# BANK OF UGANDA

# BANK SUPERVISION FUNCTION

# THE ANNUAL SUPERVISORY AND REGULATORY REPORT

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**ISSUE No. 1**
**DECEMBER 2005**

# TABLE OF CONTENTS

## 1.0.0 GOVERNOR'S REVIEW


*Mr. E. Tumusiime-Mutebile*
*Governor*

The year 2005 witnessed further positive developments in Uganda's financial sector. The Bank of Uganda licensed three new micro deposit taking institutions (MDIs) bringing the total number of MDIs to four. The significance of licensing and regulating MDIs has far reaching impact on promoting the savings culture of our economically active rural population that for along time had been unable to access financial services offered by the formal financial institutions. Consequently, licensing three new micro deposit taking institutions will not only provide opportunities for accessing credit services to rural population but will also improve on savings rate and in the long run solve the dearth of investable funds.

During the first quarter of the current financial year, (October 2005 to December 2005) when licensed MDIs commenced operations, deposits amounting to Shs 15.5bn representing 10.55% of supervised non-banking financial institutions total deposit liabilities were mobilized. The trend of deposits mobilized by MDIs is steadily rising and the Bank of Uganda will endeavor to nurture this sector.

Furthermore, the financial sector performance continued to record improved growth in deposits and total assets. Total deposits held by commercial banks grew by 6.43% from Shs 2,437.9bn held at December 2004 to Shs 2,595.1bn as of December 2005 while total assets recorded a growth rate of 11.3% from Shs.3, 315bn at December 31, 2004 to Shs 3,689bn by December 2005. There was also favorable growth recorded in the credit financial institutions sub-sector whose deposits grew by 19.3% from Shs 110.1bn in December 2004 to Shs 131.3bn as at December 2005 while total assets grew by 17.6% from Shs 181.7bn to Shs 213.7bn respectively.

The commercial banks' financial indicators of Capital Adequacy and Asset Quality remained strong and stable at an average of 16.8% and 2.3% respectively. Stability is attributed to the stable macro economic conditions the economy experienced during the period and also the inherent benefits of risk based supervision, which has inspired financial institutions to institute credible risk management framework, thereby being able to timely identify, measure, monitor and control risks in a timely and ongoing manner. The benefits of implementing risk management systems has been the low non-performing assets (NPAs) thus easing the financial institutions' income for business growth and product diversification. The sector continued to record tremendous investments in areas of information and communication technology (ICT), service delivery and financial product development. Hence, the overall financial performance of the financial sector continued to be rated satisfactory.

Other developments during 2005 included further modernization of the payment system, which saw the implementation of the Real Time Gross Settlements (RTGS) system and the inauguration of the National Switch. Whilst accessibility to the national switch system is still limited to three banks as of end 2005, the number of ATMs and point of sales outreach has been on the increase throughout the country. It is hoped that in the course of 2006 more financial institutions will join the National Switch. Once this objective is accomplished, it will go along away in improving the payment system that has for a long time been largely cash dominated. To deepen the financial sector further, the Bank of Uganda in conjunction with the Government of Uganda launched the Government bond in January 2005 as an additional monetary tool to the existing Government treasury bills.

Arising from the developments in the financial sector mentioned above, the risk profiles of financial institutions increased in complexity. In order to deal with this trend, the Bank of Uganda has instituted an ongoing capacity building programme, which involves periodic recruitment and training to equip the Supervision Function with necessary supervisory and regulatory skills and tools. New prudential regulations were gazetted to enhance prudent risk management and corporate governance practices in the supervised financial institutions. Consequently, all board members and senior executive management of financial institutions must be vetted under the "fit and proper" criteria to ascertain their suitability for appointment. In addition, board members are required to undertake annual refresher training in bank risk management and corporate governance practices to equip themselves for executing the required responsibilities.

In general, the year 2005 has been a very successful year for the Bank of Uganda in fostering a sound financial system conducive to macroeconomic stability and broad-based economic growth. In this regard, I am very grateful to the Board of Directors of the Bank of Uganda and all the staff of the Supervision Function for their tireless efforts in making the year a success. I would also like to appreciate the continued harmonious relationship between the Chief Executives of supervised financial institutions and the Bank of Uganda that has operated in partnership to maintain financial sector soundness and stability.

E Tumusime -Mutebile
GOVERNOR

## 2.0.0 ACCOMPLISHMENTS FOR THE YEAR 2005

### 2.1.0 COMMERCIAL BANKING DEPARTMENT

#### *On-site Examinations*

The department continued to conduct risk based on-site examinations of commercial banks in accordance with the departmental workplan of examining every bank at least once year depending on the assessment of its risk profile. On-site examinations of fourteen banks were concluded during 2005 and the examination findings were discussed with respective board of directors and senior management of inspected banks. Overall, the examinations revealed that nine banks were exposed to high composite risk rating while five banks registered a moderate composite risk rating. Under the CAMELS rating model, four banks scored satisfactory ratings, nine scored fair rating while one bank was rated marginal.

#### *Off- site Surveillance*

Offsite surveillance, which is a core component in the implementation of risk-based supervision methodology continued to be performed on an ongoing basis using statutory and statistical data submitted to Bank of Uganda on daily, weekly, monthly, quarterly and yearly basis. Both quantitative and qualitative trend analyses are preformed and results submitted to financial institutions for corrective actions. Off-site data analysis is utilized by the Onsite division in the preparations of the preliminary risk assessment for onsite examinations.

#### *Financial Market Intelligence Regulation & Resolution*

Following the enactment of the Financial Institutions Act 2004 (FIA 2004), a new set of implementing regulations had to be instituted. Consequently, nine new regulations to implement the Financial Institutions Act (FIA) 2004 were developed and then gazetted during 2005. Other regulations are in advanced stages of preparation and will be finalized during 2006. To further enhance implementation of FIA 2004, a one day sensitization seminar was conducted for all members of the board of directors of banks to highlight their duties and responsibilities in fostering prudent corporate governance practices in commercial banks. In addition, Commercial Banking Department has continued to vet all directors and senior managers of banks under the "fit and proper" test. To enhance disclosure and transparency, banks have been compelled to display bank charges at their banking halls. Furthermore, Bank of Uganda has commenced the practice of displaying in the print media the various charges levied by banks on a quarterly basis.

## 2.2.0 NON-BANKING FINANCIAL INSTITUTIONS DEPARTMENT

During the year 2005, Bank of Uganda licensed three new Micro-Finance Deposit-Taking Intuitions (MDIs) namely, PRIDE Microfinance Ltd, Uganda Finance Trust Ltd and Uganda Microfinance Ltd bringing the total number of licensed MDIs to four. The licensing of these new MDIs is expected to improve Uganda's financial savings while at the same time extending financial services outreach through wide spread of MDIs branches and satellite offices.

Uganda is now regarded as a model of microfinance promotion in Africa and Bank of Uganda was privileged to host and share her experience with high level delegations from Namibia, Zimbabwe, Ghana, Sierra Leone and Malawi. Additionally, senior officers of the Bank participated as resource persons in the African Microfinance Conference held in South Africa where they shared Uganda's regulations governing operations of microfinance business in Uganda.

### *On-site Examinations*

The department conducted on-site examinations of all the seven credit institutions and further follow-up examinations on those institutions, which were rated weak during the onsite examinations. In addition, the department conducted an on-site examination of National Social Security Fund (NSSF) whose supervision had been transferred to Bank of Uganda by the Minister of Finance at the beginning of year pending. The department also conducted on site inspection of new and refurbished branch premises and satellite offices for licensed MDIs to certify their suitability for deposit mobilization.

Furthermore, the onsite examination of one of the prospective Micro finance institution in the selected Tier 4 Micro Finance Institutions (MFIs) category was carried out in accordance with the provisions of the MDI Act, 2003.

### *Off- site Surveillance*

The department performed continuous offsite surveillance of the credit institutions. Annual analysis of audited final accounts was carried and trilateral meetings between external auditors, credit institutions management and the department were held before accounts would be published. The department computed required contributions to the Deposit Protection Fund by all financial institutions, and ensured that all institutions promptly paid the required amount.

### 2.3.0 JOINT ACCOMPLISHMENTS

#### *Bank Supervision Examination Procedures Manual*

The Bank supervision Examination Procedures Manual was completed in 2005, field tested and is now operational. The manual will enable supervisors to gain a clear and accurate understanding of the institution's ability to identify measure, monitor and control banking risks in a timely and ongoing basis. The manual will provide bank examiners' with structured approach in examination of banking risks in order to assess the effectiveness of the risk management system, internal controls as well as internal policies and procedures.

Similarly, the Micro Deposit Taking Institutions' risk-based supervision examination manual was developed and field-tested during 2005 with technical assistance from GTZ-Consultants and is now fully operational.

#### *BANK SUPERVISION APPLICATION (BSA)*

The Banking Supervision Application (BSA) information and communication technology (ICT) was successfully deployed at the Bank of Uganda in April 2005. BSA is an initiative by the Central Banks in East and Southern Africa region which was developed in recognition of the need to automate supervision operations, harmonize and enhance the quality of supervision of financial institutions in the region. The system definition, design and development started in 2002 and was successfully completed in 2003 and thereafter tested and implemented at the Central Bank of Mozambique in the same year. Since then it has been rolled over to all the eleven (11) participating Central Banks. The participating banks include Uganda, Kenya, Congo, Zimbabwe, Zambia, Malawi, Angola, Namibia, Lesotho, Mozambique and Swaziland. The Application is expected to enhance the capacity of the Central Banks through offsite surveillance, onsite examinations as well as licensing of financial institutions. More enhancements to the system to capture individual central banks' peculiarities will be incorporated in the newer versions to be released at a later date**.**

## 3.0.0 A REVIEW OF PERFORMANCE OF FINANCIAL INSTITUTIONS

### 3.1.0 PERFORMANCE OF COMMERCIAL BANKS

#### *Off-site surveillance*

The financial sector remained stable during the year under review and was rated overall satisfactory in the key financial performance parameters of capital adequacy, liquidity and asset quality with earnings being fair. The following table presents a summarized comparative performance ratings for all commercial banks in Uganda as at the end of 2004 and 2005.

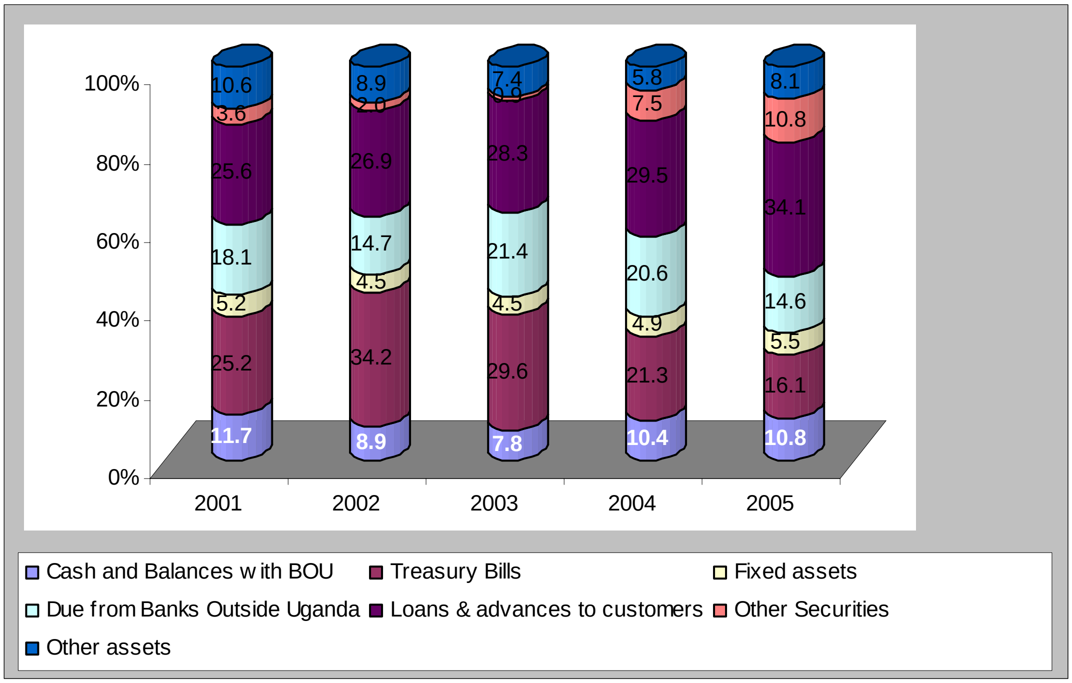
***Table: 3.0 Performance rating of commercial banks as at year-end***

| Period | | Performance category | | | | | |
|---|---|---|---|---|---|---|---|
| | | Strong | Satisfactory | Fair | Marginal | Unsatisfactory | Total |
| 2004 | Capital Adequacy | 0 | 15 | 0 | 0 | 0 | 15 |
| | Asset Quality | 0 | 12 | 3 | 0 | 0 | 15 |
| | Earnings | 0 | 4 | 8 | 0 | 3 | 15 |
| | Liquidity | 0 | 15 | 0 | 0 | 0 | 15 |
| | | | | | | | |
| 2005 | Capital Adequacy | 0 | 15 | 0 | 0 | 0 | 15 |
| | Asset Quality | 0 | 10 | 5 | 0 | 0 | 15 |
| | Earnings | 0 | 5 | 7 | 3 | 0 | 15 |
| | Liquidity | 0 | 15 | 0 | 0 | 0 | 15 |

#### *Balance Sheet Structure*

The total assets of the banking sector expanded by Shs.374.0bn or 11.3% during the year under review from Shs.3,315bn at the end of December 2004 to Shs.3,689bn at the end of the year 2005. This increase exceeded a growth of Shs.324bn or 10.8% registered during the previous year. The sector's total advances grew by Shs.281bn or 28.8% from Shs.977bn of the previous year to Shs.1, 258bn during the year under review. Investments in Treasury Bills declined by Shs.114bn or 16.1% during the same period primarily due to diversification of investments into long-term securities by banks, mainly in the form of treasury bonds, which grew by Shs.139bn or 59.8% during the same period. Overall, total investments in government securities accounted for 26.1% of the banking sector's total assets, which was lower than the level of 28.8% for the previous year. Gross advances amounted to Shs.1, 258bn and accounted for 34.1% of total assets up from a level of 29.5% as at the end of December 2004. There was a decline of Shs.142.9bn in amounts due from banks outside Uganda from Shs.681.9bn to Shs.539bn, during the same period. While the banking sector continues to place substantial funds, in treasury bills, government bonds and other less risky investments, the level of intermediation by banks continues to grow as evidenced by the build up in loan extensions to the private sector. Fig 3.1 shows the structural composition of the banking sector's assets over a five year period.

