BANK OF UGANDA

ANNUAL SUPERVISION REPORT

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ABBREVIATIONS

AFRITAC	Africa Regional Technical Assistance Centre
BCBS	Basel Committee on Banking Supervision
BCPs	Basel Core Principles
BOU	Bank of Uganda
COMESA	Common Market for Eastern and Southern Africa
CBR	Central bank rate
CDS	Central Depository System
CRB	Credit Reference Bureau
CRS	Credit Reference System
CSD	Central Securities Depository
DPF	Deposit Protection Fund
EAC	East African Community
EAPS	East African Payment System
ECS	Electronic Clearing System
EFT	Electronic Funds Transfer
FCS	Financial Card System
FEA	Foreign Exchange Act 2004
FIA	Financial Institutions Act 2004
FL	Financial Literacy
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
KfW	German Kreditanstalt fur Wiederaufbau
LCR	Liquidity Coverage Ratio
LTV	Loan to Value
MAC	Monetary Affairs Committee
MDIs	Microfinance deposit-taking institutions

MFPED	Ministry of Finance, Planning and Economic Development
NIM	Net Interest Margin
NPLs	Non-performing loans
NSSF	National Social Security Fund
REPSS	Regional Payment and Settlement System
ROA	Return on average assets
ROE	Return on average equity
RTGS	Real Time Gross Settlement System
SACCO	Savings and credit cooperative
SFI	Supervised Financial Institution
SIFI	Systemically Important Financial Institution
UNICEF	United Nations Children's Fund
UNISS	Ugandan National Inter-bank Settlement System
URBRA	Uganda Retirement Benefits Regulatory Authority
Ushs	Uganda Shillings

FOREWORD

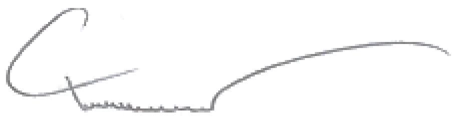
GOVERNOR, BANK OF UGANDA
Prof. Emmanuel Tumusiime Mutebile

The Annual Supervision Report is published by Bank of Uganda to provide information on its supervisory activities during the year and the reforms to the regulatory framework, along with the performance of the financial system and potential risks to stability.

Overall, the banking industry remained sound during 2013. Commercial banks remained well capitalised with the ratio of core capital to risk-weighted assets increasing from 18.8 percent in 2012 to 19.9 percent in 2013, well above the regulatory minimum of 8 percent. The main challenge for banks during 2013 arose from credit risk with the ratio of non-performing loans to total gross loans rising from 4.2 percent in December 2012 to 5.6 percent in December 2013. This affected bank profitability which declined to Ushs.414 billion in 2013 from Ushs.544.8 billion in 2012, reflecting the increase in provisions for non-performing loans. Notwithstanding the above, all banks have adequate capital to absorb losses.

Bank of Uganda implemented regulatory and market reforms in 2013 to improve the soundness of the financial system. BOU issued Mobile Money Guidelines which came into effect in October 2013, and the Anti-Money Laundering Act 2013 was assented to by the President of Uganda. The East African Payments System (EAPS) was launched to facilitate payments in the EAC Partner States. BOU also introduced a new Central Security Depository (CSD) in 2013. The CSD will enable market participants to submit bids directly to BOU instead of routing them through primary dealers. In a bid to improve financial inclusion, BOU launched the Strategy for Financial Literacy in Uganda in 2013, as part of the Project for Financial Inclusion.

In addition, BOU obtained new fund managers for the Deposit Protection Fund (DPF) in 2013 and is implementing a project to increase public awareness of the Deposit Protection Fund (DPF). These initiatives, as well as the key principles, operations and performance of the DPF are described in Chapter 6 of this report.



Prof. E. Tumusiime-Mutebile

GOVERNOR

PART I: SUPERVISION OF FINANCIAL INSTITUTIONS

Chapter 1: Supervision of Financial Institutions

1.1 Introduction

This chapter presents the highlights of the activities undertaken by Bank of Uganda to conduct oversight of supervised financial institutions (SFIs) through on-site inspections and offsite surveillance.

1.2 On-site inspection

The objective of on-site examination is to determine the financial condition, review the risk management processes and compliance with all applicable laws, regulations, prudential guidelines and supervisory recommendations by SFIs.

Commercial banks

During 2013, BOU conducted on-site examinations of all the licensed commercial banks. The examination approaches were tailored to the institutions' specific risk profiles and financial condition.

The on-site examinations established that the banking sector is stable. The commercial banks demonstrated improved risk management practices. However, credit and operational risks remained to be the major risks of supervisory concern. The high credit risk exposure is attributed to the after-effects of high credit growth, the economic slowdown in 2011 and 2012, and the high interest rate regime which continued to negatively impact on the quality of the sector's loan portfolio as evidenced by a deterioration in the ratio of non-performing assets to total advances from 4.2 percent registered in 2012 to 5.6 percent in December 2013. Operational risk is mainly driven by technological challenges as banks strive to make unique product offerings which are not adequately supported by the existing core banking systems thus necessitating system up-grades.

Credit institutions

During 2013, BOU conducted full scope on-site examinations of all the three credit institutions. Overall, the credit institutions sub-sector remained well capitalised, profitable and financially sound. Credit institutions exhibited improvement in the management of the key risks to which they are exposed namely strategic, credit and operational risks. These risks were largely attributed to heightening competition within the banking sector coupled with increased lending and business processes. The other key areas of supervisory concern relating to corporate governance and shortcomings in information and telecommunication systems are being addressed.

Microfinance deposit-taking institutions

BOU conducted on-site examinations of three out of the four microfinance deposit-taking institutions (MDIs) and a follow-up examination of one institution during the year ended 2013. The on-site examination of the fourth institution commenced in 2014. Additionally, an examination of one institution currently operating as a money lending institution was undertaken as part of the prudential pre-licensing process for an MDI licence. Overall, the microfinance deposit-taking institutions sub-sector was well capitalised and profitable.

The key supervisory concerns related to deficiencies in the microfinance deposit-taking institutions' core banking platforms, which posed a risk of limiting the institutions' growth prospects and impairing their risk management systems and internal controls.

Foreign exchange bureaus and money remittance companies

BOU undertook on-site inspections of 45 foreign exchange bureaus and money remitters, and 37 follow-up examinations during 2013. Overall, the level of the inspected foreign exchange bureaus' compliance with laws and regulations was found to be satisfactory.

National Social Security Fund (NSSF)

BOU, the interim regulator of the National Social Security Fund (NSSF) since 1st January 2005, ceased to perform this duty following the enactment of the Uganda Retirement Benefits Regulatory Authority Act, 2011, which mandated the Uganda Retirement Benefits Regulatory Authority (URBRA) to regulate and supervise retirement benefits schemes in Uganda. In this regard, BOU did not conduct an on-site examination of NSSF during 2013. However, given the size and interconnectivity of NSSF in the financial markets, the institution remains systemically important for financial stability. In order for BOU to effectively participate in actions aimed at addressing systemic risk and other regulatory issues related to NSSF, BOU proposed to the Ministry of Finance, Planning and Economic Development (MFPED) to have BOU represented on the URBRA Board.

1.3 Off-site analysis of banks

Stress testing

Bank of Uganda conducts quarterly ad hoc stress testing of commercial banks, which is a key component of the risk-based supervision framework. The purpose of stress testing the performance of commercial banks is to quantify the magnitude of losses which banks would incur in the event that plausible shocks were to materialise and determine the impact of these losses on their capital. The shocks included in the stress tests were:

a) Decline in net interest margin,

b) Decrease in interest income on government securities,

c) Depreciation of the Uganda shilling against the United States dollar,

d) Increase in non-performing loans and,

e) A 100 percent loan loss of each bank's largest borrowers.

The results of the tests conducted on the banks' financial positions at the end of December 2013 are shown in Table 1.

Table 1: Stress test shock for quarter ended 31st December 2013

Stress Test Variable	Number of banks [a)]	Aggregate additional capital (Ushs. billion) [b)]
Decline in net interest margin		
Decrease in net interest income by 20 percent	1	16.3
Decrease in net interest income by 50 percent	3	18.2
Decrease in interest income from government securities		
Decrease in income from government securities by 20 percent	1	16.0
Decrease in income from government securities by 50 percent	1	16.2
Depreciation of Shilling against US dollar		
Depreciation of Ush. against US Dollar by 20 percent	1	15.9
Depreciation of Ush. against US Dollar by 30 percent	1	15.8
Increase in non-performing loans		
Increase in NPLs by 100 percent	7	91.3
Increase in NPLs by 200 percent	15	355.8
Loan loss of each bank's largest borrowers		
Default by single largest borrower	8	60.8
Default by 3 largest borrowers	14	422.2

Source: Bank of Uganda

Notes:

a) The number of banks which fail the stress test in each category.

b) This is the amount of additional capital that would be required to bring the affected institutions' capital back to the minimum statutory levels.

The shock with the largest potential losses to banks is a default by the banks' largest borrowers. If each bank's single largest borrower were to default, with a loan loss of 100 percent, eight banks would become under-capitalised with an aggregate capital shortfall of Ushs.60.8 billion. If the largest three borrowers of each bank were to default with 100 percent loan loss, 14 banks would be under-capitalised with an aggregate capital shortfall of Ushs.422.2 billion.

The shock with the second highest potential losses is an increase in non-performing loans (NPLs), reflecting that credit risk remains significant. An increase in NPLs by 100 percent would require banks to bring additional capital of Ushs.91.3 billion. A decrease in net interest income, reduction in interest income on government securities and depreciation of the shilling against US dollar all have smaller impact on the capital position of the banking system. For each of the shocks, the capital adequacy of some banks would fall below the statutory minimum, with the overall capital shortfall ranging from Ushs.15.8 billion to Ushs.422.2 billion. Overall, the capital shortfall arising from the shocks is fairly small in relation to the banking system's aggregate total capital of Ushs.2.6 trillion as at end of December 2013. In comparison, at the end of December 2012, the overall capital shortfall ranged between Ushs.100 million and Ushs.328.3 billion with the banking system's aggregate total capital standing at Ushs.2.3 trillion.

Chapter 2: Regulatory Reforms and New Developments to Strengthen the Financial Sector

2.1 Licensing and approvals

New institutions

Bank of Uganda issued a commercial banking licence to Finance Trust Bank Limited, formerly a microfinance deposit-taking Institution (Uganda Finance Trust (MDI) Limited) effective 11th November 2013. Additionally, Bank of Uganda approved a commercial banking licence to Commercial Bank of Africa Uganda Limited effective 2nd January 2014. The new entrants brought the total number of commercial banks operating in Uganda to twenty six.

Furthermore, BOU approved the acquisition of Fina Bank Uganda Limited by Guaranty Trust Bank Plc of Nigeria as well as the change of name from Fina Bank Uganda Limited to Guaranty Trust Bank Uganda Limited. Consequently the bank was issued a new commercial banking licence effective 2nd January 2014.

During the year under review, BOU revised the annual license fees for regulated financial institutions effective 1st July 2013 as indicated in the Table 2 below;

Table 2: Revised licence fees for regulated financial institutions

A.	Licence Application Fees	Old Fee (Ushs.)	New Fee (Ushs.)
1.	Commercial Banks	1,000,000	2,000,000
2.	Credit Institutions	500,000	1,000,000
3.	Microfinance Deposit-Taking Institutions	500,000	1,000,000
4.	Money Remitters	400,000	1,000,000
5.	Foreign Exchange Bureaus	400,000	1,000,000
B.	**Annual Licence Fees**		
1.	Commercial Banks	3,000,000	10,000,000
2.	Credit Institutions	1,000,000	2,000,000
3.	Microfinance Deposit-Taking Institutions	1,000,000	2,000,000
4.	Money Remitters	1,000,000	2,000,000
5.	Foreign Exchange Bureaus	1,000,000	1,000,000

Source: Bank of Uganda

Bank branches and automated teller machines

The expansion of financial services continued as indicated by the increase in the number of bank branches, which rose from 496 in 2012 to 542 in 2013, while the total number of automated teller machines (ATMs) operated by commercial banks increased from 714 to 768 in 2013, an increase of 7.6 percent. However, 69.4 per cent of bank branches and 76.6 per cent of ATMs are located in the Kampala or metro regions of Uganda.

