Guaranty Trust Bank (Uganda) Ltd

GTBank (U) Limited
Pillar 3 Disclosure

September 2024

This Report

This report sets out the Guaranty Trust Bank Uganda Limited disclosures in accordance with the Bank of Uganda **Pillar 3 Market Discipline: Guidelines on Disclosure Requirements**.

The Pillar 3 Disclosure Requirements are designed to promote market discipline by providing market participants with key information on a firm's risk exposure and risk management processes. Pillar 3 also aims to complement the minimum capital requirements described under Pillar 1, as well as the supervisory processes of Pillar 2.

All amounts are in thousands of shillings unless otherwise stated.

Introduction

Guaranty Trust Bank Uganda Limited (the Bank), is engaged in the business of commercial banking and the provision of related services and is licensed under the Financial Institutions Act, 2004 (as amended in 2016).

Managing risk is a fundamental part of the Bank's business activity and an essential component of the planning process. The Bank achieves its risk management goals by keeping risk management at the Centre of the executive agenda and by building a culture that interconnects risk management within everyday business decision-making.

The main sources of financial risk that the Bank faces are those arising from financial instruments – Credit risk, Liquidity risk, and Market risk. The Bank devotes considerable resources to maintaining effective controls to manage, measure, mitigate each of these risks, and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business.

The Bank's risk management policies and processes are designed to identify and analyze these risks, to set appropriate risk appetite, limits, and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date data. Risk management policies, models and systems are regularly reviewed to reflect changes to markets, products and best market practices.

Risk responsibilities on a day-to-day basis are managed through the management risk committee. Through this process, the Bank monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date. Risk management information is provided on a regular basis to the Board. The Board approves the risk appetite and the Board Risk Management Committee monitors the Bank's risk profile against this appetite.

Key Prudential Regulatory Metrics

DIS01: KEY PRUDENTIAL METRICS

The key prudential metrics disclosed relate to regulatory capital, leverage ratios and liquidity standards. The summary table below provides an overview of the bank's prudential regulatory metrics.

The following tables provide an overview of the Guaranty Trust bank prudential regulatory metrics.

	Amounts Ushs' 000	Sep-24	Jun-24	Mar-24	Dec-23	Sep-23
	Available capital (amounts)					
1	Core capital	39,807,962	38,807,680	38,156,826	37,166,361	42,816,394
2	Supplementary capital	923,290	1,007,718	997,740	1,000,825	1,156,278
3	Total capital	40,731,252	39,815,398	39,154,565	38,167,186	43,972,673
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	105,334,948	106,915,189	94,459,159	98,363,305	105,927,787
	Risk-based capital ratios as a percentage of RWA					
5	Core capital ratio (%)	37.79%	36.30%	40.40%	37.78%	40.42%
6	Total capital ratio (%)	38.67%	37.24%	41.45%	38.80%	41.51%
	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 (%)	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)	2.5%	2.5%	2.5%	2.5%	2.5%
11	Core capital available after meeting the bank's minimum capital requirements (%)	25.3%	23.8%	27.9%	25.3%	27.9%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	269,501,765	286,750,468	294,975,833	282,303,635	304,643,081
14	Basel III leverage ratio (%) (row 1 / row 13)	14.8%	13.5%	12.9%	13.2%	14.1%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	14,561,169	25,837,149	40,435,967	34,310,677	30,818,543
16	Total net cash outflow	11,688,889	14,480,028	20,026,478	15,878,083	14,174,276
17	LCR (%)	125%	178%	202%	216%	217%
	Net Stable Funding Ratio					
18	Total available stable funding	153,051,386	172,985,106	182,103,291	170,619,696	164,544,672
19	Total required stable funding	96,504,283	86,237,096	65,686,682	62,542,583	68,414,169
20	NSFR	159%	201%	277%	273%	241%

Bank Risk Management Approach

DIS02: RISK MANAGEMENT APPROACH

Risk Management Review

Presently, Guaranty Trust Bank has a robust and functional Enterprise-wide Risk Management (ERM) Framework that is responsible for identifying and managing inherent and residual risks facing the Bank. The risk management infrastructure therefore encompasses a disciplined, comprehensive and integrated approach to identifying, measuring, controlling and reporting these risks. The eleven main risk areas;

