Salaam Bank | A member of the Salaam Group

Q4 2024
PILLAR 3 MARKET DISCLOSURES

1.0 INTRODUCTION.

Salaam Bank Uganda Limited (hereinafter referred to as the 'Bank') is a fully fledged Islamic Financial Institution and a subsidiary of the Salaam African Bank based in Djibouti.

It provides retail banking, small & mid corporate banking services and a wide range of sharia compliant financial services in Uganda.

The Basel II framework consists of three mutual reinforcing pillars: -

- Pillar 1: Minimum capital requirements.
- Pillar 2: Supervisory review process of capital adequacy
- Pillar 3: Market discipline.

Market discipline (Pillar 3) comprises a set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the different sections as will be discussed ahead.

The purpose of Pillar 3 is to complement the minimum capital requirements and the supervisory review process of Basel II. The minimum set of disclosure requirements is intended to allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution.

The minimum requirements for quantitative information to be disclosed to the public on a quarterly basis are:

- Primary capital, including the primary capital adequacy ratio.
- Total capital, including the total capital adequacy ratio.
- The components of capital.
- The total required amount of capital and reserve funds; and
- Any risk exposure or other item that is subject to rapid or material change.

CAPITAL STRUCTURE

As per the regulations, the bank's regulatory capital is classified into **Tier – I** and **Tier – II capital**.

Tier - I capital includes paid up equity share capital, statutory reserves, other disclosed free reserves eligible for inclusion in Tier - I capital that comply with requirement specified by Bank of Uganda.

Tier - II capital includes general provisions, investment fluctuation reserve and subordinate debt instruments eligible for inclusion in

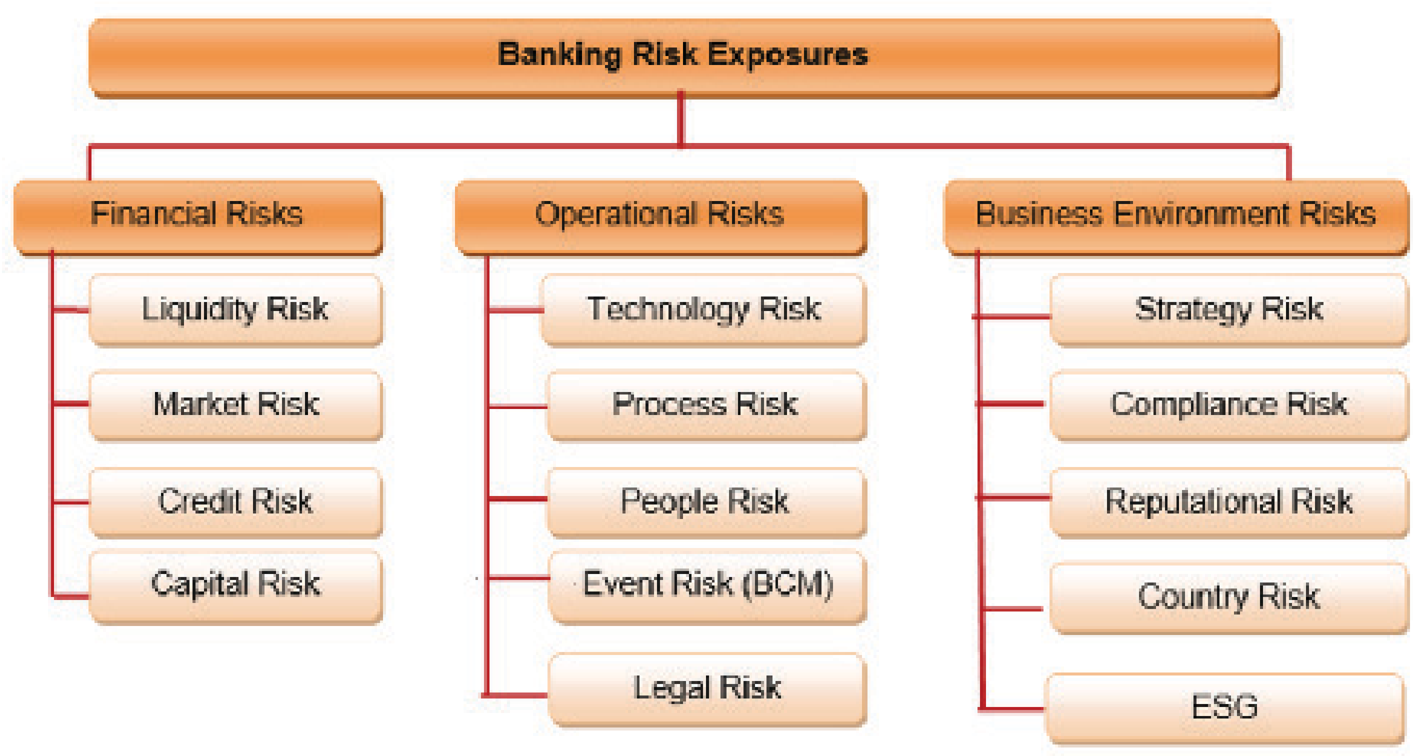
Tier – II capital.

