

UGAFODE MICROFINANCE LIMITED (MDI)

**PILLAR 3 MARKET DISCIPLINE DISCLOSURES REPORT FOR THE PERIOD ENDED 31ST
DECEMBER 2025**

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 Report for the period ended 31 December 2025 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.

Frequency: Quarterly.						
	Ushs ("000")	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
Available capital (amounts)						
1	Core capital	30,833,212	30,617,845	30,252,745	29,533,920	26,287,465
2	Supplementary capital	2,147,038	2,046,310	1,971,027	1,968,754	1,956,775
3	Total capital	32,980,250	32,664,155	32,223,772	31,502,674	28,244,241
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	149,043,658	139,606,700	132,779,111	157,726,764	156,551,691
Risk-based capital ratios as a percentage of RWA						
5	Core capital ratio (%)	21%	22%	23%	19%	17%
6	Total capital ratio (%)	22%	23%	24%	20%	18%
Capital buffer requirements as a percentage of RWA						
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 (%) (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 (%)	3%	4%	5%	1%	-1%
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	170,101,144	165,008,152	157,144,009	144,323,815	144,534,484
14	Basel III leverage ratio (%) (row 1 / row 13)	18%	19%	19%	20%	18%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA)	5,656,761	6,397,706	9,276,625	7,530,974	4,954,487
16	Total net cash outflow	1,938,374	1,480,131	778,528	3,326,621	1,734,046
17	LCR (%)	292%	432%	1192%	226%	286%
Net Stable Funding Ratio						
18	Total available stable funding	107,737,823	106,763,926	99,383,604	86,396,261	101,588,278
19	Total required stable funding	52,261,748	48,086,244	44,531,869	123,240,957	120,959,435
20	NSFR	206%	222%	223%	70%	84%

2.0 DIS02: RISK MANAGEMENT APPROACH

2.1 Overview

To ensure prudent management of its risks alongside agile financial performance, UGAFODE Microfinance Limited (MDI) has established a comprehensive risk management framework designed to identify, measure, monitor, and control material risks arising from its activities. The framework is aligned with the institution's strategic objectives, risk appetite, and applicable regulatory requirements, and is reviewed regularly to ensure its ongoing effectiveness.

Risk management is embedded across all levels of the organization through clearly defined governance structures, policies, and procedures. The Board of Directors has overall responsibility for risk oversight and approves the risk appetite framework, while senior management is responsible for implementing risk management policies and ensuring adherence across business units.

Material risks, including credit, market, liquidity, operational, and other relevant risks—are managed through standardized methodologies, limits, and internal controls. Independent risk management and compliance functions provide oversight, monitoring, and reporting, ensuring appropriate segregation of duties. Regular risk reporting enables timely escalation of issues and supports informed decision-making.

The institution continuously enhances its risk management practices to reflect changes in the operating environment, regulatory expectations, and business activities.

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;

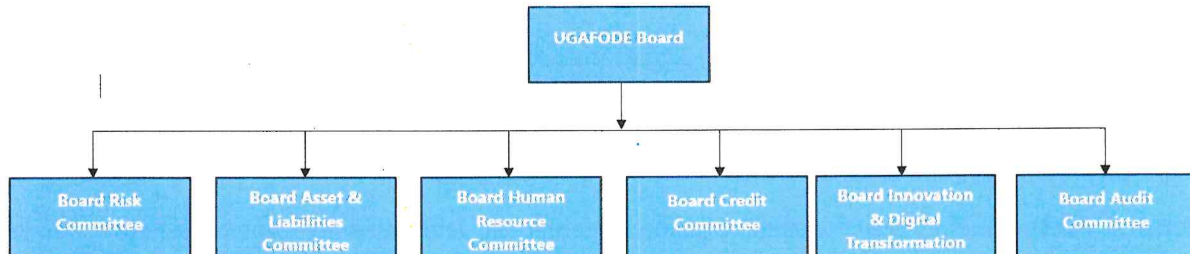
- Operational risk
- Credit risk
- Liquidity risk
- Strategic risk
- Compliance risk
- Market risk
- Reputational risk
- Cyber security risk
- Third party risk
- Environmental Social and Governance Risk

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 ensure effective risk management, governance, and internal control.

a) First Line of Defense

The first line of defense is responsible for the identification, assessment, management, and mitigation of risks arising from day-to-day business activities. This includes operating within approved risk appetite limits,

implementing internal controls, and ensuring that risk considerations are embedded in business decisions. Management is accountable for maintaining effective processes and for timely escalation of risk issues.

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. It supports the development of appropriate policies and procedures, monitors and oversees 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 advice as required for the business, and monitor compliance by the business with the agreed policies, procedures, applicable laws and regulations.

c) Third Line of defense

The Internal Audit function provides independent and objective assurance to the Board and senior management on the effectiveness of the institution's governance, risk management, and internal control frameworks. Through a risk-based audit approach, Internal Audit evaluates the design and operating effectiveness of controls across all lines of defense and reports findings and recommendations independently.

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 approves 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. The Institution recognizes that losses are an inevitable consequence of doing business, and the objective of the RAS is to clearly define what risks it is willing to bear to achieve its goals. To this end, risk management seeks to support the Institution'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 Microfinance Ltd 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, the Institution 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, natural calamities such as floods, pandemics 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

Frequency: Quarterly.		a	b	c
		RWA		Minimum capital requirements
		Dec-25	Sep-25	Dec-25
1	Credit risk (excluding counterparty credit risk)	134,076,908	123,605,134	26,815,382
2	Counterparty credit risk (CCR)	3,914,554	4,692,603	782,911
3	Market risk	0	0	
4	Operational risk	33,236,966	31,632,993	3,990,032
5	Total (1 + 2 + 3 + 4)	171,228,428	159,930,730	31,588,324

4.0 DIS04: COMPOSITION OF REGULATORY CAPITAL

The institution did not disclose 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.

Frequency: Semi-annual.

		a	b	d	e	f	g
		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	2,316,597	135,094,445	2,901,035	1,274,299	433,100	133,235,708
2	Debt Securities	0	0	0	0	0	0
3	Off-balance sheet exposures	0	0	0	0	0	0
4	Total	2,316,597	135,094,445	2,901,035	1,274,299	433,100	133,235,708

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.

Frequency: Semiannual.		
		Dec-25
1	Defaulted loans & advances, debt securities and off balance sheet exposures at end of the previous reporting period	2,499,734
2	Loans and debt securities that have defaulted since the last reporting period	2,548,241
3	Returned to non-defaulted status	1,008,383
4	Amounts written off	1,722,994
5	Other changes	0
6	Defaulted loans & advances, debt securities and off balance sheet exposures at end of the reporting period (1+2-3-4+5)	2,316,597

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

In accordance with the Standardized Approach for credit risk, the Institution applies external credit ratings where such ratings are available and eligible for regulatory capital purposes. However, UGAFODE Microfinance Ltd's primary customer base comprises micro, small, and medium enterprises (MSMEs) operating within Uganda, which are generally not rated by recognized external credit assessment institutions.

Where external credit ratings are not available, exposures are assigned risk weights in line with the applicable regulatory provisions for unrated counterparties. In such cases, the Institution relies on internally developed credit assessment processes, including financial analysis, cash flow evaluation, qualitative risk factors, and sector-specific considerations, to support credit underwriting and risk monitoring. These

internal assessments are used for risk management purposes only and do not replace the use of external ratings for regulatory capital calculations.

The Institution continues to monitor developments in the local credit rating environment and applies external ratings as and when they become available and eligible under regulatory guidelines.