



**UGAFODE MICROFINANCE LIMITED (MDI)**

**PILLAR 3 MARKET DISCIPLINE DISCLOSURES REPORT FOR THE PERIOD ENDED 31<sup>ST</sup>  
DECEMBER 2024**

## **The Report**

Disclosures in this report are made in accordance with the Bank of Uganda Pillar 3 Market Discipline guidelines on disclosures.

The information provided in this report has not been reviewed by UGAFODE's external auditors.

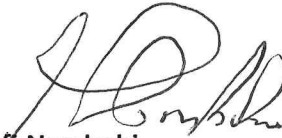
All amounts are in shilling thousands unless otherwise stated.

## **Board Attestation**

The Board attests that the Pillar 3 Market Discipline Disclosure Reports for Quarter 4 2024 have been prepared in accordance with the Board-agreed internal control processes.



**Ruth Doreen Mutebe**  
Board Chairperson



**Shafi Nambobi**  
Chief Executive Officer

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## 1.0 DIS01: KEY PRUDENTIAL METRICS

The following key prudential regulatory metrics are shown in the table below.

|   | Ushs ("000")   | Dec-24      | Sep-24      | Jun-24      | Mar-24      | Dec-23      |
|---|--|-------------|-------------|-------------|-------------|-------------|
| <b>Available capital (amounts)</b>                        |  |             |             |             |             |             |
| 1   | Core capital   | 26,287,465  | 25,346,500  | 24,513,277  | 23,667,841  | 20,624,151  |
| 2   | Supplementary capital  | 1,956,775   | 1,864,897   | 1,825,783   | 1,799,288   | 1,763,586   |
| 3   | Total capital  | 28,244,241  | 27,211,397  | 26,339,059  | 25,467,129  | 22,387,737  |
| <b>Risk-weighted assets (amounts)</b>                     |  |             |             |             |             |             |
| 4   | Total risk-weighted assets (RWA)   | 156,551,691 | 146,585,725 | 143,946,953 | 139,014,545 | 133,378,867 |
| <b>Risk-based capital ratios as a percentage of RWA</b>   |  |             |             |             |             |             |
| 5   | Core capital ratio (%)   | 17%         | 17%         | 17%         | 17%         | 17%         |
| 6   | Total capital ratio (%)  | 18%         | 19%         | 18%         | 18%         | 18%         |
| <b>Capital buffer requirements as a percentage of RWA</b> |  |             |             |             |             |             |
| 7   | Capital conservation buffer requirement (2.5%)                                   | 2.5%        | 2.5%        | 2.5%        | 2.5%        | 2.5%        |
| 8   | Countercyclical buffer requirement (%)   | 0.0%        | 0.0%        | 0.0%        | 0.0%        | 0.0%        |
| 9   | Systemic buffer (for DSIBs) (%)  | 0.0%        | 0.0%        | 0.0%        | 0.0%        | 0.0%        |
| 10  | Total of capital buffer requirements (%)<br>(row 7 + row 8 + row 9)              | 2.5%        | 2.5%        | 2.5%        | 2.5%        | 2.5%        |
| 11  | Core capital available after meeting the bank's minimum capital requirements (%) | -1%         | 0%          | 0%          | 0%          | 0%          |
| <b>Basel III leverage ratio</b>                           |  |             |             |             |             |             |
| 13  | Total Basel III leverage ratio exposure measure                                  | 144,534,484 | 138,363,537 | 136,212,625 | 132,817,642 | 127,684,729 |
| 14  | Basel III leverage ratio (%)<br>(row 1 / row 13)                                 | 18%         | 18%         | 18%         | 18%         | 16%         |
| <b>Liquidity Coverage Ratio</b>                           |  |             |             |             |             |             |
| 15  | Total high-quality liquid assets (HQLA)  | 4,954,487   | 4,833,885   | 8,293,372   | 6,327,519   | 5,780,208   |
| 16  | Total net cash outflow   | 1,734,046   | 2,413,830   | 5,469,257   | 11,482,682  | 9,088,911   |
| 17  | LCR (%)  | 286%        | 200%        | 152%        | 55%         | 64%         |
| <b>Net Stable Funding Ratio</b>                           |  |             |             |             |             |             |
| 18  | Total available stable funding   | 101,588,278 | 94,617,973  | 93,613,147  | 93,021,874  | 87,908,795  |
| 19  | Total required stable funding  | 120,959,435 | 111,731,401 | 107,847,728 | 104,903,544 | 87,350,868  |
| 20  | NSFR   | 84%         | 85%         | 87%         | 89%         | 101%        |

## 2.0 DIS02: RISK MANAGEMENT APPROACH

### 2.1 Overview

To ensure prudent management of its risks alongside agile financial performance, UGAFODE has maintained and implemented a robust Enterprise Risk Management framework (ERMF) approved by the Board of Directors, for the identification, measurement, monitoring, management, control, and reporting of potential risks that the organization faces or which it is likely to face in future.

