Centenary Rural Development Bank Ltd

Basel II – Pillar III – Market Disclosure

Period ended 31st December 2024

Contents

Abbreviations

The following abbreviations are used throughout the document for conciseness.

BOU	Bank of Uganda
BT	Business Technology
CBRMD	Centenary Bank Risk Management Division
CM	Chief Manager
GM	General Manager
ERM	Enterprise Risk Management
HR	Human Resources
ICT SC	Information and Communication Technology Steering Committee
ISO	International Organization for Standardization
KRI	Key Risk Indicator
KPI	Key Performance Indicator
ORC	Operational Risk Committee
RCSA	Risk and Control Self-Assessment
MALCO	Management Assets and Liabilities Committee
MHRC	Management Human Resource and Disciplinary Committee
MD	Managing Director
MCC	Management Credit Committee
MOC	Management Outlets Committee
MBDC	Management Business Development Committee
TC	Tender Committee
UGX	Uganda Shillings

DIS01 – Key Metrics

		31/Dec/2024	30/Sept/2024	30/June/2024	31/March/2024	31/Dec/2023
		A	B	C	D	E
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)	**(Shs ‘000s)**				
1	Core Capital (Tier 1)	1,296,290,220	1,236,450,808	1,210,286,900	1,161,454,171	1,102,147,188
2	Supplementary Capital (Tier 2)	40,921,470	38,408,495	37,331,519	36,678,727	36,330,136
3	Total Capital	1,337,211,690	1,274,859,303	1,247,785,395	1,198,132,898	1,138,477,324
	Total Risk-weighted Assets (RWA)					
4	Total Risk-weighted Assets	4,769,840,648	4,430,522,523	4,373,401,656	4,466,170,205	3,944,397,572
	Risk based capital ratios as a percentage of RWA					
5	Core capital ratio (%)	27.2%	27.9%	27.70%	26.0%	27.9%
6	Total capital ratio (%)	28.0%	28.8%	28.5%	26.8%	28.9%
	Capital buffer requirements as a percentage of RWA					
7	Capital conservation buffer requirements (2.5%)	2.50%	2.50%	2.50%	2.50%	2.50%
8	Countercyclical buffer requirements (2.5%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Systemic buffer (for DSIBs) (%)	0.50%	0.50%	0.50%	0.50%	0.50%
10	Total of capital buffer requirements (%) (row 7+row 8+row 9)	**3.00%**	**3.00%**	**3.00%**	**3.00%**	**3.00%**
11	Core capital available after meeting the bank's minimum capital requirements (%)	**14.18%**	**14.91%**	**14.67%**	**13.01%**	**14.94%**
12	**Basel 111 leverage ratio**					
13	Total Basel 111 leverage ratio exposure measure	7,540,704,253	7,274,727,224	7,181,418,047	6,573,337,457	6,890,412,845
14	Basel 111 leverage ratio (%)(row 1/ row 13)	**17.2%**	**17.0%**	**16.9%**	**17.3%**	**16.9%**

	Liquidity coverage ratio					
15	Total high-quality liquid assets (HQLA)	1,632,486,792	1,420,440,377	1,632,486,792	1,073,857,692	1,321,679,171
16	Total net cash outflow	706,235,808	657,273,348	706,235,808	546,486,533	891,289,908
17	LCR (%)	**231.2%**	**216.1%**	**231.2%**	**196.5%**	**148.3%**

	Net stable funding ratio					
18	Total available stable funding	6,090,881,544	5,626,454,842	5,646,807,952		
19	Total required stable funding	3,708,690,292	4,380,108,786	4,241,708,775		
20	NSFR	164%	128%	133%		

- Centenary Bank (U) Ltd remains adequately capitalized with **Capital adequacy** well above the buffered Tier 1 & Total Capital adequacy requirements. The drop in Tier 1 capital available after meeting the bank's minimum capital requirement was due to the increase in Risk Weighted Assets.
- **Capital buffer requirements** remained flat between the reporting periods; the bank continues to hold sufficient capital above the requirement.
- Increase in the **Basel III leverage ratio** attributed to growth in balance sheet between the periods.
- Rise in **Liquidity Coverage Ratio (LCR)** driven by a more than proportionate increase in high quality liquid assets (HQLA) (placements & government securities), as compared to that on the total net cash outflow.