***Fig 3.1 Structure of commercial banks' assets (percentage of total)***

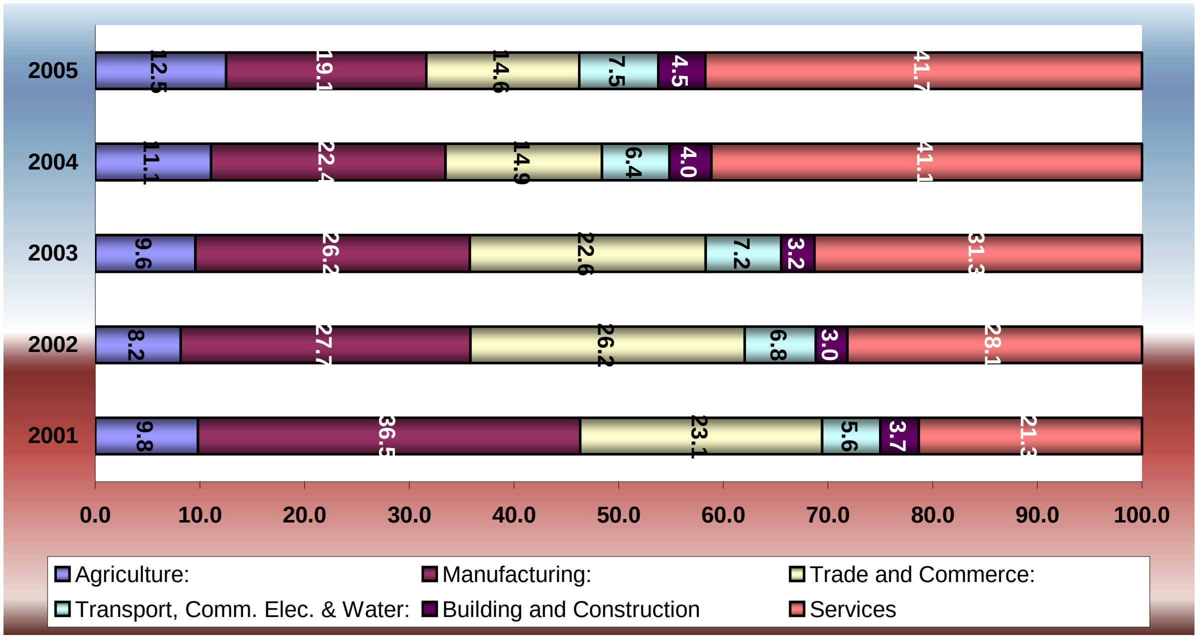



***Distribution of loans and advances***

Credit extensions grew by Shs.281.0bn or 28.8% from Shs.967.7bn as at the end of December 2004 to Shs.1, 258.0bn during the year under review. The increase of Shs. 281.0bn in credit during the year 2005 was relatively much higher compared to a growth of 129.3bn or 15.3% registered during the previous year. Figure 3.2, shows the stock of advances by sector that were outstanding over the last five years as a percentage of the total credit extended by the banking sector. The biggest portion of credit amounting to Shs.524.6bn or 41.7% of the total loan portfolio constituted extensions to the service sector, up from an equivalent of Shs.402bn or 41.1% recorded during the previous year.  Loans to the manufacturing sector grew marginally from a level of Shs.219.1bn of the previous to Shs.240.6bn, which represented 19.1% of the total lending and was lower than 22.4% achieved in 2004. Trade and commerce ranked third in outstanding credit, with a share of Shs.183.5bn or 14.6% of total loans up from a level of Shs.145.8bn or 14.9% registered at the end of December 2004. The share of credit to agriculture and transport sectors stood at 12.5% and 7.5% respectively at the end of December 2005. However this was a slight improvement from the previous percentages of 11.1% and 6.4%

respectively. Extensions to building and construction sector stood at 4.5% up from a level of 4.0% for the previous year.

**Figure 3.2: Distribution of commercial banks credit by sector (percentage of total)** [1]

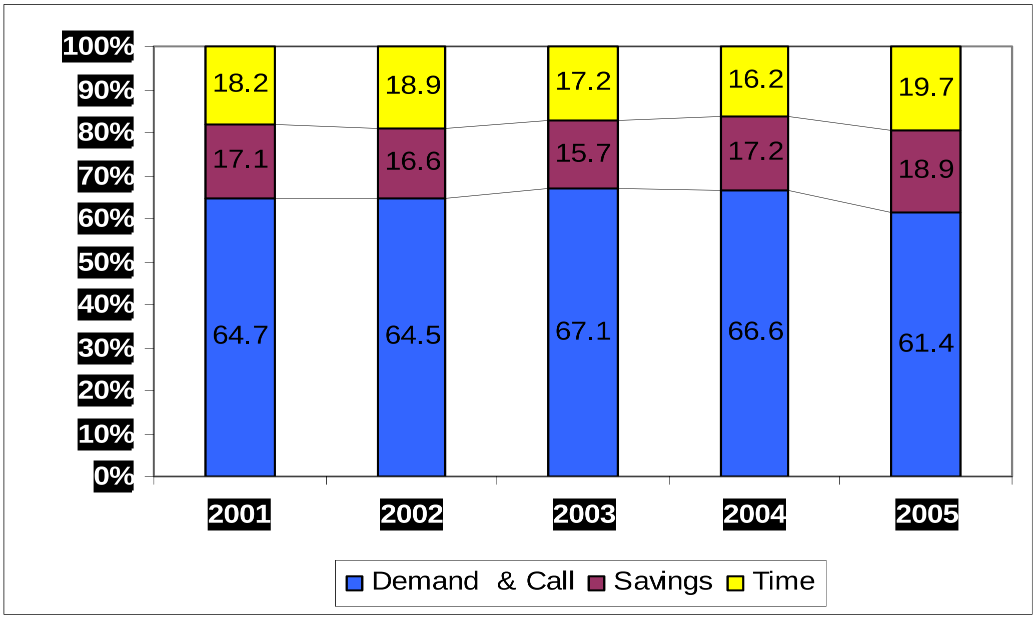



### *Deposits*

The deposit base of the banking sector expanded by Shs.157.2bn or 6.4% during the year under review from Shs.2,437.9bn as at 31st December 2004 to Shs.2,595.1bn as at December 31, 2005. This reflected a lower growth compared to the increase of Shs. 224.2bn or 10.1% recorded during the year 2004. Demand and call deposits accounted for 61.4% of total deposits, while time and savings represented 19.7% and 18.9% respectively. There was an increase in the composition of time and savings deposits from the previous year's levels of 17.2% and 16.2% and a reduction in the share of demand and call deposits from a level of 66.6% for the prior year. The growth in deposits was largely reflected in time and savings deposits, which grew by Shs.115.7bn or 29.3% and Shs.73.8bn or 17.6% respectively. On the contrary, demand deposits reduced by Shs.32.3bn or 2.0% during the same period.  Figure 3.3 below, shows the structure of deposits over the period 2001 to 2005.

[1] Lending to the service sector includes advances amounting Shs.9.6bn to the mining sector and government

*Figure 3.3: Structure of commercial banks' deposits (percentage of total)*

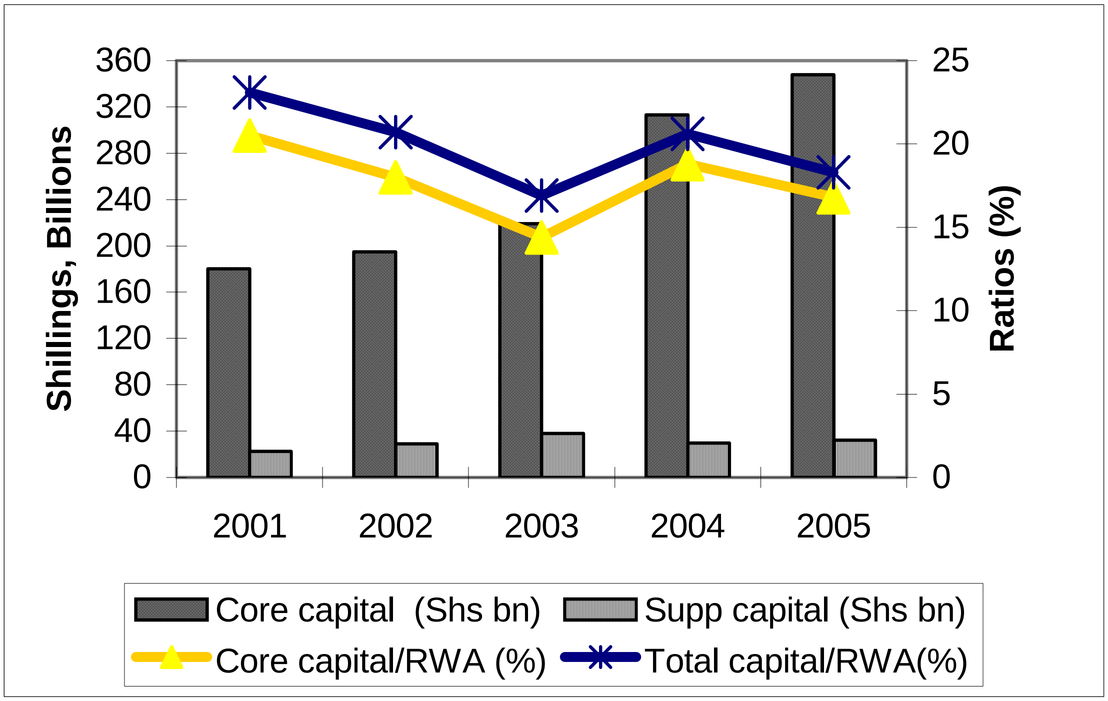



### *Capital Adequacy*

The banking sector's total capital stood at Shs.380.1bn at the end of December 2005 representing an increase of Shs.37.2bn or 10.8% from a level of Shs.342.9bn as at the end of December 2004. Core capital amounted to Shs.347.8bn while supplementary capital was at Shs.32.3bn. The growth in total capital was mainly a result of profits amounting to Shs.123.6bn registered during the year.

All banks observed the regulatory core and total capital adequacy ratios of 8% and 12% and also held unimpaired capital levels in excess of the minimum shs.4.0bn requirement. As at the end of December 2005, the average core capital to risk weighted assets (RWA) ratio stood at 16.8%, which was slightly lower than a level of 18.8% for the previous year. The decrease in this ratio was primarily due to a significant increase in the total risk weighted assets during the year 2005. Supplementary capital, which comprises revaluation reserves, unencumbered general provisions (restricted to only 1.25% of the capital requirement basis) and subordinated debt, recorded a marginal increase of Shs.2.5bn or 8.4% from Shs.29.8bn as at December 31, 2004 to Shs.32.3bn at December 2005. Fig 3.4 below shows the key capital adequacy indicators for the period 2001 to 2005.

*Figure 3.4: Capital Adequacy Indicators*



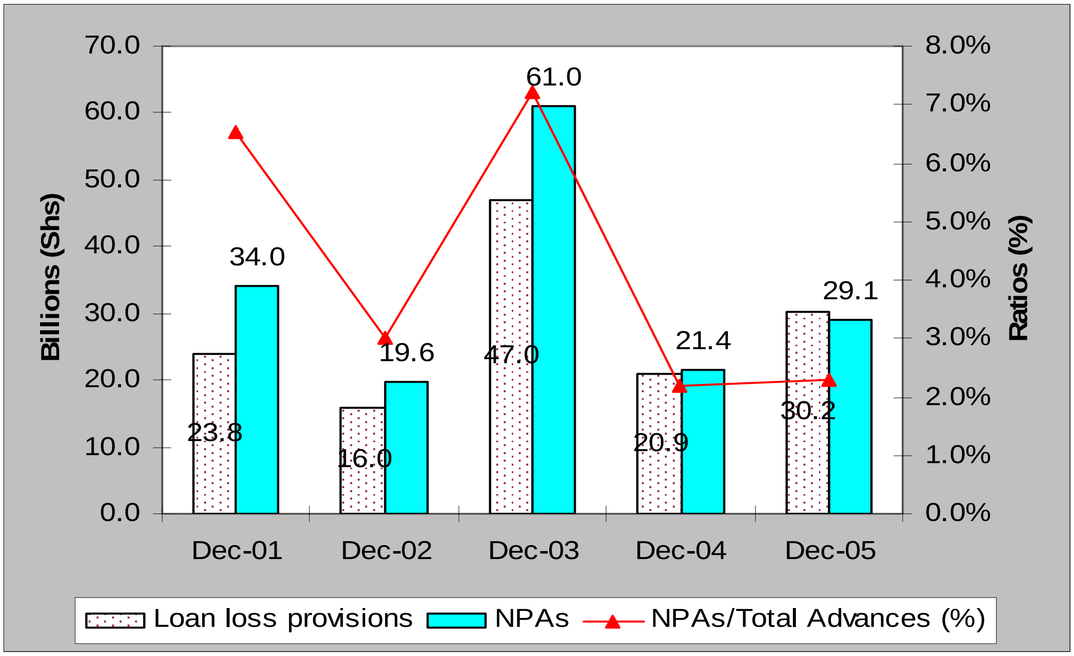

### *Asset quality*

Credit risk was one of the major causes of bank failure in Uganda during the late 1900s. Credit risk has therefore remained a key concern to bank supervisors. Systems and procedures of assessing the levels and trends in the volumes of non-performing assets and non-performing asset (NPA) ratios through on-site examination and offsite surveillance have been instituted. Growing volumes of non-performing assets undoubtedly lead to lower profitability, reduced liquidity, reduced lending, increase intermediation costs, reduce dividends and increase supervisory tax through high deposit insurance premium and statutory reserve requirements.

During the year 2005, the banking sector recorded a slight decline in asset quality. The volume of non-performing assets grew by Shs.7.7bn or 36.0% from a level of Shs.21.4bn as at end of year 2004 to Shs.29.1bn as at December 31, 2005. As a result, there was a marginal 1.0% increase in the ratio of non-performing loans to total advances from 2.2% of the previous year to 2.3% at the end of year 2005. Figure 3.5 shows the trend in the key asset quality indicators.

Following the gazetting of prudential regulations under the Financial Institutions Act 2004 on Credit Classification and Provisioning, financial institutions are required to hold 1% loan loss reserves on loans and advances net of specific provisions and interest in suspense. The observed increase in the provisions for bad debts of Shs. 9.3bn is therefore as a result of compliance with this new requirement. The banking sector's provisions for bad debts grew from Shs.21bn as at December 2004 to Shs.30bn or 42.85% at the end of December 2005.

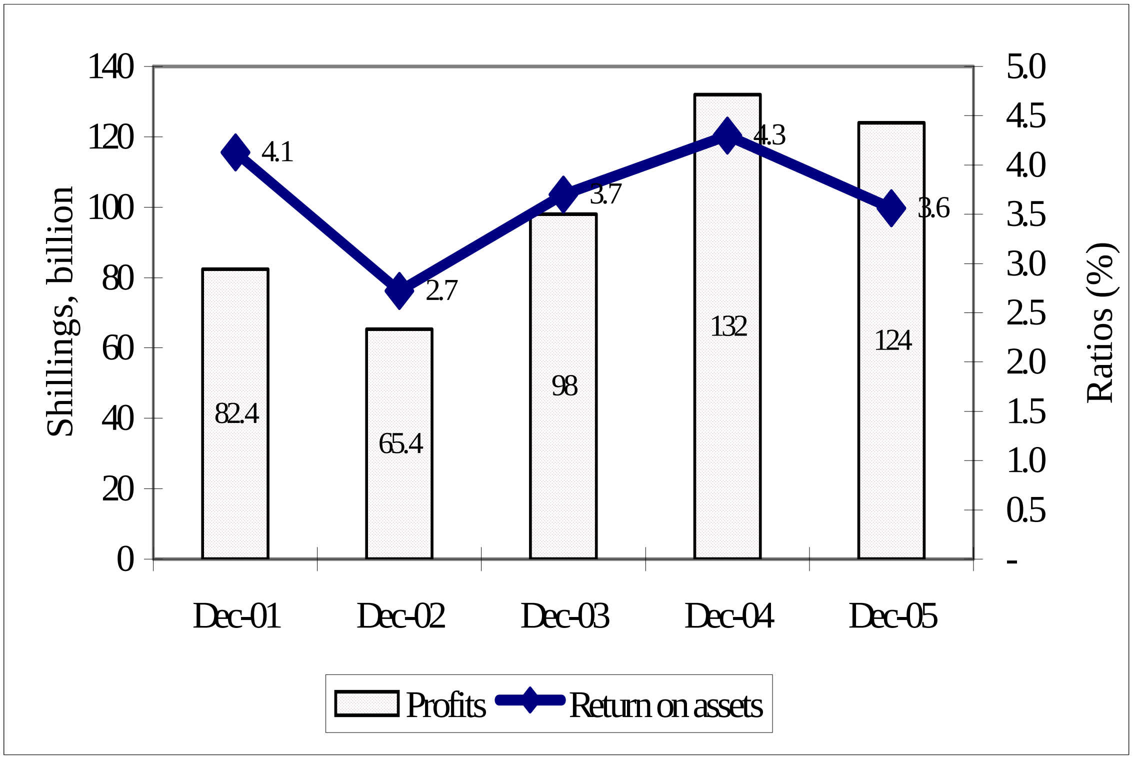
*Figure 3.5: Asset Quality Indicators*




## *Earnings*

The long term growth and soundness of a bank is dependent on its ability to organically generate profits on a sustainable basis. Profitability is a core indicator of a bank's competitive position in the banking markets and also of the quality of management. It should however be noted that the quantity and quality of earnings is fundamental to sustainability of the institution. Figure 3.6 gives the trend of the return on assets and profits recorded as at the end of the years 2001 to 2005.

