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
DSIB	Domestic Systemically Important Bank
EAC	East African Community
EAPS	East African Payment System
ECS	Electronic Clearing System
EFT	Electronic Funds Transfer
FCS	Financial Card System
FIA	Financial Institutions Act 2004
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IMF	International Monetary Fund
KfW	German Kreditanstalt fur Wiederaufbau
LCR	Liquidity Coverage Ratio
MAC	Monetary Affairs Committee
MDIs	Microfinance deposit-taking institutions
MFPED	Ministry of Finance, Planning and Economic Development
NBFI	Non-Banking Financial Institution
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
RBS	Risk-Based Supervision
RTGS	Real Time Gross Settlement System
RWA	Risk Weighted Assets
SACCO	Savings and credit cooperative
SFI	Supervised Financial Institution
UNISS	Ugandan National Inter-bank Settlement System
URBRA	Uganda Retirement Benefits Regulatory Authority
USh	Ugandan Shilling

FOREWORD

The Bank of Uganda (BOU) publishes the *Annual Supervision Report* (ASR) to inform the public about issues relevant to the prudential regulation and financial soundness of Uganda's financial sector. The ASR provides information on the BOU's supervisory activities during the year, the reforms it has undertaken to the regulatory framework, an evaluation of the performance of the financial system, and an assessment of risks to financial stability.

GOVERNOR, BANK OF UGANDA
Prof. Emmanuel Tumusiime Mutebile

During 2017, the performance of the banking industry in Uganda strengthened. The commercial banks' asset quality improved with the aggregate non-performing loans to total gross loans falling from 10.5 percent as at end-December 2016 to 5.6 percent as at end-December 2017, while the aggregate return on equity and return on assets increased from 8.3 percent and 1.3 percent respectively in 2016 to 16.4 percent and 2.7 percent in 2017. By maintaining capital and liquidity buffers well above the minimum regulatory requirements, the banking industry is resilient to shocks. The core and total regulatory capital adequacy ratios (regulatory capital to risk-weighted assets) improved from 17.3 percent and 19.8 percent at the end of 2016 to 20.9 percent and 23.2 percent respectively at the end of 2017.

Crane Bank, which had been taken into statutory management by the BOU in October 2016 because it was insolvent, was resolved in the first quarter of 2017 through a purchase of assets and assumption of liabilities transaction with DFCU bank. The resolution of Crane Bank was carried out without any loss to the bank's depositors or contagion to the rest of the banking system. The BOU is now pursing action through the Commercial Court to recover the large losses incurred by Crane Bank from its debtors, which include its shareholders.

A major innovation in accounting standards which came into force at the beginning of 2018 is the implementation of the International Financial Reporting Standard (IFRS) 9 which, inter alia, requires banks to take a forward looking approach to determine their provisioning for potential losses. The BOU issued a circular to banks regarding IFRS 9 and is evaluating the banks' compliance with the standard as well as its likely impact on capital adequacy and credit growth. The final guidance will be issued in due course.

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 (BOU) to conduct oversight of supervised financial institutions (SFIs) through on-site inspections and off-site surveillance. SFIs are financial institutions – commercial banks, credit institutions, microfinance deposit-taking institutions, foreign exchange bureaus and money remitters – that are under the regulatory purview of BOU.

1.2. On-site inspection

The objective of on-site examinations is to independently determine the financial condition of the SFIs and review their risk management systems using the risk-based supervision (RBS) methodology. This also includes an assessment of the SFIs' level of compliance with all applicable laws, regulations, prudential guidelines, circulars and corrective actions stipulated by the BOU during these examinations.

Commercial banks

At end of 2017, there were 24 commercial banks in operation. During the year, BOU conducted on-site examinations of all commercial banks using the risk-based supervision methodology, with a special emphasis on areas that pose the highest risk to financial institutions.

The key supervisory concerns arising from the on-site examinations of commercial banks were as follows:-

For a number of banks, there were weaknesses in the composition of board committees, succession planning for board members and senior management, and delays in addressing vacancies in key positions of banks' organisational structures. For regional and international banks, the key concerns related to risks that emanate from overreliance on the parent companies for operational support.