DIS02 – Bank Risk Management Process

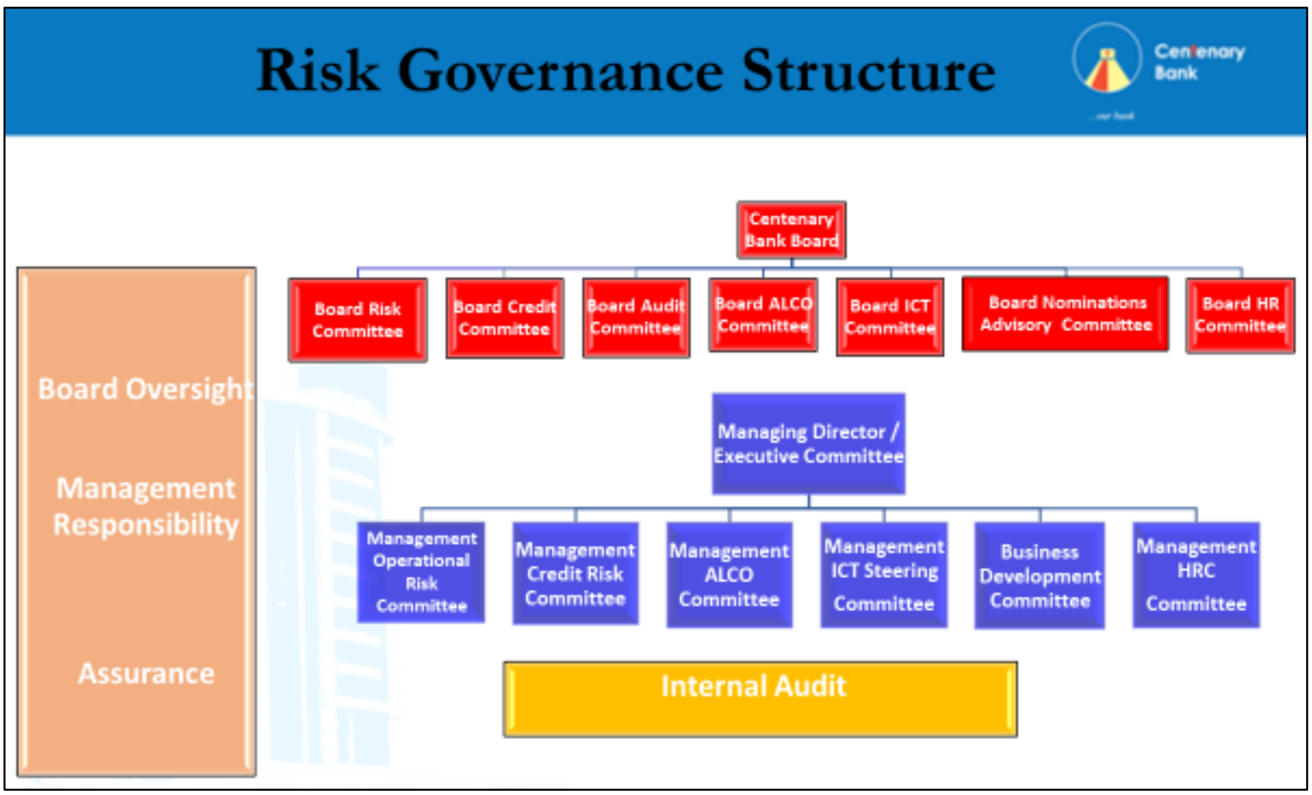
1. Introduction

This paper describes Centenary Bank's risk governance framework and how Senior Management, and the Board of Directors assess and manage risks, enabling bank staff to gain a clear understanding of the bank's risk appetite in relation to its business activities and all significant risks.