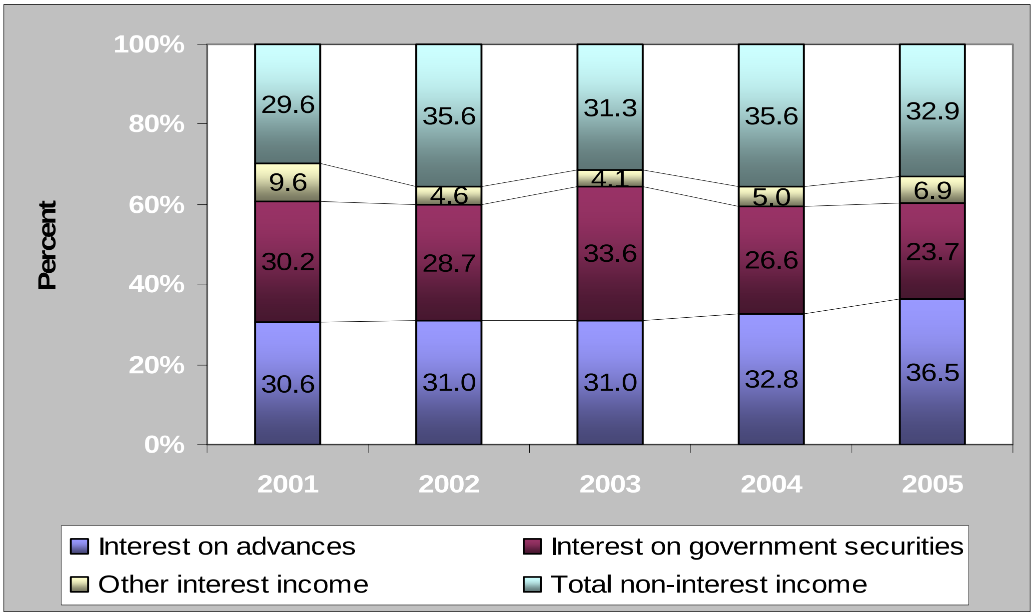
*Figure 3.6: Return on Assets and Earnings*




During the year ended December 2005, the banking sector recorded a return on assets (ROA) ratio of 3.6%, which was slightly lower than a level of 4.3% registered during the previous year. The drop was attributed to loan loss provisioning requirements introduced during the year that slightly led to lower profits for year 2005 (Shs.124bn) compared to Shs.132bn earned in the year 2004. Gross income grew by Shs.28.9bn or 6.0% during the year 2005. Advances and investments in government securities were the leading sources of income accounting for 60.1% of total income slightly down from a level of 60.3% for the previous year. Overall, total interest income represented 67.1% of total income up from 64.4% for the previous year.

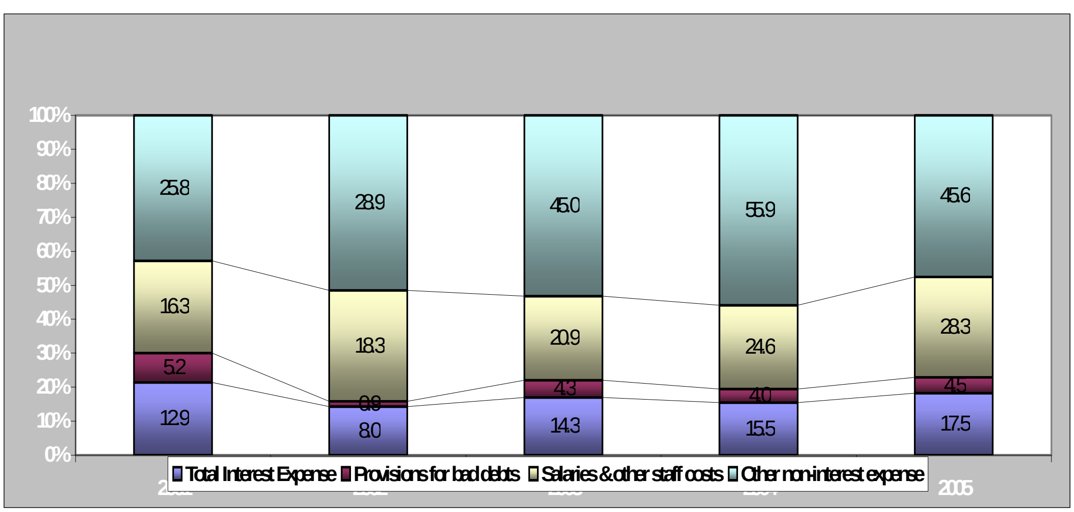
Interest income on loans to total income went up from a level of 32.8% to 36.8% during the year under review due to the increase in overall credit portfolio. The proportion of income from government securities reduced from 26.6% to 23.7% during the same period. The drop was largely attributed to the decline in interest rates on government securities and increased lending to the private sector. Figure 3.7 shows income earned from the various sources in relation to total income.

*Figure 3.7: Commercial banks' sources of income (percentage of total)*




Total expenditure (excluding taxes) rose by Shs.37.9bn or 12.8% during the period under review from Shs.296.8bn for the year ended December 31, 2004 to Shs.334.7bn for the year ended December 31, 2005. Non-interest expenses (excluding tax and provisions for bad debts) amounting to Shs.258.0bn were the biggest expenditures up from Shs.228.8bn in the previous year. Interest expenses rose by Shs.7.1bn or 13.2% from Shs.53.9bn in the previous year 2004 to Shs.61.0bn for the year under review and the largest portion of it (83.0%) comprised interest expenses paid on time and savings deposit accounts. This is reflected in the upward shift in interest rate sensitive deposit liabilities from the traditional demand deposits which are not interest rate sensitive. Figure 3.8 shows the relative proportions of the various expenditure items to total expenses.

*Figure 3.8: Commercial banks' categories of expenditure (percentage of total)*

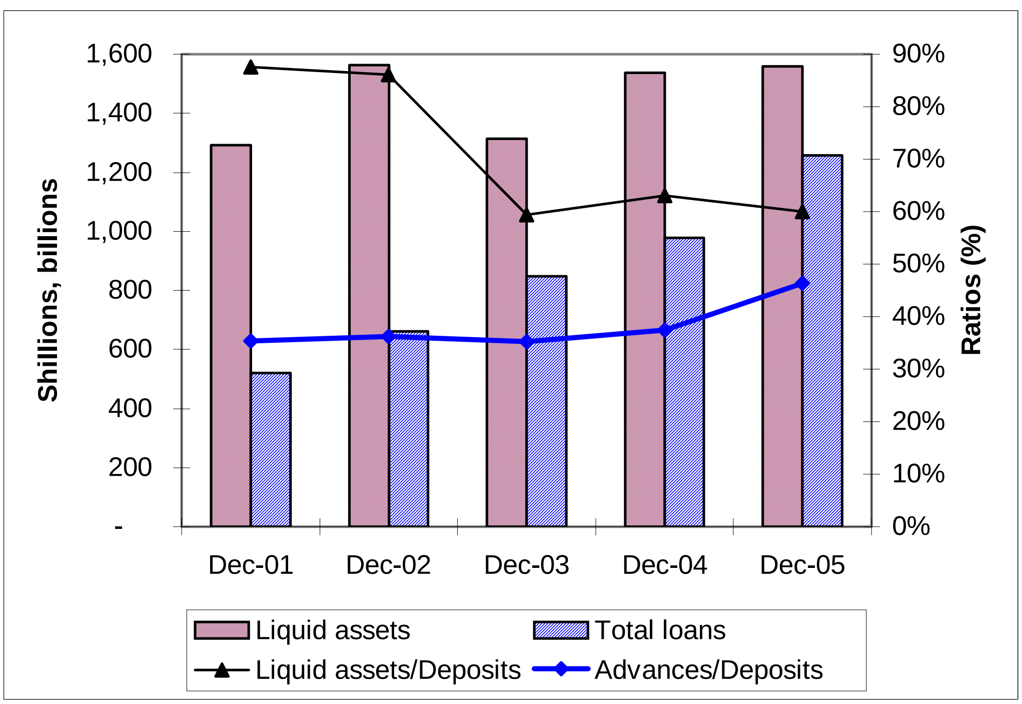


### *Liquidity*

Liquidity lies at the heart of confidence in the banking system due to the highly leveraged nature of banks. Individual bank's liquidity problem can have significant implications for the whole financial system. Bank of Uganda therefore ensures that banks comply with statutory liquidity requirements through the daily and weekly off-site monitoring of liquidity holdings of individual bank.

The overall liquidity rating as of December 2005 was considered satisfactory. Liquid banking assets grew by Shs.20.3bn or 1.3% from Shs.1, 537.7bn as at end of 2004 to Shs.1, 558.0bn as at December 2005. However, the ratio of liquid assets to total deposits marginally reduced from 63.1% in 2004 to 60.0% as at 31st December 2005 on account of a proportionately much higher increase in deposits. The lending ratio went up from 37.4% to 46.3% during the same period. All banks complied with the statutory liquidity requirement and maintained reserves above the minimum reserve assets required by Bank of Uganda. The trend of liquid assets and liquidity parameters over the period 2001 to 2005 are shown in Figure 3.9.

***Figure 3.9 Liquidity Indicators***



## 3.2.0 PERFORMANCE OF CREDIT INSTITUTIONS

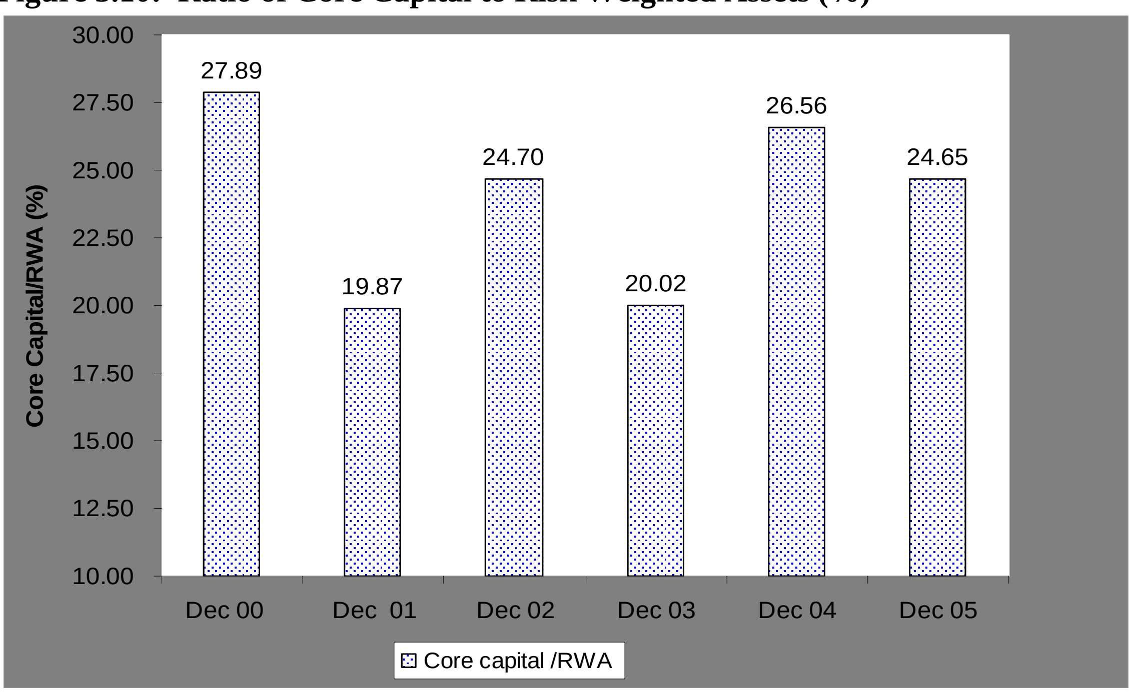
Total assets of credit institutions net of administered loans continued to grow during the period under review. As of December 2005, credit institutions recorded a growth of 22.1% in total assets from Shs.158.8bn at the end of December 2004; to Shs. 193.9bn at the end of December 2005. Based on the December 2005, off-site analysis of credit institutions, the overall financial condition was rated satisfactory. This is an improvement compared to December 2004, when five institutions were rated Satisfactory and two rated fair. During the year period under review, all the credit institutions except one made profits.

### *Capital Adequacy*

There was a marginal increase of 4.9% in the paid-up capital of the credit institutions from Shs 20.3bn in December 2004, to Shs 21.3bn by December 2005. The increase was due to capital injection of Shs 1.0bn by one of the credit institutions.

All the credit institutions maintained core capital to risk weighted assets ratios above the minimum requirements of 8%. However there was a marginal decline in the overall core capital to risk weighted assets (RWA) ratio from 26.6% in 2004, to 24.7% during the year under review. The decline is attributed to an increase of risk weighted assets. These developments are depicted in figure 3.10.