With regard to strategic risk, the main findings were related to unrealistic assumptions underlying the strategic plans and lapses in the implementation of strategic initiatives. Six banks, with a combined 4.7 percent share of the banking industry total assets, made losses in 2017. This poses a risk to their ability to conserve capital in order to support the implementation of their business models. Nonetheless, all banks remained adequately capitalised during the year.

While there were no breaches of credit concentration regulations, lapses were noted in the credit underwriting processes. However, the ratio of non-performing loans (NPLs) to total loans improved during 2017.

There were some concerns pertaining to some banks' information communication technology (ICT) infrastructure. Some banks' core banking systems were obsolete, with weak embedded IT controls and unable to adequately support operations, leading to routine operational challenges. Moreover, some banks' systems could not adequately assess money laundering/terrorism-financing risks, and support robust financial reporting.

The findings regarding compliance risk were mainly related to delays by some regional and international banks in the implementation of BOU's directive to establish in-country primary data centres. There was also misreporting of data in the statutory returns submitted by banks to the BOU as well as in the data submitted by banks to the Credit Reference Bureau (CRB). Additionally, the examinations established cases of non-compliance with some provisions of the Financial Institutions Act (FIA) 2004 and its implementing regulations, BOU directives and guidelines, by some banks.

As a result of examinations, BOU issued specific and time-bound directives to all banks for them to address all identified supervisory concerns. There were cases where BOU enforced punitive measures on the banks for non-compliance with supervisory directives.

The transfer of some of Crane Bank's assets and liabilities to DFCU Bank Limited was completed in the first quarter of 2017. In addition, BOU undertook measures, including legal proceedings in the Commercial Court to recover the costs of resolving Crane Bank Limited from its shareholders.

Credit institutions

During 2017, BOU conducted full scope on-site examinations of three credit institutions; Top Finance Bank (Uganda), Opportunity Bank (Uganda) and PostBank (U); and a follow-up examination of Top Finance Bank (U). Key areas of supervisory concern included lapses in corporate governance practices and management of strategic, operational, credit and compliance risks. The institutions were issued with specific and time-bound directives to address observed shortcomings.

Microfinance deposit-taking institutions (MDIs)

In the course of 2017, on-site examinations of the five licensed MDIs were conducted. In line with the RBS approach, the on-site examinations focused on areas of high risk. The key supervisory concerns arising from the on-site examinations involved operational and credit risk.

BOU issued specific directives to the MDIs to address observed supervisory concerns and follow-up examinations were subsequently carried out to assess compliance.

Foreign exchange bureaus and money remittance companies

During 2017, 109 on-site examinations and 41 follow-up examinations of foreign exchange bureaus and money remitters were conducted. The major supervisory concerns related to: inaccuracies in the returns, poor record-keeping; lapses in internal controls, particularly those related to cash management; and some weaknesses in anti-money laundering and countering the finance of terrorism (AML/CFT) processes. Directives were issued to the concerned institutions, requiring them to address the identified weaknesses.

All foreign exchange bureaus submitted periodic returns for off-site analysis throughout the year. However, there were challenges with meeting submission deadlines on the Bank Supervision Application (BSA). In addition, some of the management information systems used in the sub-sector did not have adequate functionalities to support the tracking and monitoring of business performance. Directives were issued to the relevant institutions to address these gaps.

BOU, with support from the East Africa Regional Technical Assistance Centre (IMF East-AFRITAC), developed off-site and on-site AML and CFT supervisory tools for foreign exchange bureaus and money remitters. These tools shall strengthen AML/CFT supervision for this sub-sector.

1.3. Off-site analysis of supervised financial institutions

BOU conducted off-site surveillance of SFIs through the collection and analysis of financial information submitted to it. Off-site analysis plays a key role in the planning of scheduled on-site examinations of SFIs and in the implementation of the risk-based supervision methodology. It also ensures that the SFIs comply with statutory and prudential requirements.

Chapter 2: Regulatory Reforms to Strengthen the Financial Sector

2.1. Licensing, approvals and expansion

In 2017, Bank of Uganda received an application from BRAC Uganda Finance Ltd. for a credit institution (Class 5) license. The review of this application is ongoing, and is expected to be concluded by end of June 2018.