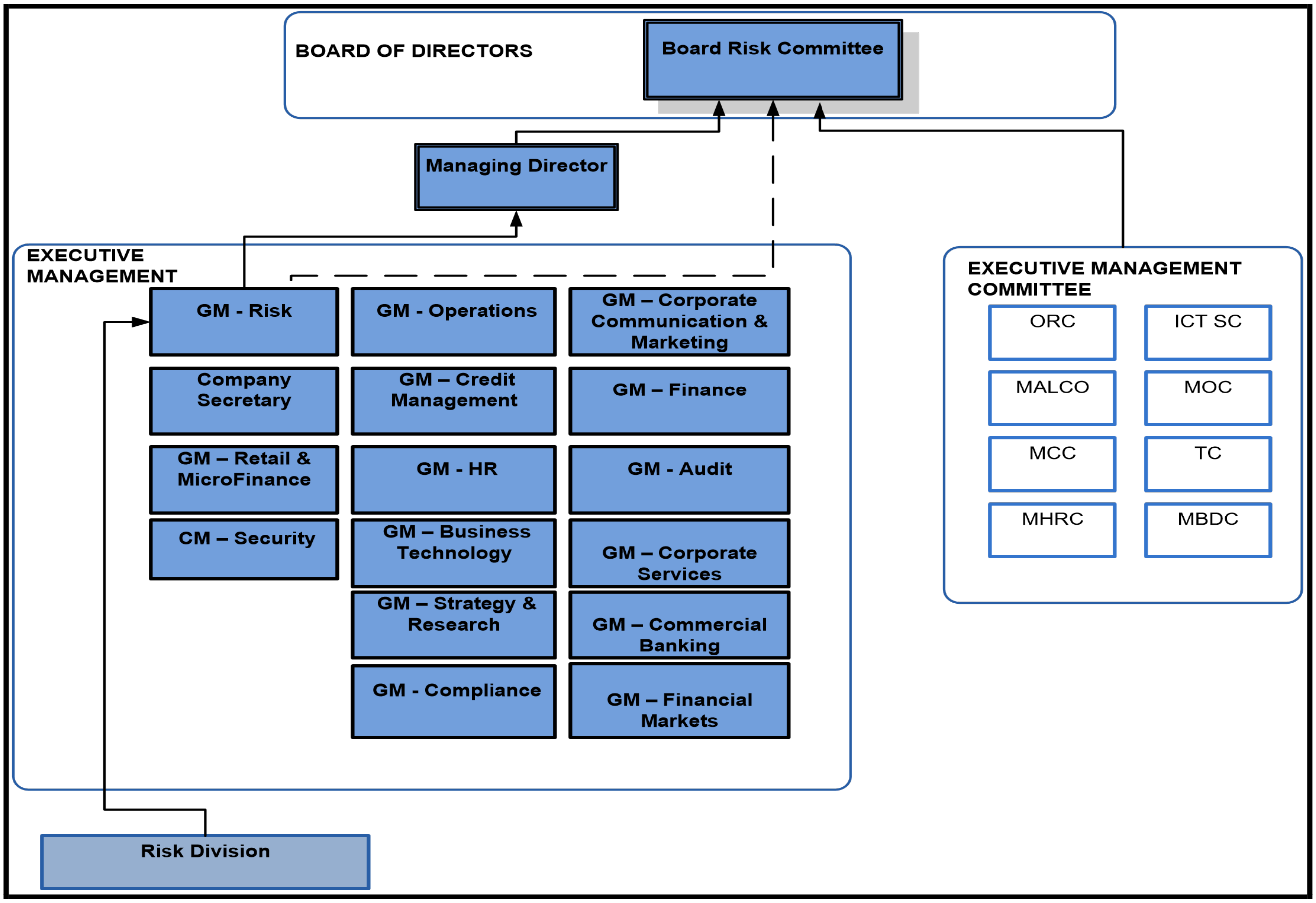
2. Centenary Bank's Current approach to Risk Management

Centenary Bank uses an enterprise-wide risk management (ERM) approach for the management of risks. ERM provides uniform processes to identify, assess, manage, mitigate, and report on key risks. It supports Centenary Bank's Board of Directors (BOD) corporate governance needs, enables informed decision-making, and identifies areas for value optimization. The Centenary Bank ERM Program is governed by the Enterprise Risk Management Framework.

