Pillar 3 Market Discipline Disclosures as at December 31, 2023

Housing Finance Bank

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INTRODUCTION

This report provides the Bank's Pillar 3 market discipline disclosures as at December 31, 2023. The disclosures were introduced by Bank of Uganda effective April 30, 2023 to reduce information asymmetry and help to promote comparability of supervised financial institutions' (SFI) risk profiles, and to promote market discipline through these regulatory 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.

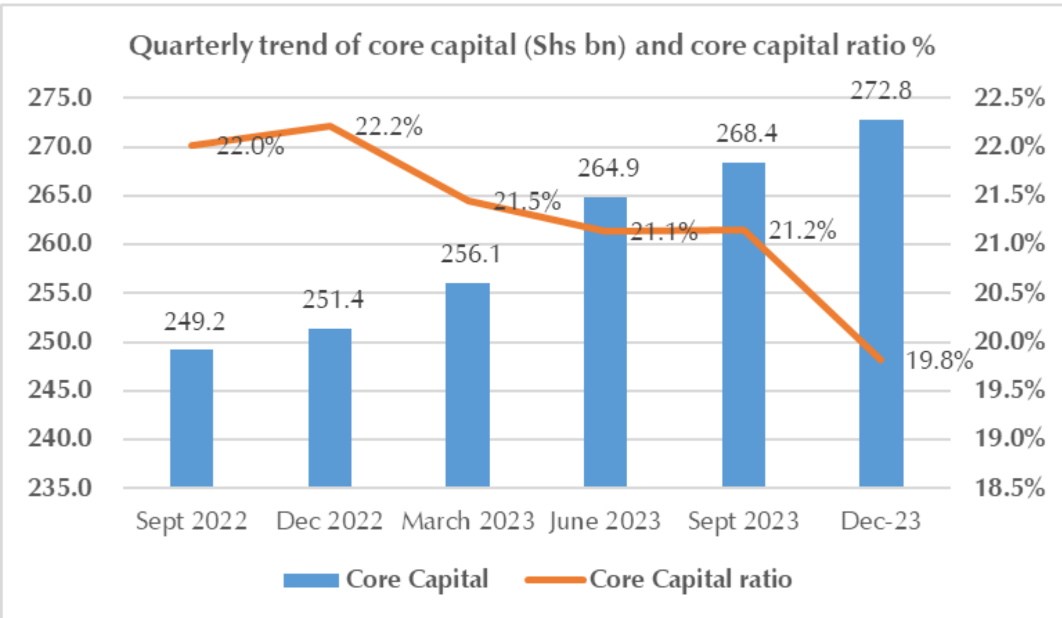
Certification of Pillar 3 Market Discipline Disclosure Report

Management and the Board of Directors confirms that the Pillar 3 Market Discipline Disclosure Report for period ended December 31, 2023 has been prepared and verified in accordance with the Bank's policies on disclosures, its internal controls and the Bank of Uganda guidelines established. The Board is satisfied that the Bank's risk and capital management processes were operated effectively for the period under review, and the Bank is adequately capitalized and funded to support the execution of its strategy.

The information in this report is unaudited.

OVERALL TREND OF COMPLIANCE WITH CAPITAL REQUIREMENTS

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



The indicated core capital position enables the Bank to absorb most of the stress-testing shocks, as well as support the Bank to focus on its core purpose of enabling home ownership 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 December 31, 2023 relative to the minimum prudential requirements – and the Bank was complying over the period.

	Minimum	Dec 2023	June 2023	Dec 2022
Core capital - (Ug. Shs billion)	120.0	272.8	264.9	251.4
Total risk-weighted assets - (Ug. Shs billion)	n/a	1,376.8	1,253.2	1,131.9
Core capital to total risk-weighted assets %	10.19%	19.8%	21.1%	22.2%
Basel III Leverage coverage ratio %	6.0%	12.3%	13.6%	14.4%
Liquidity coverage ratio - LCR %	100%	264%	234%	149%
Net stable funding ratio - NSFR%	100%	145%	128%	125%

