

Pillar 3

Market Discipline Disclosures

as at December 31, 2025

Report CONTENTS

Page

3	Introduction
4	DIS01: Key Prudential Metrics
5	DIS02: Risk Management Approach
9	DIS03: Overview of RWA
10	DIS04: Composition of Regulatory Capital
18	DIS05: Asset Quality
11	DIS06: Changes in stock of defaulted loans and debt securities
11	DIS07: Qualitative disclosure on use of external credit ratings under the Standardised approach for credit risk

Introduction

This report sets out the Bank's 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 transparency and market discipline by providing market participants with key quantitative and qualitative disclosures regarding the Bank's risk exposure and risk management processes. Pillar 3 complements the minimum capital requirements described under Pillar 1, as well as the supervisory processes of Pillar 2.

The Pillar 3 Risk Management Report provides a quarterly view of Housing Finance Bank's regulatory capital and risk exposures in accordance with the Pillar 3 Market Discipline Disclosure Requirements under the Basel II accord.

The Bank's Board of directors has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board is supported by Executive Level Committees which are responsible for identifying, monitoring and managing the Bank's risk through the Risk Management Framework.

Board attestation

The Board attests that the Pillar 3 Market Discipline Disclosure Reports for Quarter 4 2025 have been prepared in accordance with Bank of Uganda's Pillar 3 Market Discipline disclosure guidelines and Board agreed internal processes. The Pillar 3 disclosures have been duly published on the Housing Finance Bank's website



Ms. Josephine N. Mukumbya
Board Chairperson



Mr. Michael K Mugabi
Managing Director

Key Prudential Regulatory metrics

DIS01: Key Prudential Metrics

The table below highlights regulatory capital, leverage and liquidity prudential metrics.

(Figures in Ushs '000)		Dec 2025	Sept 2025	June 2025	March 2025	Dec 2024
Available capital (amounts)						
1	Core capital	325,340,053	314,671,400	297,934,844	292,587,108	292,680,719
2	Supplementary capital	23,428,692	23,352,964	23,424,181	23,029,276	22,594,381
3	Total capital	348,768,745	338,024,364	321,359,025	315,616,384	315,275,099
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	1,338,894,808	1,310,924,565	1,464,774,048	1,362,476,368	1,274,853,480
Risk-based capital ratios as a percentage of RWA						
5	Core capital ratio (%) - minimum 10.22%	24.30%	24.00%	20.34%	21.5%	23.0%
6	Total capital ratio (%) - minimum 12.22%	26.05%	25.79%	21.94%	23.2%	24.7%
Capital buffer requirements as a percentage of RWA						
7	Capital conservation buffer requirement (2.5%)	2.5%	2.5%	2.50%	2.5%	2.5%
8	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
9	Systemic buffer (for DSIBs) (%)	0.0%	0.0%	0.0%	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 (%)	11.8%	11.5%	7.8%	9.0%	10.5%
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	2,692,560,914	2,557,715,794	2,765,632,784	2,531,755,702	2,457,030,536
14	Basel III leverage ratio (%) (row 1 / row 13)	12.1%	12.3%	10.8%	11.6%	11.9%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA)	541,336,033	292,892,281.41	330,325,734.68	249,686,851	452,771,938
16	Total net cash outflow	173,826,810	186,925,094.23	179,723,736.93	201,121,012	233,642,984
17	LCR (%)	311%	157%	184%	124%	194%
Net Stable Funding Ratio						
18	Total available stable funding	1,985,658,077	1,757,481,246.46	1,667,250,735.89	1,779,918,898	1,739,871,809
19	Total required stable funding	1,444,566,513	1,383,270,447.57	1,533,275,591.30	1,475,115,239	1,428,031,981
20	NSFR % - (Minimum - 100%)	137.5%	127%	109%	121%	122%

2.0. Risk Management Approach

Housing Finance Bank (“the Bank”) applies an enterprise-wide, proactive approach to identifying, assessing and managing risks and opportunities arising from both the internal and external operating environment. This approach supports early detection of emerging risks and timely implementation of mitigation actions to protect the Bank’s strategic objectives and financial resilience.