3. Risk Governance Structure and Responsibilities



Risk Governance Organizational Structure



Responsibilities within the Risk Governance Structure

The following table details the roles and responsibilities for each of the key stakeholders in the Centenary Bank ERM Program.

Position	Responsibility and Accountability
Board of Directors	▪ Authorize Centenary Bank's risk appetite and tolerance statement. ▪ Perform risk oversight to incorporate consideration of risk into strategic decision-making and to address risk interactions across divisions. They ensure that: ○ A risk management policy is in place. ○ The risk management function is independent and sufficiently resourced. ○ Executive Management and Risk function roles and responsibilities for risk management are clearly specified.

Position	Responsibility and Accountability
	○ On a quarterly basis, assess the extent to which the bank is managing its risk profile effectively.
Managing Director (MD)	▪ Assume overall responsibility and accountability for ERM. ▪ Implement a policy on ERM. ▪ Ensure a proper balance between risk and returns consistent with Centenary Bank 's risk appetite. ▪ Ensure ERM objectives, plans, manuals, and procedures are developed to implement the policy. ▪ Make available the necessary resources to meet the ERM objectives and targets. ▪ Maintain Executive Management commitment to improve ERM performance.
Executive Management Committees	▪ Review and recommend to the Board, the ERM framework, risk governance model, risk committees, and risk documentation such as risk tolerances, impact and likelihood scales, and heat map risk rating boundaries. ▪ Approve the risk assessments, issue directives for risk treatment to maintain risk levels within defined tolerance thresholds and approve risk treatment expenditures. ▪ Ensure that all activities are carried out consistent with the ERM framework. ▪ Ensure that appropriate processes and capabilities are in place to identify, assess, measure, manage, monitor, and report risks.
General Manager Risk	▪ Oversee the Risk Management Division. ▪ Ensure that ERM processes are established, properly documented, and maintained by the bank. ▪ Ensure accurate and timely reporting of risks by the Risk Division to the Executive Management and Board. ▪ Monitor risk exposure status on a portfolio basis, review bank-wide risk limit exceptions, and review business unit risk treatment strategies, plans, and progress. Recommend and authorize actions for reducing excess risk. ▪ Oversee and approve measurement methodologies and monitor their application. ▪ Assist management in bringing risks back within established risk tolerance thresholds in the event of a breach. Determine the consequences of such breach and take corrective action. ▪ Ensure that resource allocation (investment) decisions are based upon the best and most correct information and that the decision-making methodologies utilized are appropriate and true.