DIS01: KEY PRUDENTIAL METRICS – AS AT DECEMBER 31, 2023

	*(Figures in **Ushs '000**)*	Dec 2023	Sept 2023	June 2023	March 2023	Dec 2022
	Available capital (amounts)					
1	Core capital	272,845,670	268,422,945	264,892,504	256,074,317	251,426,811
2	Supplementary capital	22,258,212	20,022,212	19,446,423	19,264,296	18,152,453
3	Total capital	295,103,882	288,445,157	284,338,927	275,338,613	269,579,264
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	1,376,812,799	1,269,057,179	1,253,220,897	1,193,808,048	1,131,891,345
	Risk-based capital ratios as a percentage of RWA					
5	Core capital ratio (%) – minimum 10.19%	19.8%	21.2%	21.1%	21.5%	22.2%
6	Total capital ratio (%) – minimum 12.19%	21.4%	22.7%	22.7%	23.1%	23.8%
	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 (%)	7.3%	8.5%	8.6%	9.0%	9.7%
	Basel III leverage ratio:					
13	Total Basel III leverage ratio exposure measure	2,225,220,666	2,051,929,993	1,942,975,427	1,755,144,170	1,744,295,772
14	Basel III leverage ratio (%) (row 1 / row 13) – min 6%	12.3%	13.08%	13.63%	14.59%	14.41%
	Liquidity Coverage Ratio:					
15	Total high-quality liquid assets (HQLA)	376,573,576	327,214,991	327,143,483	379,298,159	317,824,722
16	Total net cash outflow	142,827,426	195,107,091	139,943,023	66,826,577	213,191,863
17	LCR (%)– minimum 100%	264%	168%	234%	568%	149%
	Net Stable Funding Ratio:					
18	Total available stable funding	1,558,843,097	1,501,290,497	1,596,149,262	1,477,940,507	1,460,256,909
19	Total required stable funding	1,075,108,265	959,448,689	1,243,312,701	1,263,839,628	1,169,634,741
20	NSFR – minimum 100%	145%	156%	128%	117%	125%

The available stable funding refers to the proportion of capital and liabilities expected to reliable over the time horizon considered by the NSFR, which extends to one year, while required stable funding considers the maturity profiles of both on-and off-balance sheet exposures.

DIS02: RISK MANAGEMENT APPROACH

2.0 Risk Management Approach

The Bank takes the approach of identifying and assessing risks and opportunities that are in its internal and external environments, and proactively identifying and mitigating emerging risks.

The Bank ensures effective risk management through:

i. Building a strong risk culture, which is integral to the Bank's culture.
ii. Assessing principal risks, assignment of risk ownership and accountability using appropriate risk practices, tools and techniques.
iii. Oversee and manage assurance through a combined assurance model with clear accountability across the three lines of defence.
iv. Upholding the risk governance structure with clear Board escalation and oversight.
v. Enforcement of complete and coordinated processes for evaluating, responding to and monitoring risks.
vi. Oversight of the bank wide assurance through a combined assurance approach with clear accountability across the three lines of defence.

2.1.1 Risk Governance

a) Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

The Board delegates its Risk Management oversight responsibilities to specific Board sub-committees which focus on different aspects of Risk Management. The full Board is regularly updated on the key risks facing the Bank and these are compared with the approved risk appetite and set targets. The Board Risk Management Committee is the main Board sub-committee with designated responsibilities for the oversight of Risk Management within the Bank.

The Board of Directors delegates its powers and authority to the Executive Committee of the Bank through the various management committees which are responsible for ensuring compliance with the Enterprise Risk Management Framework through the Management Risk and Compliance Committee which provides regular updates to Executive Committee and the Board on the Bank's risk profile.

b) Board Risk Management Committee

The Board Risk Management Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions

c) Management Risk & Compliance Committee

The routine monitoring of risk has been delegated to Management Risk and Committee by the Executive Committee. The Management Risk & Compliance Committee has the overall responsibility to support the Board Risk Management Committee for the development and formulation of the risk strategies, procedures, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies.

d) Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk-related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee. The department is responsible for credit risk, market risk, operational risk, Information Technology Risk, Fraud risk and overall risk control.

e) Compliance Department

The Compliance function manages the compliance risk of the Bank. The Compliance function reports to the Board, through the Board Risk Committee and has sufficient authority, independence, resources, and access to the Board. The compliance function provides advice to the Board and management regarding the Bank's compliance with applicable laws, guidance and standards while providing support to comply with the same.

f) Internal Audit

Internal Audit provides independent assurance to the Board over the effectiveness of governance, risk management and control over current, systemic, and emerging/evolving risks.

g) Risk Champions

These are representatives of all departments and branches who are responsible for supporting identification and reporting of risks in their domains and communicating the risk management vision to staff.

h) Three Lines of Defense and Combined assurance

The Bank utilizes the three lines of defense model in blend with the combined assurance model to control risk across all businesses and functions. There are specific responsibilities assigned to each line of defense. All employees are responsible for ensuring that the Bank operates within its risk appetite. These responsibilities are defined in terms of the employee's role in the three lines of defense.

