

**Pillar 3 Market Discipline
Disclosures as at June 30, 2023**



**Housing
Finance
Bank**

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INTRODUCTION

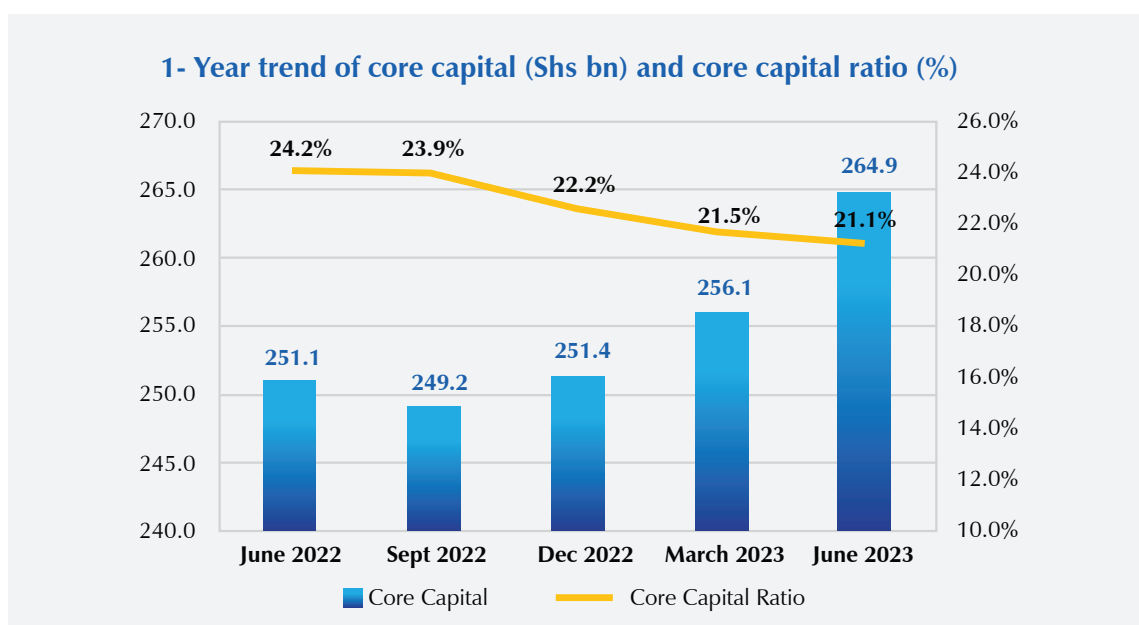
This document provides the Bank's Pillar 3 market discipline disclosures as at June 30, 2023. These disclosures are required of all Supervised Financial Institutions (SFIs) and were effective April 30, 2023. The disclosures were introduced to reduce information asymmetry and help to promote comparability of supervised financial institutions' (SFI) risk profiles, and to promote market discipline through these detailed disclosures.

The disclosures herein focus on the regulatory capital and risk exposures with the purpose of increasing transparency and confidence about an SFI's exposure to risk and the overall adequacy of its regulatory capital.

These disclosures can be accessed on the Bank's website, with cross reference in the other financial reports of the Bank as prescribed by the regulations. For further inquiries and clarifications, you may contact the Bank on the available communication channels.

OVERALL TREND OF COMPLIANCE WITH CAPITAL REQUIREMENTS

The Bank continued to maintain adequate amounts of core capital over the last 5 quarters (June 2022 to June 2023) in excess of the required 12.5% (inclusive of the minimum capital conservation buffer of 2.5%) as reflected in the figure below.



This core capital holding enables the Bank to absorb most of the stress scenarios and shocks, as well as support the Bank to focus on its core purpose of enabling homeownership and financial independence for the vast majority of the Ugandan growing population.

The Bank has a strategy for maintaining adequate capital levels consistent with its risk profile which considers the strategic focus, business plans and the control environment.

SUMMARY OF KEY REGULATORY METRICS

The following is the summary of the key regulatory metrics as at June 30, 2023 relative to the minimum prudential requirements – and the Bank was complying over the period.

