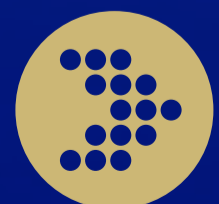


DIS02: Risk Management Approach 2026



DIS02 – Risk Management Approach

1. Risk Management Overview

Exim Bank Uganda Ltd (EBUL) maintains a robust and comprehensive risk management framework, which is meticulously applied by both the Board of Directors and the Management team. This framework is fundamental in guiding the Bank's strategic planning, identifying potential risks that could impede the achievement of these strategies, and ensuring that risks are managed within acceptable limits defined by the Bank's risk appetite.

1.1. Enterprise Risk Management Framework (ERMF)

The ERMF at EBUL is enriched with the following characteristics:

- A detailed spectrum of risks to be managed.
- The processes and systems designed to handle these risks.
- The roles and responsibilities assigned to various individuals involved in risk management.
- Board approval and the focus on managing material risks while remaining flexible to changes in business operations.
- Subject to regular reviews to ensure continued relevance and effectiveness.

2. Risk Architecture

The Risk Architecture at EBUL encompasses the overall framework and structure established to identify, assess, manage, and mitigate risks effectively. Our approach is multidimensional, involving:

2.1. Risk Culture

- Reflects the Bank's vision and ethical standards.
- The Board and Executive Management team have established a strong tone at the top, emphasizing ethical conduct and trust in every decision.
- The Bank's code of conduct plays a crucial role in shaping our risk management culture. It sets clear ethical guidelines and behavioral expectations, fostering a culture of accountability, transparency, and regulatory compliance. This code encourages employees to align their decisions with best practices in risk treatment.

2.2. Three Lines of Defense Model

EBUL utilizes a three lines of defense model to ensure independent and coordinated assurance within the risk and control environment. Risk ownership is distributed among all staff members as follows:

- **First Line of Defense:** Business process and control owners who are responsible for managing and mitigating risks within their areas.
- **Second Line of Defense:** Risk and Compliance Departments that provide oversight and support to the first line of defense, including the setting of guidelines and tolerance limits consistent with Bank's overall risk appetite. The second line is also responsible for ensuring the proper functioning of the Bank's risk management framework and is involved in several activities such as independent risk assessment, aggregation, and reporting. The second line also conducts a range of assurance activities while providing risk insights and advisory services to the first line as well as to Executive management and the Board.
- **Third Line of Defense:** Internal Audit, which offers independent assurance on the adequacy and effectiveness of the risk management framework.

This model helps build and maintain a strong risk culture by focusing on various drivers and emphasizing proper risk management practices. We invest in educating our employees on risk management principles through continuous awareness campaigns and diverse learning tools.

2.3. Risk Governance Structure

The Risk Management function at EBUL is led by the Head of Risk, who reports to the Chief Executive Officer and has full access to the Board through the Board Risk Management Committee (BRMC). Similarly, the Compliance function, overseen by the Head of Compliance, also reports to the Chief Executive Officer and the BRMC. Internal Audit provides independent assurance to executive management and the Board regarding the effectiveness of the Bank's risk management framework, reporting directly to the Board Audit Committee (BAC). This structure aligns with best practices and ensures a clear delineation of roles and responsibilities in managing risk.



3. Board and Committee Roles

3.1. Board of Directors

The Board oversees the Bank's strategic direction, policy formulation, organizational structure, and activities, and delegates authority to various Board Committees to ensure effective monitoring and implementation.

3.2. Board Committees

The Board has established six primary committees to support its oversight functions, including the potential formation of ad-hoc committees as needed. These committees review matters in accordance with their terms of reference and may refer issues to the Board with recommendations or make decisions within their delegated authority. Each committee's membership and terms of reference are reviewed annually.

- **Board Audit Committee:** The main function of the Audit Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes, and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.
- **Board Executive Committee:** The main function is to assist the Board in its determination and evaluation of the adequacy, efficiency, and appropriateness of the corporate governance structure and practices of the Bank.
- **Board Risk Management Committee:** The main function is to review the risk philosophy, strategy, and policies recommended by management and ensure compliance with such policies and with the overall risk profile of the Bank.
- **Board Human Resource Committee:** The main function is to determine, agree, and develop the company's general policy pertaining to Human Resources for executive, non-executive, and senior management.
- **Board Asset & Liability Committee:** The main function is to ensure that Asset/Liability of the Bank is managed to maximize shareholder value, enhance profitability and increase capital, and protect the Bank from any disastrous financial consequences arising from changes in interest rate risk.