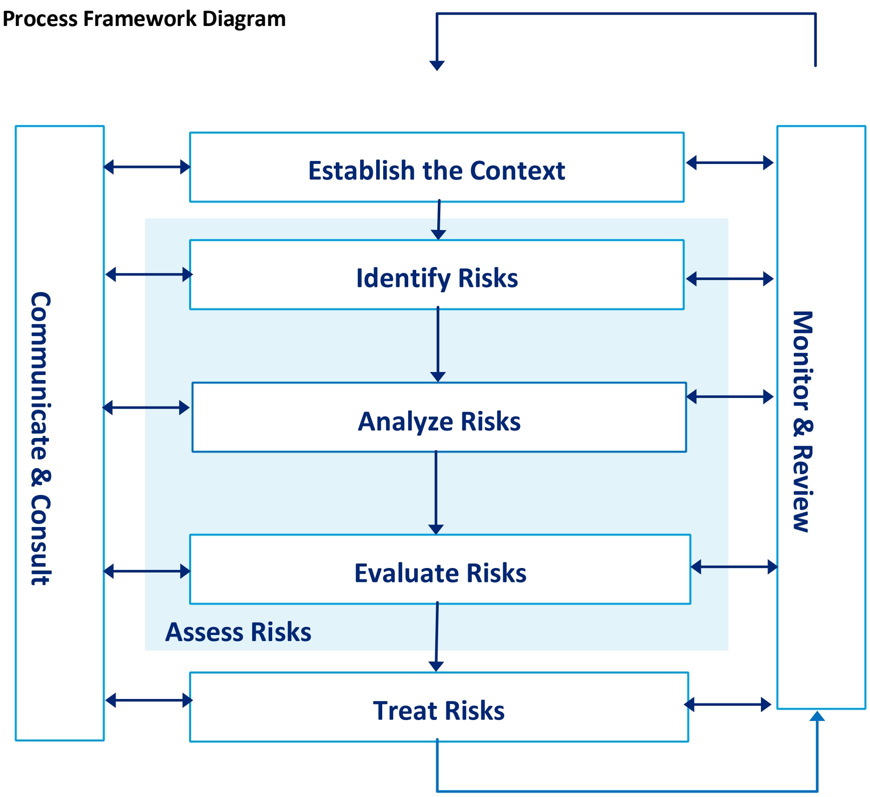
Position	Responsibility and Accountability
Centenary Bank Risk Division	▪ Develop, implement, and administer the ERM program. ▪ Develop and maintain ERM policies, processes, procedures, tools, and information systems. Develop and deliver ERM training. ▪ Establish ERM communication at all levels. Gather data and develop risk reports for the Executive Risk Management Committees, management, and Board as directed by the Executive Risk Management Committees. ▪ Provide professional advice on ERM. Provide advice and direction on current and developing ERM practices, especially in the banking industry, to the Executive Risk Management Committees, make recommendations, and implement mandated improvements. ▪ Analyze ERM metrics and report performance. Quantify and prioritize risks, validate decision-making analytics, assumptions and methodologies, report risks and ensure that information presented for decision-making and reporting is complete and correct. ▪ Deploy and maintain quantitative tools and models that assist in estimating the likelihood and impact of risk events. ▪ Facilitate the identification, measurement, monitoring and reporting of risks. This includes the oversight of commercial and investment activity in the context of complying with the bank 's internal risk tolerances.
Risk Owners	▪ Assigned responsibilities as either Responsible or Accountable for managing specific risks. ▪ Provide overall direction, per division, in risk management. ▪ Set direction and monitor the effectiveness of the risk management processes for assigned risks. ▪ Identify risk treatment options and develop recommendations and risk treatment plans. ▪ Identify Key Risk Indicators and develop risk monitoring plans. ▪ Establish standards, tools, and methods for managing, treating, monitoring, and reporting of assigned risks.
Bank Staff	▪ Operate within established policies and procedures. ▪ Manage risks within their established risk tolerance thresholds. ▪ Obtain management support and authorization for risks beyond individual tolerance thresholds. ▪ Identify all significant risks generated by their own activities and report them to their risk champions.
Internal Audit	▪ Monitor compliance with risk management policies and procedures. ▪ Evaluate the effectiveness of current risk management processes, including the effectiveness of controls and other risk treatment actions. ▪ Provide recommendations for improvement.

4. Risk Management Process

The ERM process provides a logical and systematic method that allows management to make decisions and respond timely to risks and opportunities as they arise.

Centenary Bank uses a seven-stage process for managing its enterprise risks that entails establishing the context, identifying, analyzing, integrating, evaluating, treating, monitoring, and communicating risks in a proactive manner as illustrated below.

ERM Process Framework Diagram



I. **Establish the Context**—This process involves setting the internal, external, and risk management context in which ERM will take place. It enables the Bank to focus its risk management efforts to address the key risks in the environment in which it operates, and defines common risk categories, criteria, and processes necessary to manage Centenary Bank 's risks as a portfolio.

II. **Identify risks**—This process seeks to identify risks that may prevent the Bank from achieving its objectives. Identification of risks is an iterative process performed during the Risk and Control Self-Assessment (RCSA) exercises by each division, function, and branch. When identifying risks, it is important to consider the factors that could trigger risk events, as well as possible mitigating strategies and early warning indicators. These will be defined as part of the RCSA process and documented in each division 's RCSA template.