Bank branches and automated teller machines

The total number of bank branches was declined from 570 in 2016 to 544 in 2017, and the total number of automated teller machines (ATMs) operated by commercial banks decreased from 860 in 2016 to 821 in 2017. This decline can be attributed to: the closure of Crane bank; and increased emphasis on electronic banking channels to provide financial services, leading to the rationalisation of bank branches through mergers and closures.

Table 1: Number of licensed branches/outlets for supervised financial institutions

	2014	2015	2016	2017
Commercial bank branches	564	573	570	544
ATMs	830	842	860	821
Foreign exchange bureaus	267	280	267	260
Money remitters	204	225	241	241
MDIs branches	70	76	78	78
Credit institutions branches	55	57	61	66

Source: Bank of Uganda

Furthermore, the number of SFIs connected to the Interswitch[1] network increased to 17 SFIs as at end of 2017, up from 14 SFIs as at end of 2016, with Diamond Trust Bank being the most recent SFI to be connected. Accordingly, by end of 2017, 13 commercial banks, 3 credit institutions, 1 MDI and 2 mobile money networks (M-Cash and MTN mobile money) were connected to the Interswitch, providing their customers shared access to a network of 477 ATMs.

Table 2: Interswitch network activity

Year	Value (USh. billion)	Volume (000's)	Number of ATMS
2011	14.0	115.5	80
2012	14.1	229.8	98
2013	17.0	253.3	109
2014	85.0	1,135.5	301
2015	150.5	1,861.1	311
2016	197.7	2,539.0	366
2017	257.0	2,516.7	477

Source: Bank of Uganda

In 2017, a total of USh.257 billion was transacted over the Interswitch platform, representing a 30 percent year–on–year increment from the USh.197.7 billion transacted in 2016.

2.2. Regulatory reforms

Regulations on Islamic banking, agent banking and bancassurance

As provided for under the 2016 amendment to the FIA (2004), the Financial Institutions (Agent Banking) Regulations 2017 and the Insurance (Bancassurance) Regulations 2017 were gazetted in July 2017, while the Islamic Banking Regulations were also gazetted in February 2018. Since then, a number of SFIs have applied to BOU to conduct

[1] Interswitch is a financial technology company that offers interconnectivity across banks, mobile money networks and financial service providers. The platform enables customers to access their accounts using ATM outlets of other member banks and mobile money platforms.

agent banking, and to provide Bancassurance products and services. And with the coming into effect of the Islamic banking regulations, BOU now has the regulatory framework in place to license Islamic banking and financial products in Uganda.

The Tier IV Microfinance Institutions and Money Lenders Act 2016

The Minister of Finance, through Statutory Instrument No. 19 of 2017, appointed the first day of July 2017 as the commencement date for the Tier IV Microfinance Institutions and Money Lenders Act 2016. From this date, BOU started receiving applications for licences from registered institutions that meet the criteria set out under Section 110 of the Act. Preliminary data indicates that about twenty registered institutions will apply for licences from BOU.

During the year, BOU held consultation meetings with the Boards of Directors of the selected Savings and Credit Cooperative Societies (SACCOs) that meet the criteria in Section 110 of the Tier IV Microfinance Institutions and Money Lenders Act 2016. These consultations have also included the draft Tier IV regulations, that will operationalise the provisions of this Act.

Microfinance Deposit-taking Institutions Act 2003

The proposed amendments to the MDI Act 2003, forwarded to the Ministry of Finance, Planning and Economic Development (MFPED) in 2015, are yet to be finalised. BOU is continuing its follow-up with MFPED on these amendments.

Legal and regulatory developments in the foreign exchange bureaus and money remitters sub-sector

The proposed amendments to the Foreign Exchange Act 2004 and the Foreign Exchange (Foreign Exchange Bureaus and Money Remittance) Regulations 2006 were submitted to the Cabinet Secretariat by the MFPED. The Secretariat proposed some changes that are being addressed by the BOU and MFPED.

BOU commenced the implementation of the External Auditor Appointment Guidelines for foreign exchange bureaus and money remitters. These guidelines require forex bureaus and money remitters to retain only external auditors that have passed BOU's annual prequalification.