### 2.2 Key Risk Exposures to UGAFODE

Highlighted below are the key risks that UGAFODE is exposed to which are monitored periodically in order to manage any potential impact they may pose to the institution's strategy. The key risks monitored by UGAFODE are listed below;

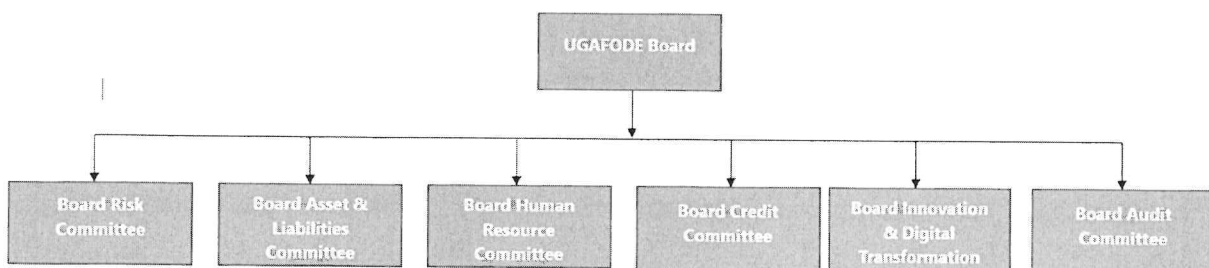
- Operational Risk
- Credit Risk
- Liquidity risk
- Strategic Risk
- Compliance Risk
- Market Risk
- Reputational Risk
- Cyber security Risk
- Third party risk
- Environmental Social and Governance Risk

### 2.3 Risk Management Framework

UGAFODE Microfinance Ltd has a proactive approach to risk management and endeavors to develop and maintain a healthy business portfolio within the defined risk appetite and regulatory framework. The risk management framework is designed to identify key risks, measure, mitigate and monitor them effectively to achieve an appropriate trade-off between risks and returns and thus enhance shareholder value. In the process, an integrated and coordinated approach is followed to build a risk culture with the active involvement of the risk owners and other stakeholders including the Board.

#### 2.3.1 Risk Management Governance Structure

The ultimate responsibility for risk management at UGAFODE Microfinance rests with the Board of Directors (the 'Board'). The board and executive management ensure that the risk management framework is suitable for the institution's risk profile and business plan. Issues arising from risk exposures are escalated through the existing governance structure to ensure that they are resolved by the respective stakeholders or attain sufficient attention at the level of the executive and Board committees.



#### **a) Board Roles and Responsibilities**

- i. Approve the risk appetite, the risk management strategy and framework.
- ii. Approve the strategy and business objectives, monitor implementation and performance periodically.
- iii. Review and approve annual budgets and business plans with overall strategy.
- iv. Monitor performance on a regular basis and review the strategic objectives agreed with management.
- v. Ensure the integrity of the MDI's accounting and financial reporting systems, including the independent audit.
- vi. Ensure that appropriate systems are in place for monitoring risk, financial control and compliance with relevant regulations.
- vii. Select, compensate, monitor and oversee succession planning, and when necessary, replace key executives.
- viii. Perform all statutory roles as required by law.
- ix. Establish Board Committees to make recommendations and take decisions on behalf of the Board on matters that may arise outside the normal meeting schedule of the full Board.
- x. Ratify duly approved recommendations and decisions of the Board Committees.

#### **2.3.2 The 3 Lines of Defense**

UGAFODE Microfinance Ltd has adopted the three lines of defense model to achieve an effective governance of risk.

##### **a) First Line of Defense**

The front office employees are primarily responsible for identifying and managing risks in their respective business areas. The Board and Senior Management have approved policies and procedures to assist them in active risk management and periodic reporting on risks. The risk framework enables management to make the best use of early warning indicators to identify, evaluate and respond quickly by initiating remedial actions.

##### **b) Second Line of defense**

The second line of defense, consisting of the Risk and Compliance functions, is responsible for reviewing policies, setting direction, introducing best practices, guiding implementation, and monitoring their proper execution.

The Risk function is responsible for facilitating the development, implementation and embedding of processes whereby management identifies, assesses, monitors, controls and mitigates the risks in the business. Its main roles are to assist in the development of appropriate policies and procedures, and it will monitor and oversee all risk exposures.

The Compliance function is charged on a continuing basis to develop, enhance, and actively encourage high standards of compliance within UGAFODE Microfinance Ltd, provide compliance and legal advice

as required for the business, and monitor compliance by the business with the agreed policies and procedures and applicable laws and regulations.

### **c) Third Line of defense**

The Internal Audit function provides independent and objective assurance on the operations of UGAFODE Microfinance Ltd to the Board Audit Committee on the internal controls, risk management and governance processes. Additionally, the Internal Audit carries out an annual audit and provides another layer of assurance to the Board and senior management.

#### **2.3.3 Risk Appetite**

UGAFODE Microfinance Limited has a proactive approach to risk management; the Risk Appetite Statement ("RAS") defines the amount and type of risk that the institution is willing to take to meet its strategic objectives. The Board is required to approve the risk appetite statement along with the associated parameters (limits and tolerances) against which the institution monitors its risks.

