5.	Legal Risk	High	Moderate
6.	Strategic Risk	High	Moderate
7.	Project Risk	Moderate	Moderate
8.	Product Risk	Moderate	Moderate
9.	Liquidity Risk	Moderate	Low
10.	Market Risk	Moderate	Low
11.	Outsourcing Risk	Low	Low
12.	Reputational Risk	Low	Low
13.	Pandemic Risk	Low	Low
14.	Stakeholder Risk	Low	Low
15.	Country Risk	Moderate	Low
	OVERALL RISK MANAGEMENT		**ACCEPTABLE**

5.3 OUR RISKS AND OPPORTUNITIES.

5.3.1 Risks

We have assessed the top six risks for the bank to look out for as Strategic risk, Operational risk, Technology/Cyber risk, Compliance risk and Credit risk.

a) **STRATEGIC RISK.**

- We are cognizant of the fact that our implementation of the business strategy and operating models will be greatly informed by our Capital position.
- Our compliance to the minimum paid up capital requirement of UGX 120 billion that was effective 31st December 2022 was attained through capitalization of the bank's retained earnings for the period ended 31st December 2022 however, the bank must move towards complying with the required minimum paid up capital of UGX 150 billion as at 30th June 2024 to be able to obtain the necessary regulatory approvals for key strategic initiatives. Shareholder engagement for additional Capital injection is ongoing. As a business, we will review business plans considering the above as well as continuously review our capital planning.
- Commercialization and success of key projects such as the e-wallet are pivotal to the attainment of the bank's overall financial performance over the period 2023; and the next strategy period 2024-2028.

- The Board and Management will continuously review and align the bank's strategy and capital positions to the business needs and regulatory requirements.

b) **CREDIT RISK: –**

- There is a likelihood that businesses will struggle due to a decrease in government spending/ budget cuts. Decreasing government spending tends to slow economic activity as the government purchases fewer goods and services from the private sector.
- A slow economic activity may derail performance of key sectors especially trade leading to low borrowing but also increase in credit losses/high default risk.
- Our governance around credit risk management is strong. We have put in place a robust credit administration, credit analysis, credit monitoring and credit recovery teams to closely monitor credit risk and manage risk within the bank's risk appetite and approved tolerance levels. We take advantage of data analytics to monitor the key risk indicators closely.

c) **OPERATIONAL RISK.**

Inherent Risk for Operational risk remains high given the bank's large branch network, the inherent people risk given the significant staff headcount, required administrative oversight and expected escalation of cyber risk given the digital revolution.

The residual operational risk is however moderate based on the level of risk management initiatives to control this risk including refining of bank policies, procedures, process improvements, staff training, investment in technology controls and monitoring tools and the regular reviews by first line, second line and third line of defense.

d) **TECHNOLOGY/CYBER RISK: –**

- The implementation of the Wallet Solution and other Digital Financial Solutions/projects such as e-commerce will escalate cyber risks hence a need for proper and timely risk assessments.
- The bank will also obtain a Cyber risk insurance policy in this regard.

e) **COMPLIANCE RISK.**

Our compliance risk is rated moderate.

- BOU offsite rating is Satisfactory.
- BOU onsite rating is Fair.
- The Head of Compliance continues to provide the much-required oversight and overall guidance especially under regulatory, Anti Money Laundering and Operational Risk Compliance to mitigate fines and penalties or any compliance related costs that could accrue to the bank.
- Our compliance with Key regulatory ratios as at 30th June 2023 is summarized below;

KEY REGULATORY RATIOS	Actual Dec 2022	Actual March 2023	Actual April 2023	Actual May 2023	Actual June 2023	Regulatory Ratios	Complied
Core capital/RWA BASEL	19.24%	21.14%	20.45%	20.47%	20%	≥12.5%	Yes
Total capital/RWA BASEL	20.63%	22.50%	21.77%	21.80%	21%	≥14.5%	Yes
Liquid assets/Deposits ratio	31.14%	26.55%	25.29%	29.50%	39.58%	≥20%	Yes
Cash Reserve Ratio	102.16%	106.96%	110.96%	104.09%	101.07%	≥100%	Yes
Liquidity Coverage Ratio	110%	151%	171%	258%	361%	≥100%	Yes
Forex exposure	0.64%	3.19%	0.79%	3.32%	5.48%	≤25%	Yes

- The journey to Compliance with the minimum Paid up Capital unimpaired by losses of UGX 150 billion by 30th June 2024. We are currently compliant with the UGX 120 billion required minimum Paid up Capital unimpaired by losses.