4. Management Committees

Management Committees at EBUL support the Board in executing its responsibilities and are accountable through the respective Board committees. They assist in areas such as statutory reporting, internal controls, risk management, insurance, legal proceedings, and audit functions. These committees, supported by the Chief Executive Officer and Deputy Chief Executive Officer, do not relieve directors of their responsibilities. Key management committees include:

4.1. Executive Committee (EXCO)

Assists with strategic planning, implementation, capital allocation, and reporting on material risks to the Board.

4.2. Risk Management Committee (RMC)

Ensures enforcement of regulatory requirements and risk management policies across key risk areas.

4.3. Management Credit Committee (MCC)

Oversees credit risk management, including application approvals and compliance with credit limits and regulations.

4.4. Asset and Liability Committee (ALCO)

Manages the Bank's balance sheet, capital adequacy, and strategies related to interest rates, liquidity, and foreign exchange.

4.5. Information Technology Steering Committee

Oversees IT infrastructure, IT risks, and related projects.

4.6. Product Development Committee (PDC)

Manages products throughout their lifecycle, from development to maturity.

5. The Bank's Risk Universe

Risk Management at EBUL is an enterprise-wide concern, encompassing all levels of the organization and playing a crucial role in the execution of the Bank's strategic objectives. The concept of the Risk Universe at EBUL refers to the core risks central to the Bank's operations. This Risk Universe is reviewed annually to identify and address any new key enterprise risks that may arise. These significant risks require dedicated management efforts because they could materially impact the Bank's strategic goals. We continuously scan the environment for changes to ensure that the Risk Universe remains relevant and effectively managed from identification through to reporting.



EBUL is increasingly cognizant of the emergence of **Environmental, Social, and Governance (ESG)** and **climate-related risks** as critical components of the Bank's evolving risk landscape. Climate risk is recognized as a key emerging risk with both **physical and transition dimensions**. Physical risks may arise from climate-related events, including floods, droughts, and extreme weather, which can adversely affect clients' operations and asset values, particularly in sectors such as agriculture, energy, and infrastructure. Transition risks stem from the shift towards a low-carbon economy, including regulatory changes, evolving market preferences, and technological advancements.

In response, the Bank is progressively integrating ESG considerations into its **enterprise risk management framework**, credit risk assessments, and strategic decision-making processes. This includes strengthening due diligence on environmentally sensitive sectors, incorporating climate-related indicators into credit evaluations, and aligning with emerging regulatory expectations and global best practices. This proactive approach enhances the Bank's resilience while supporting sustainable financing initiatives.

5.1. Risk Categories

- **Credit Risk:** The potential for losses due to a borrower's failure to meet their obligations.
- **Liquidity Risk:** Risks associated with the Bank's ability to maintain sufficient funding.
- **Market Risk:** Risks arising from fluctuations in market variables such as interest rates, exchange rates, and equity prices.
- **Operational Risk:** Risks stemming from inadequate or failed internal processes, people, systems, or external events.
- **Strategic Risk:** Risks related to adverse effects on the Bank's strategic objectives.
- **Compliance Risk:** Risks arising from the Bank's failure to comply with relevant laws, regulations, and standards.
- **Cyber Security Risk:** The risk of potential loss, damage, or disruption to the bank's data, systems, or networks as a result of a cyberattack or security breach.
- **Reputational Risk:** This relates to the potential loss of the bank's brand credibility or public trust due to a negative event, e.g., a data breach, scandal, or poor handling of a situation.

- **Climate and ESG Risk:** Risks arising from environmental and social factors, including climate change impacts, regulatory transitions, and stakeholder expectations, which may affect asset quality, operational resilience, and long-term sustainability.

6. Risk Appetite

The concept of Risk Appetite at EBUL refers to the aggregate level of risk that the Bank is prepared to accept within its risk capacity to achieve its strategic goals and objectives as outlined in the business plan. Clearly articulating and managing the Bank's risk appetite is essential for effective risk management.