The Bank ensures effective risk management through:

- i. Maintaining a robust risk governance structure supported by clear Board oversight and escalation channels.
- ii. Embedding a strong risk culture as a core part of the Bank’s values and day-to-day operations.
- iii. Assessing the Bank’s principal risks and assigning clear risk ownership and accountability, supported by appropriate risk tools, practices and techniques.
- iv. Strengthening oversight and assurance through a combined assurance framework, with clearly defined accountability across the three lines of defense.
- v. Ensuring structured and coordinated processes for risk identification, evaluation, response and monitoring across the Bank.

2.1.1. Risk Governance

a) Board of Directors

The **Board of Directors** has ultimate responsibility for the Bank’s risk management approach and approves the Bank’s risk strategy, frameworks, policies and risk appetite. The Board receives regular reporting on the risk profile and key risk exposures, assessed against approved appetite measures and performance targets.

b) Board Risk Management Committee

The Board Risk Management Committee is responsible for guiding the development of risk strategies, frameworks, policies and limits, and recommending them to the Board for approval. The Committee provides oversight on significant risk matters and ensures that risk decisions and exposures remain aligned to the Bank’s strategic direction and risk appetite.

c) Management Risk & Compliance Committee

The Executive Committee has delegated routine risk monitoring to the Management Risk & Compliance Committee. The Committee supports the Board Risk Management Committee in shaping risk strategies, procedures, policies and limits, and ensuring these are implemented consistently across the Bank.

d) Three Lines of Defense and Combined Assurance Framework

The Bank applies the three lines of defense model, supported by a combined assurance approach, to strengthen risk ownership, oversight and assurance across all businesses and functions. Clear responsibilities are assigned to each line of defense. All employees share responsibility for ensuring the Bank operates within its approved risk appetite, based on their respective roles within the three lines of defense.

1st Line (Business Functions and immediate support functions): First Line functions own and manage risks; maintain controls; record, report and escalate risk events. The first line is strengthened by the risk champions who are representatives across departments and branches who support the identification, documentation and reporting of risks within their respective areas.

2nd Line (Risk, Compliance, Information Security & Quality Assurance): Second Line functions set frameworks/policies/standards, monitor adherence to limits, provide independent challenge and oversight.

3rd Line (Internal Audit supported by External Audit): Audit provides independent assurance on the design and effectiveness of governance, risk management and controls, including financial reporting assurance.

2.1.2. Risk Management Process

The Bank’s risk management process is guided by the ISO 31000 Risk Management standard and is applied within the Bank’s operating environment. The process is summarized below:

Risk Management Process	
Risk Assessment	<ul style="list-style-type: none"> Ongoing and structured identification of risks and opportunities to maintain a comprehensive risk register, including emerging risks. Use of tools such as risk self-assessments, risk forums, audit findings, industry benchmarking, review of historical losses and expert judgement.
Risk Evaluation	<ul style="list-style-type: none"> Risks are assessed based on the likelihood of occurrence and potential impact. Consideration of inherent and residual risks, with residual risk evaluated against the approved risk appetite. Root cause analysis applied to risk events to strengthen understanding of drivers and linkages. Risk ranking to support prioritization and targeted mitigation
Risk Treatment	<ul style="list-style-type: none"> Use of preventive, detective and corrective controls to manage exposures Stress testing and scenario analysis are reviewed and updated in response to new or unexpected external risk developments. Significant risk events are subject to targeted deep-dive reviews to strengthen risk understanding and reinforce corrective actions.
Continuous Monitoring and reporting	<ul style="list-style-type: none"> Monitoring key risk exposures through Key Risk Indicators (KRIs) and risk appetite measures. Ongoing assessment of controls to confirm effectiveness and fitness for purpose. Combined assurance reviews to increase confidence in the overall control environment. Communication of identified risks, controls and reporting through the risk governance frameworks.

2.2. Risk Appetite & Culture

2.2.1. Risk Appetite

Risk appetite reflects the aggregate level and types of risk the Bank is willing to accept in pursuit of strategic objectives. It provides guardrails for decision-making and is supported by defined appetite statements, limits, governance and reporting mechanisms.

The Risk Appetite Statement is approved by the Board, and Management monitors performance against appetite indicators, reporting adherence to limits and trigger levels to Management and Board. The Bank seeks to maintain a balanced approach between innovation and growth opportunities and the risks arising from an evolving operating environment.

