

# MARKET DISCLOSURE REPORT



## PILLAR 3

As at 31<sup>st</sup> December 2023



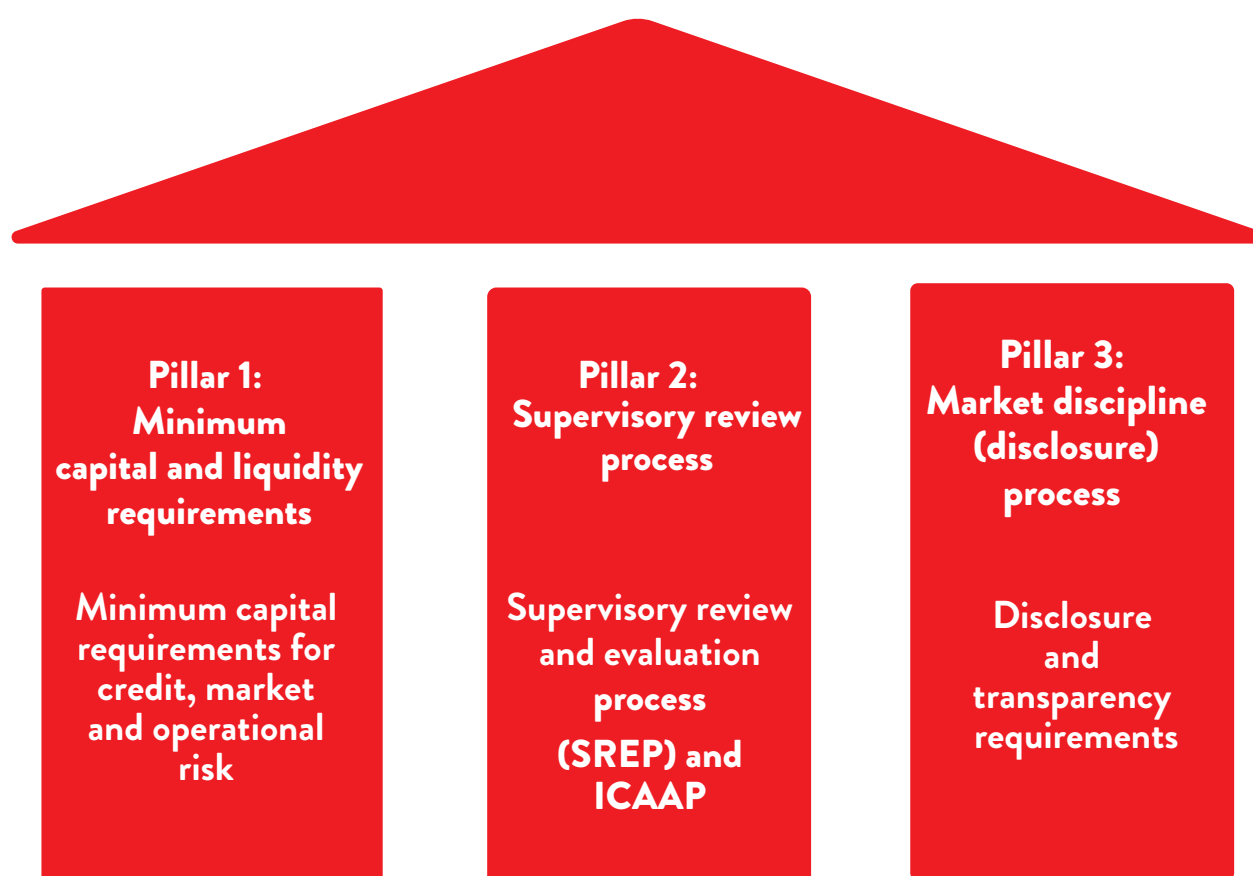
## 1.0. Introduction

Tropical Bank Limited (TBL) is a licensed Supervised Financial Institution (SFI) in Uganda. The Bank was incorporated and licensed by Bank of Uganda in 1973 and has been in existence for the last 50 years. For the year ended 31<sup>st</sup> December 2022, the bank made a profit of Ushs. 7.4 billion. The Bank's total assets and liabilities closed at Ushs 281 billion and Ushs 206 billion respectively.

## 2.0. Brief Overview of Basel II

Basel II, the second of three Basel Accords, has three main pillars: minimum capital requirements, regulatory supervision, and market discipline.

### 2.1. The Three Pillar Approach:



## 3.0. Pillar 3 Market Discipline (Disclosures)

The provision of meaningful information about common key risk metrics to market participants is a fundamental tenet of a sound banking system. This reduces information asymmetry and helps promote comparability of Tropical Bank's (TBL) risk profiles within and across jurisdictions.

Pillar 3 of the Basel framework aims to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a TBL's regulatory capital and risk exposures to increase transparency and confidence about TBL's exposure to risk and the overall adequacy of its regulatory capital.

# PILLAR 3 MARKET DISCLOSURE REPORT

## 4.0. Pillar 3 Market Discipline/Disclosure Report as at 31<sup>st</sup> December 2023

### 4.1. Key Prudential Metrics

The key prudential Metrics provide an overview of the bank's prudential regulatory metrics.

Table 1.0 below shows TBL's Key Metrics as at 31<sup>st</sup> December 2023.