Table 3: Number of licensed branches / outlets for supervised financial institutions

	2011	2012	2013
Commercial bank branches	455	496	542
Bank ATMs	637	714	768
Foreign exchange bureaus	184	205	248
Money remitters	173	205	186
MDIs branches	98	99	70**
Credit institutions branches	44	47	52

Source: Bank of Uganda

**The decrease in number of branches was due to the upgrade of Uganda Finance Trust to a commercial bank.

Table 4: Number of ATMs under Interswitch system

Bank / Institution	Dec-11	Dec-12	Dec-13
DFCU	26	29	33
Postbank Uganda	0	0	25
UBA Uganda	14	14	13
Cairo International Bank	2	3	3
Finance Trust Bank	3	6	7
Orient Bank	19	21	22
Global Trust Bank	5	8	15
Imperial Bank	0	4	4
SmartPoint	9	10	12
Total	**78**	**95**	**134**

Source: Bank of Uganda

In addition, as at the end of December 2013, there were 11 institutions connected to the Interswitch network.[1] Interswitch East Africa (Uganda) Limited provides

[1] Banks connected to the Interswitch network are; Guaranty Trust Bank, Opportunity Bank, Postbank Uganda, United Bank for Africa, Cairo International Bank, DFCU, Finance Trust Bank, Global Trust Bank, Imperial Bank Uganda, Orient Bank and FINCA.

solutions that facilitate interoperability of ATMs for a number of banks. Table 4 shows the change in the number of ATMs linked to Interswitch over the last 3 years. Whereas Finca, Guaranty Trust Bank and Opportunity Bank Uganda have no ATMs of their own, their branches are linked to the Interswitch network.

2.2 Regulatory reforms

During the year 2013, Bank of Uganda issued Mobile Money Guidelines which came into effect on 1st October 2013, while the Financial Institutions (Foreign Exchange Business) (Amendments) Rules 2013 were gazetted on 18th October 2013. The Anti-Money Laundering Act 2013 was assented to by the President of the Republic of Uganda on 2nd October 2013.

BOU held a meeting with the MFPED and other stakeholders to discuss proposals for a comprehensive regulatory framework aimed at regulating and supervising Tier IV microfinance institutions in Uganda. Once finalised and the relevant bill approved by Parliament, Tier IV institutions, including Savings and Credit Cooperative Organisations (SACCOs) with a certain threshold of voluntary savings, will come under the regulation and supervision of Bank of Uganda while others will be under the purview of another regulatory authority which shall be determined in the Bill.

In an effort to enhance the legal and regulatory framework of the foreign exchange bureaus and money remitters, BOU initiated a review of the Foreign Exchange Act 2004 and the Foreign Exchange (Forex Bureaus and Money Remittance) Regulations 2006. Focus has been placed on the need to raise minimum capital requirements to cater for evolving risk profiles of these institutions. This process will continue in 2014 and consultations with regional central banks and other stakeholders shall be made.

2.3 Mobile money services

The number of registered mobile money customers increased significantly in the year 2013 by 5.4 million or 52.4 percent from 8.9 million to 14.2 million, resulting in a total annual transactions value of Ushs.18.6 trillion up from Ushs.11.7 trillion recorded in 2012. The number of transactions increased by 65.3 percent from 241.7 million transactions recorded in 2012 to 399.5 million transactions in 2013. There were six mobile money service providers as at the end of December 2013 namely; MTN, Airtel/Warid, Uganda Telecom, Orange, M-Cash and EzeeMoney.

Table 5: Performance of mobile money services

	Number of transactions ('ooos)	Value of transactions (Ushs. billion)	Number of registered customers
Dec-10	28,816	962.7	1,683,713
Dec-11	87,481	3,752.90	2,879,968
Dec-12	241,728	11,662.70	8,870,873
Dec-13	399,461	18,645.15	14,243,379

Source: Bank of Uganda

2.4 Oversight of payment systems

There are several oversight activities conducted by the BOU on the payment systems, and these include; monitoring the usage and operational performance of Uganda's Real Time Gross Settlement System (RTGS), more commonly known as the Ugandan National Inter-bank Settlement System (UNISS), and the Electronic Clearing System (ECS) as well as payment instruments' such as mobile money and Automated Teller Machines (ATMs).

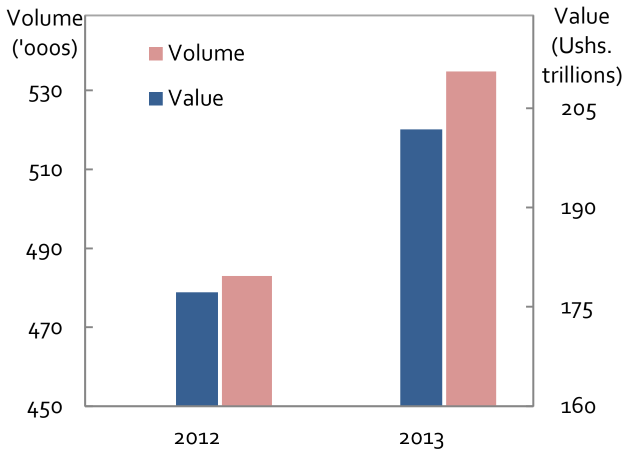
UNISS performance in Ugandan Shillings

The overall UNISS transactions volume in 2013 totalled to 534,843 with a value of Ushs.201.8 trillion. This represents a 10.7 percent increase in the volume of transactions and a 13.9 percent increase in the value of these transactions respectively, when compared to 2012 where the overall UNISS transaction volume was 482,946 with a value of Ushs.177.2 trillion.

UNISS performance in foreign denominated currencies

In May 2012, UNISS was upgraded to transact in five widely used foreign currencies namely: United States dollar (USD), European Union Euros (EUR), Great British Pounds (GBP), Kenyan Shillings (KES) and Tanzanian Shillings (TZS).

Chart 1: UNISS Transactions by volume and value (in Ushs. billions)



Source: Bank of Uganda

As indicated in Table 6, transactions in dollars registered the highest activity in terms of both value and volumes settled in 2013 with USD 5.0 billion settled in 71,355 transactions while Kenyan shillings recorded the lowest activity with KES 94.1 million settled in 151 transactions. The comparative figures for 2012 show a significant decline in the value of transactions settled in Kenyan Shillings despite an increase in the volume of transactions.

Table 6: UNISS volume and values transacted in foreign currencies

Currency [b]	2012 [a] Volume settled	2012 [a] Value settled (millions)	2013 Volume settled	2013 Value settled (millions)
USD	29,516	2,060.4	71,355	5,000.3
EUR	911	50.0	1,718	95.7
GBP	353	4.1	531	7.7
KES	122	271.0	151	94.1

Source: Bank of Uganda

a. Data is for 8 months from May 2012

b. There were no transactions in Tanzanian Shillings

ECS – EFTs and cheques: performance in Ugandan Shillings

ECS is a clearing system which automates the processing of cheque clearing and execution of EFT transactions. During 2013, 1.4 million cheque transactions[2] valued at Ushs.5.9 trillion were cleared in the ECS. This is a slight decrease from Ushs.6.0 trillion cleared in 2012, in almost similar number of transactions. In 2013, the overall EFT transaction volume, both credits and debits, stood at 7.5 million with a value of Ushs.13.1 trillion.

ECS – EFTs and cheques: local foreign currency clearing (LFCC)

The ECS also clears cheques and EFTs in widely used foreign currencies namely: United States dollar (USD), European Union Euros (EUR), Great British Pounds (GBP), and Kenyan Shillings (KES). The transactions made in US dollars registered the highest activity with the USD cheque transaction volume at 70,534 with a value of USD 255.1 million, whereas EFT transactions were 35,349 with a value of USD 680.2 million.[3]

2.5 Credit reference bureau services

The year 2013 was the first year of the transition phase following the end of Compuscan CRB Limited's exclusivity period as the single provider of Credit Reference Bureau (CRB) services and Financial Card System (FCS) identification services in Uganda. In order to manage the transition phase, BOU signed an agreement with Compuscan to continue operating both the CRB and FCS until the final separation of the FCS from the CRB which is expected to be achieved towards the end of 2014.

Progress of the CRB services

The CRB has registered commendable progress with over 948,936 financial cards issued to borrowers while 590 branches and 579 branches of Participating Institutions are installed the FCS and CRB system respectively. A total of 568,501 credit enquiries on borrowers were made on the CRB during 2013 raising the cumulative number of enquiries to 1,723,191 at end of the year. In pursuit of opening up the CRB market to

[2] The cheque transactions here refer to those that go through the clearing process like the inter-bank cheque transaction (between two different banks, e.g. Barclays and Stanbic) as opposed to intra-bank cheque transaction (within the same bank).

[3] Data is only available from January 2013.

competition, BOU undertook various initiatives which are still on-going as detailed in Section 2.9 of this report.

The quality of data submission by the 31 Participating Institutions to the CRB has continued to improve with average industry acceptance rates ranging between 90 - 95 percent. The data clean- up process will continue until the data quality is satisfactory. The CRB is facilitating the data sharing process across Participating Institutions and its usage is creating a strong incentive among borrowers to repay their debts.

2.6 The Financial Inclusion Project

Based on the commitment made under the Maya Declarations in 2011, the Financial Inclusion project team continued to implement strategic initiatives identified in the BOU Strategic Plan 2012-2017. The overall objective is to enhance access to financial services and to empower users of financial services to make rational decisions on financial matters. During the year 2013, a number of initiatives were undertaken along the four identified Pillars as highlighted below;

Financial Literacy (FL)

- BOU finalised and launched the Strategy for Financial Literacy in Uganda in August 2013. The strategy outlines the approach and tools to promote financial literacy along five identified strands: schools, youth, rural outreach, work places and media.
- BOU conducted a number of sensitisation workshops on financial literacy.
- Core messages on financial literacy covering eight key thematic areas namely: personal financial management, loans, retirement plans, savings, investment, insurance, payment system and financial service providers were developed, circulated and translated into six key local languages.
- A standalone financial literacy website, www.simplifymoney.co.ug, was developed and launched.
- A number of organisations approached BOU to integrate financial literacy into their activities and to publicise the core messages. The institutions include: Opportunity Bank, Plan International, UNICEF and Toro Development Network.
- BOU engaged the chief executives of SFIs and other stakeholders to encourage them to embrace financial literacy activities in their institutions. The engagement resulted in the Uganda Bankers Association launching a Financial Literacy Campaign in December 2013, which is expected to be extensive in coverage.
- A consultant was engaged to develop a training of trainers' package for financial literacy which has since been developed and is currently under review.

Financial Consumer Protection (FCP)

- BOU continued to carry out financial customers' sensitisation through "Know Your Rights" campaign across the country.
- BOU initiated the drafting of the key facts document for loans and savings products intended to enhance transparency and disclosures by SFIs.

Financial Innovations

- The BOU issued Mobile Money Guidelines in October 2013. The guidelines specify the minimum standards expected for conduct of mobile money services.

Financial Services Data and Measurement

- With the assistance of M/s Bill and Melinda Gates Foundation, the BOU conducted a geo spatial mapping of financial institutions access points across the country. The access points mapped include branches and automated teller machines locations of SFIs, SACCOs and mobile money access points.
- The results of the Finscope III survey were launched in November 2013. The results showed that the percentage of the financially excluded adults reduced from 30 percent in 2009 to 15 percent in 2013, and the major driver was the Mobile Money access strand.

2.7 Strengthening capacity for supervision

During 2013, the following measures were undertaken to enhance the capacity of the BOU's Supervision Function;

a) A number of staff received local and overseas training in the areas of Basel Core Principles for Effective Supervision, implementation of Basel II and Basel III, financial soundness indicators, macroprudential policy, systemic risk identification and monitoring, microfinance, deposit insurance schemes, credit information sharing, agricultural and rural finance, business conduct and consumer protection and anti-money laundering among others.

b) The BOU participated in the Supervisory Colleges of the Kenya Commercial Bank, Equity Bank, Diamond Trust Bank, Stanbic Bank and Standard Chartered Bank to gain insight on the risks faced by the respective banking groups and their subsidiaries.

c) Examiners participated in joint inspections and cross-border attachments at the Bank of Tanzania and Central Bank of Kenya.

d) In-house training on current supervision issues was conducted during the year.

e) Technical assistance was received from IMF East AFRITAC on licensing and consolidated supervision.