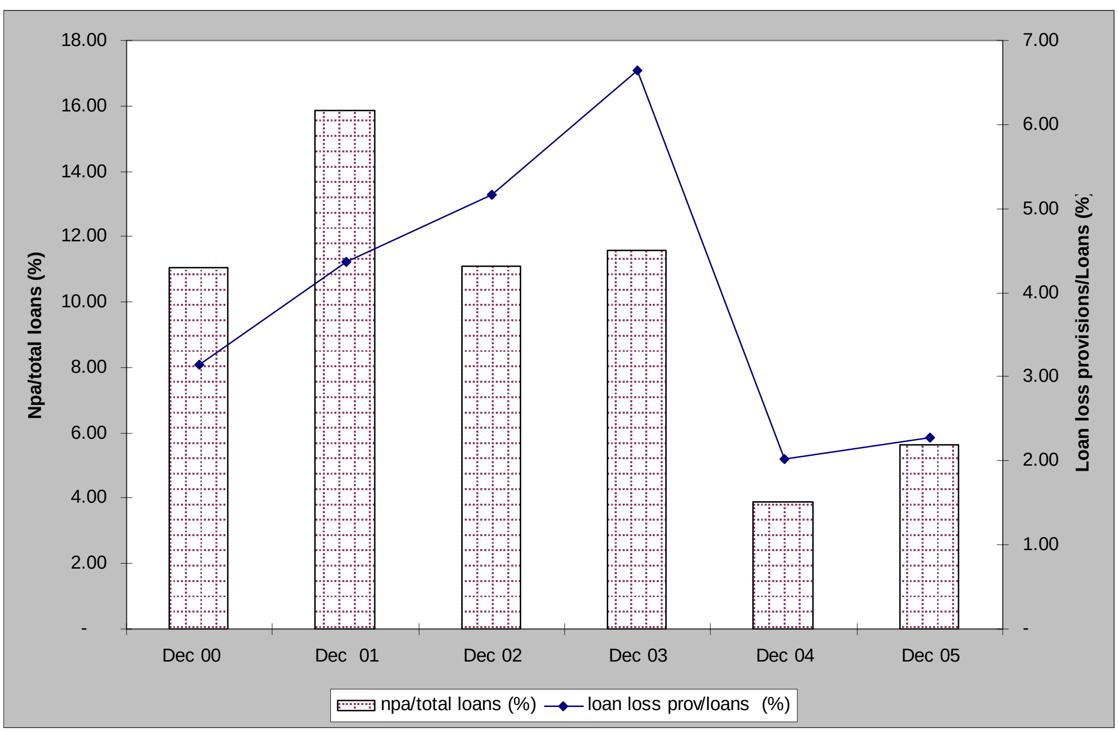
**Figure 3.10: Ratio of Core Capital to Risk Weighted Assets (%)**



### *Asset Quality*

The overall asset quality remained satisfactory during the year and a high growth of 36.3% in total credit portfolio net of administered loans was registered. The volumes of loans net of administered funds increased from Shs 80.7 bn as at the end of December 2004, to Shs 110.0bn during the year under review. There was a decrease in administered loans of 13.5%, from Shs.22.9 bn to Shs 19.8 bn, between 2004 and 2005. The ratio of non-performing advances to total advances (NPA/TA) in the credit institutions too rose from 3.9% in 2004, to 5.6% in 2005 but was adequately marched by the increase in loan loss provision ratios that went up from 2.04% to 2.28% between December 2004 and December 2005. These ratios are depicted in figure 3.11. Credit institutions have remained the major sources of lending to the building and construction sectors which constituted 69.15% of the total credit portfolio as of December 2005 while trade / commerce and other services sectors accounted for 22.8% and 5% of total portfolio respectively. (See *Table 3 in Appendix 3*)

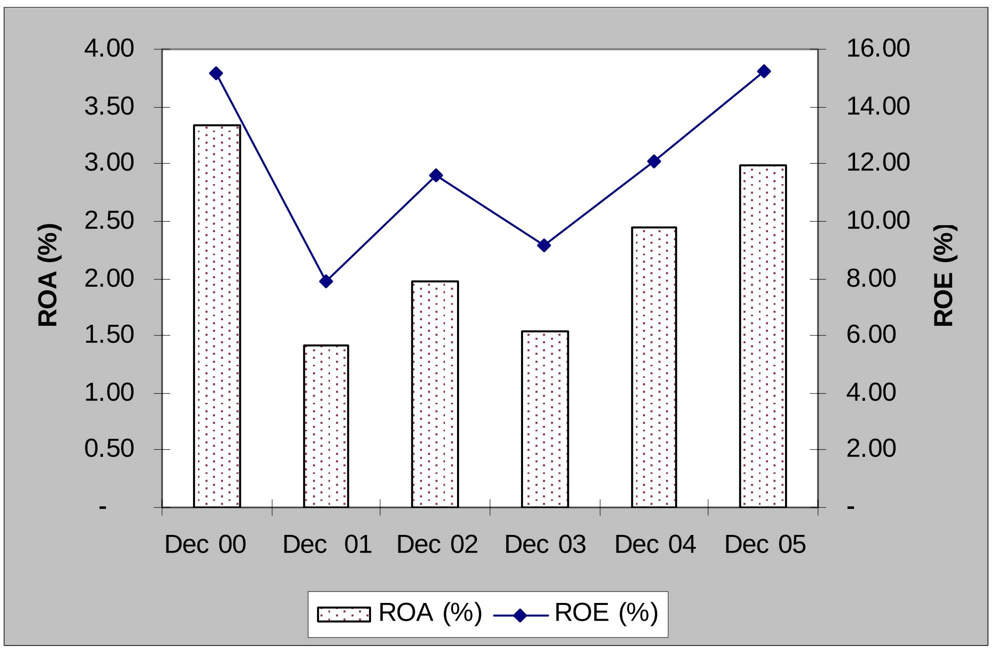
***Figure 3.11: Asset Quality Indicators***



### *Earnings*

The overall credit institutions' profits continued to reflect an upward improvement pattern. Total profits increased by Shs 1.92 bn from Shs 3.87 bn posted in 2004, to Shs 5.79 bn at the end of 2005. The largest source of income amounting to Shs 23.97bn came from the core business lines of the institutions. This was a 37.7% increase from Shs. 17.41bn earned in 2004 compared to Shs 23.97bn earned during the year. Return on Assets (ROA) ratio rose from 2.44% to 2.99% between year 2004 and 2005 while Return on Equity (ROE) rose from 12.08% to 15.20% over the same period. Trends in ROA and ROE are illustrated in Figure 3.12.

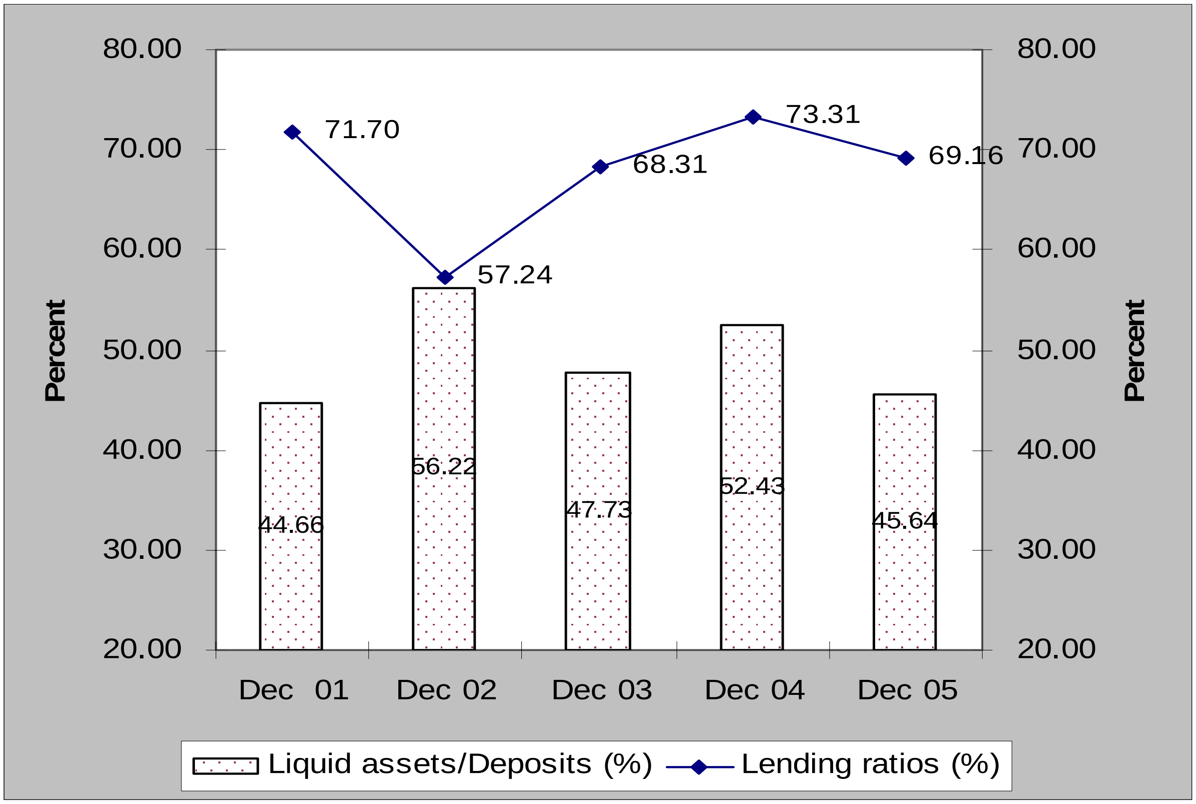
*Figure 3.12: Return on Assets and on Equity (%)*




### *Liquidity*

There was total compliance with statutory liquidity requirements during the period. As of December 31, 2005 liquid assets held amounted to Shs.59.9 billion, against the minimum required assets of Shs.19.7billion. However, overall liquid assets to deposits ratio declined from 52.43%at the end of 2004 to 45.64% as of December 2005. This was mainly due to more than proportionate percentage increase of 19% in deposits than an increase of 4% in liquid assets held by the credit institutions during the period under review. The sector also recorded a slight decline of 4.14% in the lending ratio from 73.3% to 69.16% over the same period. The liquidity ratios and liquid assets are indicated in figure 3.13

**Figure 3.13: Liquidity ratios**




## 3.3.0 PERFORMANCE OF MICRO FINANCE DEPOSIT TAKING INSTITUTIONS

During the period under review, Non-Banking Financial Institutions Department conducted off-site surveillance and onsite examinations of the four MDIs. The overall financial condition of the MDIs was rated satisfactory. The consolidated financial performance is indicated below.

### *Analysis of Key Financial Indicators as at 31.12.2005*

### *Capital Adequacy*

Total core capital stood at Shs17.3bn at December 2005 reflecting a core capital to risk weighted assets ratio of 21.73%. This was above the minimum core capital legal requirement of 15%. The total capital to risk weighted assets ratio at 30.13% was also above the required ratio of 20%.

### *Asset Quality*

The MDIs recorded a level of Portfolio in Arrears (PIA) of 3.6bn resulting into portfolio at risk (PAR) at 5.51% This was purely expected during this transition period from informal sector to regulated system. The portfolio is expected to improve during the subsequent years as these MDIs begin to conceptualize principles of risk management and prudent corporate governance practices.

### *Profitability*

Year- to- date net profits stood at Shs 1.1bn during the review period resulting into ROA and ROE of 1.08% and 6.05% respectively. MDIs profitability capacities were highly impacted by transformation costs incurred during the year.

### *Liquidity*

The MDI sector was highly liquid and held surplus liquid assets of Shs. 11.4bn as at December 2005. On average the MDIs liquidity and lending ratios were at 88.9% and 76.2% respectively during the year.

## 4.0.0 DEVELOPMENTS IN THE FINANCIAL SECTOR IN UGANDA

### 4.1.0 LIQUIDATION OF CLOSED BANKS

The liquidation of banks that were closed in 1998/99 namely The Co-operative Bank Ltd, Greenland Bank Ltd and International Credit Bank Ltd continues to record success in the recoveries of bad debts through court action and foreclosure on collaterals/securities. Another institution under liquidation is Interstate Finance Company Ltd.

Bank of Uganda has continued to execute the liquidation process as a measure of minimizing costs, and whenever Bank of Uganda finds it necessary, the services of independent Advocates, Property valuers and auctioneers continue to be employed to execute special assignments. Summary of recoveries is tabulated below

*SUMMARY OF COLLECTIONS AND EXPENSES AS AT 30/09/2005 (SHILLINGS IN MILLIONS)*

| **Bank** | ***Total Loan & O/Ds at Closure*** | ***Total Loan Recoveries*** | ***Other Cash Assets Realized*** | ***Total Expenses*** | ***Net Proceeds*** |
|---|---|---|---|---|---|
| Greenland Bank Ltd | 40,942 | 24,294 | 2,517 | 7,738 | **19,073** |
| Co-operative Bank Ltd | 56,755 | 28,922 | 14,101 | 5,353 | 37,670 |
| International Credit Bank | 13,103 | 6,549 | 1,450 | 1,511 | 6,488 |
| **Total** | **110,800** | **59,765** | **18,068** | **14,602** | **63,231** |

The external audit of these banks continued in the year. The audits covered periods from closure to December 31, 2001, and January 1st to December 2002 were concluded successfully. The external auditors who conducted the audits were KPMG for Greenland Bank Ltd, PricewaterhouseCoopers for the Cooperative bank Ltd and Jasper Semu & Associates for the International Credit bank Ltd.

Bank of Uganda has now designed an exit strategy for the liquidation that will involve the following:

(i) an update of the external audits of the banks to cover the three year period up to 31st December 2005,

(ii) invitation of creditors to meetings to brief them about the liquidation and distribution and the exit strategy. The creditors' meeting took place in March 2006,

(iii) distribution of liquidation proceeds already audited as at 31st December 2002. The whole exit strategy will be fully implemented by June 2006.

### 4.2.0 CREDIT REFERENCE BUREAU

The Financial Institutions Act 2004 Section 78 mandates the Central Bank or its appointed agent or any other person authorized by the Central Bank to establish a Credit Reference Bureau (CRB) for the purpose of disseminating credit information among financial institutions for their business. Additionally section 46 of the Micro Finance Deposit-Taking Institutions Act 2003 requires Micro Finance Deposit Taking Institutions to report non-performing loans or credit accommodations classified doubtful or loss to the CRB.

Bank of Uganda set up an internal committee to coordinate CRB issues. Requests for Expression of Interest were sent out to seven selected private providers of Credit Reference Services out of which 4 were selected. With support from GTZ, a consultant was hired whose main objective was to assist Bank of Uganda in the preparation of the Request for Proposals (RFP).

In July 2005, the regulations for the licensing of a private credit reference bureau were gazetted and the CRB is expected to commence operations by early 2006. It is anticipated that once the CRB becomes operational the financial institutions will be able to access necessary data to improve on their credit risk management.

### 4.3.0 NATIONAL SOCIAL SECURITY FUND (NSSF)

Effective from 1st January 2005, Bank of Uganda was appointed by the Minister of Finance, Planning and Economic Development as the Interim regulator of the National Social Security Fund (NSSF) pending the establishment of the Social Security and Pension Sector Regulator. This followed reported cases of mismanagement of the NSSF that led to the dismissal of its entire Board of Directors. Bank of Uganda was therefore assigned the responsibilities of vetting and approving new board and executive management, review and approves interest rates payable to pensioners' and also consent to major long and medium term investment decisions.

### 4.4.0 ISSUANCE OF BANK BONDS ON THE UGANDA SECURITIES EXCHANGE

During 2005, Standard Chartered Bank the second largest bank in terms of industry market share of total assets and deposit liabilities issued a ten year bond worth Shs. 23.5bn to mature in 2015. The bond was unsecured and surbodinated to unsecured / secured claims of general creditors of the issuer and claims of depositors. This is the first time a commercial bank raises funds for business expansion outside the traditional deposit taking.

### 4.5.0 BANKING TARIFFS

In a bid to promote disclosure and transparency, the Bank of Uganda started the publication of bank charges in the print media. This followed public outcry that bank charges were very exorbitant. All banks are required to produce tariff guides and brochures which must be conspicuously accessible by the public from banking halls. As a first step, Bank of Uganda compiled the various bank charges for comparability across the industry. A comparative study of the region (East African Region) established that bank charges are not significantly different due to the presence of the same banks in all the three East African Countries.

To monitor compliance, all commercial banks are required to periodically submit to Bank of Uganda their charges. It is from this data that Bank of Uganda publishes bank charges to enable the public make comparisons across banks and be able to make informed decisions regarding banking services.

### 4.6.0 CORPORATE GOVERNANCE

Corporate Governance has continued to be strengthened by effective and timely vetting of all persons proposed to become members of the board of directors of supervised financial institutions. During the year, Bank of Uganda further directed that persons proposed to become senior managers in financial institutions must undergo the 'fit and proper' test. In addition, the fit and proper test is conducted on all persons proposed to become substantial shareholders. In order to enhance awareness of the law by board members, Bank of Uganda will periodically conduct seminars for directors and executive management of banks. During the year, a one day seminar was conducted for all board members of banks. Key topics covered included; the Role of Regulation and Supervision in Bank Performance, Corporate Governance in Commercial Banks, Directors' Responsibilities and Implementing Regulations of the Financial Institutions Act, 2004. Similar seminars are planned to be conducted in future to cover other areas of the law and also sensitize other stakeholders who include senior managers, shareholders, external auditors of banks, etc.