- Credit,
- Strategic
- Market,
- Reputational,
- Compliance,
- Operational,
- Information Technology,
- Liquidity,
- Foreign Exchange,
- Concentration, and
- Cross border;

In compliance with the Bank of Uganda's 'Risk-Based Supervision' guidelines, and to align with Basel Capital Accord / global best practices, a strategic framework for the efficient and effective measurement of risks is in place whilst processes that would enable the Bank adopt more advanced approaches in economic capital calculation are being implemented

The Risk Management Framework

Risk management at GTBank Uganda entails the development and execution of plans and processes to deal with potential losses. The Bank's focus with regard to risk management practices is primarily to manage its exposure to losses and risks and protect the value of its assets. The approach to risk management at GTBank is documented in the Enterprise Risk Management Framework. The Bank risk philosophy is to manage risks pro-actively and ensure that all risks fall within the risk tolerance as formulated by the Board of Directors.

Risk Governance Structure

Guaranty Trust Bank is committed to the highest standards of risk governance which is a vital facilitator to the creation of value for all our stakeholders. The Bank strives to create a comprehensive approach to anticipate, identify, prioritize, manage and monitor the portfolio of business risks impacting achievement of strategic objectives. To achieve this, the Bank has implemented policies, processes,

competencies, reporting systems, accountabilities and enabling technology.
The Bank's Risk Governance Structure consists of a hierarchy of roles created to ensure proper accountability for Enterprise Risk Management.
The Board of Directors are responsible for the governance of the Bank and are accountable to shareholders for creating and delivering sustainable value through the management of the Bank's Strategy, Policies, Risk and day to day operations.
The Board also ensure that Management strikes an appropriate balance between its risk taking and ensuring conformance to approved Risk Appetite levels in the drive to create value.
The Board have the overall responsibility for the establishment of the Bank's Risk Management framework and exercises its oversight function over all prevalent risks through three (3) committees - The Board Risk Committee, Board ALCO, and Board Credit Committee. These committees are responsible for developing and monitoring risk policies in their specified areas and report regularly to the Board of Directors. All Board committees have both executive and non-executive members. These Committees make recommendations to the Board, which retains responsibility for final decision-making.