BOU continued with the implementation of the approved strategy against unlicensed foreign exchange trade. In this regard, a multi-stakeholder taskforce was established and held fact-finding sensitisation meetings in a number of locations across the country. Out of these engagements, the BOU received applications from traders wishing to regularise their foreign exchange operations. Consequently, licenses have been granted to foreign exchange bureaus at the Uganda-Kenya border in Malaba town, while other applications are still under consideration. Public awareness will continue throughout 2018.

Nevertheless, the need to enhance the regulatory framework and compliance in the sub-sector remains. BOU expects improvement in compliance upon enactment of the proposed amendments to the Foreign Exchange Act 2004 and the Foreign Exchange (Foreign Exchange and Money Remittance) Regulations 2006.

Also, inadequate awareness and/or application of good corporate governance practices in the sub-sector continue to present a challenge. As a remedial measure, BOU through periodic workshops provides on-going up-skilling to directors and employees of foreign exchange bureaus and money remittance companies.

2.3. The Deposit Protection Fund

Pursuant to Section 38 of the Financial Institutions (Amendment) Act 2016, the Deposit Protection Fund (DPF) became a separate legal entity. Its management and operations were divested from the central bank. A board of directors was appointed by the MFPED, and four officers from BOU were seconded to the DPF as part of the initial steps to set up its management structures and fully operationalise it as an independent entity.

A memorandum of understanding (MOU) between BOU and the DPF has been finalised. It lays out the areas of cooperation between the two entities and provides guidance on operational arrangements during this transitional period.

2.4. Credit reference bureau services

During 2017, 124,995 new financial cards were issued to customers of SFIs bringing the cumulative number of cards in the financial system to 1,503,324. There were 593 branches installed on the financial card system; and a total of 596,406 credit enquiries were made in 2017 in comparison to the 614,620 made in 2016.

In the pursuit of a competitive credit reference services environment, revised draft Financial Institutions Credit Reference Bureau (CRB) Regulations 2017 have been forwarded to the MFPED for comments. Thereafter, they shall be submitted to the First Parliamentary Counsel for legislative drafting. The revised regulations will enable access to the CRBs by other non-bank lenders and enhance the regulation and establishment of this market as competitive.

In line with the initiative to make the national identification number (NIN) a key identifier for all bank transactions, BOU signed an MOU with the National Identification and Registration Authority (NIRA). As a result, 1,375,663 financial card records have been transferred to NIRA for verification and matching with existing records in the National Identification Register. From the records submitted to NIRA, 45 percent or 619,865 financial cards were processed, of which 453,275 financial cards matched had matching NIN records. The 166,590 financial cards that did not have matching records shall be processed manually.

The Uganda Bankers Association (UBA) technical committee, the Financial Intelligence Authority (FIA) and the BOU, have jointly approached NIRA to initiate modalities for accessing the National Identification Register. The objective is to enable online and almost real-time Know-Your-Customer (KYC) verification and validation. It has been agreed that a working group be established to agree on identification related data fields that will be accessed by the financial services industry, the flow and security of this data, and how customer privacy and consent for access to personal data shall be handled. Once conclusively defined and agreed upon, they shall constitute the basis for the establishment and hosting of an Interface, and the access modalities for the financial industry stakeholders to the NIRA hosted and maintained National Identification Register.

CRB data utilisation and public awareness consultancies, funded by KfW

Following the evaluation of the tender bids for the two consultancies funded by Kreditanstalt für Wiederaufbau (KfW), M/s. AFC Consultants in conjunction with Akademie Deutscher e.v, won the contract to provide training on CRB data utilisation to participating institutions and BOU, while M/s. NOMAD Advertisement won the contract for public awareness campaigns for the CRB, the Deposit Protection Fund and World Savings Day. These contracts will commence in early 2018.

2.5. Strengthening supervision

Audits of information technology systems by external auditors

The BOU requires SFIs to engage their external auditors to audit their ICT systems. The objective is to obtain assurance on the capability of the ICT systems to safeguard the institutions' assets as well as ensure data availability, integrity and confidentiality. These audits must be conducted on a periodic basis.