2.8 Regional cooperation

Regulatory harmonisation in the East African Community

The Banking Supervision and Financial Stability Sub-Committee of the Monetary Affairs Committee (MAC) of the East African Community (EAC) convened a meeting in Kampala in October 2013 to discuss the World Bank's Report on the EAC Financial Sector Assessment Program 2013, review the implementation status of the proposed reforms to financial regulation of the G20 and Basel Committee on Banking Supervision and the harmonisation of financial stability practices across the region. The Sub-Committee made the following key recommendations:

a) EAC Central Banks are to implement and adopt a standardised approach for calculating a capital charge for operational risk.

b) EAC Central Banks are to finalise the process of adopting the leverage ratio, following the Basel III approach, as a supplementary measure for the analysis of capital adequacy.

c) EAC Central Banks are to continue convening supervisory colleges for systemically important financial institutions (SIFIs) operating across the region and issue guidelines requiring robust corporate governance policies for SIFIs.

d) EAC Central Banks are to continue liaising with the respective accounting regulatory bodies to enhance the accounting regulatory oversight function.

e) EAC Central Banks are to conduct self-assessments of their compliance with Basel Core Principles for Effective Banking Supervision (BCPs) annually and conduct peer reviews every two years.

f) EAC Central Banks are to intensify their efforts towards the formulation and implementation of crisis management frameworks as well as arrangements for resolutions of regional systemic banks.

g) EAC Central Banks are to fast-track the development and implementation of consumer protection mechanisms for the financial sector.

East African Payment System (EAPS)

The East African Payment System (EAPS) is a multicurrency system, which connects the Real Time Gross Settlement (RTGS) Systems of the EAC member countries. It has so far been rolled out in three of the EAC countries namely Kenya, Tanzania and Uganda in 2013 with Uganda going live in November 2013.

Common Market for Eastern and Southern Africa (COMESA) Regional Payment and Settlement System (REPSS)

The Regional Payment and Settlement System (REPSS) was introduced in October 2012. It is a cross-border clearing system for transfer of funds within the Common Market of Eastern and Southern Africa (COMESA) in both United States dollars and Euros. The system operates through member countries' central banks and their corresponding banking systems/clearing houses, with the Bank of Mauritius acting as the settlement bank for all transactions made using REPSS. The system went live in Uganda on 28th February 2014, joining four other countries namely Malawi, Mauritius, Rwanda and Swaziland that currently participate in the REPSS. Other

COMESA member countries are expected to join when they are ready.

2.9 Ongoing and planned activities for 2014

Financial Sector Assessment Program (FSAP)

BOU will continue to close gaps in the supervisory processes identified by the Financial Sector Assessment Program (FSAP) of 2011 in the areas of cross-border and country risk, consolidated supervision, anti-money laundering, legal protections of supervisors and market risk capital charge among others.

Review of Risk Management Guidelines 2010

BOU will finalise the review of the Risk Management Guidelines (2010) which started in 2013. This is in light of the heightening and evolving risks undertaken by supervised financial institutions (SFIs) as a result of ongoing competitive pressures and evolving institutional risk profiles which require credible and sound risk management programmes to identify, measure, monitor and control key risks inherent in the institutions' major business activities.

The on-site procedures on consolidated supervision, which were developed with the help of IMF East AFRITAC, will be incorporated in the Risk-Based Supervision Manual in 2014. The procedures will provide the necessary guidance to examiners for banks which either have subsidiaries or belong to common group entities.

Credit Reference Bureau activities

a) Review of the CRB legal framework

The review of the Credit Reference System (CRS) Regulations 2013 was completed and the regulations submitted to the First Parliamentary Counsel for approval. The revised regulations, once approved, will provide for the supervision of new credit reference bureau providers, licensing and supervision of the FCS as a separate entity from the CRB and strengthening of data protection across the market, among others.

b) Evaluation of licence applications to operate CRB business

BOU received an application from one entity desirous of operating CRB business in Uganda. The parent company of the entity is a licensed Credit Reference Bureau in Kenya. As at end of year, the process of evaluation of the application was in advanced stages.

c) Data submission framework

BOU completed the review of the data submission framework in a competitive CRB market. The Final Data Standardisation Manual (DSM version 4.0), Data Submission Specification Manual (DSS version 2.0), Data Validation Rules (DVR version 1.0) and Data Submission Protocol (DSP version 1.0) are to be released to the market in course of 2014.

d) Separation of the Financial Card System from the Credit Reference Bureau

In the agreement signed between BOU and Compuscan, the parties agreed to the principles for the separation of the FCS, managing the transition period and handover of the operations of the FCS by Compuscan to a newly licensed FCS provider. In order to achieve an effective and smooth handover, BOU in conjunction with GIZ contracted a biometric consultant to conduct an assessment of the FCS infrastructure, advise on the technical feasibility of handing over the biometric data in a readable and usable format to another service provider and managing the transition process to a new provider by ensuring that financial cards and data continue to be useful under the new operator. The finalisation of the consultancy, which is expected in 2014, will propel the tendering process of the FCS.

Financial Inclusion Project

BOU, in conjunction with the key stakeholders, will continue to implement measures to foster the creation of an enabling environment to boost the level of access to financial services in the country. During the year 2014 BOU will implement the planned activities specified in the strategy paper on financial inclusion as follows:

- Developing regulations on agent banking once the legal provisions allowing the conduct of Agent Banking are passed.
- Holding stakeholder workshops involving financial institutions, the BOU and the public to discuss FCP issues.
- Conducting radio appearances on FCP Issues and pilot financial literacy presentations with informal workers, the youth and rural outreach groups

- Working with media agents to provide financial education to the general public.

- Incorporating financial literacy in the school curriculum and in university and vocational institutions.

- Conducting sensitisation workshops to help create public awareness on mobile money financial services.

- Partner with the relevant Government Ministries, Departments and development partners to implement the financial inclusion activities.

Central Securities Depository (CSD)

The BOU replaced the old Central Depository System (CDS) which had been in operation since 2005, with the new Central Securities Depository (CSD) in September 2013. The new CSD is an online electronic depository that facilitates the creation and storage of government securities. It handles all transactions relating to Government securities including sale of securities, transfer of securities, automatic payment of interest and maturity proceeds of the securities on due dates. Phase One of the upgrade, which went live in September 2013, enabled commercial banks to submit bids directly to BOU instead of routing them through a primary dealer as was the case with the old system. Phase Two of the upgrade is expected to be deployed in 2014 and it will allow investors to have direct access to the system.

PART II: ASSESSMENT OF FINANCIAL STABILITY

Chapter 3: Banking Sector Performance

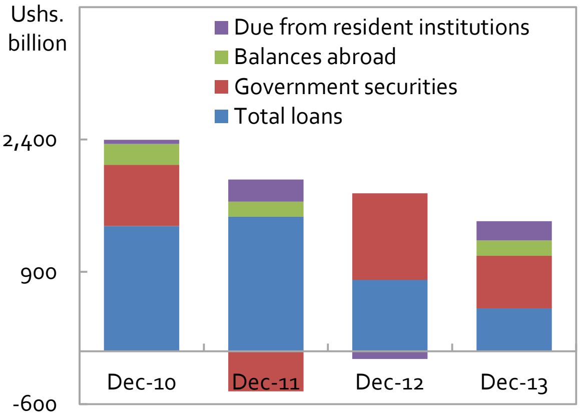
Bank liquidity improved and the banking sector remained well capitalised in 2013. However, there was a rise credit risk as shown by the increase in the ratio of non-performing loans to total loans, while profitability was affected by the rise in provisions for non-performing loans and operating costs.

3.1 Changes in banks' assets and liabilities

The banking sector's total assets increased by Ushs.1.9 trillion or 12.0 percent from Ushs.15.4 trillion in 2012 to Ushs.17.3 trillion in 2013, a slowdown in growth compared to the 19.1 percent growth in 2012. The growth was largely on account of a notable increase in the stock of government securities held by banks which grew by Ushs.595.4 billion or 19.5 percent from Ushs.3.1 trillion in 2012 to Ushs.3.7 trillion in December 2013. Strong growth was also recorded in amounts due from banks abroad of 14.6 percent from Ushs.1.2 trillion to Ushs.1.4 trillion during the period under review.

Conversely, loans and advances, normally the strongest driver of banks' assets growth, grew at a slow pace of 6.2 percent compared to the growth of 11.6 percent in 2012.

Chart 2: Annual changes in banks' major assets



Source: Bank of Uganda

Off-balance sheet items continued to exhibit a negative growth rate, dropping by 3.1 percent at the end of December 2013, from Ushs.3.2 trillion in 2012 to Ushs.3.1 trillion. The decline was mainly reflected in the drop in forwards and other derivatives during the period.

Table 7: Annual developments in banks' assets and deposits

	Dec-10	Dec-11	Dec-12	Dec-13
Assets				
Volumes (Ushs. trillion)	11.3	13.0	15.4	17.3
Annual growth (%)	29.4	14.9	19.1	12.0
Deposits				
Volumes (Ushs. trillion)	8.0	8.9	10.5	11.5
Annual growth (%)	42.5	11.0	17.5	10.0
Loans				
Volumes (Ushs. trillion)	5.5	7.0	7.8	8.3
Annual growth (%)	35.1	27.9	11.6	6.2
Off-Balance Sheet Items				
Volumes (Ushs. trillion)	1.7	3.0	3.2	3.1
Annual growth (%)	-9.6	71.4	6.8	-3.1

Source: Bank of Uganda

During 2013, the foreign currency denominated components of the industry's balance sheet grew at a slower pace compared to 2012. Foreign currency deposits increased by 13.7 percent lower than 22 percent in the previous year and similarly, foreign currency loans grew by 6.8 percent compared to 56.3 percent in the year to December 2012. Conversely, shilling loans grew by 5.8 percent improving from the decline of 6.8 percent at the end of December 2012. Foreign currency loans as a share of total loans rose marginally from 40.7 percent to 41.0 percent, while foreign currency liabilities as a share of total liabilities grew by 1.9 percentage points from 36.2 to 38.1 percent at the end of December 2013.

Table 8: Foreign currency denominated assets and liabilities (percentage ratios)

	Dec-10	Dec-11	Dec-12	Dec-13
Foreign currency assets to total assets	24.9	27.9	31.7	30.8
Foreign currency liabilities to total liabilities	29.3	32.9	36.2	38.1
Foreign currency loans to total loans	27.1	29.1	40.7	41.0
Foreign currency deposits to total deposits	28.2	33.6	34.9	36.1

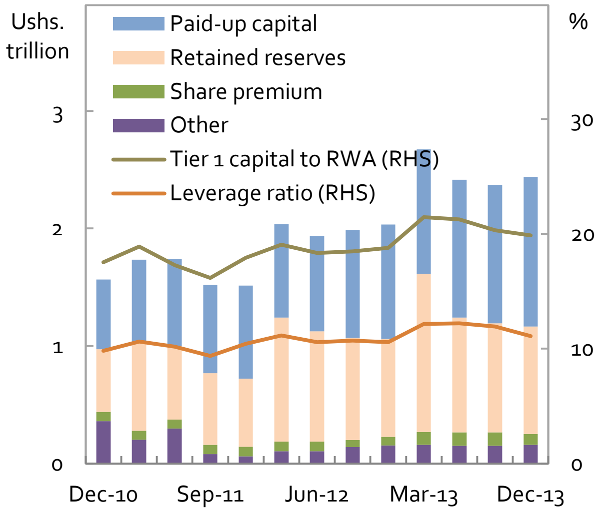
Source: Bank of Uganda

3.2 Adequacy of banks' capital

The banking system remained well capitalised during 2013 with the sector's core and total capital to risk weighted assets ratios standing at 19.9 percent and 22.9 percent respectively, well above the statutory minimum requirements of 8 percent and 12 percent respectively.

The ratios improved from 18.8 percent and 21.9 percent respectively recorded in 2012; aided by higher growth in tier 1 capital of 13.9 percent compared to that of risk weighted assets of 7.2 percent during the period. The leverage ratio (regulatory tier 1 capital to total assets plus off-balance sheet items), which is another indicator of banks' capital adequacy, increased from 10.6 percent to 11.0 percent during the year.