The Risk Appetite is proposed by Management and approved by the Board of Directors through the Board Risk Management Committee (BRMC). The Chief Executive Officer, supported by the Head of Risk and the Executive Management team, is responsible for implementing this Risk Appetite.

7. Stress Testing

At EBUL, stress testing is an integral management tool used to assess the sensitivity of the current and projected risk profile to various levels of risk. Stress testing plays a critical role in several business processes.

In line with evolving global practices, the Bank is also exploring integrating **climate scenario analysis** into its stress testing framework. This involves assessing the potential financial impact of climate-related events, such as prolonged droughts, supply chain disruptions, or shifts in environmental policies, on the Bank's portfolio, liquidity, and capital adequacy.

These forward-looking assessments enhance the Bank's ability to anticipate emerging risks and strengthen long-term resilience.



7.1. Business Processes supported by stress testing

- **Strategic and Financial Planning:** Assisting in the development and refinement of the Bank's budgeting processes.
- **Risk Appetite Setting:** Informing the creation of the Bank's risk appetite statement.
- **Internal Capital Adequacy Assessment Process (ICAAP):** Supporting capital planning, management, and buffer setting.
- **Internal Liquidity Adequacy Assessment Process (ILAAP):** Enhancing the Bank's liquidity management strategies.
- **Contingency Planning:** Facilitating the development of contingency plans, including recovery planning under stressed conditions.

7.2. Types of Stress Tests used at EBUL

- **Risk Type Stress Testing:** The most common type of stress testing we use, performed for individual risk types and taking the form of scenario or sensitivity analysis.
- **Reverse Stress Testing:** Identifies scenarios that would cause the Bank to fail or experience significant distress, working backward from a point of failure.
- **Integrated Stress Testing:** Combines various stress test types to evaluate the interplay between different risk factors and their cumulative impact on the Bank's overall stability.

8. Risk Reporting

EBUL employs a structured approach to risk reporting, which involves comprehensive and regular reporting mechanisms to ensure that risk information is effectively communicated to both the Board and senior management. Risk reports are generated on a monthly basis for Management and quarterly for the Board of Directors. This ensures that the Board can take a strategic approach to risk management while the Business units and branches handle the daily implementation of the Bank's risk strategies.

8.1. The Bank Risk Profile Report

Presented to the Board of Directors quarterly, includes a detailed reporting deck used in various Executive Management forums for ongoing deliberations on risk issues. This report assesses the Bank's performance and risk exposure by highlighting specific indicators that signal potential risks. It identifies key factors that could affect the Bank's objectives, providing critical insights into areas of concern. Key Risk Indicators (KRIs) are used as early-warning mechanisms to alert senior management and the Board of Directors about increasing risk exposures.

9. Risk Mitigation Strategies

The Bank employs a range of risk mitigation strategies to manage its exposure, including:

- **Diversification:** Spreading risk across various assets, sectors, and geographies to reduce concentration risk.
- **Insurance:** Purchasing insurance products to transfer certain risks, such as operational or cyber risks, to third parties.
- **Risk Reduction Techniques:** Implementing control measures and procedures to minimize risk impact, such as enhanced internal controls, regular audits, and compliance checks.
- **Risk Avoidance:** Adjusting or avoiding activities that present significant risk, such as steering clear of high-risk investments or markets that do not align with the Bank's risk appetite.

Exim Bank Uganda Ltd (EBUL) employs a comprehensive and dynamic approach to managing, hedging, and mitigating risks associated with its business model. By integrating robust risk management strategies, effective hedging techniques, and continuous monitoring processes, the Bank aims to protect its financial stability and achieve its strategic objectives.

In addition, the Bank recognizes that embedding ESG principles and climate risk considerations into its risk management framework is not only a regulatory expectation but also a strategic imperative. By aligning risk management practices with sustainability objectives, EBUL enhances its ability to create long-term value for stakeholders while contributing to broader environmental and social goals. The commitment to ongoing evaluation and improvement ensures that risk management practices remain effective and responsive to the evolving risk landscape.

10. This Report

This report outlines the disclosures made by Exim Bank Uganda Ltd (EBUL) in accordance with the Bank of Uganda's Pillar 3 Market Discipline: Guidelines on Disclosure Requirements.