KEY PRUDENTIAL METRICS (UGX '000)		a	b	c	d	e
		Q4, 2023	Q3, 2023	Q2, 2023	Q1, 2023	Q4, 2022
<b>Available capital (amounts)</b>						
1	Core capital	54,769,952	53,771,005	53,102,899	52,992,991	52,013,180
2	Supplementary capital	11,275,500	11,252,034	11,344,129	11,335,089	11,416,394
3	Total capital	66,045,452	65,023,039	64,447,028	64,328,080	63,429,574
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets (RWA)	278,104,145	269,380,453	293,425,722	310,381,463	451,086,437
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Core capital ratio (%)	20%	20%	18%	17%	12%
6	Total capital ratio (%)	24%	24%	22%	21%	14%
<b>Capital buffer requirements as a percentage of RWA</b>						
7	Capital conservation buffer requirement (2.5%)	26,959,538	26,832,960	23,760,327	21,954,845	6,904,536
8	Countercyclical buffer requirement (%)	20,006,934	20,098,448	16,424,684	14,195,308	- 4,372,625
9	Systemic buffer (for DSIBs) (%)	20,006,934	20,098,448	16,424,684	14,195,308	- 4,372,625
10	Total of capital buffer requirements (%)	66,973,406	67,029,856	56,609,695	50,345,461	-1,840,714
11	Core capital available after meeting the bank's minimum capital requirements (%)	-65,230,048	-66,228,995	- 66,897,101	- 67,007,009	- 67,986,820
<b>Basel III leverage ratio</b>						
13	Total Basel III leverage ratio exposure measure	393,163,066	387,889,362	301,835,926	281,561,627	291,552,968
14	Basel III leverage ratio (%)	13.9%	13.9%	17.6%	18.8%	17.8%
15	Total high-quality liquid assets (HQLA)	48,161,147	39,092,660	32,866,893	37,961,488	46,314,730
16	Total net cash outflow	15,445,063	5,975,369	6,022,500	5,501,088	5,268,248
17	LCR (%)	311.8%	654.2%	545.7%	690.1%	879.1%

## 4.2. Overview of Risk Weighted Assets (RWA)

This provides an overview of TBL's total Risk Weighted Assets (RWA) forming the denominator of the risk-based capital requirements.

**Table 2.0 below shows TBL's unaudited RWAs as at 31st December 2023.**

		RWA (UGX '000)		Minimum Capital Requirements (UGX '000)
		Q4, 2023	Q3, 2023	Q4, 2023
1	Credit risk (excluding Credit Risk)	260,381,332	250,441,078	260,381,332
2	Counterparty Credit Risk (CCR)	-	-	-
3	Market Risk	226,408	270,572	27,180
4	Operational Risk	17,496,405	18,668,803	2,100,409
5	Total (1 + 2 + 3 + 4)	278,104,145	269,380,453	262,508,921

## 4.3. RISK MANAGEMENT APPROACH

### 4.3.1. Risk Governance Structure & Relationship:

Tropical Bank Limited (TBL) is a licensed supervised financial institution in Uganda. The bank was incorporated and licensed by Bank of Uganda in 1973 and has been in existence for the last 50 years. The Top most organ of the Bank is the Board of Directors which has the ultimate responsibility for the oversight of risk, including approval of strategy and risk appetite. These management committees are responsible for the management of all risks and implementation of risk governance processes, standards, policies and frameworks. The Board delegates its authority to six sub-committees namely; the Board Risk Committee (BRC), the Board Assets and Liabilities Committee (BALCO), Board Governance Committee (BGC), the Board Credit Committee (BCC) and the Board Audit Committee (BAC) and the newly established Shari'ah Board Advisory Committee (SAB).

The Board has also delegated day-to-day operations of the Bank to Senior Management team headed by the Managing Director.

#### a) 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 is explicitly responsible for the stewardship of the Bank and in discharging its obligations, assumes responsibility in the following areas:

- Retain full and effective control over the bank, and monitor management in implementing Board plans and strategies;
- Ensure that a comprehensive system of policies and procedures is operative;
- Identify and monitor non-financial aspects relevant to the business;
- Ensure ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, and the bank's own governing policies, procedures and Codes of Ethics;
- Strive to act above and beyond the minimum requirements and benchmark performance against international best practices and not only to comply in practice, but be seen to comply;
- Define levels of materiality, reserving specific powers to the Board and delegating other matters with the necessary written authority to management and instituting effective mechanisms that ensure Board responsibility for management performance of its functions;
- Act responsibly towards the Bank's relevant stakeholders; and
- Beware of, and commit to, the underlying principles of good governance.

The Board of Directors is supported by the following Board Sub-Committees with a clearly defined set of responsibilities and operating models. These Board Sub-Committees support the Board of Directors in the identification, assessment, control/mitigation, monitoring and reporting of risks. Management presents management reports to these subcommittee on a quarterly basis or as and when required by the Board.

S/No	Committee Name	Powers, Duties and Responsibilities
1	<b>Board Risk (BRC)</b>	<p>This critical committee of the Board meets at least once every quarter. Fundamentally the Committee reviews the Bank's Internal Control environment as advised by the Internal and External Audit function including BOU Inspection reports</p> <p>The committee is mandated with the following main responsibilities;</p> <ul style="list-style-type: none"> <li>a) Reviewing and approving the Bank's risk management framework including the bank's risk strategy;</li> <li>b) Reviewing and assessing the integrity of the risk control system and ensure risk mitigation.</li> <li>c) Deal with risk-reward, operational, compliance, reputational/ethics, control and fraud risk profile across the bank;</li> <li>d) Reviewing and recommending improvements regarding outstanding actions on risk management plans of the bank.</li> <li>e) Enable the non-executive directors to contribute independent judgment and play a positive role by providing a channel of communication and a forum for raising issues of concern.</li> <li>f) Strengthening the control environment.</li> <li>g) Monitoring non-compliance with internal procedures and policies.</li> <li>h) Increasing the stakeholder's confidence in the credibility and stability of the institution; and</li> <li>i) Monitoring instances of non-compliance with Financial Institutions Act, BOU Prudential Guidelines &amp; other legislation, and advising the Board on best practice</li> </ul>
2	<b>Board Credit (BCC)</b>	<p>The committee is primarily responsible for offering specialized attention to the Credit Book of the Bank, specifically in the following areas;</p> <ul style="list-style-type: none"> <li>a) Reviews the credit risk strategy and align it to the bank's growth strategy;</li> <li>b) Approve and make annual reviews to the bank's Credit policy;</li> <li>c) Periodic reviews of advances underwritten by the Management;</li> <li>d) Set the risk tolerance in terms of credit risk;</li> <li>e) Delegate and review lending limits to the sanctioning arms of the Bank;</li> <li>f) Deliberate and approve facilities exceeding Management limits.</li> <li>g) On a quarterly basis assess the credit quality of the bank book by looking at the present and future quality of the loan book;</li> <li>h) Satisfy itself that the provisioning process is at the minimum as set forth by the Credit policy;</li> <li>i) Ultimate authority on write-offs, write-backs, and provisioning on non-performing debts.</li> </ul>