Chart 3: Changes in banks' capital



Source: Bank of Uganda

The total shareholders' equity of the banking system increased by 10.9 percent from Ushs.2.6 trillion in December 2012 to Ushs.2.9 trillion in December 2013 reflected mainly in paid-up capital which grew by 30.7 percent from Ushs.973.6 billion to Ushs.1.3 trillion in the year to December 2013 due to the fresh capital injections by banks to meet the revised minimum capital requirement of Ushs.25 billion effective 1st March 2013.

3.3 Funding and liquidity

Deposit growth

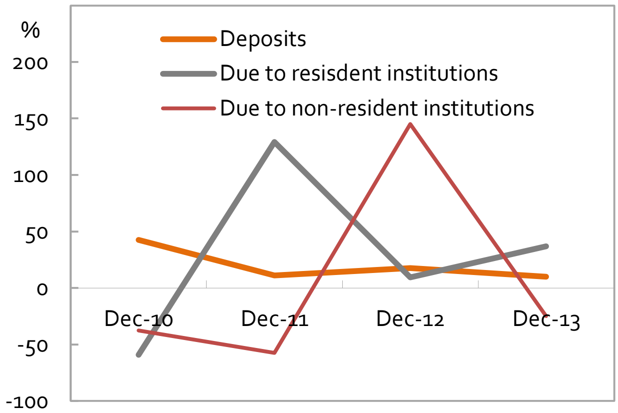
Banks in Uganda are largely funded by customer deposits, which provide a stable source of funding. On average, deposits accounted for 80.7 percent of total liabilities in December 2013, a level that remains relatively unchanged compared to December 2012. However, the year-on-year growth rate of deposits dropped in 2013 to 10.0 percent, from 17.5 percent registered in 2012. Both shilling and foreign currency deposits growth reduced during the year from 15.2 percent and 22.0 percent to 8.0 percent and 13.7 percent, respectively.

Annual growth in demand deposits declined significantly between December 2012 and December 2013 from 24.8 percent to 7.1 percent. Nonetheless, savings deposits grew at an annual rate of 14.7 percent, from Ushs.1.7 trillion in December 2012 to Ushs.1.9 trillion in December 2013.

Interbank activity

In addition to customer deposits, the banks' funding comprised interbank borrowings. The resident interbank borrowings increasing notably by Ushs.79.9 billion or 23.3 percent from Ushs.342.7 billion at end of December 2012 to Ushs.422.6 billion at end of December 2013. Amounts due to non-resident financial institutions grew by 24.9 percent at the end of December 2013 down from a high of 145.1 percent registered in 2012.

Chart 4: Annual growth rate of banks' sources of funding



Source: Bank of Uganda

Liquidity

Banks' maintained a satisfactory level of liquidity. The amount of liquid assets held at the end of December 2013 grew by Ushs.0.6 billion or 11.4 percent from Ushs.4.3 trillion in the previous year to Ushs.4.9 trillion in the current year. This raised the liquid assets to total deposits ratio slightly from 42.0 percent to 42.5 percent, remaining well above the minimum prudential requirement of 20 percent. The increase in liquid assets was largely due to the rise in holdings of government securities highlighted in Section 3.1.

Table 9: Indicators of banks' liquidity

	Dec-10	Dec-11	Dec-12	Dec-13
Liquid assets to total deposits	39.8	37.6	42.0	42.5
Liquid assets to total assets	28.3	25.8	28.4	28.3
Total loans to total deposits	68.0	78.4	74.5	71.9

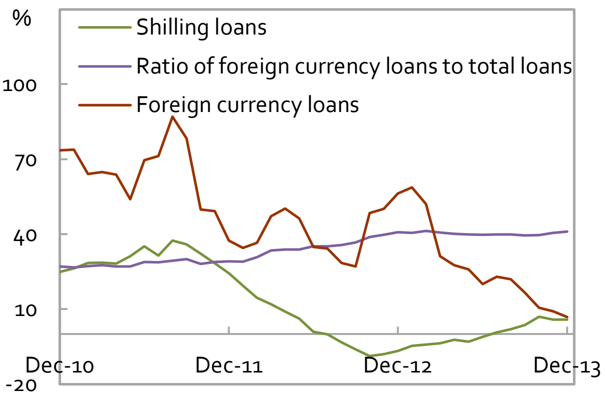
Source: Bank of Uganda

3.4 Performance of credit

Lending activity

Overall bank lending slowed during the year 2013. The annual loan growth rate stood at 6.2 percent at the end of December 2013, down from the 11.6 percent growth recorded in the previous year. This was mainly due to a decline in the growth of foreign currency loans which grew at 6.8 percent in 2013 compared to the 56.3 percent growth witnessed in 2012. Nonetheless shilling loans grew at a faster pace of 5.8 percent, which was a reverse of the 6.8 percent drop in shilling loans in the previous year.

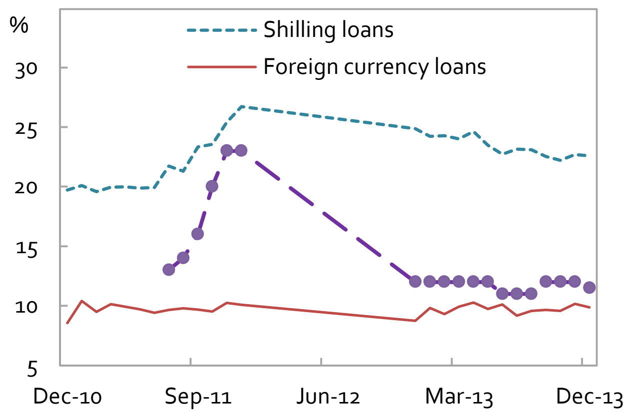
Chart 5: Annual percentage growth of loans



Source: Bank of Uganda

The growth in shilling loans was partly a result of the reduction in local currency lending rates during the year. This came against the backdrop of a decline in inflation during the year which resulted in BOU reducing the central bank rate (CBR) by 50 basis points from 12.0 percent to 11.5 percent between December 2012 and December 2013. The commercial banks' weighted average lending rate stood at 22.6 percent for shilling loans and 9.9 percent for foreign currency loans at the end of December 2013 compared to 24.8 percent and 8.8 percent, respectively in the previous year.

Chart 6: Weighted average lending rates for commercial banks

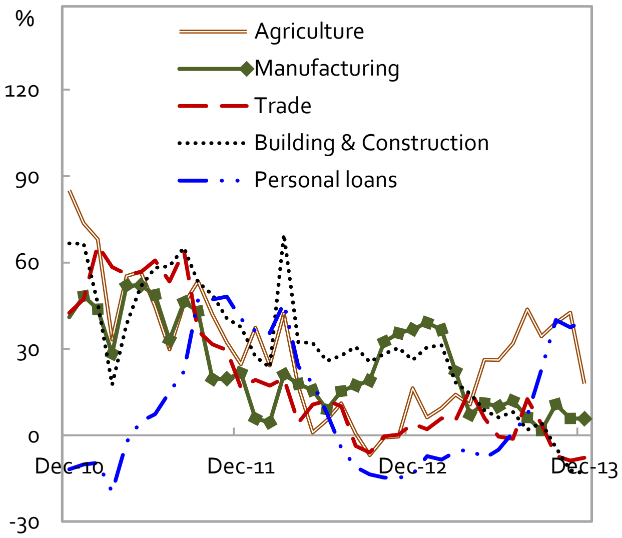


Source: Bank of Uganda

Analysis of lending by sector shows a shift in lending strategy towards increasing credit to households. The household and personal loans sector experienced the fastest growth rate during the period under review.

Loans to the household and personal loans sector grew by 39.6 percent at the end of December 2013, from a decline of 13.7 percent in 2012. Similarly, lending to the agriculture sector grew by Ushs.100.2 billion or 17.9 percent, from Ushs.559.6 billion to Ushs.659.8 billion between December 2012 and December 2013. On the other hand, credit to trade and commerce, and the building and construction sectors registered notable declines between December 2012 and December 2013. Total loans extended to these sectors declined by 7.9 percent and 13.3 percent respectively in 2013.

Chart 7: Annual growth of bank loans by sector (percentage)



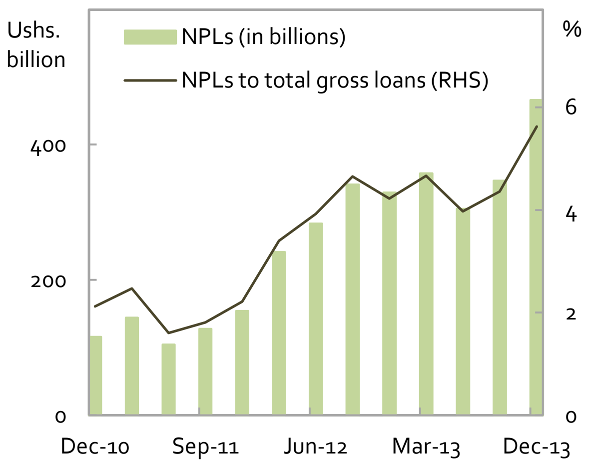
Source: Bank of Uganda

Loan quality and non-performing loans

Overall, asset quality deteriorated, as shown by the rise of non-performing loans (NPLs) during the year to December 2013. The NPL ratio (NPLs to total gross loans) increased from 4.2 percent in December 2012 to 5.6 percent at the end of December 2013.

The volume of NPLs grew at a higher rate of 41.5 percent in 2013, from Ushs.329.1 billion to Ushs.465.8 billion compared to the growth in total loans of 6.2 percent registered during the same period.

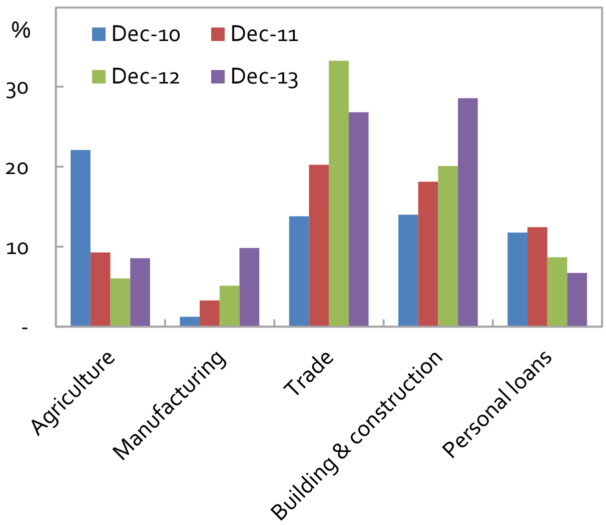
Chart 8: Changes in banks' NPLs



Source: Bank of Uganda

Non-performing loans increased in all the major business sectors. The trade and commerce and the building and construction sectors continued to account for the largest share of total NPLs as in the previous year with 26.8 percent and 28.6 percent respectively in 2013 (Chart 9). The two sectors also held the highest NPL ratios for the period under review. Other significant changes in the ratio of non-performing loans to total gross loans were in the manufacturing and agriculture sectors, with their ratios increasing from 1.4 percent to 3.7 percent and 3.6 percent to 6.0 percent, respectively as shown in Table 10.