	Minimum	June 2023	Dec 2022
Core capital - (Ushs billion)	120.0	264.9	251.4
Total risk-weighted assets - RWA - (Ushs billion)	n/a	1,253.2	1,131.9
Core capital to RWA (%)	10.0%	21.1%	22.2%
Basel III Leverage coverage ratio (%)	6.0%	13.6%	14.4%
Liquidity coverage ratio - LCR (%)	100%	234%	149%
Net stable funding ratio – NSFR (%)	100%	128%	125%

DIS01: KEY PRUDENTIAL METRICS – AS AT JUNE 30, 2023

	(Figures in Ushs '000)	June 2023	March 2023	Dec 2022	Sept 2022	June 2022
	Available capital (amounts)					
1	Core capital	264,892,504	256,074,317	251,426,811	249,213,106	251,054,293
2	Supplementary capital	19,446,423	19,264,296	18,152,453	17,985,212	17,823,109
3	Total capital	284,338,927	275,338,613	269,579,264	267,198,319	268,877,402
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	1,253,220,897	1,193,808,048	1,131,891,345	1,040,598,448	1,038,504,819
	Risk-based capital ratios as a percentage of RWA					
5	Core capital ratio (%) – minimum 10%	21.1%	21.5%	22.2%	23.9%	24.2%
6	Total capital ratio (%) – minimum 12%	22.7%	23.1%	23.8%	25.7%	25.9%
	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 (%)	2.5%	2.5%	2.5%	2.5%	2.5%
11	Core capital available after meeting the bank's minimum capital requirements (%)	8.6%	9.0%	9.7%	11.4%	11.7%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	1,942,975,427	1,755,144,170	1,744,295,772	1,622,946,440	1,580,846,068
14	Basel III leverage ratio (%) (row 1 / row 13) – min 6%	13.63%	14.59%	14.41%	15.36%	15.88%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	327,143,483	379,298,159	317,824,722	248,237,107	350,870,989
16	Total net cash outflow	139,943,023	66,826,577	213,191,863	144,944,610	174,359,777
17	LCR (%) – minimum 100%	234%	568%	149%	171%	201%
	Net Stable Funding Ratio					
18	Total available stable funding	1,596,149,262	1,477,940,507	1,460,256,909	1,378,350,183	1,387,441,268
19	Total required stable funding	1,243,312,701	1,263,839,628	1,169,634,741	1,147,810,657	1,075,768,385
20	NSFR – minimum 100%	128%	117%	125%	120%	129%

The NSFR refers to the **net stable funding ratio** and is defined as the amount of available stable funding relative to the amount of required stable funding. Available stable funding in this case refers to the proportion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of required stable funding of the Bank considers the maturity profiles of both on-and off-balance sheet exposures. The ratio should always be greater or equal to 100%.

DIS03: OVERVIEW OF THE RISK WEIGHTED ASSETS (RWA) – AS AT JUNE 30, 2023

		a	b	c
	(Figures in Ushs '000)	RWA		Minimum capital requirements
		June 2023	March 2023	June 2023
1	Credit risk (excluding counterparty credit risk)	1,014,545,100	985,115,345	121,745,412
2	Counterparty credit risk (CCR)	732,066	225,389	87,848
3	Market risk	167,270,881	142,868,909	20,072,506
4	Operational risk	70,672,851	65,598,405	8,480,742
5	Total (1 + 2 + 3 + 4)	1,253,220,897	1,193,808,048	150,386,508

The growth in risk-weighted assets over the quarter of 5% or Shs 59.4 billion was largely driven by the growth in loans and advances which is the main product of the Bank. Furthermore, the Bank held a net long position in some of the trading currencies necessitating an increase in market risk weighted assets.

Whereas the minimum capital requirement was Ushs 150.38 billion as at June 30, 2023, the Bank held Ushs 264.89 billion in core capital as at the same reporting date. The excess is held to absorb any shocks that may arise in severe stressful conditions and to support business growth in line with strategy.