Main features of capital instruments are detailed in the next section of key metrics of capital funds.

		Dec-24	Sep-24	Jun-24	Mar-24	Dec-23
	Available capital (amounts)					
1	Core capital	28,663,553.00	27,138,510.00	28,626,011.00	22,737,806.0	24,553,181.00
2	Supplementary capital	73,767.00	-	-	-	-
3	Total capital	28,737,320.00	27,138,510.00	28,626,011.00	22,737,806.	24,553,181.00
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA	133,197,005.00	48,883,327.00	39,877,537.00	28,991,063.00	8,701,921.00
	Risk-based capital ratios as a percentage of RWA					
5	Core capital ratio (%)	21.52%	55.52%	71.78%	78.43%	282.16%
6	Total capital ratio (%)	21.58%	55.52%	71.78%	78.43%	282.16%
	Capital buffer requirements as a percentage of RWA					
7	Capital conservation buffer requirement (2.5%	3,329,925.1	1,222,083.2	996,938.4	724,776.6	217,548
8	Countercyclical buffer requirement (%)	-	-	-		-
9	Systemic buffer (for DSIBs) (%)	-	-	-		-
10	Total of capital buffer requirements (%) **(row 7 + row 8 + row 9)**	3,329,925.13	1,222,083.18	996,938.43	724,776.58	217,548.03
11	Core capital available after meeting the bank's minimum capital requirements (%)	19,979,550.75	7,332,499.05	5,981,630.55	4,348,659.45	19,979,551
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	157,410,385	48,883,327	39,877,537.00	28,991,063.00	157,410,385
14	Basel III leverage ratio (%) (row 1 / row 13)	18.21%	55.52%	71.78%	78.43%	18.21%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	24,536,864	30,125,570	23,341,394	18,043,735	19,493,803
16	Total net cash outflow	1,818,501	7,086,820	1,753,965	2,240,758	389,006
	LCR (%)	1349%	425%	1331%	805%	5011%
	Net Stable Funding Ratio					
18	Total available stable funding	42,571,986	37,111,925	30,383,412	23,640,296	25,754,327
19	Total required stable funding	62,341,780	6,065,730	2,095,847	951,304	441,860
19	NSFR	68%	612%	1450%	2485%	5829%

DIS02: **RISK GOVERNANCE STRUCTURE & RELATIONSHIP**

SBL has a comprehensive risk management framework, which defines risk as per ISO 31000:2018 “the effect of uncertainty on objectives''. SBL has categorized its institution wide risk exposures into three key categories as illustrated below. The risk exposures are either internal or external to SBL's activities and are further decomposed into more specific exposure areas.



The Bank uses ISO 31000 and the Basel framework to contextualize the risk management framework in the Bank. SBL has a risk management framework (RMF) that provides a comprehensive approach to managing its institution-wide risk exposures.

