DIS02: Risk management approach

(1) The risk governance structure: responsibilities attributed throughout the SFI (eg oversight and delegation of authority; breakdown of responsibilities by type of risk, business unit etc); relationships between the structures involved in risk management processes (eg board of directors, executive management, separate risk committee, risk management structure, compliance function, internal audit function).

Diamond Trust Bank Uganda (DTBU) has a comprehensive risk management framework in place which is applied by the Board and Management across the Bank in strategy setting and identifying threats to the achievement of that strategy and manage the risks to be within the risk appetite. The Enterprise Risk Management Framework (ERMF) encompasses the scope of risks to be managed, the process/systems and procedures to manage those risks and the roles and responsibilities of individuals involved in risk management. The framework approved by the Board is comprehensive and captures the key risks the Bank is exposed to and provides flexibility to accommodate any change in business activities.

The Bank's Risk governance structure encompasses the following critical actors/elements:

a. Board
b. Board Committees
c. Board Management Committees
d. Risk and Compliance departments
e. Risk Champions
f. Compliance Champions

- The Board as the key decision making body sets out the general framework for the Bank's risk management by approving risk policies, including limits for exposure to the material risks and sets the culture and the tone for managing material risks in the bank.

- The application of a three lines of defence model, which provides independent, aligned and coordinated assurance in the risk and control environment across the bank and domiciles risk ownership with every member of staff: 1st line of defence - business process and control owners, 2nd Line - Risk and Compliance departments while the third line of defence is Internal Audit. The Risk Management function is headed by Head of Risk who independently reports to the Board through the Board Risk Management Committee (BRMC), and administratively to the Managing Director. The Compliance function is headed by the Head of Compliance who also reports to the Board Risk Management Committee (BRMC) through the Executive Director while the 3rd Line - Internal Audit Department provides an independent assurance to executive management and the Board on the adequacy of the risk management framework of the bank. The Head of Internal Audit reports directly to the Board Audit Committee (BAC). DTBU has adopted this structure as it reflects best practice in the market and delivers a comprehensive Risk Management Framework with clear roles and responsibilities in terms of the management of risk.

- The following briefly descibes the role of the Board, Board Management Committees and Management Committees.

Board of Directors: The Board of Directors oversee the Bank's business, strategic direction, policy formulation, organizational structure, and its activities. The Board delegates its mandate to the various Board Committees.

Board Committees: DTBU Board has fully constituted six committees to assist the Board in monitoring the effective implementation of the Policies, Processes and Procedures. It also reserves the right to establish ad-hoc committees as and when required. The committees review matters on behalf of the Board in accordance with their Board approved terms of reference. Following such review, the committees may thereafter either refer matters to the Board for decision, with a recommendation from the concerned committee, or determine matters within the authority delegated to them by the Board. The membership of the committees is designed to spread responsibility and make use of the diverse skill sets within the Board. The membership, as well as the terms of reference of each committee, is reviewed by the Board on an annual basis.

a) Board Risk Management Committee ("BRMC").

Its responsibilities include ensuring quality, integrity, effectiveness, and reliability of the Bank's risk management framework except for credit risk management which is reviewed by the BCC.It is also charged with setting out the nature, role, responsibility, and authority of the risk management function of the Bank and defines the scope of the risk management work and ensures that there are adequate risk policies and strategies in place to effectively identify, measure, monitor and appropriately mitigate the various risks which the Bank is exposed to from time to time.

b) Board Credit Committee ("BCC").

Its primary purpose is to oversee and monitor the credit function and the credit risk management framework of the Bank. The BCC also ensures that the overall credit framework is robust, professionally, and effectively managed for business growth and in compliance with internal policy and external and statutory regulations

c) Board Asset & Liability Committee ("BALCO").

The primary objective is to serve the financial interests of all the stakeholders of the Bank to the best of its abilities within the ambit of good corporate governance. This involves efficient and prudent management of the liabilities and assets of the Bank in a dynamic business environment. It also includes effective management of interest rate risk, liquidity risk, and currency exchange risk

d) Board Audit Committee ("BAC").

The committee is responsible for overseeing on behalf of, and providing advice to, the Board on the adequacy and effectiveness of the Bank's internal control environment including operational, integrity, compliance, and risk management framework. The committee also reviews the Bank's financial position and make recommendations to the Board on all financial matters, risks, internal financial controls, fraud, and IT risks relevant to financial reporting. This includes assessing the integrity and effectiveness of accounting, financial compliance, and control systems. The committee has a constructive relationship with the Head Internal Audit, who has access to the committee members as required.

e) Board Innovation and Technology Committee ("BITC").