This enhanced RAS is based upon our existing activities, and the overall risk appetite is derived from the institution's strategy. UGAFODE MDI recognizes that losses are an inevitable consequence of doing business, and the objective of the RAS is to clearly define what risks the bank is willing to bear to achieve its goals. To this end, risk management seeks to support the bank's desire for sustained diversified growth through the efficient deployment of funds in products, sectors and customer segments that we understand, ultimately leading to healthy returns commensurate with the risks taken.

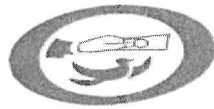
#### **2.3.4 Stress Testing**

UGAFODE MDI implements a stress testing framework that is aligned with the revised Bank of Uganda Risk Management Guidelines (RMG) for all Supervised Institutions, 2010 that requires all Supervised Financial Institutions to conduct and report their stress testing results to Board and Senior Management on a regular basis.

In developing scenarios for stress testing, UGAFODE MDI considers its strategies and positions as well as tailoring to type of risk relevant to its business. Possible stressful conditions include changes in market interest rates, changes in liquidity, key assumptions, or parameter breakdowns such as changes in business strategies, nature calamities such as floods, COVID 19 etc. A review of the stress test framework is done annually based on significant changes to the institution's business operations.

Upon identifying a portfolio's key financial drivers, a set of economic scenarios are generated in which these drivers are stressed beyond normal risk standards. For event-driven approach, stress scenarios are based on exceptional but plausible events and the analysis addresses how these events might affect the risk factors relevant to a portfolio.

The scope of the stress tests is limited to simple sensitivity analysis and scenario analysis due to its less technically demanding approach in terms of sophistication of the institution in terms of product lines, geographical regions, and primary historical data.



### 3.0 DIS03: OVERVIEW OF RWA

The table below is an overview of RWA and Minimum Capital Requirements

|   |  | RWA         |             | Minimum capital requirements |
|---|--|-------------|-------------|------------------------------|
|   |  | Dec-24      | Sep-24      | Dec-24                       |
| 1 | Credit risk (excluding counterparty credit risk) | 114,605,437 | 120,189,123 | 22,921,087                   |
| 2 | Counterparty credit risk (CCR)                   | 13,951,034  | 0           | 2,790,207                    |
| 3 | Market risk                                      | 0           | 0           |                              |
| 4 | Operational risk                                 | 27,995,219  | 26,396,602  | 3,360,771                    |
| 5 | Total (1 + 2 + 3 + 4)                            | 156,551,691 | 146,585,725 | 29,072,065                   |

### 4.0 DIS04: COMPOSITION OF REGULATORY CAPITAL

The institution has not disclosed this information on account of unpublished information, until the official release of the audited financial results.

### 5.0 DIS05: ASSET QUALITY

The credit quality of UGAFODE Microfinance Ltd is reflected below through the disclosure of the gross carrying values of both defaulted and non-defaulted exposures as well as provisions and interest in suspense.

|   |                             | Gross carrying values of |                         | Provisions as per FIA2004/MDIA2003 |                  | Interest in suspense | Net values (FIA/MDIA) (a+b-d-e) |
|---|-----------------------------|--------------------------|-------------------------|------------------------------------|------------------|----------------------|---------------------------------|
|   |                             | Defaulted exposures      | Non-defaulted exposures | Specific                           | General          |                      |                                 |
| 1 | Loans and advances          | 2,144,884                | 115,055,925             | 2,683,578                          | 1,084,036        | 367,391              | 113,433,195                     |
| 2 | Debt Securities             | 0                        | 0                       | 0                                  | 0                | 0                    | 0                               |
| 3 | Off-balance sheet exposures | 0                        | 0                       | 0                                  | 0                | 0                    | 0                               |
| 4 | <b>Total</b>                | <b>2,144,884</b>         | <b>115,055,925</b>      | <b>2,683,578</b>                   | <b>1,084,036</b> | <b>367,391</b>       | <b>113,433,195</b>              |



**6.0 DIS06: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES**

This section provides a breakdown for the changes in stock of defaulted loans and debt securities.

|   |  | Dec-24           |
|---|--|------------------|
| 1 | <b>Defaulted loans &amp; advances, debt securities and off balance sheet exposures at end of the previous reporting period</b>       | <b>2,039,862</b> |
| 2 | Loans and debt securities that have defaulted since the last reporting period  | 1,740,821        |
| 3 | Returned to non-defaulted status   | 336,481          |
| 4 | Amounts written off  | 1,299,318        |
| 5 | Other changes  | 0                |
| 6 | <b>Defaulted loans &amp; advances, debt securities and off balance sheet exposures at end of the reporting period</b><br>(1+2-3-4+5) | <b>2,144,884</b> |

**7.0 DIS07: QUALITATIVE DISCLOSURE ON SFIS' USE OF EXTERNAL CREDIT RATINGS UNDER THE STANDARDISED APPROACH FOR CREDIT RISK**

The institution does not use external credit ratings in any way for Credit risk management.