2.2.2. Risk Culture

Housing Finance Bank recognizes that strong risk management is only effective when supported by the right risk culture. The Bank differentiates between corporate culture, which reflects the Bank's guiding behaviors, and risk culture, which reflects the attitudes and behaviors toward managing risk. The strength of the Bank's risk culture is supported through leadership commitment, clear risk appetite communication, sound governance structure, risk awareness messaging among others.

2.3. Risk Data and Reporting

2.3.1. Risk Data

The Bank continues to strengthen risk data capabilities to support accurate, consistent and timely risk information. Key elements of data governance include:

- i. Data Quality and Integrity: validation checks, reconciliations, periodic reviews and audit activities.
- ii. Data Classification and Security: classification based on sensitivity, supported by access controls, encryption and monitoring to protect confidential information.

2.3.2. Risk reporting

Risk reporting provides the Board and Management with timely, accurate and comprehensive information to support decision-making. Reporting frequency and content (under normal and stressed conditions) are determined by the Board and relevant committees, with escalation from Management committees to the Board.

Risk reports typically cover:

- i. Monitoring of the Bank's risk profile and key risk metrics by risk type against risk appetite and projections, including trends and key drivers.
- ii. Tracking emerging risks and external developments, including assessment of potential impact on the Bank's strategy and performance.
- iii. Outcomes of stress testing and scenario analysis to assess capital adequacy, resilience and ability to meet strategic objectives under stressed conditions.
- iv. Assessment of the effectiveness of the risk governance framework, including implementation of risk policies and effectiveness of assurance activities across the Bank.

2.3.3. Risk Technology

Housing Finance Bank continues to invest in enabling technology, advanced analytics and systems that support effective risk management. Risk technology supports the timely collection, processing and analysis of risk data, improving the quality of monitoring and decision-making across the Bank. In addition to supporting risk oversight, the Bank's systems present opportunities for automation of key components of business processes, strengthening control effectiveness and operational efficiency.

2.4. Stress Testing and Scenario analysis

Stress testing and scenario analysis are key components of the Bank's integrated planning and risk management processes. The Board approves the stress testing framework through the stress testing policy. Stress testing supports forward-looking decision-making, risk appetite setting and assessment of resilience under expected and adverse conditions.

Stress testing also forms part of the Bank's Internal Capital and Liquidity adequacy assessment Program as well as recovery planning.

Stress testing outcomes support evaluation of resilience, earnings volatility, changes in risk profile and future capital and liquidity positions. Results are used to challenge assumptions, refine risk appetite measures and guide management actions.

2.5. Our Material Risks

Risk management is applied across the Bank and at all entity levels and remains critical to effective execution of the Bank's strategy. The Bank's risk universe represents the risks that are fundamental to its business model and operating environment. The Bank continuously scans the operating environment to ensure the risk universe remains current and aligned to key changes in the economic, regulatory, technological and industry landscape.

2.5.1. Risk Types

The Bank's key risk types include:

- i. **Credit Risk:** default risk, concentration risk, counterparty risk and country risk.
- ii. **Liquidity Risk:** funding liquidity risk and market liquidity risk.
- iii. **Market Risk:** interest rate risk in the banking book and foreign exchange risk.
- iv. **Operational Risk:** people/ethical risk, internal and external fraud, legal risk, process risk, third-party risk and model risk.
- v. **Cyber Risk:** malware/ransomware, phishing/social engineering, third-party vendor risk and data leakage/improper handling.
- vi. **Other Risks:** Strategic risk, Compliance risk, environmental, social and governance (ESG) risk and reputational risk.

2.5.2. Risk Mitigation

The Bank mitigates risk exposures through its Enterprise Risk Management Framework and supporting policies. Risks are monitored continuously to ensure exposures remain within acceptable thresholds and aligned to the risk appetite.

Specifically, to market discipline in managing credit, liquidity and market risks, the bank applies the following controls:

- i. Credit risk is managed through robust credit policies and procedures supporting origination, monitoring and portfolio management.
- ii. Liquidity risk is managed through funding diversification, adequate liquidity buffers and proactive monitoring of liquidity indicators.
- iii. Market risk is managed through defined strategies, limits and tools to mitigate adverse market movements, supported by stress testing and scenario analysis.