1st Line of Defense	2nd Line of Defense	3rd Line of Defense
Business Functions	Risk Management and Compliance functions	Internal Audit
• Are responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them. • Risk ownership and management	• Establishing rules and constraints with reference to the frameworks and policies under which first line activities are performed, consistent with the risk appetite of the Bank. • Perform assurance testing of the first line against these limits and constraints. • Perform independent challenge of all risks in the first line, including an evaluation of the quality of the risk management being exercised by the first line.	• The Internal Audit function provides independent assurance that the Bank's risk management approach and processes are commensurate with the level and depth of operations conducted by the Bank and operating effectively. • The Bank's external auditors also provide assurance on the financial reporting of the bank.

2.1.2. Risk Management Process

The Bank's risk management process is based on the ISO 31000 Risk Management standard where the risks are contextualized within the operating environment of the bank. The process is summarized below;

Risk Management Process	
Risk Assessment	• Adoption of a vigilant and ongoing process of risk identification to understand risk within its explicit and implicit objectives and maintains a comprehensive risk register including new and emerging risks. This identification process is driven by the Risk Management department in the Bank in coordination with all departments of the Bank, as supported by the risk champions in each department and branch. • Use of suitable tools for identifying risks such as stakeholder engagements, self-assessments, risk management Forums, audit findings, industry benchmarking, review previous losses, and use of expert judgement. • Communicating and consulting with the relevant external and internal stakeholders in and throughout all steps of the risk management process. Communication involves obtaining feedback and information to support decision-making. • All staff of the Bank are responsible for risk management.
Risk Evaluation	• Measure risks in terms of impact and likelihood of occurrence • Categorising risks (Internal, external or Strategic) and matching them to an appropriate risk management process. • Assessing risks based on inherent and residual risks. Residual risk is benchmarked against the Bank's risk appetite to determine the need for further management intervention if any. • Analysing the root causes of identified risk event and the cause -and -effect relationships. • Risk ranking to determine priorities.
Risk Treatment	• Determining the appropriate risk treatment, which includes preventive, detective and corrective controls and deciding whether the remaining risk is acceptable and taking further action if needed. • Automating controls where possible, especially preventive risks controls. • Reviewing stress/scenario testing in response to the development of new and unanticipated external risks. • Taking care that no unintended consequences exist, there can be scenarios where the actions taken to control one risk could introduce other risks or undermine existing controls. • Deep dives analyses for significant risk events

Risk Management Process	
Continuous Monitoring	• Analysing current risk profile and risk trends/events, using key risk indicators (KRIs) to understand changes in the risk environment, proactive monitoring of emerging risks that might impact business objectives and monitoring changes in risk materiality, likelihood and impact, and the appropriateness of existing controls. • Ensuring risks are maintained within set limits in the approved Risk Appetite statement. • Frequent and timely reviews applying a combined assurance model to boost overall assurance in the risk and control environment. • Checking that controls are functioning as intended and remain fit for purpose

2.2 Risk Culture & Appetite

2.2.1 Risk Appetite

This is the amount of risk, at a broad level, that the Bank is willing to accept in pursuit of its strategic objectives. Risk Appetite reflects the risk management philosophy that the Board wants the Bank to adopt and, in turn, influences its risk culture, operating style and decision-making. It represents a balance between the potential benefits of innovation and the threats that change inevitably brings.

Risk appetite frameworks aid the Bank to understand it's risk profile, find an optimal balance between risk and return, and nurture a healthy risk culture in the organization. It explains the risk tolerance of the and relates to the guidelines, controls, and containment measures that the Bank sets in place to ensure the successful realization of its business goals and strategies.