The RMF sets out the core principles, risk management responsibilities, risk indicators and the strategies to be adopted in managing the key banking risks. The risk categories to be managed must at the minimum include strategic, credit, operational, liquidity, market, and compliance risks.

The objectives of establishing the RMF are to:

- Ensure that SBL proactively manages its risks in a systematic and structured way.
- Embed the risk management process and ensure it is an integral part of SBL's planning process at both strategic and operational levels.
- Help create a risk-aware culture from a strategic, operational, individual, and project perspective.
- Enhance stewardship by strengthening SBL's capacity to safeguard its staff, customers, assets, and other interests.
- Improve performance through more informed decision-making and ensure that values, competencies, and a supportive environment form the foundation for innovation and responsible risk-taking.

SBL's risk management system thrives on;

- An established governance structure.
- Identifying and managing multiple and cross-departmental risks rather than seeking to address risks resident in one unit of the institution (Enterprise-wide Risk Management).
- Emphasis on Risk awareness across the institution to enable better decision-making.
- Timely incident reporting to reduce operational surprises and losses.

The assignment of responsibility at the Management level follows the three (3) lines of defense i.e., Business line (Executive Directors, Heads of departments, and All staff), Risk Management department (Risk Management committee, Compliance and Risk department), and Internal Audit.

Designation	Roles & Responsibilities
Board of Directors	The Board has overall responsibility for the risk management process. • The Board is responsible for developing and maintaining appropriate organizational structures throughout the institution and for the appointment of competent executive directors to oversee those structures. • The Board also has a duty of making sure that appropriate internal control systems are developed and maintained to ensure risks are managed within acceptable levels.
Sharia Board	The sharia Board comprises of three independent sharia scholars. • The Sharia Board has an overall responsibility for the sharia compliance risk. • The Sharia Board reviews all agreements, policies, products and contracts to ensure that they are consistent with the sharia principles.
Executive Directors	• The Executive Directors are accountable and responsible for ensuring that the risk management structures and policies approved by the Board are operational. • They take full accountability for the identification, analysis, evaluation, and treatment of risks and incident-reporting activities in the departments under their functions. • The Executive Directors also ensure that the managers within their functions are managing the risks in their areas of operation following SBL's risk management benchmarks and advise the Board on the adequacy of risk management policies, procedures, measurements, methodologies, and limits.

Designation	Roles & Responsibilities
Heads of Departments	The Heads of Departments are accountable for all risk-taking and risk-management activities that impact their objectives. The Heads of the Department are: - Responsible for identification, evaluation, and treatment of risks within their department. - Responsible for promoting risk awareness in the Department. - Responsible for bringing up risk matters for discussion in the Departmental meetings. - Responsible for incorporating risk assessment, at the conceptual stage of all projects carried out in the department. - Accountable for risk and incident reporting to Management and MRC - Accountable for monitoring and review of risk registers within their departments. - Responsible for the generation of the treatment action plan for the risks as derived from the risk register of the department. - Responsible for compiling and regularly updating of risk register. - Responsible for generating incident reports of the department to be submitted to MRC through the Risk and Internal Control department. - Responsible for coordinating the closure of issues raised by the MRC about departmental risk issues.
Risk and Internal Control Department	The Risk and Internal Control department is: - Responsible for producing a comprehensive report on risk management. - Responsible for proposing policies and strategies for risk management programs to the MRC. - Responsible for coordinating risk training and awareness within SBL. - Responsible for initiating risk policy review mechanisms. - Primary champion of risk management at strategic and operational levels.