Following the gazetting of prudential regulations, it is now a new requirement that all financial institutions conduct refresher workshops and induction workshops for the existing and new board members respectively.

## 5.0.0 DEVELOPMENTS IN THE LEGAL AND REGULATORY FRAMEWORK

A key responsibility of the Bank of Uganda is to ensure that the legal framework for the regulation and supervision of financial institutions in Uganda remains relevant and current. Consequently, the financial institutions legal framework has to take account of local and international developments in regulation and the markets. The Supervision Function, therefore, has to continuously review the financial institutions' legislation and the Regulations thereto on an ongoing basis and make necessary amendments. This section provides a brief overview of the developments in the regulation of financial institutions in Uganda during 2005

### 5.1.0 PRUDENTIAL REGULATIONS

During 2005, nine (9) implementing regulations were gazetted as follows:-

1. *Statutory Instruments 2005, No. 41 - The Financial Institutions (Licensing) Regulations, 2005.*
2. *Statutory Instruments 2005, No. 42 - The Financial Institutions (Capital Adequacy Requirements), Regulations, 2005*
3. *Statutory Instruments 2005, No. 43 - The Financial Institutions (Credit Classification and Provisioning) Regulations, 2005*
4. *Statutory Instruments 2005, No. 44 The Financial Institutions (Limits on Credit Concentration and Large Exposures) Regulations, 2005*
5. *Statutory Instruments 2005, No. 45 - The Financial Institutions (Insider - Lending Limits) Regulations, 2005*
6. *Statutory Instruments, 2005 No. 46 - The Financial Institutions (Liquidity) Regulations, 2005.*
7. *Statutory Instruments, 2005 No. 47 - The Financial Institutions (Corporate Governance) Regulations, 2005.*
8. *Statutory Instruments, 2005 No. 48 - The Financial Institutions (Ownership and Control) Regulations, 2005.*
9. *Statutory Instruments, 2005 No. 59 - The Financial Institutions (Credit Reference Bureaus) Regulations, 2005*

The above nine (9) implementing regulations can be cited at the Bank of Uganda Website (www.bou.or.ug/superPolicy.htm)

A second set of implementing regulations has been finalized in the areas of anti-money laundering, consolidated supervision, foreign exchange business and external auditors**.**

Other implementing regulations will also be prepared in the areas of prompt corrective actions, mergers, acquisitions and take-Overs, Internal Auditors reporting requirements, Finance Houses and Discount Houses. It is anticipated that this third set of regulations will be completed during the year 2006 /7.

# 6.0.0 NATIONAL PAYMENT SYSTEM DEVELOPMENTS

### 6.1.0 THE NATIONAL INTERBANK SWITCH

On June 7, 2005, Bankom Ltd a private company licensed by Bank of Uganda to set up and operate an electronic switch launched the national inter-bank switch and by December 2005, three banks or 20% of the banking sector had signed onto the switch allowing their clients to access over 45 Automatic Teller Machines (ATM) and other related services. Many more banks are expected to join the switch in order to extend their outreach and serve their clients conveniently. Bankom is also in the process of installing its own stand alone ATMs in addition to renting machines to financial institutions.

The switch is envisaged to enhance the local payment system by facilitating customer payments for utilities like loading of airtime on mobile phones and purchases using debit cards technically referred to as Electronic Funds Transfer at Point of Sales.

The licensing of the switch therefore represents a significant step in Bank of Uganda's efforts to deepen the financial sector and offers a much wider range of delivery channels to banks. However, as banks continue to offer these new technological services/products, they face a challenge of incorporating the associated risks into their existing risk- management framework.

### 6.2.0 REAL TIME GROSS SETTLEMENTS (RTGS) IMPLEMENTATION

In order to improve efficiency and management of risks in Uganda's payment system, a real time gross settlement known as Uganda National Inter-bank Settlement (UNIS) was implemented in February 2005. More than ten months after its implementation, both volumes and values handled through the UNIS system have significantly increased to an extent that between 70%-80% of large value and time critical payment transactions pass through the system leaving the remaining 30% -20% to pass through the traditional clearing system.

### 6.3.0 PERSONAL COMPUTER (PC) BANKING:

The year 2005 saw increased access of corporate and private customers to Personal compute banking. PC Banking is a form of online banking that enables customers to handle a number of banking transactions from a PC via software installed into a modem. For instance, one may use the PC to view his/her account balance, request transfers between accounts like salary payment or pay bills electronically. PC banking is picking up very fast and so far five banks offer PC-banking services

### *6.4.0 POINT OF SALE (POS) TERMINALS:*

Currently there are four banks with over three hundred (300) points of sale terminals mainly at supermarkets, petrol stations and hotels. These POS terminals have enabled customers with debit cards to purchase goods and services using cards at such premises. The availability of the national payment Switch is expected to increase utilization of POS.

## 7.0.0 DEPOSIT PROTECTION FUND (DPF)

Bank of Uganda concluded proposals on policies and procedures for the implementation of the DPF for commercial banks and credit institutions during the year. The proposals covered the organizational structure, funding, control procedures, accounting policy and procedures, filing policy and procedures, delegation of authority among others.

Section 80 of the Micro Finance Deposit-taking Institutions Act 2003 too requires the Central Bank by statutory instrument to establish a Fund in the Central Bank to be known as the MDI Deposit Protection Fund. Proposals to establish the MDI-DPF were drawn during the year and the completion of modalities and operation of the MDIs DPF will be concluded during the year 2006.

### *7.1.0 FUND INVESTMENT*

The administrative aspects of the DPF for commercial banks and credit institutions are vested both in Supervision and Finance Functions of the Bank of Uganda who report to the Governor. While the Supervision Function is charged with the responsibility of assessing the level of premiums payable by member financial institution the Finance Function has the responsibility of supervising the investment of the DPF funds. Currently M/s African Alliance (U) Ltd is managing the Fund's investment activities on behalf of Bank of Uganda.

## 8.0.0 THE UGANDA BANKERS' ASSOCIATION INTERFACE WITH BANK OF UGANDA

The Uganda Bankers' Association (UBA) was formed in the 1960s with the key objectives of protection, representation and development of professional interests of its members in the banking industry subject to applicable laws. To date, UBA is composed of fifteen commercial banks. Through its secretariat, UBA has become increasingly active and effective in reviewing banking practices to influence banking policies/ procedures and promoting professionalism in the banking sector. The Association has also been instrumental in promoting efficiency and protecting customers and banking ethics through a code of conduct for its membership.

Furthermore, UBA has cultivated and encouraged dialogue with Bank of Uganda through monthly meetings with the Governor to discuss matters of common interest in as far as the economy and the banking industry are concerned. In this regard, UBA agreed to share advertising expenses with Bank of Uganda in publishing bank charges in the print media to enable the public make informed decisions regarding banking services.

## 9.0.0 CAPACITY BUILDING

Bank of Uganda puts a lot of emphasis on human capital development and continued to train Bank examiners to match the increasing global supervisory challenges and the ever changing risk complexities in the financial sector. Forty seven (47) officers of supervision function benefited from various short term courses /workshops in supervision and leadership skills and also participated in the joint cross border onsite examinations under the arrangements between the three East African Central Banks. In addition eight fresh graduate officers were recruited to boost the number of examiners and are currently under going on job and in-house induction training. On the professional front, three officers qualified as professional accountants (ACCA) bringing the total number of ACCA holders in the function to thirteen officers.

## 10.0.0 REGIONAL COOPERATION INITIATIVES

### 10.1.0 EAST AFRICA REGIONAL TECHNICAL ASSISTANCE CENTRE (EAST AFRITAC)

Bank of Uganda continued to receive assistance from the East Africa Regional Technical Assistance Centre (East AFRITAC) whose aim is to strengthen the capacity of the countries in the region to formulate and implement their growth-oriented, poverty reducing policies which include the poverty reduction strategy process. The centre was set up under the auspices of the International Monetary Fund which provides a regional expert in supervision.

In the area of supervision, the centre provided technical assistance in the following areas:

- Drafting investment guidelines and core regulations on Corporate governance for the National Social security Fund
- Drafting regulations for discount houses.
- Assessment of Risk Management Framework in Financial Institutions

The East AFRITAC continues to offer assistance to countries in the region namely Eritrea, Ethiopia, Kenya, Rwanda, Tanzania and Uganda. These countries submit their technical assistance needs to the centre annually for consideration. In addition, to bank supervision, assistance is also provided to the countries in areas of statistics, reserve management and public expenditure management and revenue administration.

### 10.2.0 MONETARY AFFAIRS COMMITTEE (MAC)

In May 2005, the Governors of the three East African central banks held the eighth meeting of the Monetary Affairs Committee (MAC) in Arusha, Tanzania. The importance of the MAC meeting was underscored in the ongoing efforts to harmonize monetary and fiscal policies in the region. The most significant milestone in the East African Integration process was noted to be the signing of the EAC Customs Union Protocol by the three Heads of State in March 2004 which became operational on January 1, 2005 after enactment of the East African Customs Union Bill, in December, 2004. The Governors deliberated on others matters affecting financial institutions and agreed as follows:

- Partner states to expedite the enactment of the Anti-Money Laundering legislation.
- A joint workshop to be held in Uganda on the role of Central banks in promoting and supervising Micro-Finance Institutions.
- The three Central Banks to hasten the operationalization of Credit Reference Bureaux.
- On the policy towards a Coordinated Financial Services Regulatory Framework, partner states were urged to put in place a mechanism to facilitate the sharing of information and experiences by domestic regulators including deposit taking institutions regulators, securities markets and insurance regulators.
- On licensing of banks, financial institutions and representative offices, Kenya was urged to expedite the enactment of the Banking (Amendment) Bill.
- The three Central Banks to continue strengthening banking supervision and observing best practices for recovering non performing loans.

- Regarding Commercial Courts, member states were urged to consider assigning more judges to Commercial Courts in order to match the increased case load, as well as expanding the jurisdiction of Commercial Courts to commercial fraud cases.
- On the New Basel Accord (Basel II), the three Central Banks were urged to put in place measures to ensure full implementation of Basel I, compliance with Basel Core Principles for effective Banking Supervision, implementation of Risk based Supervision, continued study of Basel II and sensitizing stakeholders and continued liaison to keep abreast of developments on Basel II.

### 10.3.0 PROGRESS IN THE IMPLEMENTATION OF BASEL II

A study across the region indicates that the three East African Central Banks are still at the stage of sensitization and trying to incorporate market risk under Basel I. Bank of Uganda is fully committed to the harmonization initiatives by the three (3) East African States under the auspices of the Monetary Affairs Committee. Basel II awareness at Bank of Uganda is continuing and 24 examiners in the Supervision Function are now connected to FSI Connect for on-line tutorials. In May 2005, the East African Central Bank Governors MAC meeting, it was agreed that each central bank prepares reports outlining the various aspects of Basel II that can be implemented to modernize the banking system, pending full implementation of Basel II.

***Sensitization:***

In July 2005, Bank of Uganda's proposal to implement Basel II by the year 2010 was communicated to all commercial banks and credit institutions. The activity plan included Basel II impact survey on all supervised financial institutions. Subsequently a "Capacity Assessment Questionnaire" was circulated to all supervised financial institutions in October 25, 2005. The feed back from this questionnaire enabled Bank of Uganda to refine the Basel II implementation plan. As of December 2005, all the 15 commercial banks and 7 credit institutions had responded to the questionnaire.

***Structure of the questionnaire***

The questionnaire required the institutions to provide the following;

- Time frame within which the institution would be ready to implement Basel II
- Institution's own rating of the level of awareness and knowledge of benefits and costs of implementing Basel II.

- Constraints and adequacy of resources at institutional level
- Choice of approaches for Credit Risk, Operational Risk and Market Risk
- Ability to group credit exposures into six (6) categories at institutional level i.e. Claims on sovereigns, Claims on Banks, Claims on Corporates, Claims on Central Government Public Sector Entities, Claims on Securities Firms and Claims on Retail Portfolio
- Ability to group gross income into eight business lines namely: Corporate Finance, Trading and Sales, Retail Banking, Commercial Banking, Payment and settlements, Agency Services, Asset Management and Retail Brokerage.
- Reason for implementing Basel II, whether due to its recognition of risk “mitigants” or due to improved risk management
- Whether the institution will consider adopting more advanced approaches in future and when to adopt these advanced approaches
- Rating of disclosure requirements under Pillar 3
- Rating of Risk Management and Corporate Governance practices at institutional level.

***Level of preparedness by individual financial intuitions***

The analysis of responses reveals that the individual financial institutions intend to adopt Basel II even much earlier than anticipated;

- 1 out of the 5 big banks (subsidiaries of internationally active banks) has proposed to implement Basel II in 2007 while the remaining 4 have proposed to implement Basel II in 2008. The level of awareness of Basel II among the 5 big banks is considered to be high to medium.

- The majority of the medium and small banks and credit institutions have proposed to implement Basel II by 2008 but the level of awareness of Basel II was noted to be medium to low.

- The 5 big banks were aware of the benefits and costs of implementing Basel II. 6 out of the 10 medium and small banks were aware of benefits and costs while 4 out 7 credit institutions are not aware of the benefits and costs of implementing Basel II.

- Three (3) out of the 5 big banks have adequate resources to implement Basel II. 7 out of the 10 medium and small banks do not have adequate resources to implement Basel II and 4 out of the 7 credit institutions do not have adequate resource to implement Basel II.

- The majority of the 5 big banks intend to use internal models and standardized approaches for Credit Risk, Operational Risk and Market Risk. The majority of the medium sized banks have proposed to use standardized simplified approach for credit risk and standardized approach for operational and market risk. The majority of small banks and credit institutions have proposed simplified standardized approach for credit risk, basic indicator for operational risk and standardized approach for market risk.

- All the big banks and 5 medium sized banks expressed ability to break their credit portfolio into six (6) categories viz. Sovereigns, Banks, Corporates, Public Sector Entities (PSEs), Securities firms and Retail Portfolio. This implies that these 10 banks are able to deploy standardized approach for credit risk.

- 2 out of 5 small banks and 3 out of 7 credit institutions are not able to break their credit portfolio into six (6) distinct categories above. The Simplified Standardized Approach would be more suitable for these five institutions.

- All the 5 big banks and 4 out of 5 medium sized banks expressed ability to categorize gross income into 8 business lines. This would imply that these banks can make use of Standardized Approach for Operational Risk Measurement. However 1 out of the 5 big banks selected Advanced Measurement Approaches for Operational Risk, while 3 big banks and 3 medium sized banks opted for Standardized Approach for Operational Risk. 1 big bank and 1 medium sized bank opted for Basic Indicator.

- 2 out of the 5 small banks and 4 out of the 7 credit institutions expressed inability to categorize gross income into 8 business lines and the majority of small banks (4 out of 5) and credit institutions (5 out of 7), opted for Basic Indicator Approach for operational risk measurement.

- 2 out of 5 big banks opted to use Internal Models for market risk measurement. The rest of the banks and credit institutions opted for standardized approach.

- The majority of banks and credit institutions indicated that their main reason for implementing Basel II was its recognition of risk "mitigants" due to improved risk management approaches and culture.

- The majority of banks and credit institutions will consider adopting more advances measurement approaches in the future (after 2010).

- The majority of the banks and credit institutions rated disclosure requirements under pillar 3 as adequate.

- 7 out of 15 banks rated risk management practices at their respective institutions as adequate, while 7 others considered it moderate. 5 credit institutions rated their risk management practices as moderate, while 1 credit institution considered its risk management practices as adequate.

- 1 small bank and 1 credit institution rated risk management practices at their institutions as inadequate.