The Board approves the Risk appetite statement on an annual basis.

2.2.2 Risk Culture

Housing Finance Bank has a staff code of conduct whose objective is to define the way staff think, work and act to ensure that the bank delivers on its vision to be the preferred Business and Consumer with a focus on Housing Finance. The code of conduct sets out the conduct guard rails and provides guidance to staff. The code of conduct sets out the ethical and professional attitudes and behaviours expected of the staff. All colleagues are required to act in accordance with the Bank's Values (Excellence, Respect, Integrity and Customer Centric).

A staff member who violates the Bank's code of conduct is subject to disciplinary action as guided by the code of conduct and Human Resource Policy.

The risk management culture emphasizes careful analysis and management of risk in all business processes. Risks are identified, assessed and managed at both an enterprise level ('top-down') and business level ('bottom-up'). The Bank applies the three- line Defense model of risk management as adopted from the Institute of Internal Auditors three Lines of defense Model 2020.

The risk management department is responsible for building a risk awareness culture within the Bank through appropriate education channels.

2.3 Risk Data & Reporting

2.3.1 Risk Data

Internal and external data is utilized in meeting regulatory requirements and the management of risk. Internal data is owned and managed by the respective risk owners with regular assessment of data quality via their respective risk governance structures. All key datasets are subject to the requirements of the Bank's data policies and standards.

2.3.2 Risk reporting

The purpose of risk reporting is to provide timely, accurate, comprehensive, and useful information to the Board and senior management to facilitate informed decision-making. Board and Management Risk and Compliance Committees determine their requirements in terms of content and frequency of reporting under both normal and stressed conditions. Risk reporting process flows from the Risk Management Department to the Management Risk & Compliance Committee then to the Board Risk Committee and the full Board. The content and level of aggregation are adjusted to suit the decision-making needs of the recipients. The risk management reports usually contain the following key information:

I. Monitoring and management of the risk profile and key risk metrics per risk type against risk appetite and forecasts, including trend analysis.
II. Monitoring of emerging risks and changes in the environment while assessing the potential impact on the Bank.
III. Results of stress testing exercises – both to assess the adequacy of capital and ability to meet its strategic objectives using sensitivity to stressed conditions.
IV. An assessment of the risk governance profile, including an assessment of the degree to which risk frameworks and policies are implemented throughout the bank and assurance activities.

2.3.3. Risk Technology

Technology is a key factor for successful risk management practices, and to this end solutions are focused on: Data collection and storage, Risk analysis and modelling, Risk assessment, monitoring and control, Risk reporting and communication. In addition to enabling the effective management of risk, these technologies present opportunities for digitization of components of core business processes, for example loan origination and monitoring, Forex trading, Money Market Operations, client on-boarding, auto-reconciliation among others. These opportunities are explored and implemented collaboratively across the departments through the integrated change governance process.

The Bank's investment in risk management related technology continues to prioritize cyber security, data analytics and robust reporting.

2.4. Stress Testing

Stress testing and scenario analysis are key elements of the Bank's integrated planning and risk management processes. Using stress testing and scenario analysis, the Bank can assess the performance and resilience of its business in the expected economic environment and also evaluate the potential impact of adverse economic conditions, using and applying the information in the process of setting risk appetite. Stress testing is conducted across the Credit and Treasury portfolios. Strategic, liquidity, credit and operational risk stress tests are conducted to assess the Bank's ability to meet its financial objectives in adverse situations. This is supported by a framework, policies, and procedures, adhering to internal and external stakeholder requirements, and benchmarked against best practice.

The stress testing results are reviewed by management and the Board and have been incorporated into the Bank's Internal capital adequacy assessment process (ICAAP). The Executive and Board periodically review stress tests performed with focus being on their impact on Earnings and Capital Adequacy. This then informs the decision-making in terms of pursuing or preventing certain opportunities or activities based on their impact on earnings or capital.

The stress tests are based on stress scenarios at varying and sufficient degrees of severity and applying various projection techniques.