Designation	Roles & Responsibilities
Risk and Internal Control Department	The Risk and Internal Control department is: ■ Champion in coordinating the establishment of internal risk policies and structures for business units including the establishment of a risk awareness culture. ■ Responsible for Risk Assessment and advising Heads of departments on risk issues in the departments. ■ Responsible for monitoring risk treatment action plans. ■ Responsible for reporting risks and incidents within SBL. ■ Responsible for reviewing the departmental risk registers (registers for potential risks). ■ Responsible for maintaining the departmental risk registers (potential risks) and SBL's incidents register (materialized risks register).
The Management Risk Committee	This is a committee chaired by the CEO, comprising all Heads of departments and the Head of Risk and Internal Control as the Secretary. This committee is responsible for: ■ Develop and regularly review the risk management framework to ensure that it meets the minimum standards set in the Bank of Uganda risk management guidelines for supervised institutions and the ISO 31000. ■ Recommending SBL's risk management framework to the Board for review and approval. The risk management framework at the minimum incorporates the risk appetite statement and risk management strategy. ■ Discuss and recommend changes in SBL's policy manuals before presentation to the Board. This role is coordinated by the Head of Risk who receives such policy changes initiated by Heads of departments.

Designation	Roles & Responsibilities
The Management Risk Committee	■ Oversee management of all risks including financial risks, business environment risks, and operational risks. This involves identifying risks in business, measuring the expected impact of the identified risks, proposing control measures for the identified risks, and ensuring implementation of the measures. ■ Monitor SBL's business continuity preparedness to deal with incidents, crises, and disasters and ensure the operational reliability of the disaster recovery sites (DR) and alternative working sites. ■ Reviewing risk management reports and taking policy decisions as necessary. ■ Ensuring that there are clear and independent reporting lines and responsibilities for the overall business activities and risk management functions. ■ Review and make recommendations on all aspects of physical security, error trends, and fraud risks that may affect the institution and ensure that appropriate controls are in place to minimize the impact thereof. ■ Monitor SBL's compliance with the Board approved risk limits and the various legislations that prescribes the specific treatment of risks within the Bank's sphere. These legislations include the Financial Institutions Act, Anti-Money laundering Act, Tax Act (s), etc. ■ Review and assess the terms of reference of the committee depending on changes affecting SBL's operations from time to time. ■ Establish a comprehensive risk monitoring and compliance program for each department and ensure its timely and effective implementation. ■ 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 above the current level. ■ Incorporate a robust compliance risk management program into the bank's daily business operations and strategic planning to gain a strategic competitive edge.

Designation	Roles & Responsibilities
Internal Audit	▪ Internal Audit has direct reporting to the Board Audit Committee. Its core role regarding risk management is: • To provide independent assurance to the Board Audit Committee and Management on the design and effectiveness of risk management activities. • To ensure that all unacceptable risks in the institution are being managed appropriately and that the internal control system is operating effectively.
Sharia Audits	▪ Annually, the sharia auditors under the sharia review bureau express an opinion and gives all stakeholders confidence on whether the transactions and contracts entered within the year conform to the sharia principles.

Bank Policies and Procedures

The bank has sound and adequate policies, procedures, and processes that set the boundaries within which we operate and how we operate.

All policies and procedures are reviewed and updated regularly to ensure regulatory compliance and relevance to the ever-changing business environment.

All policies and procedures are reviewed and certified by the Sharia board and then approved at the full Board.

Risk Communication

Management has put in place key communication channels for the purpose of promoting good risk management practices and risk culture. These include:

- Induction at staff onboarding level for all staff joining the bank.
- Continuous internal training.
- Targeted/specialized External training and Continuous Professional Development programs.
- Regular Town Halls and communication from the Leadership of Salaam Bank.
- E-mail communications on key aspects of strategy and risk management/Sensitization Memos.
- Whistleblowing channels to report misconduct, fraud, corruption or any other actual or suspected unethical behaviour.

SCOPE AND CONTENT OF RISK EXPOSURE AND MANAGEMENT

Salaam Bank's risk profile and risk exposures are generated based on the assessment of inherent risks pertaining to the identified risks and the controls in place hence the ultimate residual risk and overall risk management assessment.

Our assessment is in line with the regulatory/Bank of Uganda guidance as defined below.