III. **Analyze Risks**— This process seeks to understand the magnitude of both the positive and the negative consequences of a risk event, as well as the likelihood to those risks occurring. Assessing the impact and likelihood of possible risks will enable the Bank to prioritize its risks, and hence its risk treatments, in a way that focuses on those risks that pose the greatest threat to achieving objectives. Risk analysis will be performed by various divisions, functions and branches during Risk and Control Self-Assessment (RCSA) exercises at a minimum on an annual basis or at the onset of every project / program activity and updated regularly.

IV. **Evaluate Risks**— This process seeks to prioritize risks for treatment by evaluating them against pre-established risk appetite and tolerance criteria. By understanding the level of risk exposure relative to Centenary Bank 's risk appetite and tolerance, decisions about treatment can be made that optimize risk taking and maximize the likelihood of achieving objectives.

V. **Treat Risks**—This process helps in identification, assessment, and implementation of treatment options to respond to risks. Risk treatment not only seeks to minimize potential downside but also maximize the potential upside of risks (opportunities). Where risks are identified as unacceptable or where control improvements are identified, the Risk function shall track the progress in resolving these issues until the revised internal controls are embedded in the operations. On a quarterly basis, the Risk function will report to the Board Risk Committee on the progress achieved in implementing the mitigating controls.

VI. **Monitor and Review**— This process seeks to continuously evaluate the effectiveness and relevance of the Bank 's ERM framework to ensure that the risk management program remains relevant and effective. By continuing to monitor risks and the effectiveness of treatments, the Bank will be able to refine its ERM framework to evolve with the dynamic circumstances in which it operates.

VII. **Communicate and Consult**—This process is an integral part of creating a positive risk management culture within Centenary Bank. By taking a consultative approach to risk management, rather than a one-way flow of information, stakeholders will understand the rationale behind decision making as well as their importance to managing Centenary Bank 's risks. Furthermore, engaging in multilateral dialogue with stakeholders ensures the comprehensiveness and robustness of each step in the risk management process.

5. Risk Reporting to Board and Management

There is an agreed schedule that advises the reporting of Risks to Management and the Board. Reports are prepared daily, weekly, monthly to management depending on the type of risks and severity of impact to the business to facilitate the decision-making process through the various management committees as was described in the governance structure of the bank.

Board reporting is mainly on a quarterly basis to the respective Board Committees with the Board Risk Management committee focusing on the overall risk management oversight on behalf of the Board. The report to the Board Risk Management Committee covers the analysis of the key risks affecting the Bank and the Industry and environment we operate in. Majority of the risks analyzed are also stipulated in the Bank of Uganda guidelines and ISO 31000 best practices. These include Strategic Risk, Operational Risk, Credit Risk, Interest Rate Risk, Foreign Exchange Risk, and Liquidity Risk. Others are Legal Risk, Compliance Risk, Reputational Risk, Environmental, Social and Governance (ESG) Risk, Country Risk and Third-Party Vendor risk.

The scope of this report covers the risk trend analyses for the period since the previous Board Risk Committee meeting. The report also highlights possible mitigating factors for management action and lists potential opportunities that the bank can venture into or take advantage of.

6. Stress Testing

The bank stress test refers to an analysis conducted under hypothetical scenarios that are designed to determine whether a bank has enough capital to withstand a negative economic shock. These scenarios include but are not limited to unfavorable situations, such as a deep recession or a financial market crash.

Stress Testing in the bank is governed by a Stress Testing policy approved by the Board of Directors (board). In alignment with the Enterprise Risk Management Framework & Risk Management Policy, the Stress Testing policy seeks to ensure resilience of the bank to macro & micro economic shocks. Our stress testing employs both qualitative and quantitative methods.

We assess stresses in portfolios central to our risk profile, covering credit, operational and market risks as well as Pillar II risk types. Our stress testing encompasses relevant scenarios covering global and local conditions including macroeconomic, industry, reverse scenarios, and management judgement based on analysis such as single name, sector, deposit, book downgrades and product concentrations.