DIS04: COMPOSITION OF REGULATORY CAPITAL – AS AT JUNE 30, 2023

		June 2023 Ushs '000	Dec 2022 Ushs '000
	Common Equity Tier 1 capital: instruments and reserves		
1	Permanent shareholders equity (issued and fully paid-up common shares)	122,000,000	122,000,000
2	Share premium	-	-
3	Retained earnings	156,320,119	156,320,119
4	Net after tax profits current year-to date (50% only)	17,672,552	-
5	General reserves (permanent, unencumbered to absorb losses)	-	-
6	Tier 1 capital before regulatory adjustments	295,992,671	278,320,119
	Tier 1 capital: regulatory adjustments		
8	Goodwill and other intangible assets	22,907,677	26,434,415
9	Current year's losses	-	-
10	Investments in unconsolidated financial subsidiaries	-	-
12	Deficiencies in provisions for losses	-	-
13	Other deductions determined by the Central bank	6,950,628	-
14	Other deductions determined by the Central bank	1,241,862	458,894
15	Total regulatory adjustments to Tier 1 capital	31,100,167	26,893,309
16	Tier 1 capital	264,892,504	251,426,811
	Tier 2 capital: Supplementary capital		
17	Revaluation reserves on fixed assets	10,524,872	10,316,760
18	Unencumbered general provisions for losses (not to exceed 1.25% of RWA)	8,921,551	7,835,693
19	Hybrid capital instruments	-	-
20	Subordinated debt (not to exceed 50% of core capital subject to a discount factor)	-	-
21	Tier 2 capital	19,446,423	18,152,453
22	Total regulatory capital (= Tier 1 + Tier 2)	284,338,927	269,579,264
23	Total risk-weighted assets	1,253,220,897	1,131,891,345
	Capital adequacy ratios and buffers		
24	Tier 1 capital (as a percentage of risk-weighted assets)	21.14%	22.21%
25	Total capital (as a percentage of risk-weighted assets)	22.69%	23.82%
26	Total Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus systemic buffer as a percentage of risk-weighted assets)	2.50%	2.50%
27	Of which: capital conservation buffer requirement	2.50%	2.50%
28	Of which: countercyclical capital buffer requirement	-	-
29	Of which: bank specific systemic risk buffer requirement	-	-
30	Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements	8.64%	9.71%
	Minimum statutory ratio requirements		
31	Tier 1 capital adequacy ratio	10.00%	10.00%
32	Total capital adequacy ratio	12.00%	12.00%

The reduction in tier 1 capital available after meeting the Bank's minimum capital requirements (line 30) from 9.7% in December 2022 to 8.64% in June 2023 was in part due to the growth in risk-weighted assets (loans and advances and trading exposures) in line with the business plan; and due to the growth in capital deductions – especially growth in intangible assets. Nonetheless, the excess capital above the minimum amount of 8.64% translates to a headroom for growth in risk-weighted assets of approximately Ushs 950 billion, holding other factors constant.

DIS05: CREDIT QUALITY OF ASSETS – AS AT JUNE 30, 2023

		a	b	d	e	f	g
		Gross carrying values of:		Provisions as per FIA2004		Interest in	Net values (FIA 2004)
		Defaulted exposures	Non-defaulted exposures	Specific	General	suspense	(a+b-d-e)
1	Loans and advances	53,568,858	857,101,248	22,045,090	8,921,551	5,303,161	874,400,304
2	Debt securities	-	-	-	-	-	-
3	Off-balance sheet exposures	-	123,358,579	-	-	-	123,358,579
4	Total	53,568,858	980,459,827	22,045,090	8,921,551	5,303,161	997,758,883

As at June 30, 2023 the non-defaulted exposures amounted to Shs 980.5 billion equivalent to 94.8% of the gross exposures, reflecting a relatively good and stable asset quality in this post COVID-19 business environment.

DIS06: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES – JUNE 30, 2023

		June 2023	Dec 2022
		Ushs '000	Ushs '000
1	Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the previous reporting period	35,789,321	34,129,885
2	Loans and debt securities that have defaulted since the last reporting period	32,836,087	21,978,146
3	Returned to non-defaulted status	7,319,721	11,352,527
4	Amounts written off	7,736,829	8,966,183
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)	53,568,858	35,789,321

The defaulted exposures position of June 2023 was impacted by default by one of the top 10 exposures – which returned to normal during the early days of July 2023. Engagements also continue with both written off and defaulted customers on the basis of the pledged collateral and recoveries will be registered over the current half year.

Housing Finance Bank is regulated by Bank of Uganda. Customer deposits are protected by the Deposits Protection Fund up to UGX 10 million .Terms and Conditions apply.