Low	The volume, size and nature of the activity is such that even if internal controls have weaknesses, the risk of loss is remote and of minimum consequence to Salaam Bank's soundness.
Moderate	The positions are moderate in relation to the Salaam Bank's resources and in case of loss could be absorbed through the ordinary course of business.
Above Average	The activity is fairly significant, or positions are fairly large in relation to Salaam Bank's resources and in case of loss could cause a strain on the institution's financial soundness.
High	The activity is significant, or positions are very large in relation to Salaam Bank's resources and in case of loss could cause serious threats to the bank's financial soundness.

Strong	It indicates very strong risk management systems with low risk of negative impact on the institution. Management effectively identifies and controls all major types of risks by the relevant activity or function.
Acceptable	Indicates a risk management framework where the Salaam Bank's risk management systems, although largely effective, may be lacking to some modest degree. It reflects an ability to cope successfully with existing and foreseeable exposure that may arise in carrying out the bank's business plan.
Needs Improvement	Indicates a risk management system that is lacking in some fairly important ways, which if not addressed could derail the institution's ability to achieve its objective.
Weak	Indicates a risk management system that is lacking in important ways and therefore a cause of more than normal supervisory concern.

Bank's risk profile.

The Management Risk Committee and the Board Risk committee are central in discussing the overall risk posture of the bank.

The main content of the reports covers risks such as strategic risk, operational risk, market risk, credit risk, compliance risk, technology risk, cyber risk, legal risk, product risk, project risk, liquidity risk, outsourcing risk, and reputational risk.

As of 31st December 2024, the bank's risk profile/risk exposure was scoped, assessed, and reported as Acceptable.

Our Risks and Opportunities.

We have assessed the top risks for the bank to look out for such as Strategic risk, Operational risk, Technology/Cyber risk and Credit risk.

Strategic Risk:

- We are cognizant of the fact that our implementation of the business strategy and operating models will be greatly informed by our Capital position.
- Our compliance to the minimum paid up capital requirement of UGX 25 was attained through capitalization of the bank by the shareholders as at 30th June 2024. This was aimed at supporting the bank to meet its regulatory obligations as well as to support key strategic initiatives. As a business, we will review our business plans considering the above as well as continuously review our capital planning.
- Commercialization and success of key projects such as the SalaamPay (e-wallet), Business Centers as well as Agency Banking are pivotal to the attainment of the bank's overall financial performance over the period 2025.
- The Board and Management will continuously review and align the bank's strategy and capital positions to the business needs and regulatory requirements.

Credit /Financing Risk:

- There is a likelihood that businesses will struggle due to a decrease in government spending/ budget cuts. Decreasing government spending tends to slow economic activity as the government purchases fewer goods and services from the private sector.
- Diversion of funds towards the election process as the country moves into the 2026 general elections.
- Slow economic activity may derail the performance of key sectors, especially trade, leading to a low demand for financing but also increase in default risk.
- Our governance around credit risk management is strong. We have enhanced our credit administration, credit analysis and credit monitoring teams to closely monitor credit risk and manage risk within the bank's risk appetite and approved tolerance levels.

Operational Risk:

- Inherent Risk for Operational risk remains high given the bank's change of business mode to a fully-fledged Islamic bank, the inherent people risk given the learning curve, required administrative oversight and expected escalation of cyber risk given the digital strategy.
- The residual operational risk is, however, moderate based on the level of risk management initiatives to control this risk including refining of bank policies, procedures, process improvements, staff training, investment in technology controls and monitoring tools and the regular reviews by first line, second line and third line of defense.

Technology/Cyber Risk:

- The implementation of the Wallet Solution and other Digital Financial Solutions/projects such as e-murabaha, Omni channel and digital on boarding will escalate cyber risks hence a need for proper and timely risk assessments.
- The bank will adopt vulnerability assessment prior to launch of the products.

Envisaged Opportunities.