7. Risk Management Strategies

The bank applies the following risk management strategies.

Avoid	**Divest** by exiting a market or geographic area, or by selling, liquidating, or spinning off a product group or business. **Prohibit** unacceptably high-risk activities, transactions, financial losses and asset exposures through appropriate bank policies, limit structures and standards. **Stop** specific activities by redefining objectives, refocusing strategies and policies, or redirecting resources. **Screen** alternative capital projects and investments to avoid low-return, off-strategy, and unacceptably high-risk initiatives. **Eliminate** the source by designing and implementing internal preventive processes.
Accept	**Retain** risk at its present level, taking no further action. **Reprice** products and services by including an explicit premium in the pricing, market conditions permitting, to compensate for the risk undertaken. **Self-insure** risk through borrowed funds from external sources, should a specific event occur. **Offset** risk against others within a well-defined pool.

Reduce	**Disperse** financial, physical or information assets geographically to reduce risk of unacceptable catastrophic losses. **Control** risk through internal processes or actions that reduce the Bank 's likelihood to undesirable events occurring to an acceptable level (as defined by management 's risk tolerance). **Respond** to well-defined contingencies by documenting effective plans and empowering appropriate personnel to make decisions; periodically test and, if necessary, execute the plan. **Diminish** the magnitude of the activity that drives the risk. **Isolate** differentiating characteristics of proprietary assets to reduce risk of loss through imitation, obsolescence, or other competitive pressures. **Test** strategies, products, or services on a limited basis to evaluate results under conditions that will not influence perceptions of the broader market. **Improve** capabilities to manage a desired exposure. **Relocate** operations in order to transfer risk from one location, in which it cannot be well managed, to another location in which it can. **Redesign** the bank 's business model, i.e., its unique combination of assets and technologies for creating value. **Diversify** financial, physical, customer, employee/supplier and asset holdings used by the bank 's business model.
Transfer	**Insure** through a cost-effective contract with an independent, financially capable party under a well define risk strategy. **Reinsure** to reduce portfolio exposure through contracts with other insurers when such arrangements are available. **Hedge** risk by making feasible changes in operations or executing new borrowings. **Transfer** risk and rewards of investing in new markets and products by entering alliances or joint ventures. **Outsource** non-core processes (a viable risk transfer option only when risk is contractually transferred). **Indemnify** risk by entering contractual risk-sharing arrangements with independent financially capable parties.

DIS03 – Overview of Risk Weighted Assets (RWA)

		a	b	c
		RWA - Shs'000		**Minimum capital requirements**
		T	**T-1**	**T**
		31-Dec-24	**30-Sep-24**	**30-Jun-24**
1	Credit risk (excluding counterparty credit risk)	4,055,098,941	3,837,056,428	486,611873
2	Counterparty credit risk	-	-	-
3	Market risk	264,408,699	188,775,063	31,729,044
4	Operational risk	424,616,420	404,691,032	50,953,970
5	**Total (1+2+3+4)**	**4,744,124,061**	**4,430,522,523**	**569,294887**

- Total Risk weighted assets reduced between the two reporting periods:
    - **Credit Risk** up due to an increase in loans and advances
    - Increase in **Operational Risk** due to increase in activity (subject to losses that are operational in nature) between the reporting periods
    - Increase in **Market Risk** on the back of increase in government securities (Treasury bonds)
- Centenary Bank continues to maintain a very healthy capital position, well above the minimum capital requirement.