- Our Capital Management Plan focuses on capitalization of retained earnings as well as seeking additional capital from the shareholder (Government of Uganda).

f) **COUNTRY RISK.**

- Uganda remains on the FATF (Financial Action Task Force) grey list. This Country risk also impacts Correspondent Banking Compliance requirements due to increased scrutiny.

5.3.2 Envisaged Opportunities.

- The bank has an opportunity to mobilize cheap but sticky deposits through successful commercialization of our recently launched e-wallet (Wendi).
- The implementation of Omni Channels for business operations could yield efficiencies by reducing the cost of operations mainly driven by the level of automation (e-channels) and an opportunity for management of headcount as well as reduction in Operational losses because of human errors and fraud to some extent.
- Leverage on technology for micro lending.
- Strategically position the bank as a government owned bank and attract government business based on the existing capabilities.

5.3.3 Risk Management – our way forward.

- As we build and improve our capabilities in financial services business, we will continue to leverage our current risk management processes and proactively expand and evolve our enterprise risk environment to anticipate and effectively manage risks that may arise. We expect uncertainty and rapid change to remain features of our operating environment in 2023 and beyond and we are alert to the post Covid-19 impact as well as technological advancement on our employees and our diverse client portfolio.
- We are intentional on automating the risk management processes through acquisition of an enterprise risk management system to increase efficiency and effective risk oversight as well as risk analysis. The procurement process is underway.

5.4 STRESS TESTING -QUALITATIVE INFORMATION (METHODOLOGY).

The Bank has in place a stress testing framework which is an integral part of PostBank's Enterprise Risk Management framework, and it is actionable with the Stress test results evaluation impacting on decision making.

The stress test scenarios applied are as per the Board approved scenarios in the bank's stress testing framework.

The stress test scenarios are presented to the Management Risk Committee for review and approved by the Board of Directors having been evaluated and ascertained to be plausible.

The Internal Audit function periodically performs independent review and assurance of the adequacy of the bank's stress testing framework and apprises the Board through the Board Audit Committee.

5.5 QUALITATIVE INFORMATION ON STRESS TESTING:

5.5.1 Portfolios subject to stress testing

Our Stress testing framework provides the methodology for Stress Testing mainly the Credit Portfolio (Name and Sector Concentration), Liquidity Position, Interest rates and Foreign Exchange rates and evaluation of the impact of all adverse but plausible scenarios on the Bank's capital and earnings and the Bank's ability to withstand these stress conditions.

5.5.2 Scenarios adopted and methodologies used.

5.5.2.1. Credit Stress testing scenarios include;

- A 50% arrears increase in Trade Sector.
- A 50% arrears increase in Agriculture.
- All the top 20 borrowers defaulted resulting into outright loss.
- Increase in Secured Business Loans Non-Performing Assets (NPAs) by 20%.
- A 20% decrease in Personal Consumer Loans portfolio.
- A 50% increase in group product NPAs.

5.5.2.2. Interest rate change, Forex rate change, commodity price (e.g., Fuel price) change stress tests include;

- 5% impact of the change on Core Capital and Total Capital Ratios.
- 10% impact of the change on Core Capital and Total Capital Ratios.

5.5.3 The Use of Stress testing in Risk Management.

The main objective of stress testing is to assess possible events or changes in the operating environment of PostBank and to evaluate their impact on the bank's capital and earnings; assessing the bank's resilience to withstand those adverse events.

Specific objectives are to;

- Ensure there is a structured process of conducting forward-looking assessment of the bank's risks for proactive Risk Management purposes.
- Inform the setting of PBU's risk appetite and risk tolerance.
- Facilitate the development of risk mitigation actions or contingency plans across a range of stressed scenarios.
- Comply with the Regulatory requirements.
- Support the bank's budgeting process.

6.0 Managing and Mitigating risk

6.1 METHODS USED TO MANAGE AND MITIGATE RISK.

Management employs the below methods to mitigate material risks.

- **Internal Capital Adequacy Assessments.**
  On an annual basis and as a regulatory requirement, PostBank management conducts the Internal Capital Adequacy Assessment to ensure that the bank has sufficient capital at all times to cover the risks associated with its activities, key risks it faces, how the risks are handled and inform Board of the ongoing assessment of PBU risks, how it intends to mitigate those risks and how much current and future capital is necessary having considered all other mitigation factors.
- Management Controls e.g., Board Oversight, Approval limits at both Board and Management level, periodic strategy reviews and refreshes, Budgetary controls, Defined Risk Appetite and tolerance limits and continuous review and monitoring of the same through internal assurance reviews by Risk Department, Compliance Department, and Internal Audit Department.
- Board approved policies to manage and minimize risk. These policies are reviewed on an annual basis or as and when deemed necessary to ensure that they remain relevant and appropriate for the business and the regulatory regime or changes.
- Management approved procedures and process flows that are cascaded to the staff for running bank operations and business.
- Monthly Management Committee meetings (Management Risk Committee, Management Assets & Liabilities Committee, Management Credit Committee, IT Steering Committee, Project Management Committee, Products Development Committee, Change Advisory Board, Disciplinary Committee, Contracts Committee, Executive Committee) etc.
- Risk sharing methods such as Insurance for Operational Risks e.g., Staff health, fire and other perils, computer equipment, cash in transit, Directors' and Officers' liability, Cash on premises, etc.