- The bank has an opportunity to mobilize cheap but sticky deposits through successful commercialization of our salaamPay product.
- The implementation of Omni Channels for business operations could yield efficiency by reducing the cost of operations mainly driven by the level of automation (e-channels) and an opportunity for management of headcount as well as a reduction in Operational losses because of human errors and fraud to some extent.
- Strategically position the bank as a shariah compliant financial institution to attract the unbanked Muslim customer.

Risk Management – our way forward.

Salaam Bank will continue to leverage our current risk management processes and proactively expand and evolve our enterprise risk environment to anticipate and effectively manage risks that may arise. We expect uncertainty and rapid change to remain features of our operating environment in 2025.

Risk Reporting:

Board reporting happens on a quarterly basis. Management through the EXCO leaders prepare, submit and present respective reports to the respective Board sub committees.

The discussions at the Board sub committees are documented and resultant actions/resolutions documented and tracked.

It is the responsibility of Management/EXCO through the Company Secretary to ensure that the action items/Board resolutions from all the Board sub committees and the main Board of Directors meeting are addressed.

On a quarterly basis, the Board of Directors is appraised of the level of implementation or closure of these action items.

At a Senior Management level, monthly meetings for the different committees as highlighted are held. Key risks and opportunities are discussed, and both the Board and Management action items tracked

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Stress Tests

Stress testing refers to the various techniques used in assessing resilience to extreme but plausible events. Salaam Bank uses Stress tests to determine the stability of its system to shocks. They involve testing beyond normal operational capacity, often to a breaking point.

Changes in financial, macroeconomic or even political conditions may have an adverse impact on the bank's profitability and capital adequacy. Stress testing forms an integral part of the bank's risk management process. By estimating the exposure to stress events, both mild and extreme, and evaluating the capacity of capital to absorb potential losses stemming from stressed conditions, the bank

Should improve its understanding of its risk profile, develop and implement appropriate strategies to mitigate against risks.

Salaam Bank's stress testing program covers different risk categories and has been developed in line with the revised BOU Basel 2 stress testing guidelines 2021, and form part of the overall strategic risk management framework.

In determining the stress test assumptions and the stress testing techniques for the purposes of this program, the following considerations have been made:

- In the past years, the bank has not experienced any significant crystallization of credit, market or operational risks, and therefore there is limited historical statistics/experience based on which more complex modeling can be applied.
- The bank does not have complex high-risk products (such as complex financial derivatives, unsecured loans etc.) that ordinarily have high credit or market risks and would certainly require sophisticated modeling.
- The Bank shall endeavor to describe the significant assumptions, events, and conditions etc. that are prevailing in each scenario, and which have been factored in the stress test. The stress scenario includes, among others, the Risk Management Policies assumption of payment disruptions in the financing portfolio, no access to market funding, early termination of all callable funding transactions and severe decline of asset value in the liquidity buffer as laid out in the Framework for Liquidity Stress Testing.

The risk profiles therefore include a subjective assessment of the impact and probability.

It is emphasized that the Stress testing results are not a call for action for the bank to allocate or seek additional capital; rather it serves to highlight possible risk areas of exposure to the bank that should be closely examined so that the probable scenarios examined do not crystallize.

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Capital Planning

Capital planning is a mechanism that supports the Bank's strategic business units. It is forward-looking, anticipates capital expenditure, dividend payments, and access to external capital sources required to meet the Bank's business targets.

As a private limited company, Salaam Bank's main sources of capital shall be through capital injection by existing shareholders and retained earnings from Business operations as the business grows.

The current regulatory requirements set Credit intuitions to have a paid-up capital of Shs. 25bn. Salaam Bank was fully compliant with the new paid-up capital requirements, with a paid-up capital of Shs 30.27bn as of December 31, 2024.

Salaam Bank continues to implement measures to safeguard its capital levels.