- The majority of the banks and credit institutions rated corporate governance practices at their institutions as adequate while 1 small bank and 1 credit institution reported inadequate corporate governance practices.

These responses will now be consolidated and form a platform for Bank of Uganda roadmap in the implementation of Basel II

***Benefits/Costs and Constraints of Implementing Basel II***

| **Benefits** | **Costs** | **Constraints** |
|---|---|---|
| • Enhanced Risk Sensitivity and Improved Risk Management<br>• Optimal Capital Usage<br>• Recognition of credit risk "mitigants"<br>• Effective credit risk management<br>• Strengthening capital base by providing for operational risk<br>• Sound Corporate Governance | • Revamping the IT Systems and acquisition of new Systems<br>• Training costs for staff and additional staffing needs<br>• Risk of divergent approaches<br>• High costs estimated at USD 1.4m by 1 Foreign Bank<br>• Insufficient historical data<br>• Time consuming transition | • Lack of rating agencies<br>• Ability to develop internal ratings<br>• Coordination of approaches and initiatives by local and foreign regulators<br>• Resource constraints<br>• Time lag to develop the desired MIS<br>• Capacity building<br>• Lack of national Ids<br>• Non-compliance with BCPs |

| | | |
|---|---|---|
| • Increased Transparency | • Risk quantification not easy<br>• Disclosure overload | • Poor perception of Corporate Governance<br>• Low levels of understanding of the economic environment<br>• Uncertainty on the supervisory review process<br>• Inadequate awareness<br>• Conflict between FIA 2004 & Basel II |

## 11.0.0 ANTI-MONEY LAUNDERING INITIATIVES

As the chair of the Uganda Anti-Money Laundering Committee (UAMLC), Bank of Uganda has continued to spearhead the committee's activities and the establishment and implementation of an anti-money laundering regime in Uganda. During 2005, Bank of Uganda actively participated in the activities of the East and Southern Africa Anti-Money Laundering Group (ESAAMLG)

The Anti-Money Laundering Bill, 2005 (Uganda) was passed by the Cabinet and the Bill is due to be gazetted and thereafter tabled before Parliament for debate. It is anticipated that the Bill will become law in 2006. Bank of Uganda continued to train its staff in anti-money laundering/combating financing of terrorism issues during the year under review and one of the officers graduated as a mutual evaluator of AML/CFT within the ESAAMLG.

***Mutual Evaluation on money laundering and combating of terrorist financing***

During the year 2005, Uganda undertook an anti-money laundering and combating financing of terrorism (AML/CFT) assessment by a team of assessors/mutual evaluators from World Bank. The report has not been finalized but it was noted that full compliance will depend on the enactment of the anti-money laundering law during 2006

# APPENDIX 1: INDUSTRY FIGURES

Quarter ended: 31/12/2005 (Figures in 000's of Ug. Shs)

| BALANCE SHEET STRUCTURE | Mar-05 | Jun-05 | Sep-05 | Dec-05 |
|---|---|---|---|---|
| A. ASSETS | | | | |
| 1. Cash and Cash Assets | 133,469,752 | 124,309,406 | 138,646,613 | 165,199,665 |
| 2. Balances with BOU | 217,489,618 | 221,254,090 | 226,546,645 | 232,868,248 |
| 3. Due from banks in Uganda | 69,793,334 | 109,657,656 | 87,750,758 | 101,028,693 |
| 4. Due from with Banks Abroad | 622,180,346 | 664,806,933 | 655,999,357 | 538,995,682 |
| 5. Government Securities | 1,038,320,944 | 972,505,627 | 973,322,608 | 988,487,794 |
| 6. Investments and Other Securities | 4,568,899 | 4,520,393 | 3,663,636 | 5,761,583 |
| 7. (a) Loans & Overdrafts (gross) | 954,434,799 | 1,031,215,396 | 1,138,533,982 | 1,201,686,492 |
| (b) Less: Provisions | (24,532,774) | (25,539,306) | (27,632,011) | (30,244,481) |
| c Loans & Overdrafts (Net) | 929,902,025 | 1,005,676,090 | 1,110,901,971 | 1,171,442,011 |
| 8. Administered Advances | 61,826,272 | 82,563,759 | 59,158,066 | 56,031,146 |
| 9. Fixed Assets (net) | 167,560,592 | 183,111,037 | 191,088,787 | 203,555,318 |
| 10. Other Assets | 132,443,950 | 157,533,910 | 188,852,504 | 195,298,705 |
| 11.Total Assets(net) | 3,377,555,732 | 3,525,938,901 | 3,635,930,945 | 3,658,668,845 |
| 12 Total Assets (BS100) | 3,402,088,506 | 3,551,478,207 | 3,663,562,956 | 3,688,913,326 |
| B. LIABILITIES | | | | |
| 13.Due to banks in Uganda | 34,521,252 | 81,175,079 | 63,143,246 | 96,543,496 |
| 14. Borrowings from BOU | 1,850,800 | 1,508,800 | 1,508,800 | 1,166,800 |
| 15. Deposits | 2,507,781,805 | 2,548,687,152 | 2,563,452,319 | 2,595,115,782 |
| 16. Due to Banks Abroad | 20,555,944 | 14,710,851 | 27,017,888 | 8,678,379 |
| 17. Administered Funds | 68,382,678 | 85,965,189 | 106,772,310 | 88,309,376 |
| 18. Bills Payable | 17,988,357 | 26,442,710 | 22,931,978 | 31,788,139 |
| 19. Other Liabilities | 351,823,282 | 401,082,013 | 453,187,717 | 404,694,772 |
| 20. Total Liabilities | 3,002,904,118 | 3,159,571,794 | 3,238,014,258 | 3,226,296,743 |
| C. CAPITAL | | | | |
| 21. Paid-up-Capital | 94,690,200 | 94,690,202 | 94,690,436 | 94,690,750 |
| 22. Share Premium | 25,223,546 | 25,223,546 | 25,223,546 | 25,223,546 |
| 23. Retained Reserves | 202,355,142 | 167,765,251 | 167,808,333 | 167,352,005 |
| 24. Other Reserves/Surbodinated Debt | 25,249,460 | 18,494,193 | 17,730,926 | 21,525,300 |
| 25. Profit – Loss (current year) | 27,133,264 | 60,193,914 | 92,463,446 | 123,580,500 |
| 26. Total Shareholders funds | 374,651,613 | 366,367,107 | 397,916,687 | 432,372,102 |
| D. OFF BALANCE SHEET ITEMS | | | | |
| 27. Letters of Credit | 73,916,802 | 85,714,703 | 102,602,485 | 114,682,579 |
| 28. Guarantees and Performance Bonds | 128,714,172 | 138,437,714 | 162,455,202 | 153,437,883 |
| 29. Unused Loans/Overdrafts commitme | 227,741,537 | 227,466,602 | 247,711,417 | 309,420,851 |
| 30. Other off balance sheet items | 11,335,134 | 20,546,486 | 23,557,646 | 16,861,514 |
| 31. TOTAL | 441,707,645 | 472,165,505 | 536,326,750 | 594,402,827 |
| INCOME STATEMENT STUCTURE | | | | |
| E. INCOME | | | | |
| 32. Interest Income – Advances | 42,947,956 | 42,994,424 | 48,337,076 | 52,861,648 |
| 33. Interest Income – Govt Securities | 28,879,530 | 30,407,550 | 30,795,420 | 28,984,511 |
| 34. Interest Income – Deposits Abroad | 2,872,889 | 3,354,701 | 4,253,826 | 5,014,475 |
| 35. Interest Income - Others | 3,549,924 | 3,935,510 | 4,873,556 | 4,663,387 |
| 36. Charges, Fees and Commissions | 22,177,046 | 23,324,155 | 24,511,235 | 32,242,388 |
| 37. Foreign Exchange Income | 10,326,431 | 11,089,821 | 11,270,791 | 10,088,512 |
| 38. Income – Off Balance Sheet | 2,538,837 | 2,539,007 | 2,957,563 | 2,606,370 |
| 39. Other Income | 2,311,942 | 1,771,077 | 3,799,523 | 4,255,336 |
| 40. Total Income | 115,604,555 | 119,416,244 | 130,798,990 | 140,716,628 |
| EXPENSES | | | | |
| 41. Interest Expense – Deposits | (10,873,969) | (10,080,865) | (13,180,606) | (15,022,744) |
| 42. Other Interest Expenses | (1,773,989) | (2,930,347) | (3,480,481) | (2,174,619) |
| 43. Provisions for Bad Debts | (4,037,475) | (2,331,412) | (3,385,733) | (6,907,503) |
| 44. Salaries, Wages, staff costs | (23,229,064) | (23,682,971) | (24,765,514) | (26,587,872) |
| 45. Premises, Depreciation, Transport | (11,024,292) | (14,583,851) | (11,630,793) | (11,319,168) |
| 46. Other Expenses | (25,863,371) | (25,026,479) | (26,782,077) | (36,940,327) |
| 47. Total Expenses | (76,802,161) | (78,635,927) | (83,225,204) | (98,952,233) |
| 48. EXTRAORDINARY Credits/Charges | (10,262) | 259,708 | (314,776) | - |
| 49. Net Profit Before Tax | 38,792,132 | 41,040,025 | 47,259,010 | 41,764,395 |
| 50. Corporation Tax | (11,658,868) | (12,108,030) | (14,855,129) | (11,997,492) |
| 51. Net Profit After Tax | 27,133,264 | 28,931,996 | 32,403,881 | 29,766,903 |
| G. OTHER INFORMATION | | | | |
| 52. Non-performing loans | 22,248,488 | 32,721,997 | 37,432,549 | 29,128,909 |
| 53. Specific Provisions | 16,805,275 | 17,756,838 | 18,304,823 | 19,456,429 |
| 54. General Provisions | 7,727,499 | 7,782,468 | 9,327,188 | 10,788,052 |
| 55. Interest in Suspense | 4,595,605 | 4,740,778 | 5,067,357 | 3,898,698 |
| 56. Recommended Additional Provisions | - | - | - | - |
| 57. Core Capital | 299,519,382 | 311,079,934 | 330,642,359 | 347,820,961 |
| 58. Supplementary Capital | 26,265,037 | 26,276,661 | 27,021,593 | 32,269,421 |
| 59. Total Qualifying Capital | 325,784,419 | 337,356,595 | 357,663,952 | 380,090,382 |
| 60. Total Risk Weighted Assets | 1,694,727,187 | 1,880,572,336 | 2,012,567,095 | 2,076,277,848 |
| 61. Short Term Assets | 1,590,183,650 | 1,839,862,129 | 1,912,169,147 | 1,905,526,141 |
| 62. Short Term Liabilities | 2,563,744,456 | 2,662,943,585 | 2,650,209,232 | 2,702,490,161 |
| 63. Forex Assets | 927,906,669 | 1,027,442,889 | 1,102,422,365 | 1,011,083,263 |
| 64. Forex Liabilities | 919,554,850 | 1,010,120,042 | 1,069,131,182 | 991,591,054 |
| 65. Forex Loans | 283,422,889 | 327,306,863 | 370,696,201 | 383,624,778 |
| 66. Forex Deposits | 765,493,327 | 837,987,127 | 824,369,492 | 786,258,466 |
| 67. Earnings Assets | 2,726,591,820 | 2,839,730,458 | 2,890,796,396 | 2,861,746,909 |
| 68. Liquid Assets | 1,515,312,943 | 1,373,890,522 | 1,516,149,771 | 1,557,974,917 |
| 69. Insider Loans | 10,219,098 | 12,422,580 | 11,975,390 | 10,856,059 |
| 70. Large Exposure | 424,115,373 | 460,712,416 | 507,383,387 | 504,923,831 |
| 71. Forex exposure | (3,370,891) | (8,431,876) | (15,102,264) | (9,273,167) |

| PERFORMANCE INDICATORS | Mar-05 | Jun-05 | Sep-05 | Dec-05 |
|---|---|---|---|---|
| CAMELS RATING | - | - | - | - |
| Capital Adequacy | | | | |
| Asset Quality | | | | |
| Management | | | | |
| Earnings | | | | |
| Liquidity | | | | |
| Sensitivity | | | | |
| OVERALL | | | | |
| (KEY: 1– Strong; 2– Satisfactory; 3– Fair; 4 – Marginal; 5 – Unsatisfactory) | | | | |
| RANKING - 15 Banks | | | | |
| Total Assets | | | | |
| Total Deposits | | | | |
| Total Loans / Advances | | | | |
| Core Capital / Risk Weighted Assets (RWA) | | | | |
| Non Performing Loans (NPLs) / Gross Loans | | | | |
| Return on Average Assets | | | | |
| Return on Average Equity | | | | |
| Liquid Assets Ratio | | | | |
| Forex Exposure Ratio | | | | |
| MARKET SHARE | | | | |
| % share of Assets | | | | |
| % share of Loans | | | | |
| % share of Deposits | | | | |
| GROWTH RATES | | | | |
| Total Assets | 2.63% | 4.39% | 3.16% | 0.69% |
| Total loans | 4.05% | 9.60% | 7.53% | 5.01% |
| Deposits | 2.87% | 1.63% | 0.58% | 1.24% |
| Due from banks in Uganda | 0.33% | 57.12% | -19.98% | 15.13% |
| Due from banks abroad | -8.75% | 6.85% | -1.32% | -17.84% |
| Government securities | 8.90% | -6.34% | 0.08% | 1.56% |
| MEASURES OF CAPITAL ADEQUACY | | | | |
| Core Capital / RWA | 17.67% | 16.54% | 16.43% | 16.75% |
| Total Qualifying Capital / RWA | 19.22% | 17.94% | 17.77% | 18.31% |
| Off Balance Sheet Items / Total Qualifying C | 135.58% | 139.96% | 149.95% | 156.38% |
| Insider Loans / Core Capital | 3.41% | 3.99% | 3.62% | 3.12% |
| Large Exposures / Total Capital | 130.18% | 136.57% | 141.86% | 132.84% |
| NPLs – Provisions / Core Capital | -0.76% | 2.31% | 2.96% | -0.32% |
| MEASURES OF ASSET QUALITY | | | | |
| NPLs / Gross Loans | 2.19% | 2.94% | 3.13% | 2.32% |
| Provisions / NPLs | 110.27% | 78.05% | 73.82% | 103.83% |
| Earning Assets / Total Asset | 80.73% | 80.54% | 79.51% | 78.22% |
| Fixed Assets / Core Capital | 55.94% | 58.86% | 57.79% | 58.52% |
| Large Exposures / Gross Loans | 41.73% | 41.36% | 42.36% | 40.15% |
| MEASURES OF EARNINGS (ANNUALISED) | | | | |
| Return on Average Assets | 3.25% | 3.35% | 3.62% | 3.26% |
| Return on Average Equity | 27.96% | 31.23% | 33.92% | 28.68% |
| Net Interest Margin | 13.48% | 13.47% | 14.65% | 15.12% |
| Yield on Advances | 17.24% | 16.15% | 16.73% | 17.22% |
| Cost of Deposits | 1.76% | 1.59% | 2.06% | 2.33% |
| Cost to Income | 66.44% | 65.85% | 63.63% | 70.32% |
| Overhead to Income | 52.00% | 53.00% | 48.30% | 53.19% |
| MEASURES OF LIQUIDITY | | | | |
| Short term Gap | -28.62% | -23.18% | -20.15% | -21.60% |
| Liquid Assets / Total Deposits | 60.42% | 53.91% | 59.14% | 60.03% |
| Interbank Borrowings / Total Deposits | 1.38% | 3.18% | 2.46% | 3.72% |
| Borrowings from BOU / Total Deposits | 0.07% | 0.06% | 0.06% | 0.04% |
| Bank funded Advances/ Total Deposits | 38.06% | 40.46% | 44.41% | 46.31% |
| MEASURES OF MARKET SENSITIVITY | | | | |
| Forex Exposure / Core Capital | -1.13% | -2.71% | -4.57% | -2.67% |
| Forex Loans / Forex Deposits | 37.02% | 39.06% | 44.97% | 48.79% |
| Forex Assets / Forex Liabilities | 100.91% | 101.71% | 103.11% | 101.97% |