The bank has undertaken adequate insurance policies with reputable Insurance Companies in Uganda to cover operational and credit related risks.

Some of these insurance policies include;

- The Bankers' Blanket Bond with fidelity component to cover Loss from dishonest or fraudulent acts by employee; Cash on premises, Cash in transit, forgeries, and alterations etc.
- The Directors and Officers liability insurance cover.
- Insurance against fire and perils.
- Workman's compensation.
- Staff Medical insurance.
- Management is also in the process of undertaking the Cyber risk insurance policy.

6.2 RISK MANAGEMENT TOOLS USED TO IDENTIFY, ASSESS, MANAGE, MITIGATE, AND REPORT RISK.

Some of the tools that PostBank has implemented for risk identification, evaluation, assessment, monitoring, and reporting include;

Tool	Purpose	Deliverables	Responsibility	Frequency
Risk & Control Self-Assessment (RCSA) Tool	To identify the risks inherent in key business processes, evaluate the effectiveness of internal controls and track action plans for closure of identified risks	Consolidated Bank Risk register	Risk Champions	Monthly
Automated Incident Reporting through the Manage Engine – Service Desk Plus.	Capture all incidents as and when they arise, understand the root cause and gaps that served as vulnerability points for closure.	Loss inventory database	All staff of PBU	As and when an incident occurs with monthly analysis of all incidents registered during the period.
Key Risk Indicator tool	Enables risk identification & assessment against set tolerance limits as per the Board approved Risk Appetite and Strategy Statement to act as an alert warning system to Management & Board on changes in the Bank's risk profile and inform the next courses.	Updated KRI	Risk Owners and Risk Team	Monthly
Scenario Analysis (Stress testing)	Identifying and analyzing possible future events that may have severe impact to the Bank by considering alternative possible outcomes in line with the parameters documented in the Board approved stress testing policy.	Scenario Analysis report. Internal Capital Adequacy Assessment report.	Risk Owners and Risk Team	As and when scheduled or potential scenario is likely to happen

6.3 RISK AND COMPLIANCE DEPARTMENTS:

The Risk and Compliance functions of the bank perform the second level reviews in respect to set risk tolerance levels for key risk types such as Strategic risk, Market risk, Liquidity Risk, Operational risk, Product risk and Credit risk, adherence to policies and procedures and regulatory compliance including but not limited Customer Due Diligence (CDD)/Know Your Customer (KYC), Anti Money Laundering (AML) & Counter Terrorist Financing (CTF). The results of the reviews including the stress testing results are discussed in the appropriate monthly management committees.

Internal bank process including the Internal Capital Adequacy process and Market Discipline disclosures remain a subject of regulatory review as well as audit by the bank's internal auditors.

6.4 INDEPENDENT ASSURANCE REVIEWS BY INTERNAL AUDIT AND THE EXTERNAL AUDITORS.

The Bank has an independent Internal Audit Department that performs regular review of the bank's risk management and governance processes as third line of defense. Internal Audit implements a risk-based methodology which is designed to identify and assess significant risks associated with the Bank's business and to undertake appropriate audit work to address these key risks. This report has been reviewed by internal audit for purposes of quality control and compliance with the regulatory requirements/guidelines on Pillar 3 Market Discipline Disclosures.

7.0 Overview of Risk Weighted Assets

		a	b	c	
		RWA		Minimum capital requirements	
		30-Jun-23	31-Mar-23	30-Jun-23	Narrative
1	Credit risk (excluding counterparty credit risk)	590,294,222	548,717,472	70,835,307	Growth in the bank's loan book and security investments
2	Counterparty credit risk (CCR)				
3	Market risk	17,076,127	7,848,343	2,049,135	Majorly driven by increase in USD forex holding
4	Operational risk	33,804,850	21,561,030	4,056,582	
5	**Total (1 + 2 + 3 + 4)**	**641,175,198**	**578,126,845**	**76,941,024**	

8.0 Capital Adequacy

CAPITAL MANAGEMENT

Objective

The Bank actively manages its capital to meet regulatory norms and current and future business needs considering the risks in its business, expectations of shareholders and investors, and the available options for raising capital.