S/No	Committee Name	Powers, Duties and Responsibilities
3	<b>Board Governance (BGC)</b>	<p>The committee is responsible for the following;</p> <ul style="list-style-type: none"> <li>a) Periodically review the compensation paid to non-executive directors and make recommendations to the Board for any adjustments.</li> <li>b) Reviews and recommends to Board for approval the annual corporate goals and objectives applicable to the compensation of the Managing Director (MD), annually evaluates the MD’s performance in light of those goals and objectives, and determine and approve the MD’s compensation level based on this evaluation.</li> <li>c) Proposing new members to the Board of directors and evaluating candidates proposed by Managing Director for directorship.</li> <li>d) The Committee reviews and recommends to the Board all compensation and benefit plans for the other executive officers of the Bank including, without limitation to: Incentive bonuses; Equity compensation; Any employment agreements, severance arrangements, and change in control agreements/provisions and any other benefits, compensation or arrangements.</li> <li>e) The Committee has the authority to review and to make recommendations to the Board of Directors.</li> </ul>
4	<b>Board ALCO (BALCO)</b>	<p>The BALCO performs the responsibility of managing the following key risks;</p> <ul style="list-style-type: none"> <li>a) Interest Rate Risk Management <ul style="list-style-type: none"> <li>• Monitor the management of interest rate risk activities and the Bank’s overall interest rate risk profile, the sensitivity of the Bank’s earnings under varying interest rate scenarios and potential changes in market interest rates.</li> <li>• Monitor trends in the economy in general and interest rates in particular with a view to limiting any potential adverse impact on the Bank’s earning.</li> <li>• Approve interest rate risk tolerances by reviewing how movements in interest rates may adversely affect earnings and capital using the Bank’s projected earnings and capital as benchmark.</li> </ul> </li> <li>b) Capital Risk Management <ul style="list-style-type: none"> <li>• Monitor the capital position of the Bank and the capital management activities undertaken to ensure that capital levels are maintained in accordance with regulatory and economic requirements and management directives.</li> <li>• Review and recommend payment of dividends to shareholders.</li> </ul> </li> <li>c) Market Risk (Investments) <ul style="list-style-type: none"> <li>• Monitor management’s investment activities such as purchase, sale, exchange and other disposition of the investments of the Bank, including review of management reports concerning current equity and debt security investment positions.</li> </ul> </li> </ul>



S/No	Committee Name	Powers, Duties and Responsibilities
		<ul style="list-style-type: none"> <li>• Monitor compliance with both regulatory requirements and Assets and Liabilities Management Policy governing the Bank’s investments and categories of investments, including requirements relating to composition, diversification, credit risk and yield.</li> <li>• Review the status of the securities and derivatives /off-balance sheet portfolios, including performance, appreciation or depreciation, quality, maturity profile and any actions taken by management with respect thereto.</li> <li>• Review and determine whether to approve the holdings of investment securities (including prudent investments) that are subject to the ALCO’s authority to approve under the Assets and Liabilities Management Policy or Board of Directors resolutions.</li> <li>• Review significant financial risk exposures facing the Bank generally, and in its investment and derivatives portfolios in particular, and the steps management is taking to monitor and control such exposures.</li> <li>• Monitor compliance with the provisions of the Assets and Liabilities Management Policy and applicable standards relating to the management of counterparty credit risk, including, but not limited to, reviewing limits on counterparty exposure and reviewing limits on individual transactions based on risk.</li> <li>• Review and approve procedures and systems the management has established to implement the Board's objectives and limits for each portfolio, taking into account applicable laws, regulations, and current accounting standards for each part of the portfolio.</li> </ul>
5	Board Audit	<p>The duties and responsibilities of the BAC are as follows:</p> <p>a) Financial Reporting and Internal Control</p> <ul style="list-style-type: none"> <li>• Provide an independent review of the Bank’s external financial reporting and the financial information prepared by management including the oversight of accounting policies and associated requirements and assessment of whether external reporting is consistent with Committee members’ knowledge and is adequate for shareholder needs.</li> <li>• Provide assurance on the governance and control of the Bank covering key processes including risk frameworks.</li> <li>• Review the processes that are used to reach the opinions provided in the financial and regulatory reports of the Chief Executive Officer and Head of Finance, and management’s report on internal control over financial reporting, including the disclosures made.</li> <li>• Oversee Bank of Uganda statutory reporting requirements and provide independent review of the Bank’s reporting under these requirements.</li> <li>• Oversee and monitor the resolution of significant internal control deficiencies reported by the Internal Auditor and the external auditor.</li> </ul> <p>b) Internal Audit</p> <ul style="list-style-type: none"> <li>• Review and approval of the Internal Audit Charter and subsequent revisions thereto.</li> </ul>