The Bank's Board is responsible for approving the stress testing framework. The Enterprise Risk Framework guides the stress testing process as follows:

a) The identification of key risks.
b) The mitigation of risks through the review and challenge of limits, controlling of exposures.
c) Risk and Portfolio management strategies
d) Risk appetite setting and measurement.
e) Strategy setting.
f) Integrated financial planning.
g) Regulatory stress test requirements.
h) Internal Capital Adequacy Assessment Process (ICAAP), including capital planning and the setting of capital buffers.
i) The development and review of Recovery and Resolution plans.
j) Communication with stakeholders

2.5. Our Material Risks

2.5.1. Risk Types

Risk Type	Description
Strategic Risk	This is the risk to the Bank's earnings, capital, or reputation arising from changes in the environment the Bank operates in due to adverse strategic decisions, inadequate implementation of strategic decisions, or slow response to industry, economic or technological changes.
Credit Risk	Credit Risk is the risk of loss to the Bank arising out of the failure of obligors to meet their financial or contractual obligations when due. Credit Risk arises mainly from its lending activities to customers and from interbank lending. It's composed of obligor risk, concentration risk, and counterparty risk.
Operational Risk	Operational Risk is the risk of loss to the Bank arising from inadequate or failed processes, systems, human resource, or due to external events.
Market Risk	This is the risk of losses to the Bank arising from changes in interest rates, foreign exchange rates. Market risk also includes capital risk that the if the Bank does not maintain sufficient capital ratios and buffers to allow it to meet its regulatory and internal capital buffer obligations and requirements.
Liquidity Risk	Liquidity Risk is the risk that the Bank does not always have sufficient cash and near cash equivalents available to meet its contractual and contingent cash flow obligations or can only turn liquid assets into cash at an excessive cost.
Cyber Security Risk	Cybersecurity risks relate to the loss of confidentiality, integrity, or availability of information, data, or information (or control) systems and reflect the potential adverse impacts on organizational operations.
Compliance Risk	The risk of legal or regulatory sanction, financial loss, or damage to reputation that the Bank may suffer due to failure to comply with laws, regulations, codes of conduct, internal policies, and standards of best practice applicable to its operations.
Reputational Risk	The risk of potential or actual damage, which may impair the profitability and/or sustainability of its business.
Third Party Risk	This is the potential risk that arises from the Bank's use of outside parties to perform services or activities on its behalf.

2.5.2. Risk Mitigation

As part of its overall risk management, the Bank uses various methods to manage exposures resulting from changes in credit risks, liquidity risks, market risks (including foreign exchange risk, and Interest rate risk), and operational risks.

The Bank manages its credit risk exposures through having detailed policies and procedures that guide the Bank's lending activities. For impairment the Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are measured at amortized cost: On balance sheet items, Off-balance sheet instruments issued. Collateral is applied internally to mitigate underwriting risk where appropriate.

To guard against liquidity risk, management has diversified funding sources and assets are managed with overall liquidity in consideration maintaining a healthy and quality portfolio of liquid assets.

The market risks are managed based on predetermined asset allocation in the trading and banking book across various asset categories and continuous appraisal of market conditions for movements in foreign currency rates and interest rates.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

DIS03: OVERVIEW OF THE RISK WEIGHTED ASSETS (RWA) – AS AT DECEMBER 31, 2023

		a	b	c
	(Figures in ***Ushs '000****)*	RWA		Minimum capital requirements
		Dec 2023	**Sept 2023**	**Dec 2023**
1	Credit risk (excluding counterparty credit risk)	1,175,723,349	1,116,714,626	141,086,802
2	Counterparty credit risk (CCR)	290,534	666,941	34,864
3	Market risk	115,981,049	76,519,266	13,917,726
4	Operational risk	84,817,867	75,156,346	10,178,144
5	**Total (1 + 2 + 3 + 4)**	**1,376,812,798**	**1,269,057,179**	**165,217,536**

Whereas the minimum capital requirement was Ushs 165.2 billion as at December 31, 2023, the Bank held Ushs 272.84 billion in core capital as at the same reporting date. The excess capital is held to absorb any shocks that may arise in severe stressful conditions and to support business growth in line with Bank's growth strategy.