Chart 9: Sectoral non-performing loans (as a percentage of total NPLs)



Source: Bank of Uganda

Table 10: NPLs for major business sectors (percent)

	Dec-11	Dec-12	Dec-13
Agriculture	3.0	3.6	8.5
Mining	18.9	11.4	7.5
Manufacturing	0.6	1.4	3.4
Trade & commerce	2.2	7.3	11.0
Building & Construction	1.9	3.6	7.0
Households & Personal loans	1.6	2.8	2.2
Overall NPL ratio	**2.2**	**4.2**	**6.0**

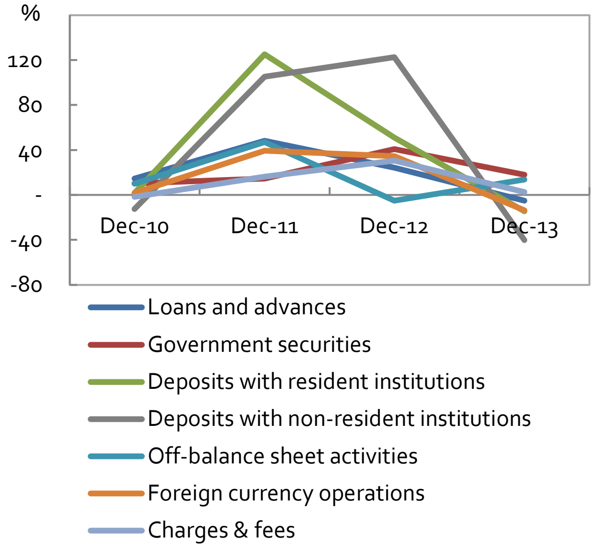
Source: Bank of Uganda

3.5 Earnings and profitability

The banking system remained profitable, although the profits declined in the year to December 2013. In nominal terms, banks' profit after tax stood at Ushs.414.0 billion in 2013, compared to Ushs.554.8 billion in 2012. The drop in bank's earnings was mainly on account of the deterioration in asset quality as highlighted in Section 3.4, which resulted in a significant increase in provisions for non-performing loans of Ushs.42.0 billion or 20.4

percent in 2013 and increases in staff costs of Ushs.66.6 billion or 15.2 percent. This was coupled with an overall decline in total income of Ushs.56.8 billion or 2.2 percent.

Chart 10: Annual growth of banks' sources of income (percent)



Source: Bank of Uganda

Banks continued to rely mainly on income from loans and advances as well as government securities as illustrated in Chart 10.

Key ratios of bank earnings and profitability declined in the year to December 2013. Return on assets (ROA) and return on equity (ROE) ratios reduced from 3.9 percent and 24.2 percent respectively in 2012 to 2.5 percent and 15.2 percent in 2013. Likewise, the net interest margin (NIM) dropped from 12.8 percent registered in 2012 to 11.5 percent in 2013 mainly due to a reduction in lending rates during 2013. Nonetheless, as shown in Appendix 1, the cost-of-deposits ratio reduced from 4.2 percent in 2012 to 3.7 percent in 2013 following a decline in interest rates charged on deposits by banks.

Table 12: Banks' foreign currency exposure (percent)

	Forex exposure to core capital	Forex assets to forex liabilities	Forex loans to forex deposits	Forex assets to total assets
Dec-10	-1.6	98.0	61.4	24.7
Dec-11	-3.6	100.2	62.8	27.9
Dec-12	-0.6	105.0	79.3	31.7
Dec-13	-3.0	96.8	62.2	30.8

Source: Bank of Uganda

Table 11: Profitability indicators for banking sector (percentage ratios)

	2010	2011	2012	2013
ROA	2.7	4.0	3.9	2.5
ROE	18.0	27.3	24.2	15.3
Cost to income	75.7	68.1	70.9	77.2

Source: Bank of Uganda

3.6 Sensitivity to market risk

Banks maintained low exposure to foreign exchange risk with the ratio of foreign currency exposure to regulatory tier 1 (core) capital standing at -3.0 percent at the end of December 2013 which was within the regulatory requirement of +/-25 percent. The proportion of the banks' foreign currency assets to total assets decreased from 31.7 percent to 30.8 percent between December 2012 and December 2013 showing a decline in the level of dollarization of the banking sector.

Foreign currency assets and liabilities were closely matched during the year as depicted by the ratio of 96.8 percent recorded as at December 2013. The share of foreign currency deposits to total deposits increased slightly from 34.9 percent to 36.1 percent whereas the ratio of foreign currency loans to foreign currency deposits reduced from 79.3 percent in the previous year to 62.2 percent in December 2013, which was within the statutory limit of 80 percent.

3.7 Performance of domestic systemically important banks (D-SIBs)

The performance of systemically important banks (D_SIBs)[4] is crucial because of the potential impact they pose to the financial system. Indicators show that the systemic risk posed by the four D-SIBs commercial banks remained low during the year to 2013. A key concern was the continued deterioration in asset quality with the aggregate ratio of non-performing loans to total gross loans increasing from 4.0 percent in December 2012 to

[4] The D-SIBs at December 2013 are Stanbic bank, Standard Chartered bank, Citibank and Crane bank.

5.2 percent in December 2013. Notwithstanding the rise in NPLs, capital, the bank's main defence against losses, increased with the ratio of core capital to risk-weighted assets standing at 22.7 percent in December 2013 from 20.6 percent in December 2012.

Table 12: Selected Indicators for D-SIBs (percent)

Indicator	Dec-11	Dec-12	Dec-13
Tier 1 capital adequacy ratio	21.1	20.6	22.7
NPLs to total gross loans (NPL ratio)	1.2	4.0	5.2
Total assets to total industry assets	48.1	49.71	44.7

Source: Bank of Uganda

On average, the banks accounted for 44.7 percent of the total banking sector assets although this was lower than the 49.7 percent they accounted for in December 2012.

3.8 Conclusion

Although the performance of commercial banks was affected by several challenges during 2013, notably the rise in bad loans, the sector remained financially sound, with strong capital and liquidity supported by a low inflationary environment and higher GDP growth. Banks should take steps to address the slowdown in credit growth and loan quality.

Chapter 4: Performance of Non-Bank Financial Institutions

This chapter presents the financial indicators for the non-bank financial institutions (NBFI) sector including credit institutions, microfinance deposit-taking institutions, foreign exchange bureau and money remittance outlets. The NBFIs remained sound during 2013.

4.1 Credit institutions

Overview

The total assets of the credit institutions grew by Ushs.44.6 billion or 20.2 percent from Ushs.221.1 billion as at December 31, 2012 to Ushs.265.7 billion as at December 31, 2013. Similarly, total advances increased by Ushs.31.6 billion or 27.4 percent to Ushs.147.6 billion while total deposits rose by Ushs.31.9 billion or 24.0 percent to Ushs.164.9 billion.

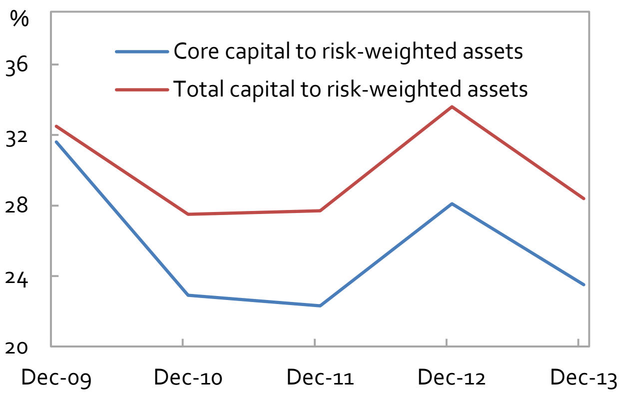
Indicators of financial soundness

Overall, all the credit Institutions remained financially sound, well capitalized and liquid during the year ended December 2013.

a) Capital adequacy

Credit institutions remained adequately capitalised in 2013 and all the institutions maintained their respective paid-up capital above the statutory minimum of Ushs.1.0 billion. The core capital ratio and total capital ratio to risk weighted assets stood at 23.5 percent and 28.4 percent respectively in 2013, well above the regulatory minimum of 8 percent and 12 percent. The overall core capital of the credit institutions stood at Ushs.45.9 billion while total capital amounted to Ushs.55.5 billion.

Chart 11: Capital adequacy ratios for credit institutions



Source: Bank of Uganda

b) Asset quality

The asset quality of credit institutions improved during 2013. The ratio of non-performing advances to total advances improved from 4.2 percent as at December 2012 to 3.5 percent as at December 2013.

c) Profitability

Credit institutions recorded overall year-to-date profits of Ushs.3.7 billion in 2013, down from Ushs.5.2 billion in 2012. The major source of income for the credit institutions continued to be interest on advances and discounts amounting to Ushs.37.2 billion. The return on assets (ROA) ratio reduced to 1.4 percent in 2013 from 2.4 percent in 2012.

d) Liquidity

Liquid assets stood at Ushs.83.1 billion, while the ratio of liquid assets to total deposits was 50.4 percent far above the regulatory minimum of 20 percent and the ratio of loans to deposits was 68.9 percent which is within 82.5 percent prudential guideline.

4.2 Microfinance deposit-taking institutions (MDIs)

Overview

During the period under review, Uganda Finance Trust upgraded to a commercial bank and changed its name to Finance Trust Bank. This led to a drop in assets of the MDIs. As at December 2013, the aggregated balance sheet of the MDIs stood at Ushs.264.0 billion, reflecting a decrease of Ushs.12.3 billion or 4.7 percent from Ushs.276.3 billion reported as at December 2012. Total loans declined by Ushs.12.9 billion or 6.9 percent to Ushs.173.6 billion while total customer deposits dropped by Ushs.7.2 billion or 7.2 percent to Ushs.92.7 billion over the same period.

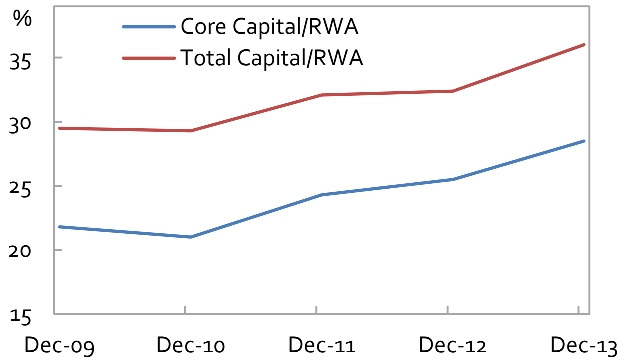
Indicators of financial soundness

Overall, MDIs were financially sound, profitable and adequately capitalised as at the end of 2013.

a) Capital adequacy

All the MDIs maintained paid-up capital above the statutory minimum of Ushs.500 million. The ratio of core capital and total capital to risk-weighted assets stood at 28.5 percent and 36.0 percent respectively in 2013 up from 25.4 percent and 32.4 percent respectively in 2012 and were well in excess of the statutory minimum requirements of 15 percent and 20 percent. Total capital of the MDIs grew by Ushs.4.2 billion or 5.7 percent from Ushs.73.7 billion registered as at December 2012 to Ushs.77.9 billion as at December 2013.

Chart 12: Capital adequacy ratios for MDIs

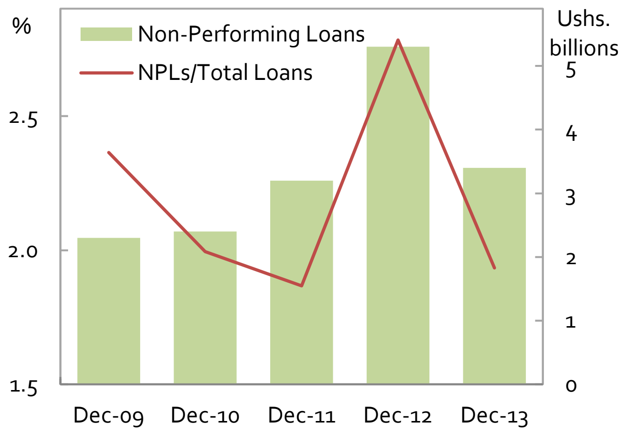


Source: Bank of Uganda

b) Asset quality

There was a general improvement in asset quality as shown by a decrease of Ushs.1.9 billion or 35.8 percent in non-performing advances during 2013. The overall portfolio at risk ratio stood at 1.9 percent compared to 2.7 percent recorded as at end of December 2012.

Chart 13: Asset quality ratios for MDIs



Source: Bank of Uganda

c) Earnings

The net after-tax profits reduced from Ushs.11.6 billion in 2012 to Ushs.10.4 billion. The major source of income for the MDIs continued to be interest on advances and discounts amounting to Ushs.82.5 billion accounting for 88 percent of total income. The annualised return on assets (ROA) and return on equity (ROE) reduced from 4.2 percent and 17.2 percent to 3.5 percent and 12.0 percent, respectively.

d) Liquidity

All the MDIs maintained liquid asset ratios in excess of the statutory minimum of 15 percent of total deposit liabilities. Total liquid assets held stood at Ushs.57.9 billion while the liquid assets to deposits and total loans to deposits ratios stood at 62.4 percent and 78.0 percent respectively for the period under review.