## Appendix 2: REGISTERED COMMERCIAL BANKS AS AT 31 DECEMBER 2005

| Name of Bank | Physical Address | Telephone and Fax Numbers | Hours of Business | E-mail Address |
|---|---|---|---|---|
| Allied Bank International (U) Ltd. | Plot 24 Jinja Rd.<br>P.O. Box 2750<br>Kampala | 256-041-36535/6<br>256-041-233980<br>256-041-230436<br>Fax;256-041-230439<br>256-041-230669 | Mon – Friday<br>8.30am – 4.00pm<br>Saturday<br>9.00am – 12.00pm | allied@starcom.co.ug |
| Bank of Baroda (U) Ltd. | Plot 18, Kampala Rd.<br>P.O. Box 7197<br>Kampala | 256-014-33680/4<br>256-041-232783<br>Fax: 256-041-230781<br>256-041-258263 | Mon – Friday<br>8.30am – 3.00pm<br>Saturday – Closed | Bob10@calva.com<br>bobho@spacenetuganda.com |
| Barclays Bank (U) Ltd. | Plot 16 Kampala Rd.<br>P.O. Box 2971<br>Kampala | 256-041-30972/6<br>256-041-232594<br>Fax:256-041- 341329<br>256-041-259467 | Mon – Friday<br>8.30am – 5.15pm<br>Saturday - Closed<br>VISA and MasterCard | Barclays@infocom.co.ug |
| Cairo International Bank Ltd | Plot 30 Kampala Rd.<br>P.O .Box 7052<br>Kampala | 256-041-235666<br>256-041-30136/9<br>256-041-30140/1<br>256-041-230135<br>Fax: 256-041-230130<br>256-041-230135 | Mon – Friday<br>8.30am – 4.00pm<br>Saturday<br>10.00am – 1.00pm | cib@spacenetuganda.com |
| Centenary Rural Development Bank | Plot 7 Entebbe Rd<br>P.O. Box 1892<br>Kampala | 256-041-51276/7<br>256-041-234872<br>256-041-346856<br>256-041-232393<br>Fax:256-041-51273/4 | Mon – Friday<br>8.30am – 4.00pm<br>Saturday<br>9.00am – 1.00pm | crdb@imul.com |
| Citibank (U) Ltd. | Plot 4 Ternan Avenue, Centre Court<br>P.O. Box 7505<br>Kampala | 256-041-40945/9<br>Fax:256-041-340624 | Mon – Friday<br>8.30am – 3.00pm<br>Saturday - Closed | |
| Crane Bank (U) Ltd. | Plot 38 Kampala Rd<br>Crane Chambers<br>P.O. Box 22572<br>Kampala | 256-041-345345<br>256-041-231337<br>256-041-341400<br>256-041-341410<br>256-75-2743500<br>256-75-2743502<br>Fax:256-041-231578<br>256-041-232958<br>256-041-254956 | Mon – Friday<br>8.30am – 5.00pm<br>Saturday<br>9.00am – 2.00pm | cranebank@cranebankltd.com<br>cranebank@imul.com |

| | | | | |
|---|---|---|---|---|
| Diamond Trust Bank (U) Ltd. | Diamond Trust Building<br>Plot 17/19<br>Kampala Rd | 256-041-331/2/3<br><br>Fax:256-041-342286 | Mon – Friday<br>8.30am – 4.00pm<br>Saturday<br>9.00am – 1.00pm | dtbu@spacenetuganda.com |
| DFCU Bank Ltd. | Plot 13 Kimathi Avenue<br>P.O. Box 70 Kampala. | 256-041-256891<br>256-041-232212<br>256-041-256125<br>Fax:256-041-344260<br>256-041-231687<br>256-041-259435 | Mon – Friday<br>8.30am – 4.00pm<br>Saturday<br>9.00am – 12.00pm<br>No card | dfcubank@dfcugroup.com |
| National Bank of Commerce Ltd. | Plot 13A Parliament Avenue<br>Cargen House<br>P.O. Box 23232 Kampala | 256-041-47700/2<br>256-041-347699<br><br>Fax:256-041-347701 | Mon – Friday<br>8.30am – 3.00pm<br>Saturday<br>9.00am – 1.00pm<br>No cards | nbc@swiftuganda.com |
| Nile Bank Ltd. | Plot 22 Jinja Road<br>Spear House<br>P.O. Box 2834 Kampala | 256-75-2778867<br>256-78-2226110<br>256-041-346904<br>256-041-349108<br>256-041-349116<br>Fax:256-041-257779 | Mon – Friday<br>8.30am – 4.00pm<br>Saturday<br>9.30am – 12.00pm<br>No cards | nilebkug@imul.com<br>nilebku@imul.com |
| Orient Bank Ltd. | Plot 10 Kampala Road<br>Uganda House<br>P.O. Box 3072<br>Kampala | 256-041-36012/5<br><br>Fax:256-041-236066<br>256-041-348039 | Mon – Friday<br>8.30am – 4.00pm<br>Saturday<br>9.00am – 1.00pm<br>No cards | orient@starcom.co.ug |
| Stanbic Bank (U) Ltd. | Plot 45 Kampala Rd<br>P.O .Box 7131 Kampala | 256-78-2224111<br>256-041-231152<br>256-041-230811<br>256-041-231151<br>Fax:256-041-231116<br>256-041-230608 | Mon – Friday<br>8.30am – 4.00pm<br>Saturday<br>9.00am – 12.00pm<br>No cards | stanbic@starcom.co.ug |
| Standard Chartered Bank (U) Ltd. | Plot 5 Speke Rd<br>P.O. Box 7111 Kampala | 256-041-58211/7<br>256-041-49505/9<br>Fax:256-041-342875<br>256-041-231473 | Mon – Friday<br>8.30am – 3.00pm<br>Saturday – Closed<br>VISA card | scb.uganda@ug.standardchartered.com |
| Tropical Africa Bank Ltd. | Plot 27 Kampala Rd<br>P.O .Box 7292/9485<br>Kampala | 256-041-31990/5<br><br>Fax:256-041-232296 | Mon – Friday<br>8.30am – 3.00pm<br>Saturday - Closed<br>No cards | Tabu10@calva.com |

# Appendix 3: TABLES FOR COMMERCIAL BANKS

## Table 1: COMMERCIAL BANKS' ASSETS AND LIABILITIES

(Shillings, billions)

| ASSETS | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| Cash and Balances with BOU | 196 | 238 | 218 | 233 | 345 | 398 |
| Treasury Bills | 332 | 514 | 839 | 886 | 707 | 593 |
| Fixed assets | 106 | 106 | 110 | 136 | 164 | 204 |
| Due from Banks Outside Uganda | 377 | 368 | 362 | 640 | 682 | 539 |
| Loans & advances to customers | 525 | 521 | 661 | 847 | 977 | 1,258 |
| Other securities | 73 | 74 | 48 | 28 | 248 | 397 |
| Other assets | 236 | 217 | 218 | 220 | 192 | 300 |
| **Total assets** | **1,845** | **2,038** | **2,456** | **2,990** | **3,315** | **3,689** |
| **LIABILITIES** | | | | | | |
| Deposits | 1,325 | 1,483 | 1,822 | 2,214 | 2,438 | 2,595 |
| Due to Deposit Money Banks | 77 | 65 | 77 | 47 | 94 | 105 |
| Provisions | 63 | 58 | 50 | 47 | 87 | 121 |
| Other liabilities | 196 | 199 | 241 | 381 | 293 | 435 |
| Capital (excl. year-to-date profits)[1] | 106 | 167 | 201 | 203 | 271 | 309 |
| Year to date profit[2] | 78 | 66 | 65 | 98 | 132 | 124 |
| **Total Liabilities & Capital** | **1,845** | **2,038** | **2,456** | **2,990** | **3,315** | **3,689** |

**Note**:

1. Figures for closed banks are excluded from the data for subsequent periods.
2. From December 2002 onwards, all commercial banks financial year-ends coincide with the calendar year end.

**Source**: Monthly returns of Commercial banks

**Table 2: COMMERCIAL BANKS' COMPARATIVE INCOME STATEMENT1**
(Shillings, billions)

| PROFIT & LOSS | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| Interest on advances | 84 | 89 | 81 | 122 | 158 | 186 |
| Interest on government securities | 55 | 88 | 75 | 132 | 128 | 121 |
| Other interest income | 31 | 28 | 12 | 16 | 24 | 35 |
| **Total interest income** | **170** | **205** | **168** | **270** | **310** | **342** |
| Total non-interest income | 78 | 86 | 93 | 123 | 171 | 168 |
| **Total Income** | **248** | **291** | **261** | **393** | **481** | **510** |
| | | | | | | |
| **Expenses** | | | | | | |
| Total Interest Expense | 40 | 45 | 28 | 50 | 54 | 61 |
| Provisions for bad debts | 14 | 18 | 3 | 15 | 14 | 16 |
| Salaries & other staff costs | 50 | 57 | 64 | 73 | 86 | 99 |
| Other non-interest expense | 69 | 90 | 101 | 157 | 195 | 210 |
| **Total Expenses** | **173** | **210** | **196** | **295** | **349** | **386** |
| **Net Income** | **75** | **81** | **65** | **98** | **132** | **124** |

**Note**:

1. Figures Source: Commercial banks' quarterly income statements.

**Table 3: SECTORAL DISTRIBUTION OF COMMERCIAL BANKS' CREDIT1**
(Shillings, billion)

| Sector | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| Government | 3 | 2 | 3 | 3 | 1 | 2 |
| Agriculture | 52 | 51 | 54 | 81 | 108 | 157 |
| Mining and Quarrying | 2 | 4 | 3 | 3 | 1 | 8 |
| Manufacturing | 210 | 190 | 183 | 222 | 219 | 241 |
| Trade and Commerce | 107 | 120 | 173 | 191 | 146 | 183 |
| Transport, Comm. Elec. & Water: | 33 | 29 | 45 | 61 | 63 | 95 |
| Building and Construction | 22 | 19 | 20 | 27 | 39 | 57 |
| Other Services[2] | 96 | 105 | 180 | 259 | 400 | 515 |
| **Total** | **525** | **521** | **661** | **847** | **977** | **1,258** |

**Note**:
1. Figures for closed banks are excluded from the data.
2. Includes bills of exchange, real estate and lending to Non-banking Financial Institutions (NBFIs).

Source: Monthly statements of Commercial banks.

**Table 4: STRUCTURE OF COMMERCIAL BANKS DEPOSITS.**
(Shillings, billions)

| Type of Deposits | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| Demand and Call | 847 | 960 | 1,175 | 1,486 | 1,624.8 | 1,593 |
| Savings | 197 | 253 | 302 | 348 | 418.6 | 492 |
| Time | 281 | 270 | 345 | 380 | 394.5 | 510 |
| **Total** | **1,325** | **1,483** | **1,822** | **2,214** | **2,437.9** | **2,595.1** |

**Note**:

1. Figures for closed banks are excluded from the data for subsequent periods.

**Source:** Monthly returns of commercial banks.

**Table 5: KEY FINANCIAL INDICATORS**

| INDICATOR | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| **CAPITAL ADEQUACY** | | | | | | |
| Core Capital/RWAs (%) | 17.4 | 20.5 | 18.0 | 14.4 | 18.8 | 16.8 |
| Owner's funds – Equity (Shs bn) | 166 | 194 | 214 | 301 | 403 | 432 |
| Core capital (Shs bn) | 148 | 180 | 195 | 219 | 313 | 3,489 |
| Paid-up Capital (Shs bn) | 67 | 84 | 86 | 86 | 95 | 95 |
| **EARNINGS RATIOS** | | | | | | |
| ROA (%) | 4.21 | 4.13 | 2.7 | 3.7 | 4.3 | 3.4 |
| ROE (%) | 45.10 | 50.85 | 24.4 | 38.1 | 37.6 | 28.6 |
| **LIQUIDITY** | | | | | | |
| Liquid assets/Total deposits (%) | 84.15 | 87.59 | 86.08 | 59.4 | 63.1 | 60.0 |
| Total Advances/Total deposits (%) | 38.98 | 35.33 | 36.39 | 35.3 | 37.4 | 46.3 |
| Liquid assets (Shs bn) | 1,106 | 1,292 | 1,564 | 1,314 | 1,538 | 1,558 |
| **ASSET QUALITY** | | | | | | |
| Loans and Advances (Shs bn) | 525 | 521 | 661 | 847 | 977 | 1,258 |
| Non Performing Advances-NPA (Shs bn) | 52 | 34 | 20 | 61 | 21 | 29 |
| General and Specific Provisions for NPA (Shs bn) | 32 | 24 | 16 | 47 | 21 | 30 |
| Specific Provisions (Shs bn) | 26 | 21 | 10 | 39 | 10 | 19 |
| NPA/Total Advances (%) | 9.8 | 6.5 | 3.0 | 7.2 | 2.2 | 2.3 |
| Specific Provisions/NPA (%) | 50.5 | 61.2 | 53.2 | 62.9 | 45.1 | 66.8 |

**Note:**

ROA - Return on Assets
ROE - Return on Equity
NPA - Non Performing Assets (primarily loans and advances)
RWA - Risk Weighted Assets

**Source**: Monthly returns of Commercial banks

## Appendix 4: TABLES FOR CREDIT INSTITUTIONS

### Table 1: STATEMENT OF ASSETS AND LIABILITIES FOR CREDIT INSTITUTIONS (Shillings, Millions)

| | Dec-01 | Dec -02 | Dec-03 | Dec-04 | Dec-2005 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash | 1,454 | 2,665 | 2,900 | 2,299 | 3,606 |
| Balances with commercial banks and associated companies in Uganda | 13,535 | 21,414 | 16,454 | 22,386 | 32,387 |
| Balances with commercial banks outside Uganda | 1,217 | 1,333 | 2,028 | 2,874 | 3,499 |
| Investments | 4,352 | 16,724 | 22,462 | 31,635 | 20,551 |
| of which Government securities | 3,725 | 9,047 | 11,571 | 22,172 | 20,424 |
| Loans and advances | 59,906 | 69,542 | 82,928 | 103,711 | 129,810 |
| of which Administered Loans | 27,927 | 27,617 | 25,672 | 22,978 | 19,801 |
| Premises and fixed assets | 5,439 | 8,812 | 12,254 | 12,978 | 15,123 |
| Other Assets | 2,067 | 5,014 | 5,522 | 5,860 | 8,707 |
| Total assets | **87,971** | **125,504** | **144,548** | **181,743** | **213,683** |
| **LIABILITIES** | | | | | |
| Total deposit liabilities to depositors | 44,632 | 73,241 | 83,815 | 110,131 | 131,281 |
| Balances due to commercial banks/associated companies | - | - | 4,000 | 5,947 | 9,709 |
| Administered funds [1/] | 27,918 | 27,617 | 25,672 | 22,978 | 19,801 |
| Other Liabilities | 1,386 | 3,591 | 4,877 | 6,024 | 7,595 |
| Provisions | 3,342 | 4,372 | 6,150 | 4,626 | 7,184 |
| Capital | 9,848 | 14,745 | 18,203 | 28,169 | 32,320 |
| of which paid up capital | 7,435 | 9,682 | 10,182 | 20,282 | 21,282 |
| Profit for current year | 845 | 1,938 | 1,832 | 3,869 | 5,793 |
| Total liabilities | **87,971** | **125,504** | **144,548** | **181,743** | **213,683** |

Note: Data includes Post Bank (U) Limited from December 2002.

