OPPORTUNITY BANK

Pillar 3 Market Discipline
Q4 2024

RISK MANAGEMENT APPROACH

Overview: Opportunity Bank Uganda Limited remains committed to creation, realization, and preservation of shareholder value by developing and growing its business within the board determined risk appetite and interests of all stakeholders. This commitment is realized through enforcement of the Bank's Risk Management Framework which is the totality of systems, structures, policies, processes and people within the Bank that identify, measure, monitor, report and control or mitigate internal and external sources of material risk. The bank's approach to risk management is based on governance processes that rely on both individual responsibility and collective oversight as defined by the Bank's Risk Governance Standards, Policies and Procedures.

Risk Governance Standards, Policies and Procedures: The bank has a set of approved policies and procedures that clearly stipulate governance standards for each major risk type to which it is exposed. The standards are set out to ensure process alignment and consistency and ensure risks are proactively identified, appropriately managed, timely reported and effectively monitored across the Bank's risk governance structure

Risk Governance Structure: The Bank has a sound risk governance structure comprising of a strong independent Board of Directors (BOD) that provides oversight and direction over risk management activities, a senior management team to implement and execute risk management activities, monitor and report material risks to Board, and staff whose roles are aligned to their position and level of risk awareness. The BOD and Senior Management exercise their mandate through various committees that sit regularly to address key risk issues. Board Committees sit on a quarterly basis and in some cases ad hoc sessions are held with management to attend to evaluate and assess key risks which the bank is exposed to and assess the effectiveness of risk responses. The assumption of risk in the Bank is made within a calculated and controlled framework that assigns clear risk roles and responsibilities represented by 'three lines of defense' where each of the three "lines" plays a distinct role in managing risk. The primary responsibility for risk management lies at the first line which comprises of the frontline business units and the support functions. The first line is required to ensure that risks are managed appropriately during pursuit of business targets. The Risk Management and Compliance functions form the second line of defense and are responsible for coordinating and supporting the Bank's risk and compliance processes and systems in accordance with the bank's Risk Management Program. The third line, which includes Internal Audit, independently reviews and challenges the Bank's risk management processes and systems. Risk management issues that arise are escalated through the Bank's risk governance structure to ensure that they are resolved appropriately or attain sufficient visibility at the highest level of institutional leadership. The Board and Senior management ensure that the risk management processes, and framework are appropriate for the bank risk profile and business plan.

Risk Appetite Statement: The bank has a risk appetite statement (RAS) that outlines the level of risk that can be taken in pursuit of shareholder value. The RAS is approved and reviewed quarterly by the Board. This RAS outlines the maximum risk exposure that the bank will accept taking into account its resource availability and stewardship responsibilities towards relevant stakeholders (clients, donors, regulators, general public.). The Board establishes quantitative measure for risk appetite when providing strategic leadership and guidance; reviewing and approving annual budgets and forecasts, under both normal and stressed conditions for the bank; and when reviewing and monitoring the bank's risk performance through quarterly board reports. These quantitative measures for risk appetite are referred to as risk limits and they measure the Bank's aggregate risk appetite based on forward looking assumptions (e.g. measure of loss or negative events to business lines, specific risk types, concentrations, and as appropriate, other levels). To protect the Bank's reputation and operate in a sustainable manner, the Board sets and ensures observation of risk limits that are more stringent than the minimum regulations prescribed by the Bank of Uganda. The Board may allow low to medium risk limit breaches to persist for short periods of time as management implements appropriate remedial action. Above average and high-risk limit breaches are deemed above the Bank's risk tolerance levels and shall attract both Senior Management and Boards concerted effort to reduce the risk position to tolerable levels unless condoned by the Board

Risk Categories: Key risk categories assessed regularly by the Bank include, but are not limited to; Governance, Strategic Risk, Operational Risk, Credit Risk, Compliance Risk, Capital/Funding Risk, Market Risk (majorly Interest Rate and Foreign Exchange Risks), Cyber and Technology Risk, Project Management Risk, Reputational Risk, Liquidity Risk, Concentration Risk, Transformation Risk (Environmental Management and Social Performance Risk) and Financial Reporting Risk.

Stress Testing: The Bank conducts regular stress tests based on internally defined baseline, adverse and more severe economic downturn scenarios. The stress tests are conducted at least quarterly. The stress test exercise includes all material risk types. The time-horizon of the stress tests is generally one year and can be extended to multi-year, if required by the scenario assumptions. The bank has integrated stress testing procedures that guides the stress testing process of the bank. The stress tests are conducted to evaluate whether existing financial (such as capital and liquidity) and operational (such as staffing and internal systems) resources are sufficient to withstand unexpected risk events. Senior Management and the Board review outcomes of stress tests and selects appropriate mitigating actions to minimize and manage the potential impact of risk events to the bank.