S/No	Committee Name	Powers, Duties and Responsibilities
		<ul style="list-style-type: none"> <li>• Setting up the Internal Audit Department, including the appointment and appraisal of the Internal Auditor. The Committee shall establish and identify the reporting line of the Internal Auditor so that the reporting levels allow the internal audit to fulfill its responsibilities.</li> <li>• Selection, evaluation and appointment of the Head of Internal Audit and ensuring that the Internal Audit Department is adequately resourced.</li> <li>• Concur in replacement, re-assignment or dismissal of Head of Internal Audit.</li> <li>• Disclose the removal of the Head of Internal Audit to BOU as soon as practicable.</li> <li>• Ensuring that the Internal Auditors have free and full access to all the Bank’s records, properties and personnel relevant to and required by its function and that the internal audit activity shall be free from interference in determining its scope, performing its work and communicating its results.</li> <li>• Ensuring that the Internal Auditor does not indulge in the Bank’s daily operational processes in order to foster independence.</li> <li>• Approval of the Annual Internal Audit Work Plan and Audit budget and all deviations therefrom, ensuring that the audit resources are reasonably allocated to the areas of highest risk.</li> <li>• Review of reports of the Internal Auditor and Bank of Uganda and ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues.</li> <li>• Review of Internal Audit’s periodic reports and the Conducting separate meetings with the Internal Auditor to discuss any matter that the Committee or the auditors may deem necessary to be discussed privately.</li> <li>• As necessary, institution of special investigations and, if appropriate, the hiring of special counsel or experts to provide the necessary assistance.</li> </ul> <p><b>c) External Audit</b></p> <ul style="list-style-type: none"> <li>• Recommend the appointment or, if necessary, the removal of the external auditor to the Board for approval by the shareholders.</li> <li>• Review and pre-approval of the External Auditor’s plans to understand the basis for their risk assessment and financial statement materiality, including the scope and frequency of the audit.</li> <li>• Monitoring of the coordination of efforts between the external and internal auditors.</li> <li>• Review of the reports of the External Auditor and Bank of Uganda, and ensure that management is taking appropriate corrective actions in a timely manner, including addressing control and compliance issues.</li> <li>• Conducting a separate meeting in executive session, with the external auditors to discuss any matter that the committee or auditors believe should be discussed privately, including the results of the audit, year-end financial statements, and the quality of management, financial and accounting controls.</li> </ul>



S/No	Committee Name	Powers, Duties and Responsibilities
		<ul style="list-style-type: none"> <li>• Review and approval of the proportion of audit versus non-audit work both in relation to their significance to the auditor and in relation to the Bank’s year-end financial statements, and total expenditure on consultancy, to ensure that non-audit work will not be in conflict with the audit functions of the independent auditor.</li> <li>• Oversee and appraise at least annually the independence, adequacy and effectiveness of the external auditors, and review and approve the external auditor’s fee and terms of engagement.</li> </ul> <p><b>d) Other Responsibilities</b></p> <ul style="list-style-type: none"> <li>• Oversee annually the reporting of fraud or unethical behavior activities under the Bank’s whistle-blowing policy which allows employees and other relevant stakeholders to report any concerns about fraud, corruption, mal-administration, serious or substantial waste, accounting or auditing irregularities or any breaches of law or internal policy, and review and assess the adequacy of management actions.</li> <li>• Review and discuss any reports concerning material violations of laws and regulatory requirements.</li> <li>• Review and assess annually the completion of the Board Audit Committee’s responsibilities under the Charter and report such findings to the Board. Ensure any matters not appropriately dealt with are suitably actioned.</li> <li>• Review and assess annually the effectiveness of the BAC as part of the annual Board effectiveness review. The findings should be considered by the Committee and the Board and actioned as appropriate.</li> <li>• Committee members must be available to meet with Bank of Uganda examiners upon request, within a reasonable timeframe.</li> </ul> <p><b>e) Risk Management</b></p> <ul style="list-style-type: none"> <li>• Review of the adequacy of the Bank’s risk management process.</li> <li>• This charter notwithstanding, management shall remain primarily responsible for the development and implementation of the risk management strategies intended to address the identified risks.</li> </ul>
6	<b>Shari’ah Advisory Board</b>	<p>Shari’ah Advisory Board (SAB) has “both Advisory and consultative functions”-reviewing the operations of the Bank to ensure compliance with Shari’ah principles in line Islamic banking regulations.</p> <p>The SAB is responsible and but not limited to the following;</p> <ol style="list-style-type: none"> <li>a) Endorse/approve Shari’ah policies manuals and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shari’ah principles and regulations.</li> <li>b) Ensure that the Internal/external Shari’ah audit conducts their activities on a daily basis in line with BOU regulations.</li> <li>c) Ensure that the internal/external Shari’ah auditor implements the Islamic Finance /banking policies and procedures approved by the Board of Directors.</li> </ol>

S/No	Committee Name	Powers, Duties and Responsibilities
		<p>d) Form and issue rules and regulations to be followed and carried out under Islamic banking operations.</p> <p>e) Ensuring that all activities carried out by the bank are Shari’ah compliant.</p> <p>f) Responsible for the compliance of the Islamic banking operations, policies, procedures and products/services with the Shari’ah principles, and regulations.</p> <p>g) Advise, approve and review the Islamic financial business of Tropical Bank Limited in order to ensure that the Islamic financial business of the Bank complies with the Shari’ah principles and regulations.</p> <p>h) Exercise objectivity in making a judgement or deriving a decision to avoid impairing professional objectivity. Sufficient time is to be devoted to prepare for and attend SAB meetings.</p> <p>i) Establish a robust methodology to guide decision making process including taking into account relevant business and risk practices.</p>

**b) 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 Tropical Bank.

S/No	Committee Name	Powers, Duties and Responsibilities
01	<b>Executive Committee</b>	<p>The EXCO shall:</p> <p>a) Receive and consider reports from management committees (ALCO, MRC, MCC, HRMC, and ICT) and consider matters recommended for approval.</p> <p>b) Receive updates on the implementation of the annual Departmental Work Plans.</p> <p>c) Receive a report on customer service matters and take action as it considers appropriate.</p> <p>d) Receive a report on staff welfare and address human resource matters for proper and efficient functioning of the bank.</p> <p>e) Receive and consider risk management matters including risk appetite framework and risk management strategies and ensure that these are implemented.</p> <p>f) Review the Bank’s compliance with regulatory requirements and monitor the Bank’s full compliance to BOU, Internal and External Audit recommendations.</p> <p>g) Establish and implement efficient and adequate internal control systems.</p>