4.3 Foreign exchange bureaus and money remittance outlets

Overview

The number of foreign exchange bureaus and money remittance outlets continued to grow in 2013. Foreign exchange bureau outlets increased from 204 as at December 2012 to 248 as at December 2013. Similarly, the number of licensed money remitters increased from 48 as at December 2012 to 54 as at December2013.

The money remitters' market comprised of 39 foreign exchange bureaus (79 outlets), 10 direct entrants, two MDIs (47 outlets) and three credit institutions (50 outlets), compared to 33 foreign exchange bureaus (64 outlets), nine direct entrants, three MDIs (71 outlets) and three credit institutions (43 outlets) as at December 2012.

Key Indicators for foreign exchange bureaus and money remittance outlets

a) Profitability

Profitability of the sub-sector reduced by 11.5 percent, from Ushs.6.7 billion in 2012 to Ushs.5.9 billion in 2013. Although there was an increase in income, the sector recorded a higher rise in operating expenses thereby negatively impacting on its overall profitability.

b) Assets

Total assets held by the sub-sector grew by 7.7 percent from Ushs.78.4 billion as at December 2012 to Ushs.84.4 billion as at December 2013. This was largely due to an increase in cash holdings in both local and foreign currencies.

c) Capital and reserves

Total capital and reserves increased by 3.8 percent from Ushs.42.8 billion as at December 2012 to Ushs.44.4 billion as at December 2013.

d) Money remittances

Total inflows decreased by US$6.6 million or 2.1 percent from US$317.7 million for the year ended December 2012 to US$311.1 million as at December 2013. Similarly, outflows decreased by US$43.3 million or 13.5 percentage from US$319.9 million reported as at December 2012 to US$276.6 million as at December 2013.

Chapter 5: Macroprudential Assessment and Outlook

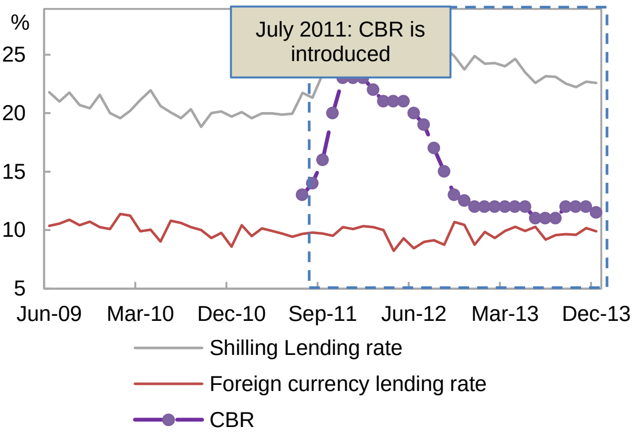
This section of the report provides Bank of Uganda's view of macro risks to the banking sector and the outlook. The assessment shows that systemic risk increased during 2013 driven by a rise in credit risk. Going forward the main sources of risk are centred around the rise in credit risk.

5.1 Risks from the macroeconomy

In the latter part of 2013, global financial markets, particularly within emerging market economies, reacted strongly to the United States Federal Reserve's commitment to commence tapering quantitative easing from January 2014.

While many emerging market economies suffered renewed depreciation pressures amidst large capital outflows, Uganda has remained relatively stable and banks have not been greatly affected. In addition, the stability of the banking sector during 2013 was further supported by the strong rebound in domestic economic growth with real GDP growth growing from 3.4 percent registered in 2012/13 to 5.6 percent for 2013/2014.

Chart 14: Weighted average lending rates for commercial banks (percent)



Source: Bank of Uganda

Inflationary pressures that had characterised the second half of 2011 and early 2012, eased during 2013. However, the lagged effects from the high interest rate period in 2012 have continued to affect loan performance; this is covered in more detail in the next section. Going forward, as pointed out the Bank of Uganda's Monetary Policy Report for January 2014, in the short-term, both GDP growth and inflation are expected to lie at their potential and target levels respectively.

The balance of risks to the economic environment remains largely unchanged, and banks should have a stable macroeconomic environment in which to operate.

5.2 Risks from bank lending

Credit quality

In our last Annual Supervision Report of December 2012, BOU indicated the rising risk from deterioration in loan quality. These risks materialised in 2013 and reduced bank profitability.

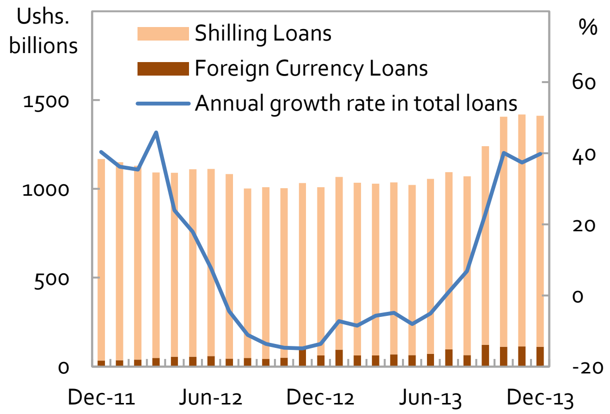
During the year to December 2013, systemic risk increased, driven largely by the continued rise in bad loans. Non- performing loans rose to their highest level of 5.6 percent since 2004. The growth in NPLs was across all sectors and a cross section of banks registered high volumes of delinquent credit facilities resulting in high loan loss provisions and erosion of earnings and profitability. The trade and commerce and the building and construction sectors continued to account for the largest share of total NPLs with 26.8 percent and 28.6 percent respectively. NPLs particularly jumped in the quarter ending December 2013 largely due to reclassification of several loans as non-performing loans at a number of banks following on-site inspections and diligence by Bank of Uganda. The NPL ratio however, remains small in comparison with other countries in the region.

The overall rate of growth for bank lending declined, almost halving from 11.6 percent in December 2012 to 6.6 percent in December 2013. Given that lending is the largest source of bank profits, the slowdown in credit is likely to affect bank performance. Bank of Uganda implemented several microprudential measures to ensure that banks' loan quality improves; these measures include conducting more intrusive supervision of all banks, especially domestic-systemically important banks (D-SIBs).

Growth of personal and household loans

During 2013, the overall annual growth rate of bank total loans declined to 6.6 percent down from 11.6 percent in 2012. This decline was across most of the sectors including manufacturing and trade and commerce sectors. Given these developments, there was a discernible change of strategy by commercial banks, towards increasing lending to households. Bank loans to households increased by 39.8 percent in the year to December 2013 recovering from a decline of 13.7 percent in the previous year.

Chart 15: Growth of loans to households sector



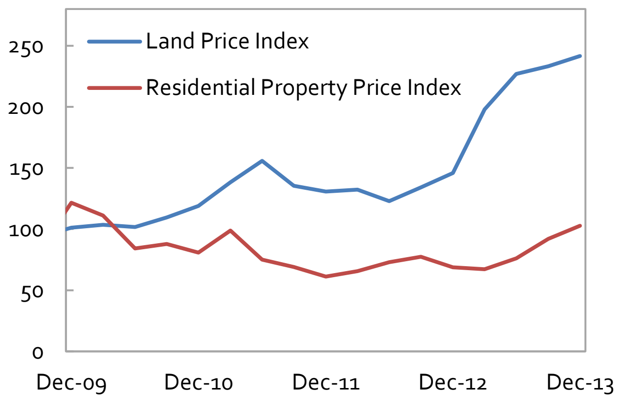
Source: Bank of Uganda

Lessons from the global financial crisis show that a rapid rise in lending to households is associated with two main risks. Firstly, it may quickly increase the debt burden for households, thus raising exposure to macroeconomic fluctuations which may affect the households' capacity to repay loans in case of a rise in interest rates. The previous high growth period of personal loans during 2011 showed how rapidly this can occur. Secondly, such loans are usually unsecured and thus any economic corrections could lead to losses for banks. Commercial banks therefore, should be vigilant to ensure that household loans are linked with secure cash flows to service the debt.

5.3 Risks from the increase in real estate prices

Indicators show that house and land prices have picked up strongly in the year to December 2013. The preliminary Residential Property Price Index rose by 81.9 percent in the year to December 2013, compared to 1.5 percent in December 2012. The Land Price Index rose by 49.0 percent in the period under review, compared to 12.8 percent in the period to December 2012. While it ought to be noted that the rise in the indices for residential house and land prices over the past year has occurred from a base of low and declining prices during 2010 and 2011, nevertheless, there is a concern of a disruptive adjustment in the housing market, especially accentuated by high loan-to- value ratio lending, which could lead to losses for banks in the event of a rise in defaults by borrowers.

Chart 16: Land price and residential property Indices for greater Kampala



Source: Bank of Uganda

This type of scenario has been experienced by many developed countries, more recently during the global financial crisis. To address this concern, Bank of Uganda has started an initiative to collect quarterly information on the loan-to-value ratio (LTV) from commercial banks. The objective is to have the LTV developed as a monitoring and macroprudential policy tool by June 2014, with a view to taking policy actions to dampen the procyclical lending associated with high LTV loans.

5.4 Outlook

Overall, the year to December 2013 was a challenging period for the both the banking and non-bank sectors compared to the previous year to December 2012. Systemic risk increased and was driven by a rise in credit risk. Looking forward, the year to December 2014 is likely to be a stable year for the sector, given the optimistic outlook for economic growth and low inflation. However, banks are likely to face challenges arising from the reduction in credit growth coupled with a decline in credit quality, which may further dampen return on equity. Going forward, banking institutions should ensure that loans are properly classified and take steps to improve lending standards.

PART III: SPECIAL TOPIC

Chapter 6: Deposit Protection System in Uganda

6.1 What is deposit protection?

In broad terms, deposit protection is a bank deposit guarantee scheme aimed at protecting depositors against loss of their deposits or part of their deposits in the event of failure of a bank or other deposit-taking institution in which they hold funds. This is provided by making the deposits available to depositors up to a guaranteed coverage amount prescribed by the law. The main role of deposit protection in a financial system is therefore to provide cover that safeguards depositors against losses they would otherwise incur if a bank or deposit-taking institution closes.

6.2 Rationale for establishing the Deposit Protection Fund (DPF)

The rationale for establishing the Deposit Protection Fund is two-fold:-

a) Protection of depositors from the risk of losing their deposits from bank failures; and
b) Enhancing public confidence in the banking sector in particular and the financial sector in general, thus fostering financial and economic stability.

6.3 Establishing a deposit protection fund in Uganda

The Deposit Protection Fund in Uganda was established in July 1994 following the first bank closure which took place in February 1993. However, the Fund became operational in 1997 and was considered timely as the period 1998-1999 experienced closure of a number of undercapitalised/insolvent and loss-making institutions, which posed a very high risk to the safety and soundness of the banking sector at that time.

However, while the DPF was established before these bank failures, it did not have sufficient premium-contributions from financial institutions as it had been in existence for less than two years. For instance, the DPF did not have sufficient money to pay off the insured deposits of the Trust Bank and Cooperative Bank. The DPF only had Ushs.6.9 billion yet the insured deposits totalled Ushs.40.1 billion, which resulted into Government's intervention to pay off the depositors. Nevertheless, with effect from 15th July 1999, the Government reverted to the policy of paying only insured deposits in event of any further bank failures in line with statutory requirements and each account is protected to the tune of Ushs.3 million (approx. US$1,200).

6.4 Mandate of the Bank of Uganda for the Deposit Protection Fund

Section 108 of the Financial Institutions Act 2004 (FIA 2004) and Section 80 of the Microfinance Deposit-taking Institutions 2003 (MDI Act 2003) mandate the Bank of Uganda to establish, manage and control the Deposit Protection Fund. FIA 2004 also empowers the Minister of Finance, Planning and Economic Development by notice in the *Gazette*, from time to time, to fix the size of the Fund sufficient to protect the interests of depositors to be made up by the contributions. The DPF is thus currently administered by the Supervision Function of the Bank of Uganda. Proposals to establish a Deposit Protection Corporation to assume the role of administering the DPF are some of the proposed amendments to Financial Institutions Act 2004 which were forwarded to Parliament.