Its responsibilities is to assist the Board provide oversight over IT, to ensure value delivery, risk optimization and resource optimization. The BITC provides a more focused board oversight to ensure the alignment of the IT and business strategy & product innovation as well as IT services to the business requirements. The BITC is one of the most important elements in the IT governance decision mechanism framework. It has overall responsibility for recommendations and decisions regarding IT priorities, funding and other IT requirements. The BITC provides strategic direction for IT across the business.

f) Board Compensation Committee ("BCOMC").

It's responsibilities include proposing new nominees to the Board, evaluate and consider the candidates for directorship, annual review the mix of skills and expertise that the executive and non-executive Directors bring to the Board and make recommendation to Board for noting and or action if needed, assess the performance and effectiveness of the Board as a whole, of the committees of the Board as well as of each individual director.

DTBU approach to risk management is to establish and operate three lines of defence. - Which A strong risk governance structure at the

Management Committees

The role of the management committees is to assist the Board in exercising its authority in relation to the matters set out in the respective terms of reference. The management committees are accountable to the Board through the respective Board committees. The management committee's work is supported by the Managing Director (MD) and his or her nominee, principally the Executive director. The purpose of the management committees is to assist the Board committees in the effective discharge of their responsibilities in the areas of statutory reporting, internal control systems, risk management systems, insurance and legal proceedings, and the internal and external audit functions. The management committees do not relieve any directors of their responsibilities for these matters. The review, approval and advisory roles are as expressly delegated and authorised in line with the Board approved terms of reference. The following management committees support the CEO/MD and Board in the operations of the Bank:

a) Executive Committee (EXCO).

Reports to the Board and assist with strategy planning, implementation, monitoring and reporting, capital allocations proposals on material ventures, strategic projects, and any other new business lines. EXCO also reports to BRMC on the material strategic risks facing the Bank.

b) Business Development Management Committee (BDMC)

- Its responsibilities include formulating and implementing the Bank's business strategies and recommend ways to grow the Bank's business, evaluate the Bank's business model(s) and strategies and recommend ways and means of realizing its full potential using such tools as marketing, sales, information management and customer service, evaluate the Bank's performance in the sales of its various products and services against the projected targets and ensure that the Bank makes maximum leverage of existing business contacts and client base to ensure that it builds a sustainable pipeline of potential customers.

c) Risk Management & Compliance Committee (RMCC).

The RMCC ensures that all regulatory requirements, Risk Management Guidelines, Prudential Guidelines, Policies and Procedures are adequately enforced across the key risk areas and managing the various risk categories across the Bank.

d) Management Credit Committee (MCC).

It assists in the oversight of the Credit risk management framework, review and approval of credit applications, credit strategy, policies, procedures, monitoring, reporting and that the lending operations are in line with the board approved limits and regulatory requirements.

e) Asset and Liability Committee (ALCO).

It has an oversight on the overall management and monitoring of the Bank's balance sheet development and capital adequacy. The committee drives the strategy in terms of mix of assets and liabilities given its expectation of the future and potential consequences of interest-rate movements, liquidity constraints, foreign exchanges, and capital adequacy. The committee ensures that all strategies conform to the Bank's risk appetite and levels of exposure as determined by the BOD

f) Human Resources Management Committee (HRMC).

To review and recommend appropriate actions in respect of HR policies regarding staff incentives, remuneration, compensation and benefits, promotions, recruitment, training and development, staff appraisal and any other strategic HR functions requiring major policy decisions that will ensure overall efficient management of HR functions at the Bank, ensure that the HR policy issues relating to operations of the Bank are regularly reviewed and appropriate recommendations made Board and overall implementation and continuous review of the Bank's HR strategy.

g) Product development and Innovation Committee (PDIC).

Its responsibilities include to develop, set up and create new , review the set up procedures, data base, systems enhancements and promotions of new product innovations, review of product portfolio against balance sheet growth, revenue targets, profitability and risk parameters, discontinuation of products, allocation of resources towards product development and innovation which include constituting cross functional product development & implementation teams, review the framework regularly to ensure that the bank is managing the operational risks arising from external market changes and other environmental factors, as well as those operational risks associated with new products and take decisions to intervene on the progress on products under development, work as a platform to discuss new developments, issues and obstacles to launch and market new products.

h) Sustainability Committee (SUSCO).