S/No	Committee Name	Powers, Duties and Responsibilities
02	<b>Management Risk Committee.</b>	<p>The primary roles of the Management Risk Committee is to ensure that the risks the Bank is exposed to are appropriately managed. This role is fulfilled in the following manner: -</p> <ul style="list-style-type: none"> <li>a) Ensure evaluation of risks exposed to the Bank, i.e. identify, measure, monitor, control and accordingly determining the level of risks that are in the best interests of the Bank.</li> <li>b) Ensure that there are policies, procedures and processes in place to manage the risks in the broad areas of strategic, operational, compliance, credit, Market (Liquidity, foreign exchange, interest rates, pricing and counterparty), Country, Legal Risk and other non-financial risks such as Reputation Risk.</li> <li>c) Review the risk reports and profile of the Bank covering all the components of the Bank - wide risk management framework.</li> <li>d) Develop risk management programs to address the overall functions and the underlying risk factors for the Bank's operations.</li> <li>e) Review risk monitoring reports and ensure identified action items are implemented on a timely basis.</li> <li>f) Ensure that the bank's CAMEL (Capital Adequacy, Asset Quality, Management quality, Earnings and Liabilities) rating by Bank of Uganda Off-site and onsite Examination are improved continuously.</li> <li>g) Update the Bank's risk profile on a quarterly basis with findings and recommendations to the Managing Director on way forward.</li> <li>h) Ensure new/ improvement in risk management systems and methodologies (e.g., Basel II and Basel III) are implemented in an appropriate and timely basis.</li> <li>i) Ensure that the bank has validated and documented its control policies, processes and procedures manuals in a user-friendly manner.</li> <li>j) Bank processes and procedures are reviewed on an annual basis to ensure that they are well aligned to the bank objectives, allow for segregation of duties,</li> <li>k) Build and instil a risk awareness culture across the Bank by ensuring that there is effective communication on issues pertaining risk in the Bank and the appropriate action is taken against cases of risk management system non-compliance.</li> <li>l) Ensure business continuity is embedded within all operations of the business and that plans thereof are tested regularly.</li> <li>m) Evaluate the risk proposed to be assumed by the Bank in respect of each exposure including new products, new projects, services and delivery channels.</li> <li>n) Any other roles related to the overall risk management within the Bank.</li> </ul>

S/No	Committee Name	Powers, Duties and Responsibilities
03	<b>Management Credit Committee</b>	<p>The responsibilities of the Management Credit Committee include but not limited to the following:</p> <ul style="list-style-type: none"> <li>a) Devise and ensure implementation of a number of different strategies before credit facilities become non-performing e.g., restructuring, liquidation etc.</li> <li>b) To assess the effectiveness of the early alert monitoring system in addressing the Bank ‘s portfolio quality objectives.</li> <li>c) To review and monitor the performance of the watch portfolio and overdrafts that have a direct impact to the Bank ‘s portfolio quality and propose appropriate strategies to have them resolved.</li> <li>d) To analyze the Bank’s credit portfolio performance and identify the trends in default that will inform changes in the risk grading tool.</li> <li>e) To ensure that comprehensive reports on the WATCH credit portfolio from the business units are reviewed and provide clarity and easy decision making.</li> <li>f) Develop and recommend credit risk management policies and credit administration procedures as part of the overall credit risk management framework for approval by the Board of Directors.</li> <li>g) Implement the credit risk management policies.</li> <li>h) Ensure the credit risk is managed and controlled within the credit risk management program.</li> <li>i) Ensure the development and implementation of appropriate reporting systems with respect to the content, format and frequency of information concerning the credit portfolio and the credit risk to permit effective analysis and sound and prudent management and control of existing and potential credit risk exposure.</li> <li>j) Monitor the quality of credit portfolio and ensure that the portfolio is soundly and conservatively valued, uncollectible exposure is written off and probable losses are adequately provided for.</li> <li>k) Establish internal controls including putting in place clear lines of accountability and authority to ensure effective credit risk management process.</li> <li>l) Develop lines of communication to ensure timely dissemination of credit risk management policies, procedure and other credit risk management information to all individuals involved in the process.</li> </ul>

S/No	Committee Name	Powers, Duties and Responsibilities
04	<b>Management Assets and Liabilities Committee (ALCO).</b>	<p>The duties and responsibilities of the Management ALCO include: -</p> <ul style="list-style-type: none"> <li>a) Ensuring compliance with statutory and internal requirements and limits (cash reserve, liquidity, capital adequacy etc.) stipulated in the FI Act 2004, Regulations there under / BOU Guidelines and directives from time to time.</li> <li>b) Developing policy guidelines for Assets and Liabilities management in line with the Bank's corporate goals.</li> <li>c) Ensuring compliance with the risk policies and risk limits approved by the Board and prescribed by law and guidelines of the Central Bank.</li> <li>d) Periodically evaluate and review market risk policies and recommend suitable amendments to the Board.</li> <li>e) Discuss and report on the impact of major funding shifts and changes in overall investment and lending strategies.</li> <li>f) Review the current and prospective capital levels (risk based as well as leverage capital) to determine sufficiency in relation to expected growth, interest rate risk, price risk, liquidity and asset mix/quality.</li> <li>g) Review outlook for interest rates and economy at both local and international levels.</li> <li>h) Recommend a mix and maturity profile of incremental assets and liabilities.</li> <li>i) Review maturity/re-pricing schedules with particular attention to the maturity distribution of large fixed deposits.</li> <li>j) Review the overall financial performance of the Bank including financial statements and the budget.</li> <li>k) Advise on the funding strategy to ensure that the bank meets its objectives. This shall include decisions on the source, tenure and mix of liabilities.</li> <li>l) Formulate and recommend policies on Tax Planning, Capital Planning &amp; Capital Adequacy, Projection of the Balance Sheet and Transfer pricing of assets and liabilities.</li> <li>m) Preparation and monitoring the performance of the annual Budget.</li> <li>n) Monitor Recovery Plans (RRPs) Early Warning Signals (EWSs) and Trigger Points (TPs) and ensure that any matters arising are highlighted to the Board ALCO Committee</li> <li>o) Recommend to the Board ALCO pricing of products including minimum and maximum interest rates for interest bearing products.</li> <li>p) Performing any other functions, which the Committee may deem necessary and /or as directed by the Management, the Board and BOU.</li> <li>q) Maintaining sufficient liquidity to cover cash flow requirements and invest idle money profitably.</li> <li>r) To advise the board in the establishment and alignment of Tropical Bank Limited's overall risk that can be accommodated by the Bank.</li> <li>s) Monitor the impact of interest rate changes on the net interest margin and authorize mitigating actions.</li> <li>t) Review the performance of products and delivery channels and propose to the Board for approval of introduction of new and discontinuation of poor performing products and delivery channels.</li> </ul>