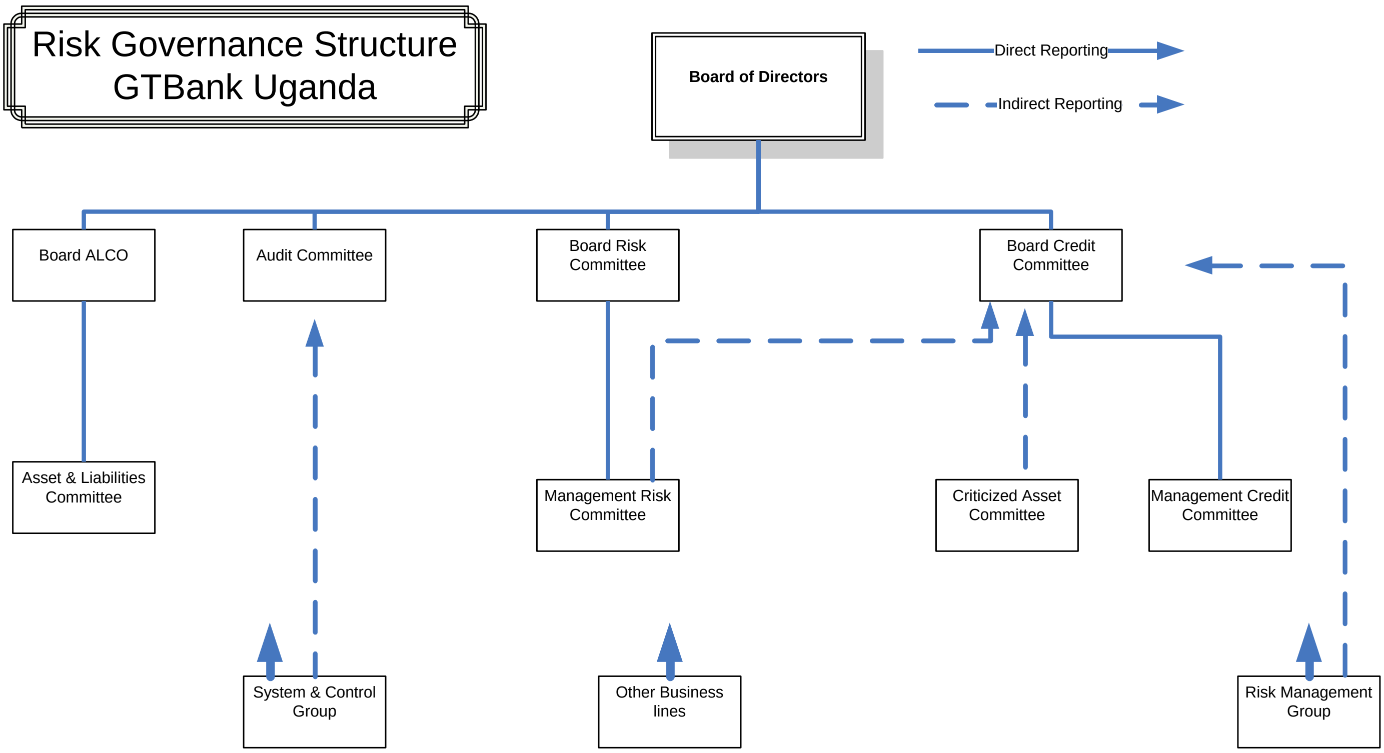
The Board Committees are assisted by the various Management Committees in identifying and assessing risks arising from day to day activities of the Bank. These committees include:

- Management Credit Committee
- Criticized Assets Committee
- Asset and Liability Management Committee (ALCO)
- Management Risk Committee
- Information Technology Steering Committee
- Other Ad-hoc Committees

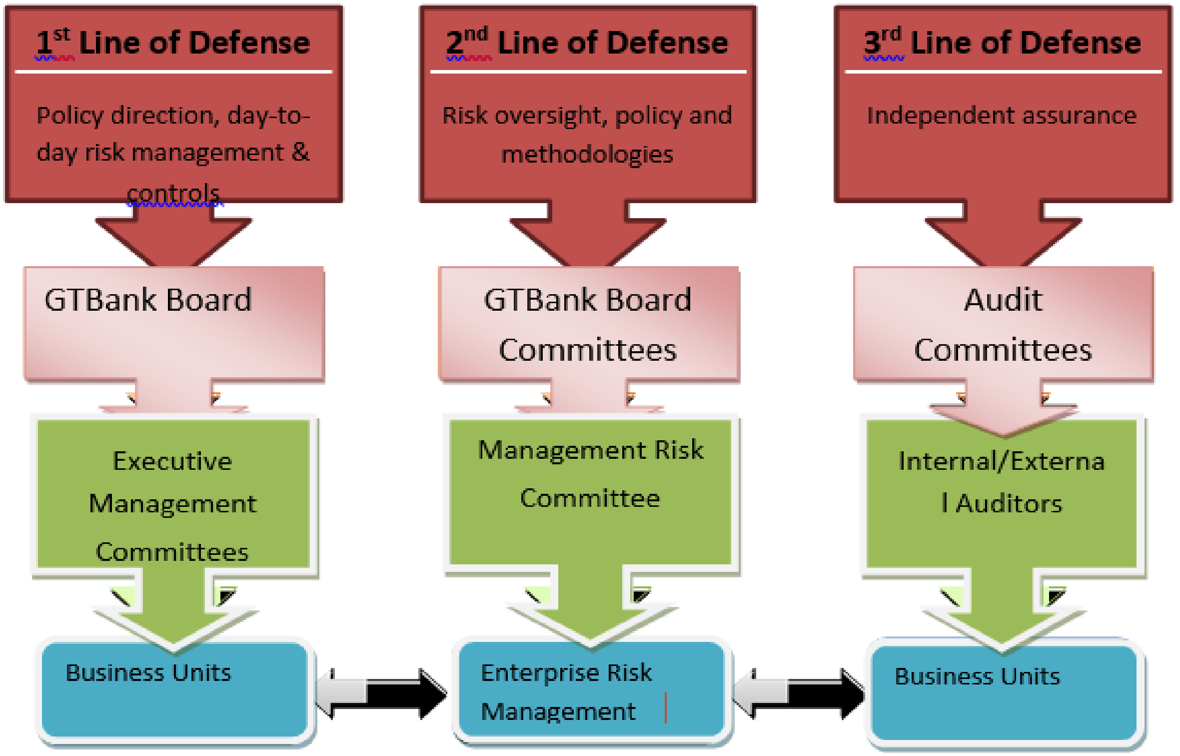
These committees meet on a regular basis while others are set up on an ad-hoc basis as dictated by the circumstances.