The Sustainability Management Committee is established for the purpose of assisting the Board of Directors in fulfilling its oversight responsibilities with respect to the implementation and development of the DTB's ESG Strategy. This Committee derives its authority from and shall be responsible to the Board of Directors under the overall supervision of the Managing Director

i) Customer Service Committee(CSC).

The Customer Service Committee is established to oversee and ensure effective customer service delivery, driving continuous improvement and alignment to the Bank's overall strategic objectives.

The following sub-committees support RMCC and BRMC in the operations of the Bank:

a. IT and Cyber Security (ITSCS).
b. Operations committee (OPCO)
c. Outsourcing sub-committee (OSC).
d. AML/CFT-committee "

(2) Channels to communicate, decline and enforce the risk culture within the SFI (eg code of conduct; manuals containing operating limits or procedures to treat violations or breaches of risk thresholds; procedures to raise and share risk issues between business lines and risk functions).

The Risk Management Framework formalizes and communicates the Bank's overall approach to Risk Management and standardizes and ensures consistency of the risk management process across the Bank. The Policy codifies the core governing principles for risk management and provides a framework to identify, assess, measure, monitor, report and control risks in the Bank in a consistent manner.

The Board, senior management, and employees must understand the Bank's approach to risks and take personal responsibility to manage risks in everything they do and encourage others to follow their example. The Board and management shall encourage employees to make the right risk-related decisions and exhibit appropriate risk management behavior by aligning its management systems and behavioral norms.

The Board and Management strive to create an effective risk culture that requires the Board, management and employees to focus on the Bank's written rules that clearly define risk management objectives and priorities and by looking at any informal rules, protocols, the way workflows are performed, how decisions are made, and the link to the Bank's compensation practices.

The Board and Management appreciate that informal rules, practices and procedures play a strong influence in guiding people's behavior. In doing this, Board members and senior management are responsible for setting the right tone at the top and for cultivating a Bank-wide awareness of risks that fosters risk intelligent behavior at all levels of the bank.

The Board has the ultimate accountability for risk management. This is done by setting policies that are then implemented by the management.

The Board and Management encourage risk intelligence culture, which is the ability of the bank and its employees to distinguish between two types of the risks that should be managed to prevent loss or harm; and the risks that must be taken to gain competitive advantage. In doing this, the Board and management are responsible not just for setting the right "tone at the top," but also for cultivating an enterprise-wide awareness of risks at all levels of the bank. It provides the bank with the ability to translate risk insights into superior judgment and practical action to improve resilience to adversity as well as improve agility to seize opportunities.

The Bank applies risk policies to ensure sustainable business growth and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the Bank has establish a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues. The specific objectives of the Risk Management Policies are:

1. To actualize the risk management framework. To underpin the Bank's approach that risk management is an integral part of the management function in the Bank and, as such, is the clear responsibility of management. Line managers have the responsibility to evaluate their risk environment, ensure they have in place appropriate controls and to monitor the effectiveness of these controls. This process is supplemented with a review of key enterprise risks by the respective Board committees.

2. To ensure protection of shareholder value through the establishment of an integrated Risk Management Framework for identifying, assessing, mitigating, monitoring, evaluating and reporting of all risks.

3. To ensure that all the current and future material risk exposures of the Bank are identified, assessed, quantified, appropriately mitigated and managed.

4. To actualize the risk management framework.

5. To enable compliance with appropriate regulations, wherever applicable, through adoption of best practices.

6. To ensure that all staff are aware of their responsibility for the effective management of risk and for identifying potential risks.

7. To ensure that management develops risk mitigation plans and implements risk reduction strategies.

8. To ensure that the risk management process is integrated with other planning processes and management activities.

9. To provide a clear and strong basis for informed decision-making at all levels of the Bank.

10. To clearly delineate accountability and lines of authority across the Bank's activities.

11. To provide for review of activities new to the Bank to ensure that infrastructures necessary to identify, monitor, and control risks associated with an activity are in place before the activity is initiated.

The Bank identifies, assesses and manages risk at both an enterprise ('top-down') and business ('bottom-up') level. This process covers the full spectrum of risks including strategic, , market, credit, operational and compliance risks. This approach aims to achieve the proper identification and oversight of all the risks the Bank faces.

(3) Description of the process of risk information reporting provided to the board and senior management, in particular the scope and main content of reporting on risk exposure.

The Bank has established processes for risk reporting to the Board and senior management and mechanisms for whistleblowing are also enforced and encouraged within the bank.