S/No	Committee Name	Powers, Duties and Responsibilities
		<ul style="list-style-type: none"> <li>u) Ensuring that the Bank develops, on an annual basis, a business development and marketing plan detailing strategies and budgets for the upcoming year.</li> <li>v) Review the business development and marketing plan to ensure consistency with the Bank’s strategic plan.</li> <li>w) Ensure that actions plans steaming from the business development and marketing plans are carried out</li> <li>x) Reviewing general market conditions and how these may present or limit new business development opportunities.</li> <li>y) Assess the performance in marketing of the bank and its products through quarterly review of reports on challenges, views and attitudes obtained from surveys on both the customers and non-customers about the quality of our services, and respond accordingly to any business opportunities available.</li> <li>z) Evaluate and monitor effectiveness of management’s support for improvement of branch performance and achievement of sales targets.</li> </ul>
05	<p><b>ICT Steering Management Committee (ITSMC)</b></p>	<p>The main responsibility of the committee is to ensure that the technological development and maintenance processes of TBL are properly carried out through the following;</p> <ul style="list-style-type: none"> <li>a) Ensure that the current and planned technology strategy is in line with TBLs business strategy and business activity needs;</li> <li>b) Ensure technologies are subjected to a prudent process of authorization, testing and documentation before they are put into place.</li> <li>c) Development of Backup and recovery processes and standby arrangements to enable resumption of the institution’s business activities in the event of a technology or other disruption.</li> <li>d) Safeguarding processes by providing assurance on the following: Technology facilities, hardware, software, data files and Access to technologies, including recorded, processed, reported and stored information is restricted to authorized persons</li> <li>e) The current outstanding issues are properly resolved and tested to provide assurance on the closure of such issues</li> <li>f) Ensure that the Bank submits proper project plans for the IT changeover indicating the risks at rollover, timelines, mode of changeover (parallel run/direct change over) and budget estimates for the new system for approval by Bank of Uganda prior to changeover. The ICT Steering Committee also serves as the IT Change Management Committee and meets regularly to review change requests and to ensure that change reviews and communications are being satisfactorily performed.</li> </ul>



S/No	Committee Name	Powers, Duties and Responsibilities
		<p>g) Determination and recommendation of policies appropriate to information and tele-communication technology which may impact business.</p> <p>h) Review any alteration to the state or configuration of any production of software or hardware under TBL Management and support. This would include adding new functionality, repairing and removing.</p> <p>i) Making sure that the processes are in place to ensure complete, timely, accurate and accessible IT reporting from Management to the Board of Directors.</p> <p>j) Responsible for the implementation of structures, processes, &amp; mechanism for the IT Governance framework.</p> <p>k) Make sure good project Management principles are applied for new Bank ICT Projects.</p> <p>l) Regularly demonstrate to the Board of Directors that, the Bank has adequate business resilience arrangements in place for disaster recovery.</p> <p>m) Making sure an IT internal control frame work is adopted and implemented.</p> <p>n) Make sure the ICT department can assist the Bank manage risks and comply with Laws, rules codes and Standards.</p> <p>o) Coordinating strategic planning on ICT throughout the Institution, liaising with and where appropriate providing guidance and advice to management and its committees.</p> <p>p) Co-coordinating and approving, in so far as is necessary in the particular circumstances, applications in response to external funding opportunities for ICT developments.</p> <p>q) The committee shall consider, and advise Management on, the strategic development of Management Information Systems in the institution in so far as they concern ICT, including the ICT components of management information projects and the relationship of such projects to the TBL's ICT strategy and ICT infrastructure.</p> <p>r) The committee shall be responsible for the strategic oversight of the operations and budget of the ICT department.</p> <p>s) The Committee shall also perform such other functions as may be assigned by Executive Management.</p>
06	<p><b>Management Procurement Committee (MPC)</b></p>	<p>The primary role of the Management Procurement Committee is for proper acquisition and disposal of the assets of the Bank which are set as per the following.</p> <p>a) Annual review and approval/ blacklist of suppliers (of goods/equipment and services).</p> <p>b) Approve bid solicitation documents, update and standardize bidding documents and procedural forms.</p> <p>c) Open sealed Procurement bids in an open, transparent and free environment.</p> <p>d) Evaluate bids/quotations and make appropriate recommendations on pre-qualified suppliers to the Managing Director/EXCO.</p>

S/No	Committee Name	Powers, Duties and Responsibilities
		<p>e) Recommend to the Management Executive Committee/MD items to be disposed of with clear guidelines on the disposal method to be used, indicating the cost implication. The recommendation should also include among others the justifications for disposal of company asset, current book value and or the open market value.</p> <p>f) The Management Procurement Committee may recommend outright sale of obsolete items to TBL staff as and when deemed appropriate especially when the cost of such obsolete items doesn't make economic sense or justify placement of invitation notices to the press.</p> <p>g) The Management Procurement Committee shall at no time assume the duties of the Administration and Procurement function in the procurement process since the Management Procurement Committee's role is more of advisory and of decision-making nature. Its jurisdiction should stop at decision making level, setting of standards for procurement and let the Administration function handle the procurement implementation and distribution process.</p> <p>h) The Procurement Committee shall conduct business based on procurement needs.</p> <p>i) Set working standards to reflect compliance to policies, principles and best practices.</p> <p>j) Approve pre-qualified service providers/suppliers every after two years.</p> <p>k) Issue guidelines and monitor compliance to procurement policy requirements by the procurement unit.</p> <p>l) Review completeness and compliance of Procurement bids / applications of the proposed contract:</p>
07	<p><b>Human Resource Management Committee (HRMC)</b></p>	<p>The duties and responsibilities of the Human Resource Management Committee include the following: -</p> <p>a) Proposing and reviewing policies relating to staff recruitment criteria, staff compensation and benefits, staff development, performance evaluation, promotion criteria, gender equality, work-life balance, disciplinary and grievance procedures and all aspects incidental to management of human resources of the Bank.</p> <p>b) Deliberate and recommend or approve the Bank's structure and job descriptions of all employees and amendments thereto and also evaluate their performance against the corporate and personal objectives.</p> <p>c) Approve succession plans for managerial and other senior positions including career planning for potential successors.</p> <p>d) Review and recommend the filling of vacant positions in line with approved budgets.</p> <p>e) Interview and evaluate potential candidates for recruitment for positions of managers and above.</p> <p>f) Annually review the mix of skills and expertise of the staff in order to ensure a competent workforce.</p> <p>g) Review the performance management systems, processes and frameworks in place and make recommendations for improvements.</p>