DIS03: Overview of Risk Weighted Assets

The table below provides an overview of the bank's Risk Weighted Assets

c		a	b	c
		RWA		Minimum capital requirements
		Dec-24	Sep-24	Dec-24
1	Credit risk (excluding counterparty credit risk)	129,766,602	-	10,809,557.9
2	Counterparty credit risk (CCR)	–	–	–
3	Market risk	3,396,479	-	407,577.5
4	Operational risk	376,377.0	33,960	45,183.3
5	Total (1 + 2 + 3 + 4)	133,539,458.0	33,960.0	11,262,319

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DIS04: **Composition of regulatory capital**

The table below provides a breakdown of the capital elements of the bank

		Dec 24
		Amounts
	Common Equity Tier 1 capital: instruments and reserves	
	Permanent shareholders equity (issued and fully paid-up common shares)	73,501,890.0
	Share premium	—
	Retained earnings	(35,416,049)
	Net after tax profits current year-to date (50% only)	—
	General reserves (permanent, unencumbered and able to absorb losses)	—
	Tier 1 capital before regulatory adjustments	38,085,841
	Tier 1 capital: regulatory adjustments	38,085,841.00
	Goodwill and other intangible assets	1,572,372.0
	Current year's losses	7,849,916.00
	Investments in unconsolidated financial subsidiaries	—
	deficiencies in provisions for losses	—
	Other deductions determined by the Central bank	—
	Other deductions determined by the Central bank	—
	Total regulatory adjustments to Tier 1 capital	**9,422,288.0**
	Tier 1 capital	**28,663,553.00**
	Tier 2 capital: Supplementary capital	**74,119.00**
	Revaluation reserves on fixed assets	

47	Unencumbered general provisions for losses (not to exceed 1.25% of RWA)	74,119.00
48	Hybrid capital instruments	
49	Subordinated debt (not to exceed 50% of core capital subject to a discount factor)	—
58	**Tier 2 capital**	74,119.0
59	**Total regulatory capital (= Tier 1 + Tier2)**	
60	**Total risk-weighted assets**	
	Capital adequacy ratios and buffers	
61	**Tier 1 capital (as a percentage of risk-weighted assets)**	21.52%
63	**Total capital (as a percentage of risk-weighted assets)**	21.58%
64	**Total Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus systemic buffer, expressed as a percentage of risk-weighted assets)**	—
65	Of which: capital conservation buffer requirement	2.50%
66	Of which: countercyclical buffer requirement	—
67	Of which: bank specific systemic buffer requirement	—
	Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements	21.52%
	Minimum statutory ratio requirements	
70	Tier 1 capital adequacy ratio	12.5%
71	Total capital adequacy ratio	14.5%

Comment:

As of December 31, 2024, Salaam Bank was adequately capitalized.

DIS05: **Quality of assets**

In this section, the main figures for exposure to credit risk related to advances, debt securities and similar transactions that are not recorded in the Bank's financial statements are presented.

		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	Financing assets and advances	—		—		—	
2	Debt Securities						
3	Off-balance sheet exposures						
4	Total	—	7,414,924				

Comment

As of December 31, 2024, Salaam bank had no defaulted financing assets.

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DIS06: **Changes in stock of defaulted loans and debt securities**

The table below represents the Changes in stock of defaulted financing assets and debt securities for Salaam Bank Ltd as of 31 December 2024.

		Dec-24
1	**Defaulted financing assets & advances, debt securities and off-balance sheet exposures at end of the previous reporting period**	–
2	Financing assets and debt securities that have defaulted since the last reporting period	0
3	Returned to non-defaulted status	0
4	Amounts written off	–
5	Other changes	0
6	**Defaulted financing assets & advances, debt securities and off-balance sheet exposures at end of the reporting period** (1+2-3-4+5)	–

Comment

As of December 31, 2024, Salaam bank had no defaulted financing assets hence no movements for the period

DIS07: **Qualitative disclosure on use of external credit ratings under the standardized approach for credit risk**

As of December 31, 2024, the bank was yet to use external credit ratings for credit risk.

Board attestation.

The Board attests that the Pillar 3 Market Discipline Disclosure Reports for Quarter 4 2024 have been prepared in accordance with the regulatory requirements.

Managing Director

Board Chairman