The Risk Management Function of the bank is charged with the responsibility of independent Identification, assessment, meaurement, monitoring and reporting on the Bank's material risks. Material risks are those risks considered to have the potential to significantly adversely impact the Bank's financial performance and Capital position in the event that they crystallize. The bank has identified the following material risks that it reporetd on periodically: Credit risk, Market risk, Operational Risk, IT and Cyber Security risk, Legal risk, liquidity risk, reuptational risk, strategic risk, credit concentration risk, compliance & regulatory risk, Business Continuity Management risk and Country and cross border risks. These risks are reported to management on monthly basis through the various management committees and to the Board through the aforementioned Board committees.

(4) Qualitative information on stress testing (eg portfolios subject to stress testing, scenarios adopted and methodologies used, and use of stress testing in risk management).

Recognising stress test is an important tool to identify and quantify some of the risks that a bank faces and more importantly to assure the stakeholders and the regulators of the soundness of its business plans. The bank undertakes various levels of stress testing to test the resilience of the bank's capital and financial performance to unforeseen adverse business shocks.

Stress testing is a tool that supplements other risk management approaches and measures.

It plays a particularly important role in:

- Providing forward-looking assessments of risk.
- Feeding into capital and liquidity planning procedures.
- Informing the setting of a banks' risk tolerance; and
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions

The Bank's Stress Testing Framework is comprehensive and provides for identification, quantification, and reporting of all the material risks. It has established internal capital adequacy goals and a process for internal control, review and audits. The Bank's Board Risk Management Committee (BRMC) is responsible for evaluation of the Bank's tolerance for risk (risk appetite) and that the risk appetite statements are in place for all material risks identified and are stressed for any eventualities, Stress Test Framework appropriate to the Bank's risk profile, business plan, current and future capital needs. Risk Management & Finance departments are responsible for execution of the ICAAP and ILAAP.

Management will analyze and interpret the results of the various stress tests, specifically the impact on Profitability, Risk-weighted assets, Liquidity, Capital and Provisions and convey the outcomes and any appropriate actions required to respective Board committees. The Bank's stress test scenarios are reviewed on annual basis due to the changing business environment, and the Board has the ultimate authority for approving these scenarios.

The Bank has a stress testing program that is reviewed and approved by the Board on an annual basis in line with the ever changing risk landscape. The bank conducts Stress testing on the following material risks: Credit risk, Market risk, Operational Risk, Liquidity risk, Strategic risk and Credit Concentration risk.

(5) The strategies and processes to manage, hedge and mitigate risks that arise from the SFI's business model and the processes for monitoring the continuing effectiveness of hedges and mitigants.

The bank uses a multifacet approach and strategies to manage and mitigate risks: The DTBU's approach to Risk Management include:

Avoid/Terminate: This happens if management establishes that the level of risk falls outside the acceptable risk tolerance limits, a decision may be taken to terminate the activity. An example is the decision that the Bank discontinue certain business lines such as nested relationships or dealing with certain high-risk businesses such as casinos, gambling and betting.

Transfer: This happens in cases where practicable to transfer the risk to another party for example in the case of outsourcing the Cash in Transit (CIT) and cash management services to a 3rd party service provider like SGA, who also bears the regulatory penalty in case of any differences occasioned by loss of cash or improper packaging. Another example is the fiduciary insurance cover taken to cover activities / decisions by officers of the bank that could result to errors and omission. Insurance cover is also taken to cover burglary, fraud etc. with a view to mitigate the loss to acceptable levels

Treat/Manage: This involves use of risk treatment strategies. The Bank has employed treatment strategies such as automation of the processes end to end where possible in order to remove/limit the human intervention.

Accept/Tolerate: This approach applies to certain activities of the Bank related to the product, process or service for which the risk cannot be completely eliminated, nor can it be insured. Examples of such risk are system down time. The Bank can manage the risk to an extent by creating redundancies by having more than one service provider to fall back on. However, the risk cannot be 100% eliminated for example if all technology service providers were impacted due to a nationwide blackout.

In addition to the above strategies, the bank has implemenetd the following controls to effectively mitigate the risk exposures: Top level reviews (Board and SLT Reviews); Policies, Procedures and Processes, Board approved Limits/thresholds, Segregation of duties, Approvals and Authorization, Maker/Checker controls, Verifications and Reconciliations, Performance analysis against target/Budget, Physical access controls (Use of Biometric access to sensitive areas,