The Bank's Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to risks faced by the Bank. The Audit Committee is assisted by the Internal Audit and the Internal control Units in carrying out these functions. Internal Control Unit undertakes both regular and ad- hoc review of risk management controls and procedures, the results of which are reported to the Audit Committee.

Risk Governance Structure



This structure ensures that three lines of defense are built into the Bank's Enterprise-wide Risk Management implementation and practice whilst ensuring that the Board approves all methodologies and tools deployed to manage risk. The figure overleaf shows this governance structure



The "three lines of defense model" distinguishes among three groups involved in effective risk management:

- ❖ Functions that own and manage risks.
- ❖ Functions that oversee risks.
- ❖ Functions that provide independent assurance.

❖ **FIRST LINE OF DEFENSE:**

They own and manage the risks. They are responsible for implementing corrective actions to address process and control deficiencies; maintaining effective internal controls and executing risk and control procedures on a daily basis. They also identify, assess, control and mitigate risks to ensure the achievement of set goals and objectives.

❖ **SECOND LINE OF DEFENSE:**

It is established to perform a policy-setting and monitoring role. It is a risk management function (and/or committee) that facilitates and monitors the implementation of effective risk management practices and establishes a compliance function that monitors specific risks relating to non-compliance with applicable laws and regulations. Other functions include identifying known and emerging issues, providing risk management frameworks, assisting management in developing processes and controls to manage risks, monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting and timely remediation of deficiencies.

❖ **THIRD LINE OF DEFENSE:**

It provides objective assurance on the effectiveness of governance, risk management and internal controls. The scope of the assurance, which is reported to senior management and Board covers a broad range of objectives, including efficiency and effectiveness of operations, safeguarding of assets, reliability and integrity of reporting processes, and compliance with laws, regulations, policies, procedures and contracts. It also includes all elements of the risk management and internal control framework.

Risk Assessments

In undertaking assessments, the Bank shall apply the 5-tier rating scale of 1 to 5 where a range of scores are defined for the rating categories of Low, Low/Medium, Medium, Medium/High, and High to determine the likelihood and impact as shown below.

Probabilities or likelihood of occurrences are rated on the following scale:-

Low - 1	**Low/Medium - 2**	**Medium - 3**	**Medium/High - 4**	**High - 5**
Likelihood of a risk event occurring with 0 - 20% chance of occurrence is **low**	Likelihood of a risk event occurring with 21 - 40% chance of occurrence is **unlikely**	Likelihood of a risk event occurring with 41 - 60% chances of occurrence is **probable**	Likelihood of a risk event occurring with 61 - 80% chance of occurrence is **likely**	Likelihood of a risk event occurring with 80 - 100% chance of occurrence is **definite**