DIS04 – Composition of Regulatory Capital

	31/Dec/2024	30/Sep/2024
Common Equity Tier 1 capital: instruments and reserves	**Amounts - Shs'000**	
Permanent Shareholders' Equity (issued and fully paid-up common shares)	173,068,760	173,068,760
Share premium	671,008,363	671,008,363
Retained earnings	351,831,783	351,831,783
Net after-tax profits current year-to-date less (50% only)	161,902,708	127,719,983
General reserves (permanent, unencumbered and able to absorb losses)	-	
Tier 1 capital: before regulatory adjustments	**1,357,811,614**	**1,323,628,889**
Tier 1 capital: regulatory adjustments		
Goodwill and other intangible assets	17,212,019	34,379,394
Current year's losses	-	
Investments in unconsolidated financial subsidiaries	-	
Deficiencies in provisions for losses	-	
Other deductions determined by Central Bank (Deferred Tax Asset)	44,151,480	44,151,480
Other deductions determined by Central Bank (Unrealised Gains)	157,894	
Total regulatory adjustments to tier 1 Capital	**61,521,393**	**78,530,875**
Tier 1 capital:	**1,296,290,221**	**1,245,098,015**
Tier 2 capital: Supplementary Capital		
Revaluation reserves on fixed assets	-	
Unencumbered general provisions for losses (not to exceed 1.25 % of the Capital Requirement Basis)	40,921,470	38,408,495
Hybrid Capital Instruments and others	-	
Subordinated Term Debt (not to exceed 50% of core capital, subject to discount factor)	-	
Tier 2 capital	**40,921,470**	**38,408,495**
Total Capital (= Tier 1 + Tier 2)	**1,337,211,691**	**1,283,506,509**

Total risk weighted assets	4,769,840,648	4,430,522,523

Capital adequacy ratios and buffers		
Tier1 capital (as a percentage of risk weighted assets)	27.2%	27.9%
Total capital (as a percentage of risk weighted assets)	28.0%	28.8%

Total Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus systemic buffer, expressed as a percentage of risk-weighted assets)		
Of which: capital conservation buffer requirement	2.5%	2.5%
Of which: countercyclical buffer requirement	0.0%	0.0%
Of which: bank specific systemic buffer requirement	0.5%	0.5%

Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement)	**14.18%**	**14.91%**
Minimum statutory ratio requirements		
Tier 1 capital adequacy ratio	10.0%	10.0%
Total capital adequacy ratio	12.0%	12.0%

- The drop in Tier 1 capital available after meeting the bank's minimum capital requirement was due to the increase in Risk Weighted Assets.

DIS05 – Credit Quality of Assets

		a	b	d	e	f	g
		Gross carrying values of		Provisions as per FIA2004/MDI2003		Interest in Suspense	Net Values (FIA/MDI)
		Defaulted Exposures	Non-Defaulted Exposures	Specific	General		
1	Loans and advances	101,113,036,075	3,860,111,150,000	38,052,957,000	40,921,470,000	10,163,795,920	3,811,894,397,349
2	Debt securities						
3	Off balance sheet exposure	-	280,252,647,000				

- Improvement in asset quality through pay-off and recoveries, leading to an improvement in defaulted exposures between the reporting periods

DIS06 – Changes in stock of defaulted loans and debt securities

1	**Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the previous reporting period**	**96,771,271,611**
2	Loans and debt securities that have defaulted since last reporting period	37,362,801,991
3	Returned to non-defaulted status	(12,028,618,931)
4	Amounts written off	(10,438,306,804)
5	Other changes	(10,554,111,792)
6	**Defaulted loans & advances, debt securities and off-balance sheet exposures at end of the reporting period. (1+2+3+4+5)**	**101,113,036,075**

The Increase in defaulted exposures from 96.8bn in September 2024 to 101bn in December 2024 was greatly attributed to,

- exposures that crossed to defaulted status amounting to 37.4bn.
- loans written off during the quarter amounting to UGX. 8,162,394,210 and recoveries made during the quarter amounting to UGX. 14,519,117,787.

DIS07 – Qualitative disclosure on Banks use of external Credit ratings under the Standardised Approach.

- The Bank is yet to use an external credit rating agency for credit risk assessment.

Declaration

The Board acknowledges its responsibility of ensuring the integrity of this report, which in the Board's opinion gives a true and fair view of Centenary Rural Development Bank Limited and addresses all the issues that are material to the Banks ability to remain a going concern. The Pillar III report has been prepared in accordance with the board-agreed internal control processes.

Signed on the behalf of Centenary Rural Development Bank Limited:

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Board Chairperson

for Managing Director