1. Administered Mortgage funds are managed by Housing Finance Company of Uganda under an agreement with the Government of Uganda.

**Source:** Monthly returns of Credit Institutions.

**Table 2: COMPARATIVE INCOME STATEMENT FOR CREDIT INSTITUTIONS.**
**(Shillings, Million)**

| | Dec -01 | Dec - 02 | Dec -03 | Dec - 04 | Dec- 05 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Interest on loans and advances | 5,346.40 | 6,902.03 | 9,109.36 | 13,524.26 | 19,413.38 |
| Interest on government securities | 563.08 | 705.14 | 1,467.35 | 1,911.70 | 2,257.15 |
| Other interest income | 1,795.19 | 1,550.95 | 2,031.42 | 1,977.54 | 2,301.49 |
| Total interest income | 7,704.67 | 9,158.12 | 12,608.13 | 17,413.51 | 23,972.03 |
| Total non-interest income | 1,994.47 | 3,714.65 | 4,794.28 | 7,516.69 | 8,452.74 |
| Total Income | **9,699.14** | **12,872.77** | **17,402.41** | **24,930.19** | **32,424.77** |
| | | | | | |
| **Expenses** | | | | | |
| Total Interest Expense | 1,622.89 | 2,235.11 | 3,096.37 | 4,093.55 | 6,870.26 |
| Provisions for bad debts | 832.95 | 68.22 | 779.71 | 846.45 | 1,095.03 |
| Salaries & other staff costs | 2,715.26 | 3,828.82 | 4,865.87 | 6,782.16 | 8,116.87 |
| Other non-interest expense | 3,460.12 | 3,995.23 | 5,696.45 | 7,404.31 | 8,540.84 |
| Total Expenses | 8,631.22 | 10,127.38 | 14,438.40 | 19,126.46 | 24,623.00 |
| Taxation | 524.62 | 807.77 | 1,131.90 | 1,934.54 | 2,009.08 |
| **Net Income** | **543.30** | **1,937.62** | **1,832.11** | **3,869.19** | **5,792.69** |

Source: Quarterly returns of Credit Institutions.

**Table 3: SECTORAL DISTRIBUTION OF LOANS AND ADVANCES OF CREDIT INSTITUTIONS (IN PERCENTAGES OF TOTAL PORTFOLIO)**

| | Dec 00 | Dec 01 | Dec 02 | Dec 03 | Dec 04 | Dec 05 |
|---|---|---|---|---|---|---|
| | | | | | | |
| Agriculture | 0 | 0.2 | 0.3 | 0.1 | 0.0 | 0.5 |
| Manufacturing | 1.9 | 1.1 | 1.4 | 4.1 | 0.4 | 2.0 |
| Trade and Commerce | 20.8 | 19.4 | 16.8 | 15.5 | 18.8 | 22.8 |
| Transport and communication | 1.2 | 4.4 | 1.8 | 1.2 | 2.5 | 0.6 |
| Building and construction | 73.8 | 72.5 | 78.9 | 76.8 | 73.2 | 69.15 |
| Other services | 2.3 | 2.4 | 0.8 | 2.3 | 5.2 | 5.0 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Source: Monthly returns of Credit Institutions.

**Table 4: LIQUID ASSETS OF CREDIT INSTITUTIONS (Shillings, Millions)**

| | Dec 00 | Dec 01 | Dec 02 | Dec 03 | Dec 04 | Dec 05 |
|---|---|---|---|---|---|---|
| Cash in vaults | 804.01 | 1,454.25 | 2,665.49 | 2,900.28 | 2,299.01 | 3,606.11 |
| Treasury bills holdings | 2,823.41 | 3,724.79 | 9,046.69 | 11,570.84 | 22,171.90 | 20,423.59 |
| Balances at commercial banks in Uganda | 9,784.88 | 13,535.02 | 20,669.10 | 16,454.27 | 29,085.69 | 32,386.65 |
| Balances at commercial bank outside Uganda | 1,406.59 | 1,217.24 | 1,332.50 | 2,027.82 | 2,874.20 | 3,498.91 |
| Postbank (U) Ltd investment in shares and UK Government bonds | | | 7,460.20 | 7,051.00 | 1,312.67 | - |
| **TOTAL** | **14,818.89** | **19,931.30** | **41,173.98** | **40,004.21** | **57,743.47** | **59,915.26** |

**Source:** Monthly returns of Credit Institutions

**Table 5: STRUCTURE OF DEPOSITS OF CREDIT INSTITUTIONS**
**(Shillings, Millions)**

| Type of deposit | Dec-00 | Dec - 01 | Dec - 02 | Dec - 03 | Dec - 04 | Dec - 05 |
|---|---|---|---|---|---|---|
| Savings Deposits | 15,455.7 | 21,211.3 | 43,005.2 | 48,104.1 | 61,987.3 | 66,394.73 |
| Time Deposits | 4,557.1 | 6,808.3 | 9,699.0 | 10,550.4 | 19,298.0 | 30,953.61 |
| Other Deposits (Agency funds) 1/ | 13,415.2 | 6,499.7 | 19,914.3 | 24,127.5 | 28,302.9 | 32,883.56 |
| Accrued Interest | 58.8 | 112.4 | 622.2 | 1,033.2 | 542.5 | 1,048.95 |
| **Total Liabilities to Depositors** | **33,486.8** | **34,631.7** | **73,240.7** | **83,815.2** | **110,130.7** | **131,280.85** |

**Note:**
1. "Agency funds" represent amount collected so far from the beneficiaries of the government pool house sale scheme and interest charged thereon, by the Housing Finance Company Ltd.

**Source:** Monthly statement of assets and liabilities from the Credit Institutions.

**Table 6: KEY FINANCIAL INDICATORS.**

| **Indicator** | **Dec 00** | **Dec 01** | **Dec 02** | **Dec 03** | **Dec 04** | **Dec 05** |
|---|---|---|---|---|---|---|
| **CAPITAL ADEQUACY** | | | | | | |
| Core Capital/RWAs (%) | 27.89 | 19.87 | 24.70 | 20.02 | 26.56 | 24.65 |
| Owner's funds (Equity) | 10,981.52 | 10,693.36 | 16,682.50 | 20,035.19 | 32,038.07 | 38,113.17 |
| **EARNINGS RATIOS** | | | | | | |
| ROA (%) | 2.15 | 1.00 | 1.60 | 1.32 | 2.44 | 2.99 |
| ROE (%) | 14.68 | 7.91 | 11.61 | 9.14 | 12.08 | 15.20 |
| **LIQUIDITY** | | | | | | |
| Liquid assets/Total deposits (%) | 44.67 | 44.66 | 56.22 | 47.73 | 52.43 | 45.64 |
| Total advances/Total deposits (%) | 72.43 | 71.65 | 57.24 | 68.31 | 73.31 | 69.16 |
| Liquid assets (Shs m) | 14,818.48 | 19,931.29 | 41,173.95 | 40,004.2 | 57,743.47 | 59,915.25 |
| **ASSET QUALITY** | | | | | | |
| Loans and Advances (Shs m) 1/ | 24,254.32 | 31,978.9 | 41,925.3 | 57,255.64 | 80,733.75 | 110,009 |
| Non Performing Advances-NPA (Shs m) | 2,676.30 | 5,067.44 | 4,650.17 | 6,620.83 | 3,149.0 | 6,177 |
| Total Provisions for NPA (Shs m) | 762.89 | 1,395.39 | 2,168.02 | 3,807.06 | 2,300.0 | 3,250 |
| NPA/Total Advances (%) | 11.03 | 15.85 | 11.09 | 11.56 | 3.90 | 5.62 |
| Total Provisions/NPA (%) | 28.51 | 27.54 | 46.6 | 57.5 | 73.04 | 52.61 |

**Note:**
1. Loans and advances exclude administered loans.

## Appendix 5: TABLES FOR MICROFINANCE DEPOSIT TAKING INSTITUTIONS

**Table 1: STATEMENT OF ASSETS AND LIABILITIES FOR MICRODEPOSIT TAKING INSTITUTIONS** **(Shillings, Millions)**

| | Dec-01 | Dec -02 | Dec-03 | Dec-04 | Dec-2005 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Notes and Coins | | | | | 2,292.79 |
| Balances with Financial Institutions in Uganda | | | | | 12,922.73 |
| Investments in Government Securities | | | | | 11,448.34 |
| Net loans outstanding | | | | | 63,158.02 |
| Inter branch / Due from own offices | | | | | 171.86 |
| Net Fixed Assets | | | | | 8,008.34 |
| Long term investments | | | | | 408.65 |
| Other Assets | | | | | 5,274.73 |
| **Total assets** | | | | | **103,685.46** |
| | | | | | |
| **LIABILITIES** | | | | | |
| Total deposit liabilities to depositors | | | | | 15,482.30 |
| Loan Insurance Funds | | | | | 15,168.59 |
| Borrowings | | | | | 32,710.43 |
| Other Liabilities | | | | | 4,598.63 |
| Grants / Deferred Income | | | | | 1,009.90 |
| Inter-branch / Due to own offices | | | | | 0.31 |
| Other Long-term liabilities | | | | | 3,456.32 |
| **Total liabilities** | | | | | **72,426.46** |
| FINANCED BY | | | | | |
| Capital | | | | | 18,571.79 |
| Subordinated Debts | | | | | 9,787.21 |
| Preference Shares | | | | | 2,900.00 |
| Total Liabilities | | | | | **103,685.46** |

**Table 2: INCOME STATEMENT FOR MICROFINANCE DEPOSIT TAKING INSTITUTIONS**
**(Shillings, Million)**

| | Dec -01 | Dec - 02 | Dec -03 | Dec - 04 | Dec- 05 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Total Credit income | | | | | 32,743.00 |
| Total Other Income | | | | | 2,419.87 |
| Gross Financial income | | | | | 35,162.87 |
| Total Financial expenses | | | | | 6,087.39 |
| Provision for bad debts | | | | | 2,918.68 |
| Net Financial Income | | | | | 26,156.80 |
| Total Operating Expenses on Financial services | | | | | 25,167.99 |
| **Net Income from operations** | | | | | **988.81** |
| Total Grant Income for Financial Services | | | | | 255.54 |
| Total Grant Income for Non-Financial Services | | | | | 22.10 |
| Income from Non- Financial services | | | | | 35.51 |
| Total Operating Expenses for non-financial services | | | | | 73.85 |
| Net operating profit from Non –Financial services | | | | | (38.34) |
| **Net Profit** | | | | | **1,228.08** |
| Corporation Tax | | | | | 105.39 |
| Net Profit after Tax | | | | | 1,122.69 |
| Retained Earnings | | | | | 1,122.69 |

**Source**: Quarterly returns of MDIs.

**Table 3: KEY FINANCIAL INDICATORS. MICROFINANCE DEPOSIT TAKING INSTITUTIONS (SHILLINGS IN MILLIONS)**

| Indicator | Dec 00 | Dec 01 | Dec 02 | Dec 03 | Dec 04 | Dec 05 |
|---|---|---|---|---|---|---|
| **CAPITAL ADEQUACY** | | | | | | |
| Core Capital | | | | | | 17,299.08 |
| Total Capital | | | | | | 23,988.16 |
| Core Capital/RWAs (%) | | | | | | 21.73% |
| Total Capital /RWA (%) | | | | | | 30.13 |
| **EARNINGS RATIOS** | | | | | | |
| Profits/Loss | | | | | | 1,122.69 |
| ROA (%) | | | | | | 1.08% |
| ROE (%) | | | | | | 6.05% |
| **LIQUIDITY** | | | | | | |
| Liquid assets* (Shs m) | | | | | | 13,760.52 |
| Liquid assets/Total deposits (%) | | | | | | 88.90 |
| Total loans/Total deposits** (%) | | | | | | 76.19 |
| **ASSET QUALITY** | | | | | | |
| Total Loans | | | | | | 65,736.54 |
| Portfolio in Arrears (PIA) | | | | | | 3,622.65 |
| Portfolio at Risk ratio (%) | | | | | | 5.51 |
| Specific Provisions/ for PIA (%) | | | | | | 57.09 |

* Liquid assts exclude encumbered fixed deposits
** Lending ratio excludes loans financed by other sources

## Appendix 6: REGISTERED CREDIT INSTITUTIONS AS AT 31/12/2005

| INSTITUTION | Physical Address | E-mail, Telephone & Fax | Year Established | No. of Branches |
|---|---|---|---|---|
| Housing Finance Company of Uganda Ltd. | Box 1539,K'la<br>25,K'la Rd<br>Kampala | hfcultd.@infocom.Co.ug<br>Tel 256-41-341227<br>Fax 256-41-341429 | 1967 | 2 |
| Mercantile Credit Bank Ltd | Box 620, K'la<br>10, Old Portbell Rd<br>Kampala | mcb@infocom.co.ug<br>Tel 256-41-235967<br>Fax 256-41-345637 | 1986 | 1 |
| Stanhope Co. Ltd | Box 24559,K'la<br>57, Nkrumah Rd<br>Kampala | stanhope@infocom.co.ug<br>Tel 256-41-348404<br>Fax 256-41-341098 | 1997 | 2 |
| Capital Finance Corporation Ltd | 6 /10, Entebbe Rd<br>Kampala | cfc@starcom.co.ug<br>Tel 256-41-245200<br>Fax 256-41-258310 | 1995 | 1 |
| Imperial Investment Finance Ltd | Box 24249 K'la<br>Hotel Equatoria<br>Kampala | sri@swiftuganda.com<br>Tel 256-41-348287<br>Fax 256-41-346470 | 1997 | 1 |
| Commercial Micro Finance Ltd | Box 24594 K'la<br>19 Nakivubo place | ho@cmf.co.ug<br>Tel 256-41-343134<br>Fax 256-41-341003 | 2000 | 7 |
| Post Bank Uganda Ltd | Box 7189 K'la<br>11/13 Nurumah Rd.<br>Kampala | postbank@imul.com<br>Tel 256-41-258551<br>Fax 256-41-347107 | 2002 | 20 |

## Appendix 7: REGISTERED MICRO-DEPOSIT TAKING INSTITITIONS (MDIs) AS AT 31/12/2005

| INSTITUTION | Physical Address | E-mail, Telephone & Fax | Year Licensed | No. of Branches & Satellite offices |
|---|---|---|---|---|
| FINCA Uganda Ltd | Plot 22<br>Ben Kiwanuka Street<br>P.O Box 24450<br>Kampala | finca@finca.or.ug<br>Tel. 256-41-231134<br>Tel. 256-31-262372/3<br>Fax. 256-41-340078 | 2004 | 7 |
| Pride Microfinance Ltd | Metropole House<br>Plot 8-10 Entebbe Rd.<br>P.O Box 7566<br>Kampala | pml@pridemicrofinance.co.ug<br>Tel. 256-41-346297, 346930<br>Fax. 256-41-346147 | 2005 | 29 |
| Uganda Microfinance Ltd | Plot 49/51 Bukoto Street<br>Kamuhokya<br>P.O Box 10184<br>Kampala | Ugandamu@umu.co.ug<br>www.umu.co.ug<br>Tel. 256-31-262437<br>Fax. 256-41531377 | 2005 | 20 |
| Uganda Finance Trust Ltd | Plot 59 Bombo Road<br>P.O Box 6972<br>Kampala | uwft@utlonline.co.ug<br>Tel. 256-41-341275, 255a46<br>Fax, 256-41-253144 | 2005 | 21 |

## Appendix 8: CIRCULARS ISSUED TO FINANCIAL INSTITUTIONS IN 2005