Impact is rated on the following scale:-

Low - 1	Low/medium - 2	Medium - 3	Medium/High -4	High -5
Where financial impact (FI) or reputational damage (RD) is **insignificant i.e.** FI has No adverse impact on GTBank's Gross Income	Where financial impact or reputational damage is **minor**, i.e. FI is 0 – 0.5% of GTBank's Gross Income)	Where financial impact or reputational damage is **moderate**; i.e. FI is **> 0.5% but ≤ 1%** of GTBank's Gross Income)	Where financial impact or reputational damage is **major** i.e. FI is **>1% but ≤ 2%** adverse impact on GTBank's Gross Income)	Where financial impact or reputational damage is **catastrophic** i.e. **FI is >2%** of GTBank's Gross Income)

Overall risks would be rated as follows:

	Insignificant	Minor	Moderate	Major	Catastrophic
Definite	M	M/H	H	H	H
Likely	M	M	H	H	H
Probable	M/L	M/L	M/H	M/H	H
Unlikely	L	L	M	M/H	H
Low	L	L	L	M	H

Key Risk Indicators (KRIs)

These identify and measure the level of risk that a specific action exposes the Bank to; considering its risk profile, effectiveness of implemented controls and management of potential risk exposures. They act as early warning signals to identify potential problems that may negatively impact the performance of the Bank. Examples of KRIs are Staff Attrition Rate, Number of Internal Frauds, Availability ratio/percentage of applications etc.

The Bank has developed a KRI Dashboard that contains indicators used in monitoring and measuring risks across the Bank. Each Indicator has a set of thresholds and if the indicator's value breaches the threshold, remedial action is required. Thresholds set are in line with the Bank's risk appetite.

Capital Management

DIS03: OVERVIEW OF RWA

The table below provides an overview of the bank's Risk-Weighted Assets (RWAs) and capital requirement.

Shs'000		RWA		Minimum capital requirements
		Sep-24	**Jun-24**	**Sep-24**
1	Credit risk (excluding counterparty credit risk)	105,334,948	106,915,189	12,640,194
2	Counterparty credit risk (CCR)	-	-	-
3	Market risk	486,724	625,493	58,407
4	Operational risk	12,431,030	11,106,426	1,491,724
5	**Total (1 + 2 + 3 + 4)**	**118,252,702**	**118,647,108**	**14,190,324**

DIS04: COMPOSITION OF REGULATORY CAPITAL

This section provides a breakdown of the constituent elements of a Bank's capital.

	Details	**Sept-24** **Amounts Shs'000**
	Common Equity Tier 1 capital: instruments and reserves	
1	Permanent shareholders' equity (issued and fully paid-up common shares)	51,954,000
2	Share premium	22,413,668
3	Retained earnings	(29,947,825)
4	Net after tax profits current year-to date (50% only)	2,273,941
5	General reserves (permanent, unencumbered and able to absorb losses)	-
6	**Tier 1 capital before regulatory adjustments**	**46,693,785**
	Tier 1 capital: regulatory adjustments	
8	Goodwill and other intangible assets	161,369
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	6,724,454
26	Other deductions determined by the Central bank	-
28	**Total regulatory adjustments to Tier 1 capital**	6,885,823
29	**Tier 1 capital**	**39,807,962**
	Tier 2 capital: Supplementary capital	
46	Revaluation reserves on fixed assets	-
47	*Unencumbered general provisions for losses (not to exceed 1.25% of RWA)*	923,290
48	Hybrid capital instruments.	-

	Details	Sept-24 Amounts Shs'000
49	*Subordinated debt (not to exceed 50% of core capital subject to a discount factor)*	-
58	**Tier 2 capital**	923,290
59	**Total regulatory capital (= Tier 1 + Tier2)**	40,731,252
60	**Total risk-weighted assets**	105,334,948
	Capital adequacy ratios and buffers	
61	**Tier 1 capital (as a percentage of risk-weighted assets)**	37.8%
63	**Total capital (as a percentage of risk-weighted assets)**	38.7%
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	2.50%
66	Of which: countercyclical buffer requirement	0.0%
67	Of which: bank specific systemic buffer requirement	0.0%
68	**Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements**	25.3%
	Minimum statutory ratio requirements	
70	Tier 1 capital adequacy ratio	12.50%
71	Total capital adequacy ratio	14.50%

*The minimum capital requirement is 12% of the RWA.