Capital and Risk Weighted Assets (RWA)

DIS03: Overview of RWA

Risk Type	RWA		Minimum capital requirements
	Ug. Shs'000		
	Dec 25	Sept 25	Dec 25
1 Credit risk (excluding counterparty credit risk)	1,194,551,032	1,203,551,763	143,346,124
2 Counterparty credit risk (CCR)	-	156,834	-
3 Market risk	49,816,100	24,369,005	5,977,932
4 Operational risk	94,527,675	82,846,962	11,343,321
5 Total (1 + 2 + 3 + 4)	1,338,894,808	1,310,924,565	160,667,377

Composition of Regulatory Capital

DIS04: Composition of Regulatory Capital

Common Equity Tier 1 capital: instruments and reserves		Dec 2025 Ug. Shs '000
1	Permanent shareholders equity (issued and fully paid-up common shares)	158,600,000
2	Share premium	-
3	Retained earnings	183,117,626
4	Net after tax profits current year-to date (50% only)	36,130,588
5	General reserves (permanent, unencumbered and able to absorb losses)	
6	Tier 1 capital before regulatory adjustments	377,848,214
Tier 1 capital: regulatory adjustments		
7	Goodwill and other intangible assets	39,540,567
8	Current year's losses	
9	Investments in unconsolidated financial subsidiaries	
10	Deficiencies in provisions for losses	
11	Deffered tax assets	12,967,594
12	Other deductions determined by the Central bank	-
13	Total regulatory adjustments to Tier 1 capital	52,508,161
14	Tier 1 capital	325,340,053
Tier 2 capital: Supplementary capital		
15	Revaluation reserves on fixed assets	11,113,946
16	Unencumbered general provisions for losses (not to exceed 1.25% of RWA)	12,314,746
17	Hybrid capital instruments	
18	Subordinated debt (not to exceed 50% of core capital subject to a discount factor)	
19	Tier 2 capital	23,428,692.02
20	Total regulatory capital (= Tier 1 + Tier2)	348,768,745
21	Total risk-weighted assets	1,338,894,808
Capital adequacy ratios and buffers		
22	Tier 1 capital (as a percentage of risk-weighted assets)	24.30%
23	Total capital (as a percentage of risk-weighted assets)	26.05%
24	Total Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus systemic buffer, expressed as a percentage of risk-weighted assets)	12.50%
25	Of which: capital conservation buffer requirement	2.50%
26	Of which: countercyclical capital buffer requirement	
27	Of which: bank specific systemic risk buffer requirement	
28	Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements	11.80%
Minimum statutory ratio requirements		
29	Tier 1 capital adequacy ratio	10.00%
30	Total capital adequacy ratio	12.00%

Credit Risk

DIS05: Asset Quality

The credit quality of the Bank's on and off balance sheet exposures is shown below:

		a		b	c		d	e	f
		Gross carrying values of			Provisions as per FIA2004/MDIA2003		Interest in suspense	Net values (FIA/MDIA)	
		Defaulted exposures	Non-defaulted exposures		Specific	General		(a+b-d-e)	
1	Loans and advances	72,292,299	1,164,448,827	29,705,994	12,314,746	7,488,235		1,187,232,151	
2	Debt securities	-	741,721,911	-	-	-		741,721,911	
3	Off-balance sheet exposures	-		-	-	-		-	
4	Total	72,292,299	1,906,170,738	29,705,994	12,314,746	7,488,235		1,928,954,062	

DIS06: Changes in stock of defaulted loans and debt securities

The table below highlights the changes in the Bank's stock of defaulted exposures, the flows between non defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write offs.

		Dec 2025 Ug. Shs'000
1	Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the previous reporting period	77,231,886
2	Loans and debt securities that have defaulted since the last reporting period	29,641,817
3	Returned to non-defaulted status	20,094,196
4	Amounts written off	23,072,784
5	Other changes	8,585,576
6	Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the reporting period (1+2-3-4+5)	72,292,299

DIS07: Qualitative Disclosure On Use Of External Credit Ratings Under The Standardised Approach For Credit Risk

The majority of Housing Finance Bank's borrowers are locally domiciled entities and, as such, are not rated by external credit assessment institutions (ECAIs). External credit ratings are typically available only for a limited number of large or multinational corporates. Where a borrower has an external credit rating, such information is considered as one of the qualitative and quantitative inputs in the Bank's internal credit risk assessment process, including the determination of the borrower's internal probability of default. Housing Finance Bank does not depend on, nor has it formally designated, any specific external credit assessment institutions for credit risk measurement purposes.

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.