S/No	Committee Name	Powers, Duties and Responsibilities
		<p>h) Review the existing training and learning systems and facilities to ensure a conducive learning environment.</p> <p>i) Review the current remuneration, and benefits packages, including terminal benefits.</p> <p>j) Review and resolve outstanding staff related complaints and grievances.</p> <p>k) Recommend to EXCO Human Resource related strategies.</p> <p>l) Annually review departmental and organizational structures and make recommendations to EXCO.</p> <p>m) Recommend to EXCO, major organizational and/or restructuring Plans.</p> <p>n) Ensure compliance of all Human Resource strategies with governing employment legislation.</p> <p>o) Review any Human Resource matters that have been recommended by independent examiners.</p> <p>p) Review and propose changes/updates to the Human Resource policy in line with the employment legislation and make recommendations to EXCO.</p>
08	<b>Product Development Committee (PDC)</b>	<p>The duties and responsibilities of the PDC include the following: -</p> <p>a) Plan and oversee all product development projects and ensure that they are delivered within approved budgets.</p> <p>b) Carryout risk assessments for the new products at each stage of development and ensure that product innovation is carried out in a manner that is aligned with the Bank's objectives and consistent with its capabilities and capacity to manage associated risk.</p> <p>c) Ensure that the Bank products comply with all the necessary approval requirements for its offer and/or any other regulatory requirement</p> <p>d) Ensure that the requirements of the Bank of Uganda Financial Consumer Protection Guidelines are taken into consideration in all stages of product development.</p> <p>e) Design and manage product development projects as required alongside other products.</p> <p>f) Keep abreast of competitor product offerings and developments.</p> <p>g) Ensure product documentation, policy and related materials are up to date and in line with needs of the business and customers.</p> <p>h) Ensure that launch plans and propositions maximize the impact of new product launches</p> <p>i) The Committee is responsible for reviewing all the Bank products and services at least once a year.</p> <p>j) The Committee is responsible for reviewing the Bank's Tariff Guide twice a year and ensure it is implemented in the system.</p> <p>k) The Committee shall also perform such other function as may be assigned by Executive Management/ ALCO.</p>

S/No	Committee Name	Powers, Duties and Responsibilities
09	<b>Projects Steering Committee (PSC)</b>	The Project Steering Committee oversees and execute the terms in the Project Management Policy to successfully deliver bank projects with special attention to; Project initiation; Project Governance; Project Management Office; Project Cost Management; Project Team and Project closure.
10	<b>Behavioral Change Management Committee</b>	<p>The roles of the Committee include the following;</p> <ul style="list-style-type: none"> <li>a) To support Management in promoting the Bank’s core values, conduct and culture.</li> <li>b) To foster a culture of ethics and appropriate conduct within the Bank.</li> <li>c) To oversee the way the Bank conducts business, focusing on developing a customer- centric culture with an eye on profitability in all its operations</li> <li>d) To oversee the Bank’s conduct in relation to its corporate and societal obligations, including setting the direction and policies for the TBL’s approach to customer and regulatory matters</li> <li>e) To continuously reinforce and champion TBL’s sound ethics, responsible conduct and principled culture throughout the Bank</li> </ul>
11	<b>Asset Verification Committee</b>	<p>The roles of the Committee include the following;</p> <ul style="list-style-type: none"> <li>a) Receive and review the bank asset register to ensure completeness and accuracy of the bank’s fixed asset register.</li> <li>b) Verify the bank assets once in a year and confirm the existence of assets.</li> <li>c) Report to Executive management on the findings noted during the verification exercise before the end of January each year</li> <li>d) Comment on the conditions of the assets and the useful life attached to each category of the asset.</li> <li>e) Make appropriate recommendation on classification or categorization of assets.</li> <li>f) Comment on the impairment of assets especially on those assets which are impaired.</li> <li>g) Comment or highlight assets that are due for revaluation.</li> <li>h) Compliance with requirements.</li> <li>i) Ensure that discrepancies between physical inspection and the assets register are timely resolved.</li> </ul>

### c) 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, ICT & Cyber Risk, , Credit risk, Compliance & AML 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) and Countering Proliferation (CPF) Financing. The results of the reviews including the stress testing results are discussed in the Management Risk and Executive 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.

### d) Independent Assurance Reviews by Internal and the External Auditors.

The Bank has an independent Internal Audit Department that performs planned reviews 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.

#### **4.3.2. Communication Channels & Risk Culture**

Management has put in place key communication channels for purposes of promoting good risk management practices and risk culture. To further guide on this, the Board has approved Communications and Social media Policies.

- Induction trainings 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.
- E-mail communications on key aspects of strategy and risk management through our Human resources and internal Marketing and Communications department.
- Whistleblowing channels (Emails and Hotlines) to report misconduct, fraud, corruption or any other actual or suspected unethical behavior.
- General Bank wide Risk Trainings and Awareness as per the training schedules.