6.5 Funding of the Deposit Protection Fund in Uganda

a) DPF for commercial banks and credit institutions

The DPF for commercial banks and credit institutions is funded from mandatory annual premiums contributed by every licensed commercial bank and credit institution. Section 109 of FIA 2004 requires commercial banks and credit institutions to contribute to the DPF upon being served notice by the Central Bank. The minimum annual amount of contribution to the Fund is currently 0.2 percent of the average weighted deposit liabilities of the financial institution in its previous financial year and is required to be paid no later than 21 days after the date of service of the notice by BOU. Section 109 of FIA 2004 further provides that if BOU finds that the affairs of a financial institution are being conducted in a manner detrimental to the interests of depositors or the financial institution and it is of the opinion that the continued conduct may cause loss to the Fund, Bank of Uganda is mandated to increase the contributions of that financial institution beyond the normal rate.

A financial institution whose overall performance shows an unsatisfactory or marginal rating is charged on a quarterly basis as follows:

- *Marginal rating* – additional charge of 0.1 percent of the average weighted deposit liabilities on top of the statutory annual contribution of 0.2 percent;

- *Unsatisfactory rating* – additional charge of 0.2 percent of the average weighted deposit liabilities on top of the statutory annual contribution of 0.2 percent;

b) DPF for microfinance deposit-taking institutions

The Deposit Protection Fund for the Microfinance Deposit-Taking Institutions (MDI-DPF) became operational in January 2010. It provides protection to deposits in MDIs of up to a maximum of Uganda Shillings 3 million per depositor. In an effort to boost the MDI-DPF, Kreditanstalt für Wiederaufbau (KfW) contributed €1.85 million as MDI–DPF seed capital in November 2011 and is expected to contribute an additional €0.15 million to fund the MDI-DPF Public Awareness Campaign, which will focus on making the public aware of the existence of the Fund and its benefits. This is expected to further enhance public confidence in the financial system and promote financial stability.

6.6 Management of the DPF

Following an international competitive bidding and evaluation process, M/s Pinebridge Investments East Africa Ltd. and Genesis Kenya Investment Management Ltd. commenced management and investment operations of the DPF and the MDI-DPF in January 2013. Management of the DPF for commercial banks and credit institutions is shared by the two Fund Managers while management of the DPF for microfinance deposit-taking institutions is undertaken by Pinebridge Investments East Africa Limited. The two Fund Managers present quarterly reports to Bank of Uganda on the overall performance of the DPF placing focus on the review of the quarterly economic and financial markets, investments reports and portfolio strategy, among others.

6.7 Membership to the International Association of Deposit Insurers (IADI)

Bank of Uganda, as the custodian of the Deposit Protection Fund, subscribed to the International Association of Deposit Insurers (IADI) in January 2013. The International Association of Deposit Insurers was formed in May 2002 with an objective of enhancing the effectiveness of deposit insurance systems through promoting guidance and international cooperation. IADI is a non-profit organisation constituted under Swiss Law and is domiciled at the Bank for International Settlements in Basel, Switzerland and had 73 members as at 31st December 2013.

Bank of Uganda's membership will assist in enhancing the effectiveness of Uganda's deposit insurance system through promoting guidance and collaboration with other national and international organizations which contribute to financial stability. The membership will also facilitate periodic assessment of Uganda's compliance with the 18 Core Principles for Effective Deposit Insurance Systems.

6.8 Status of the Deposit Protection Fund as at 31st December 2013

a) Deposit Protection Fund for Commercial Banks and Credit Institutions

As at 31st December 2013, fully insured deposits with balances of less than or equal to Ushs.3 million for commercial banks and credit institutions totalled Ushs.622.1 billion while partially insured deposits with balances greater than Ushs.3 million amounted to Ushs.646.8 billion. Therefore, the total fund exposure *(protected deposits)* stood at Ushs.1,268.9 billion or 10.9 percent of the total deposit base of Ushs.11,654.5 billion.

As at 31st December 2013, the DPF for commercial banks and credit institutions had a total market value of Ushs.217.7 billion resulting into an effective deposit protection cover of 17.2 percent.

b) Deposit Protection Fund for Microfinance Deposit-Taking Institutions

The protection cover of the fully insured deposits with balances of less than or equal to Ushs.3 million totalled Ushs.38.5 billion or 41.5 percent of total deposits while the protection cover of the partially insured deposits with balances greater than Ushs.3 million amounted to Ushs.8.8 billion or 9.5 percent. Therefore, a total of Ushs.47.3 billion or 51.3 percent of the total deposits qualified for the statutory deposit protection. However, since the MDI-DPF had a market value of Ushs.7.5 billion as at 31st December 2013, the effective deposit protection cover stood at 15.9 percent.

6.9 Deposit protection coverage indicators for commercial banks and credit institutions

The key deposit protection coverage indicators are shown in Table . The percentage of protected accounts standing at 95.4 percent is considered adequate.

Table 13: Deposit protection coverage indicators for commercial banks and credit institutions – 31st December 2013

Item	Figures
Total Deposits for Commercial Banks and Credit Institutions - (Ushs. "billion")	11,654.5
Total Fund Exposure *(Protected Deposits)* - (Ushs." billion")	1,268.9
Protection Level (percent)	10.9
Fund Level (Ushs." billion")	217.7
Effective Protection Cover (percent)	17.2
Total Number of Deposit Accounts ("000")	4,733.1
Number of Accounts Fully Protected ("000")	4,517.5
Share of Protected Accounts Covered (percent)	95.4%

Source: Bank of Uganda

6.10 Challenges

Public awareness on the Deposit Protection Fund has generally been limited. With financial assistance from KfW, Bank of Uganda will in future intensify public awareness on the DPF with focus on key principles, concepts and elements of the DPF in order to enhance public confidence which is critical to financial stability.

In addition, required Parliamentary approval of the proposed amendments to FIA 2004 to create an independent entity to administer the DPF has been generally slow. Establishment of the entity is in line with international best practice and is key to the smooth administration of the DPF.

6.11 Conclusion

Bank of Uganda continues to compute the annual contributions to the DPF and the MDI-DPF for all deposit taking financial institutions as well as risk adjusted premiums for institutions rated marginal and unsatisfactory. With the increasing number of financial institutions and total deposits, the DPF and MDI-DPF are expected to grow steadily in future. The percentage of protected accounts standing at 95.4 percent is considered acceptable while the effective deposit protection cover of 17.2 percent is considered reasonable vis-à-vis numbers reported by other Central Banks in the region some of which have fully fledged Deposit Protection Boards.

PART IV: STATISTICAL APPENDICES

APPENDIX 1: FINANCIAL SOUNDNESS INDICATORS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 1A: Financial soundness indicators for commercial banks (*percent*)

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Capital Adequacy						
Regulatory capital to risk-weighted assets	20.7	20.9	20.2	20.3	21.9	22.9
Regulatory tier 1 capital to risk-weighted assets	18.7	18.7	17.5	17.9	18.8	19.9
Total qualifying capital to total assets	13.2	13.6	13.0	14.6	14.8	14.9
Asset quality						
NPLs to total gross loans	2.2	4.2	2.1	2.2	4.2	5.6
NPLs to total deposits	1.6	3.0	1.4	1.7	3.1	4.1
Specific provisions to NPLs	78.0	57.2	65.0	50.9	45.9	47.2
Earning assets to total assets	75.6	78.0	77.1	74.0	71.3	69.7
Large exposures to gross loans	31.0	32.2	35.7	34.6	34.6	36.3
Large exposures to total capital	92.1	94.3	124.4	120.9	104.7	105.2
Earnings & profitability						
Return on assets	3.5	3.0	2.7	4.0	3.9	2.5
Return on equity	24.8	18.8	18.0	27.3	24.2	15.2
Net interest margin	10.5	10.8	10.0	11.7	12.8	11.5
Cost of deposits	2.9	3.7	2.9	3.2	4.1	3.7
Cost to income	69.7	75.4	75.7	68.1	70.9	77.2
Overhead to income	48.6	52.3	53.1	43.9	40.1	46.7
Liquidity						
Liquid assets to total deposits	48.1	44.7	39.8	37.6	42.0	42.5
Total loans to total deposits	72.5	71.7	68.0	78.4	74.5	74.2
Market Sensitivity						
Foreign currency exposure to regulatory tier 1 capital	-1.4	-0.7	-1.6	-3.6	-0.6	-3.0
Foreign currency loans to foreign currency deposits	65.5	57.9	61.4	62.8	79.3	62.2
Foreign currency assets to foreign currency liabilities	102.7	107.0	98.0	100.2	105.0	96.8

Source: Bank of Uganda

Table 1B: Financial soundness indicators for credit institutions (*percent*)

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Capital Adequacy						
Core capital (Ushs. billion)	14.9	27.5	26.2	31.6	44.2	45.9
Total capital (Ushs. billion)	17.7	28.3	31.6	39.3	53.0	55.5
Risk-weighted assets (Ushs. billion)	64.0	87.0	114.6	141.4	157.6	195.6
Core capital to risk-weighted assets (% ratio)	23.3	31.6	22.9	22.3	28.1	23.5
Total capital to risk-weighted assets (% ratio)	27.6	32.5	27.5	27.7	33.6	28.4
Provisions to core capital (% ratio)	11.6	4.8	4.8	3.1	5.7	6.8
Asset Quality						
Total loans and advances (Ushs. billion)	38.7	63.5	79.7	107.2	115.9	147.6
Total provisions (Ushs. billion)	1.7	1.3	1.3	1.0	2.5	3.2
Non-performing loans (Ushs. billion)	3.0	2.1	3.3	1.7	4.9	5.2
Non-performing loans to total loans (% ratio)	7.9	3.3	4.1	1.6	4.2	3.5
Profitability						
Year-to-date profit/loss (Ushs. billion)	-0.8	1.0	0.3	2.9	5.2	3.7
Quarterly net profits (Ushs. billion)	0.0	0.5	0.4	1.2	0.9	4.6
Quarterly return on assets (% ratio)	0.0	0.4	0.2	0.6	0.4	1.7
Year-to-date return on assets (% ratio)	-0.7	0.8	0.1	1.5	2.4	1.4
Liquidity						
Total public deposits (Ushs. billion)	75.6	74.4	107.7	121.6	133.0	164.9
Liquid assets (Ushs. billion)	42.6	38.9	54.3	58.3	76.8	83.1
Liquid assets to deposits (% ratio)	56.4	52.3	50.4	47.9	57.8	50.4
Loans to deposits (% ratio)	48.9	65.9	56.1	62.6	58.5	68.9

Source: Bank of Uganda

Table 1C: Financial soundness indicators for microfinance deposit-taking institutions (*percent*)

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Capital Adequacy						
Core capital (Ushs. billion)	22.3	26.1	29.8	48.1	58.0	61.8
Total capital (Ushs. billion)	31.6	35.3	45.9	63.6	73.7	77.9
Risk-weighted assets (Ushs. billion)			143.6	197.9	227.5	216.6
Core capital to risk-weighted assets (% ratio)	22.9	22.0	20.8	24.3	25.4	28.5
Total capital to risk-weighted assets (% ratio)	32.4	29.8	32.0	32.1	32.4	36.0
Asset Quality						
Total loans (Ushs. billion)	83.4	83.4	120.3	171.4	190.3	175.8
Non-performing loans (Ushs. billion)	2.3	2.3	2.4	3.2	5.3	3.4
Total provisions (Ushs. billion)	2.7		2.8	3.7	5.6	4.0
Portfolio at risk (% ratio)	64.5	2.4	2.0	1.9	2.7	1.9
Profitability						
Year-to-date profit/loss (Ushs. billion)	4.1	4.6	4.3	10.1	11.6	10.4
Year-to-date return on assets (% ratio)	4.4	3.4	2.6	4.3	4.2	3.5
Year-to-date return on equity (% ratio)	13.1	10.2	8.6	17.2	17.2	12.0
Liquidity						
Liquid assets to deposits (% ratio)	86.6	62.4	49.3	51.6	58.5	62.4
Loans to deposits (% ratio)	72.8	77.4	75.1	77.0	69.9	78.0

Source: Bank of Uganda

APPENDIX 2: AGGREGATED BALANCE SHEETS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 2A: Commercial banks' aggregated balance sheet