DIS04: COMPOSITION OF REGULATORY CAPITAL – AS AT DECEMBER 31, 2023

		December 2023 Ushs '000	**June 2023 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	155,109,126	156,320,119
4	Net after tax profits current year-to date (50% only)	29,887,681	17,672,552
5	General reserves (permanent, unencumbered to absorb losses)		-
6	**Tier 1 capital before regulatory adjustments**	**309,293,658**	**295,992,671**
	Tier 1 capital: regulatory adjustments		
8	Goodwill and other intangible assets	23,432,422	22,907,677
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	6,264,573	6,950,628
14	Other deductions determined by the Central bank	4,454,141	1,241,862
15	**Total regulatory adjustments to Tier 1 capital**	34,151,137	31,100,167
16	**Tier 1 capital**	272,845,670	264,892,504
	Tier 2 capital: Supplementary capital		
17	Revaluation reserves on fixed assets	12,125,667	10,524,872
18	Unencumbered general provisions for losses (not to exceed 1.25% of RWA)	10,132,545	8,921,551
19	Hybrid capital instruments		-
20	Subordinated debt (not to exceed 50% of core capital subject to a discount factor)		-
21	**Tier 2 capital**	22,258,212	19,446,423
22	**Total regulatory capital (= Tier 1 + Tier 2)**	295,103,882	284,338,927
23	**Total risk-weighted assets**	1,376,812,799	1,253,220,897
	Capital adequacy ratios and buffers		
24	**Tier 1 capital (as a percentage of risk-weighted assets)**	19.82%	21.14%
25	**Total capital (as a percentage of risk-weighted assets)**	21.43%	22.69%
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**	7.32%	8.64%
	Minimum statutory ratio requirements		-
31	Tier 1 capital adequacy ratio	10.00%	10.00%
32	Total capital adequacy ratio	12.00%	12.00%

DIS05: CREDIT QUALITY OF ASSETS – AS AT DECEMBER 31, 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	57,388,142	975,734,185	25,197,310	10,132,545	4,702,774	993,089,698
2	Debt securities	-	-	-	-	-	-
3	Off-balance sheet exposures	-	43,908,407	-	-	-	43,908,407
4	**Total**	**57,388,142**	**1,019,642,592**	**25,197,310**	**10,132,545**	**4,702,774**	**1,036,998,105**

As at December 31, 2023 the non-defaulted exposures amounted to Shs 1,019 billion equivalent to 94.9% of the gross exposures, reflecting a relatively good and stable asset quality in the post COVID-19 business environment.

DIS06: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES – DECEMBER 31, 2023

		December 2023	June 2023
		Ushs '000	**Ushs '000**
1	**Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the previous reporting period**	53,568,858	35,789,321
2	Loans and debt securities that have defaulted since the last reporting period	26,104,555	32,836,087
3	Returned to non-defaulted status	13,473,235	7,319,721
4	Amounts written off	8,812,036	7,736,829
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)	**57,388,142**	**53,568,858**

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

Housing Finance Bank uses external credit ratings under the standardised approach for Credit Risk. The Bank uses Moody's Analytics, Standard and Poor's Global Ratings and Fitch Ratings as External Credit Assessment Institutions (ECAI) and applies an analytical approach as a qualitative assessment tool to conduct credit risk assessments using the Standardized Approach model to Credit Risk. The External Credit Ratings are applied to the Bank's market segments of Credit Linked Investments and in assessing country risk using the Credit risk ratings to determine the maximum levels of risk exposures to these underlying entities. The tool uses audited financial statements for each obligor to arrive at financial spreads and qualitative data which is used to generate risk grading and scores that inform the Bank's lending decisions. The risk spreads for Moody's Analytics is as summarized below. The Bank converts the external rating grades across External Credit Assessment Institutions as per the Bank of Uganda Guidelines on the Recognition and Use of External Credit Assessment Institutions to obtain the risk rating of different counterparties.

Scale	Definition	Risk Rating
Aaa	Highest quality investments with minimal credit risk	Low Risk
Aa	High quality investments with subject to very low risk	
A	Upper-medium grade investments subject to low credit risk	
Baa	Moderate credit risk of medium grade and poses speculative characteristics	Moderate Risk
Ba	Judged to have speculative elements and are subject to substantial credit risk	
B	Considered speculative and subject to high credit risk	High Risk
Caa	Poor standing investments subject to very high credit risk	Unacceptable Risk
Ca	Highly speculative and are in or very near to default with some prospect of recovery	
C	Typically, in default with little prospect for recovery	

There were no changes in the use of the ECAI over the reporting period.