Credit Risk

DIS05: ASSET QUALITY

The table below provides a comprehensive picture of the credit quality of the Bank's (on- and off-balance sheet) assets.

		a	b	d	e	f	g
		Gross carrying values of		**Provisions as per FIA2004/MDIA2003**			
	Amount in Shs 000	**Defaulted exposures**	**Non-defaulted exposures**	**Specific**	**General**	**Interest in suspense**	**Net values (FIA/MDIA) (a+b-d-e)**
1	Loans and advances	4,400,511	42,196,262	2,247,506	448,178	197,346	43,901,089
2	Debt Securities	0	0	0	0	0	0
3	Off-balance sheet exposures	0	47,511,221	0	475,112	0	47,036,109
4	***Total***	***4,400,511***	***89,707,483***	***2,247,506***	***923,290***	***197,346***	***90,937,198***

DIS06: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

The table below is to identify the changes in a SFI's stock of defaulted exposures, the flows between non-defaultedand defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

		Amount Shs 000
1	**Defaulted loans & advances, debt securities and off balance sheet exposures at end of the previous reporting period**	4,831,809
2	Loans and debt securities that have defaulted since the last reporting period	40,341
3	Returned to non-defaulted status	(410,594)
4	Amounts written off	-
5	Other changes	(61,046)
6	**Defaulted loans & advances, debt securities and off balance sheet exposures at end of the reporting period** (1+2-3-4+5)	**4,400,511**

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

The bank uses internally generated credit ratings, which rely on both quantitative and qualitative data, to inform the lending decisions.

The Bank uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the credit department to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. The following are additional considerations for each type of portfolio held by the Bank.

Retail
After the date of initial recognition, for retail business, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. Any other known information about the borrower which impacts their creditworthiness, such as unemployment and previous delinquency history, is also incorporated into the behavioral score. This score is mapped to a PD.

Corporate
For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update

information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PDs.

Credit risk grading
The Bank's internal rating scale and mapping of external ratings are set out below:

The Bank uses standardized approach for quantifying credit risk. This involves the application of regulatory determined risk weights to the exposure types. On-balance sheet exposure amounts weighted for credit risk are presented net of impairment taken on the assets. The Risk-weights applied are based on counterparty credit rating grades made available by recognized External Credit Assessment Institutions (ECAIs) or fixed risk-weights as provided in the BOU guideline and are broadly aligned with the supervisory view of the likelihood of counterparty default. The credit quality assessment scale assigns a credit quality step to each rating provided by the ECAIs

CREDIT QUALITY STEP	CREDIT RATING	RISK WEIGHTS
1	Rated AAA to AA (-)	20%
2	Rated A (+) to A (-)	50%
3	BBB+ to BBB-	75%
4-5	BB+ to BB-	100%
6	Below BB-	150%
Unrated	Unrated	100%
0	Secured by cash or Uganda Government securities	0%

The Basel II guidance notes on credit risk by the BOU directs banks to nominate an ECAI and use their credit assessments consistently for each type of exposure, for both risk weighting and risk management purposes.
To this end, the Bank has consistently used the credit ratings of either Fitch or Standard & Poor's (S &P) to rate exposures to supervised institutions (Placements and Balances with foreign banks and subsidiaries). Where a rating for the institution is not available, the Bank adopts the sovereign rating of the country where the institution is located.

In line with the BOU guidance notes, all corporate exposures have been assigned a risk weight of 100% due to the non-availability of ECAI ratings for the Bank's obligors. Exposures secured by commercial mortgage are risk-weighted 100% while a risk weight of 75% is applied to Regulatory retail exposures (if any) and 100% for Other retail exposures, and 65% for exposures secured by residential mortgages, and 100% for Other residential real estate exposures.
The unsecured portion of past due exposures have been assigned a risk weight of either 150% - where specific provisions are less than 20% or 100% - where specific provisions are equal to or greater than 20% of the outstanding amount. Qualifying residential mortgage loans that are past due are risk weighted 100% where specific provisions are less than 20% or 50% - where specific provisions are equal to or greater than 20% of the outstanding amount.