#### **4.3.3. The process of risk information reporting to the board and senior management**

The Bank has in place an approved Risk Appetite Statement which has defined Key Risk Indicators and tolerance thresholds. Management through the Management Risk Committee (MRC) reviews and discusses performance of the Bank in relation to the approved Risk Appetite Statement. These performance reports are embedded in the overall Risk, Legal, Compliance and AML reports and other management committee reports. The Board Risk Committee as well reviews and discusses performance of the Bank in relation to the approved Risk Appetite Statement through the Board Risk Committee (BRC) on a quarterly basis. The reports capture issues on all key risk categories.

#### **4.3.4. Information on Stress Testing**

The Board has approved a Stress Testing policy as part of the bank's Risk Management Framework. It further facilitates managing risks within the bank to ensure optimal allocation of capital and liquidity across its risk profile as well as initiate pre-emptive actions. On a quarterly and monthly basis respectively, the Board and Management consume stress test reports that explain the impact of crystallization of identified risks and threats to the Bank.

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

### Possible Pre-emptive Actions by Management

Management actions hinges on the impact of the stress test results and its severity. Where major Capital Adequacy Ratios (CAR) get impacted beyond the regulatory requirements, the pre-emptive actions that could be undertaken for each category of risk category are noted below:

#### a) Credit Risk Stress Testing

Where specific risks become apparent, then management will review, restructure, or even slow down further overall lending or to exposure to the affected sectors, intensify credit monitoring, undertake prudent provisioning, lend to only well-known parties or those with existing relationships with the bank.

##### i. Plausible Scenarios;

- 100% Provisions for Current NPLs through P&L
- Largest Exposure becoming NPA and passing 100% Provisions through P&L.

##### ii. Worst-case Scenarios;

- Further deterioration of the Current NPAs by 50% and passing 100% Provisions through P&L.
- Top 3 Exposures becoming NPA and passing 100% Provisions through P&L.

##### iii. Worst-case Scenarios;

- Further deterioration of the Current NPAs by 100% and passing 100% Provisions through P&L.
- Top 5 Exposures becoming NPA and passing 100% Provisions through P&L.

#### b) Market Risk

Impact on profitability: In cases of high Ushs /Foreign Currencies volatility, the Treasurer will keenly monitor their positions to minimize any exposure and keep Net Operating Profit (NOP) within approved limits.

i. Parallel shift in interest rates (FCY/LCY) – 1%, 2% and 3% LCY/FCY.

ii. Interest rate analysis on Gap limits (UGX/USD) –1%, to 2% LCY/FCY.

iii. Impact of the decline in the Net Interest Income on Capital) a 20%, 30% and 50%

iv. Impact of drop in Net interest income on earnings - Up to 20%, 50% of NII reduced, impacting ROE, ROA, Cost/income ratio, total capital & core capital.

v. FX Stress Tests on NOP - Appreciation / Depreciation UGX/ USD. Negative change by 20%, 30% and 50% in UGX against major foreign currency (USD, GBP, and EUR) FX rate's impact on the Bank's Net Open Position and FX profits for the quarter.

#### c) Liquidity Risk Stress Testing

Where the liquidity risk stress test breaches regulatory ratios, then management agrees on the actions to be taken.

i. Attrition of top 20 depositors.

#### d) Operational Risk Stress Test

Management tightens existing controls for new and emerging risks, ensures all insurable risks exposures are covered under the banker's blanket bond, and ensure, the robust Business Continuity Plan (BCP) in place is regularly tested.

i. Impact of fraudulent activities by 3% and 5%

ii. Impact of net loss of earnings to operating income by 3% and 5%

iii. Increase in Staff turnover by 5% & 10%

iv. System downtime -3% and 5%

v. Losses due to human errors – 3% and 5%

vi. Losses due to failures/lapses in internal processes (Operational losses) – by 3% and 5%

vii. Litigation exposures – Increase in Legal Provisions by 10% and 20% damage to physical assets from natural disasters.

#### e) Capital Adequacy Stress Testing

Where overall tests show continuous breaches arising from inadequacy of capital levels every quarter, then management recommends augmentation of capital levels to enhance the buffer to absorb shocks in line with the bank's Capital Plan.

Impact on Earnings and Capital Adequacy Ratios



i. Plausible Scenarios;

- 100% Provisions for Current NPLs through P&L
- Largest Exposure becoming NPA and passing 100% Provisions through P&L.

ii. Worst-case Scenarios;

- Further deterioration of the Current NPAs by 50% and passing 100% Provisions through P&L.
- Top 3 Exposures becoming NPA and passing 100% Provisions through P&L.

iii. Worst-case Scenarios;

- Further deterioration of the Current NPAs by 100% and passing 100% Provisions through P&L.
- Top 5 Exposures becoming NPA and passing 100% Provisions through P&L.

#### 4.3.4.1. 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 Tropical Bank and to evaluate their impact on the bank's capital and earnings; assessing the bank's resilience to withstand those adverse events.

In particular, Stress testing helps TBL in;

- Facilitating the development of risk mitigation plans.
- Formulation of contingency plans across a range of stressed conditions covering Credit, Operational, Market and Liquidity risks.
- Feeding into capital and liquidity planning.

#### 4.3.5. Strategies and processes to manage, hedge and mitigate risks

The Bank's risk strategy is embedded in the Bank's approved strategic plan 2024-2028 as well as the in-Bank's approved Enterprise Risk Management Policy-July 2023. The different Risk policies and risk reports bear sections with strategies/required actions to mitigate respective risks.

In 2023, the bank enhanced its risk management and compliance environments to match the ever evolving internal and external threat environment and business requirements. This was done through reviews and compliance to the internal policies, procedures, and the regulations

#### 4.4. Qualitative disclosure on use of external credit ratings under the standardized approach for Credit Risk.


##### a. External Credit Assessment institutions (ECAIs) and export credit agencies (ECAs) used by TBL.

The Bank is in the process onboarding an External Credit Assessment Institution.

##### b. The asset classes for which each ECAI or ECA is used

N/A

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