Organizational set - up

The capital management framework of the Bank is administered by the Finance and the Risk Departments under the supervision of the Board and the Board Risk Committee.

Internal Assessment of Capital

The Bank's capital management framework includes an Internal Capital Adequacy Assessment Process (ICAAP) which determines the adequate level of capital for the bank to meet the regulatory norms and current and future business needs. The Bank also periodically undertakes stress testing to assess the impact on capital and risk weighted under various plausible stressed scenario.
Stress testing, which is a key aspect of the ICAAP, and the risk management framework provides an insight on the impact of extreme but plausible scenarios on the Banks' risk profile and capital position, the bank conducts stress tests on its various portfolios as prescribe by the BOU and assesses the impact on its capital ratios and the adequacy of capital for current and future periods.

Regulatory Capital

The Bank is subject to the Basel II Capital Adequacy guidelines as stipulated by Bank of Uganda. The Capital Adequacy ratio of the Bank is calculated as per the Standardized approach.

The table below represents the regulatory capital position for PostBank Uganda as of 30 June 2023 (Quarter 2, 2023).

Composition of regulatory capital

		a Amounts (UGX)
Common Equity Tier 1 capital: instruments and reserves		
1	Permanent shareholders equity (issued and fully paid-up common shares)	130,169,954
2	Share premium	
3	Retained earnings	
4	Net after tax profits current year-to date (50% only)	7,385,034
5	General reserves (permanent, unencumbered, and able to absorb losses)	
6	Tier 1 capital before regulatory adjustments	137,554,988
Tier 1 capital: regulatory adjustments		
8	Goodwill and other intangible assets	11,275,603
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	
26	Other deductions determined by the Central bank	89,675
28	Total regulatory adjustments to Tier 1 capital	11,365,278
29	Tier 1 capital	126,189,710
Tier 2 capital: Supplementary capital		
46	Revaluation reserves on fixed assets	2,952,940
47	Unencumbered general provisions for losses (not to exceed 1.25% of RWA)	5,046,281
48	Hybrid capital instruments	
49	Subordinated debt (not to exceed 50% of core capital subject to a discount factor)	
58	Tier 2 capital	7,999,221
59	Total regulatory capital (= Tier 1 + Tier2)	134,188,931
60	Total risk-weighted assets	641,175,198
Capital adequacy ratios and buffers		
61	Tier 1 capital (as a percentage of risk-weighted assets)	20%
63	Total capital (as a percentage of risk-weighted assets)	21%
64	Total Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus systemic buffer, expressed as a percentage of risk-weighted assets)	16,031,761
65	Of which: capital conservation buffer requirement	16,031,761
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	7.81%
Minimum statutory ratio requirements		
70	Tier 1 capital adequacy ratio	12.50%
71	Total capital adequacy ratio	14.50%

9.0 Asset Quality

		a	b	d	e	f	g
		Gross carrying values of	Provisions as per FIA2004/MDIA2003			Interest in suspense values (FIA/ MDIA)	Net
		Defaulted exposures	Non-defaulted exposures	Specific	General		(a+b-d-e)
1	Loans and advances	112,739,970.04	416,507,093.1	8,766,618.08	5,154,797.2	5,000,725.4	510,324,922.45
2	Debt Securities		247,373,904.00				247,373,904.00
3	Off-balance sheet exposures		10,328,658.04				10,328,658.04
4	Total	112,739,970.04	674,209,655.14	8,766,618.08	5,154,797.2	5,000,725.4	768,027,484.5

10. Changes in stock of defaulted loans and debt securities

The table below represents the Changes in stock of defaulted loans and debt securities for PostBank Uganda as of 30 June 2023.

Changes in stock of defaulted loans and debt securities.

		a (UGX)	Narrative
1	Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the previous reporting period	27,121,381.81	
2	Loans and debt securities that have defaulted since the last reporting period	6,065,118.46	We had 2,921 accounts moving from non-defaulted status to defaulted status as at June 2023.
3	Returned to non-defaulted status	1,796,712.41	We had 248 accounts moving from defaulted status to non-defaulted status as at June 2023.
4	Amounts written off	6,626,666.13	Written off loans
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)	24,763,121.72	

11.0 Qualitative disclosure on PostBank Uganda use of external credit ratings under the standardized approach for credit risk

The Bank does not use an external credit rating agency for credit risk assessment for now.

In accordance with PostBank Uganda's Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in this Pillar 3 Disclosures report for the financial period ended 30th June 2023 are consistent with the way the Bank assesses and manages its risk and are not misleading in any way.

…………………………………………..	………………………………………..
Board Chairman	Managing Director/CEO

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