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
ASSETS (Ushs. Billion)						
Cash & cash assets	337.4	401.5	472.9	583.0	667.4	692.0
Balances with BOU	462.7	623.6	802.7	835.8	1,341.6	1,730.1
Due from financial institutions	1,050.5	1,032.9	1,317.8	1,736.5	1,622.2	2,043.7
Government securities	1,532.4	1,832.3	2,532.5	2,073.5	3,053.2	3,648.7
Total gross loans & advances	3,404.8	4,038.9	5,461.1	6,981.0	7,789.7	8,274.6
LESS: Provisions	-58.3	-96.9	-88.0	-89.5	-187.9	-261.7
Net loans & advances	3,346.4	3,942.0	5,373.1	6,891.5	7,601.8	8,012.9
Net fixed assets	376.1	472.9	401.7	429.5	519.3	583.2
Other assets	390.9	327.9	409.9	432.6	660.4	610.3
TOTAL ASSETS	**7,496.4**	**8,633.0**	**11,310.5**	**12,982.4**	**15,465.9**	**17,320.9**
LIABILITIES (Ushs. Billion)						
Deposits	4,695.6	5,630.5	8,041.7	8,903.7	10,457.7	11,504.3
Due to financial institutions	682.3	603.3	529.1	730.2	513.7	825.9
Administered funds	323.7	279.2	309.6	339.9	359.1	1,033.2
Other liabilities	687.4	773.5	864.8	1,007.0	1,558.3	892.9
TOTAL LIABILITIES	**6,389.0**	**7,286.6**	**9,745.2**	**10,980.8**	**12,888.8**	**14,463.8**
SHAREHOLDERS' FUNDS (Ushs. Billion)						
Paid-up capital	426.5	485.8	591.9	789.6	973.6	1,272.3
Share premium	53.6	55.1	80.3	81.5	75.7	91.8
Retained reserves	352.5	456.7	534.1	581.2	830.6	914.3
Other reserves	44.4	112.8	90.3	61.0	152.7	159.7
Profit – Loss (current year)	230.4	236.1	268.7	488.3	544.5	414.0
TOTAL SHAREHOLDERS' FUNDS	**1,107.5**	**1,346.5**	**1,565.3**	**2,001.6**	**2,577.0**	**2,857.1**
OFF BALANCE SHEET ITEMS (Ushs. Billion)						
Letters of Credit	212.8	201.9	335.6	392.4	352.0	354.2
Guarantees & performance bonds	380.5	520.5	608.5	786.6	1,046.3	1,157.3
Unused loans/overdrafts commitment	234.6	318.1	678.4	802.2	1,023.3	1,092.8
Other off balance sheet items	79.3	147.2	334.9	1,000.2	765.1	483.5
TOTAL OFF BALANCE SHEET ITEMS	**907.2**	**1,187.8**	**1,957.4**	**2,981.4**	**3,186.7**	**3,087.8**

Source: Bank of Uganda

Table 2B: Aggregated balance sheet for credit institutions

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
ASSETS (Ushs. billion)						
Cash	5.4	5.4	6.1	6.7	7.7	11.5
Balances with institutions in Uganda	24.6	23.1	41.7	41.0	55.9	63.1
Balances with commercial banks outside Uganda	0.0	0.0	0.8	0.2	0.7	0.5
Investments	12.8	10.6	5.7	10.5	12.5	7.9
of which Government securities	12.6	10.4	5.7	10.4	12.5	7.9
Loans and advances	38.7	63.5	79.7	107.2	115.9	147.6
of which Administered funds*	-	-	-	-	-	-
Premises and fixed assets	14.6	15.3	16.3	19.2	20.2	23.4
Other Assets	10.6	6.0	8.6	8.9	8.1	11.7
Total assets	**106.6**	**123.9**	**158.9**	**193.7**	**221.1**	**265.7**
LIABILITIES (Ushs. billion)						
Total deposit liabilities to depositors	75.6	74.4	107.7	121.6	133.0	164.9
Loan Insurance Fund	-	4.0	3.4	3.6	4.3	4.8
Balances due to commercial banks/associated companies/residents/non-residents	1.8	11.1	7.5	13.2	17.2	21.5
Borrowings at Bank of Uganda	-	0.8	0.8	0.7	0.6	0.6
Administered funds	-	-	-	-	-	-
Other Liabilities	5.5	2.6	10.7	16.0	14.5	16.3
Provisions	5.3	2.8	0.5	0.7	2.0	3.1
Capital	19.2	27.2	28.0	35.0	44.3	50.7
of which paid up capital	14.0	18.6	16.9	17.9	21.9	21.8
Profit for current year	-0.8	1.0	0.3	2.9	5.2	3.7
Total liabilities	**106.6**	**123.9**	**158.9**	**193.7**	**221.1**	**265.7**

Source: Bank of Uganda

Table 2C: Aggregated balance sheet for microfinance deposit-taking institutions

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
ASSETS (Ushs. billion)						
Notes and coins	3.1	4.0	4.9	6.9	9.0	5.7
Balances with institutions in Uganda	7.9	14.5	23.7	25.8	48.7	52.2
Government securities	16.9	4.5	2.4	7.4	0.9	0.0
Net loans outstanding	81.1	94.8	118.7	169.3	186.5	173.6
Inter branch/ due from own offices	-	-	35.0	374.0	0.0	0.0
Net fixed assets	8.3	9.9	11.1	12.0	13.6	12.8
Long-term investments	-	-	-	-	-	-
Other assets	6.3	8.2	9.0	11.1	17.6	19.7
Total assets	**123.6**	**135.8**	**169.9**	**232.9**	**276.3**	**264.0**
LIABILITIES (Ushs. billion)						
Deposit liabilities	31.5	36.6	62.9	76.8	99.9	92.7
Loan insurance fund	13.4	14.2	12.1	13.5	14.0	16.9
Borrowings	28.5	29.2	28.5	52.4	57.2	46.9
Other liabilities	8.1	9.2	10.0	15.6	18.3	18.9
Grants/deferred income	0.9	1.7	1.8	6.0	7.4	5.5
Inter branch/ Due to own Offices	-	10.0	-	-	-	-
Other long-term Liabilities	0.0	-	-	0.1	0.1	0.1
Total liabilities	**82.3**	**90.9**	**115.3**	**164.2**	**196.7**	**181.0**
FINANCED BY: (Ushs. billion)						
Capital	24.8	28.4	33.2	56.4	66.8	69.9
Subordinated debt	16.5	16.5	21.4	12.2	12.7	13.1
Preference shares	-	-	-	-	-	-
Total liabilities & equity	**123.6**	**135.8**	**169.9**	**232.9**	**276.3**	**264.0**

Source: Bank of Uganda

APPENDIX 3: INCOME STATEMENTS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 3A: Commercial banks' aggregated income statement (*annual*)

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
INCOME (Ushs. Billion)						
Interest income						
Advances	495.6	690.4	789.7	1,178.1	1,465.3	1,389.5
Government securities	141.8	166.4	182.9	210.7	296.5	349.8
Deposits abroad	27.9	12.4	10.7	22.2	49.3	29.5
Other	62.1	58.1	44.2	70.0	23.6	91.0
Charges, fees & commissions	175.2	218.0	214.7	252.6	326.9	335.3
Foreign exchange income	128.9	130.3	132.9	186.4	250.6	216.4
Other income	36.2	55.8	100.7	94.9	183.3	127.2
TOTAL INCOME	**1,067.7**	**1,331.3**	**1,475.8**	**2,014.7**	**2,595.5**	**2,538.7**
EXPENSES (Ushs. Billion)						
Interest expense on deposits	122.4	188.5	196.8	267.0	401.4	406.8
Other interest expenses	57.6	64.5	57.3	145.2	193.3	119.8
Provisions for bad debts	45.5	56.3	79.0	77.8	205.9	247.9
Salaries, wages, staff costs	219.5	284.8	330.3	381.4	437.8	504.4
Premises, depreciation, transport	110.5	144.3	153.8	178.5	198.1	221.7
Other expenses	189.9	266.9	296.2	322.9	405.2	458.3
TOTAL EXPENSES	**745.4**	**1,005.4**	**1,113.4**	**1,372.8**	**1,841.7**	**1,958.9**
ADD: Extraordinary credits/charges	0.0	0.0	-0.4	-0.7	0.9	0.1
Net profit before tax	322.3	325.9	362.0	641.3	754.7	579.9
LESS: Corporation tax	92.0	89.8	93.3	153.0	199.9	165.9
NET PROFIT AFTER TAX	**230.4**	**236.1**	**268.7**	**488.3**	**544.8**	**414.0**

Source: Bank of Uganda

Table 3B: Aggregated income statement for credit institutions (*annual*)

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
INCOME (Ushs. Billion)						
Interest on loans and advances	13.1	16.2	21.0	27.3	31.7	37.2
Interest on government securities	1.4	1.1	0.5	0.8	2.2	1.6
Other interest income	1.8	1.7	3.1	4.1	0.3	8.1
Total interest income	16.2	19.0	24.5	32.1	41.0	46.9
Total non-interest income	12.2	10.6	9.8	13.5	15.4	20.0
TOTAL INCOME	**28.4**	**29.6**	**34.3**	**45.6**	**56.4**	**66.9**
EXPENSES (Ushs. Billion)						
Total interest expense	2.6	2.1	2.3	3.8	4.6	6.6
Provisions for bad debts	3.6	0.5	1.1	1.6	2.8	6.3
Salaries & other staff costs	10.3	12.6	14.3	17.4	19.9	24.3
Other non-interest expense	12.3	13.4	16.2	19.5	21.9	24.4
TOTAL EXPENSES	**29.0**	**28.6**	**33.9**	**42.3**	**49.2**	**61.6**
Taxation	0.3	-	0.1	0.4	1.9	1.6
NET INCOME	**-0.8**	**1.0**	**0.3**	**2.9**	**5.2**	**3.7**

Source: Bank of Uganda

Table 3C: Aggregated income statement for microfinance deposit-taking institutions (*annual*)

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
INCOME (Ushs. Billion)								
Total credit income	41.7	54.3	43.1	51.2	57.0	79.1	99.0	82.5
Total other income	3.3	4.6	5.2	7.3	4.3	7.3	10.6	11.2
GROSS FINANCIAL INCOME	**45.1**	**58.9**	**48.3**	**58.5**	**61.3**	**86.3**	**109.6**	**93.7**
EXPENSES (Ushs. Billion)								
Total financial expenses of lending funds	6.8	8.3	6.0	6.2	5.6	9.4	15.7	12.0
Provision for bad debts	2.4	3.2	2.6	2.5	2.4	3.0	5.0	3.4
Net financial income	35.8	47.4	39.6	49.8	53.3	74.0	88.9	78.3
Total operating expenses on financial services	32.9	37.8	34.6	44.5	48.2	63.6	75.5	66.3
NET INCOME FROM OPERATIONS	**2.9**	**9.6**	**5.1**	**5.3**	**5.1**	**10.4**	**13.4**	**11.9**
Total grant income for financial services	0.7	0.3	0.2	0.4	0.3	1.1	1.1	1.7
Total grant income for non-financial services	-	0.4	-	-	-	-	-	-
Income from non-financial services	0.5	0.6	0.0	0.0	0.1	0.2	0.01	0.03
Total operating expenses on non-financial services	0.0	0.0	0.0	0.0	0.0	0.1	0.09	0.08
Net operating profit/loss from non-financial services	0.5	0.6	0.0	0.0	0.0	0.1	-0.1	-0.05
NET PROFIT FOR THE PERIOD	**4.1**	**11.0**	**5.3**	**5.7**	**5.4**	**11.6**	**14.4**	**13.6**
Corporation tax	0.9	2.8	1.3	1.1	1.1	1.5	2.7	3.2
NET PROFIT AFTER TAX	**3.2**	**8.2**	**4.1**	**4.6**	**4.3**	**10.1**	**11.6**	**10.4**
RETAINED EARNINGS	3.2	8.2	4.1	4.6	4.3	10.1	11.6	10.4

Source: Bank of Uganda

APPENDIX 4: CREDIT REFERENCE BUREAU ACTIVITIES (CUMULATIVE FIGURES)

Quarter	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches on FCS	505	528	547	590
Branches on CRB	503	525	542	579
Financial cards issued	478,568	667,412	802,906	948,936
Number of enquiries	146,435	682,459	1,154,690	1,723,191

Source: Bank of Uganda