Home-Host supervisory relationships

The BOU participated in a number of supervisory colleges organised by the home regulators of some of the subsidiaries of foreign banks operating in Uganda. Supervisory colleges bring together host and home regulators to evaluate the risks facing banking groups and devising supervisory strategies to mitigate such risks. Some of the colleges held were for Stanbic Bank, Barclays Africa Banking Group, Standard Chartered Bank, Ecobank Group, United Bank for Africa and Exim Bank.

International Financial Reporting Standard (IFRS) 9 – Financial Instruments

The implementation of the International Financial Reporting Standard (IFRS) 9 took effect on 1st January 2018 at the international level.

Bank of Uganda directed SFIs to conduct an assessment of their preparedness to implement IFRS 9. A review of the reports submitted by the SFIs revealed that they are at varying stages of preparedness with regard to the implementation of IFRS 9. Accordingly, BOU will continue evaluating the SFIs' implementation programs for IFRS 9, as well as its impact on their capital adequacy during 2018 and provide guidance to the sector in due course, where necessary.

The Uganda Forex Bureau and Money Remittance Association

BOU, in conjunction with the Uganda Forex Bureau and Money Remittance Association, continued its capacity building programs for the sub-sector throughout 2017. On 19th October 2017, a training workshop was held for the directors and managers of foreign exchange bureaus and money remittance companies. The topics covered included: establishing a sound internal control environment; preparation and submission of statutory returns; and awareness about anti-money laundering and countering the financing of terrorism compliance obligations.

PART II: ASSESSMENT OF FINANCIAL STABILITY

Chapter 3: Performance of the Banking Sector

3.1. Changes in banks' assets and liabilities

The total assets of Uganda's banking sector grew, in nominal terms, by 12.0 percent between December 2016 and December 2017, from USh.23.7 trillion to USh.26.5 trillion. This was a marked increase in bank assets, as compared to the 9.1 percent growth achieved over the previous year, 2016. This was mainly on account of a 204.1 percent increase in banks' holdings of BOU securities, from USh.0.8 trillion in December 2016 to USh.2.5 trillion in December 2017. Loans and advances increased by 1.5 percent in 2017, which was much lower than the 6.1 percent growth registered in 2016.

The significant increase in the banks' investment in Government of Uganda and BOU securities, with a meagre increase in lending to the private sector indicates that banks' remained risk-averse, perhaps because of high loan default rates experienced in 2016. This was in spite of the default rates easing considerably during 2017, with industry NPL ratio closing at 5.6 percent from 10.6 percent as at end of 2016.

Table 3: Excerpt of banks' assets

	Dec 2014	Dec 2015	Dec 2016	Dec 2017
Total assets				
Volumes (USh. trillion)	19.6	21.7	23.7	26.5
Annual growth (percent)	13.1	10.9	9.1	12.0
Government securities				
Volumes (USh. trillion)	4.5	4.1	5.1	5.6
Annual growth (percent)	22.3	-8.9	25.6	9.1
Loans				
Volumes (USh. trillion)	9.4	10.8	11.5	11.7
Annual growth (percent)	14.0	14.9	6.1	1.5
BOU securities & REPO				
Volumes (USh. trillion)	0.23	0	0.8	2.5
Annual growth (percent)	-58.1	-100	0.0	204.1

Source: Bank of Uganda

3.2. Capital Adequacy

At the end of December 2017, all commercial banks met the regulatory minimum capital adequacy requirements. The consolidated banking industry core and total regulatory capital adequacy ratios (regulatory capital to risk-weighted assets) improved from 17.3 percent and 19.8 percent to 20.9 percent and 23.2 percent respectively in 2017. This improvement is largely attributed to better profitability leading to a 30.1 percent increase in banks' retained earnings, from USh.1.6 trillion in 2016 to USh.2.1 trillion in 2017. The capital position of the banking industry was also reinforced by the write-off of Crane Bank's accumulated losses, which had, in 2016, significantly reduced the aggregate industry capital position.

Similarly, the banking industry consolidated leverage ratio (the non-risk based capital requirement) improved from 9.6 percent at the end of December 2016 to 11.3 percent at end-December 2017, which is significantly above the Basel III recommended minimum of 3.0 percent.

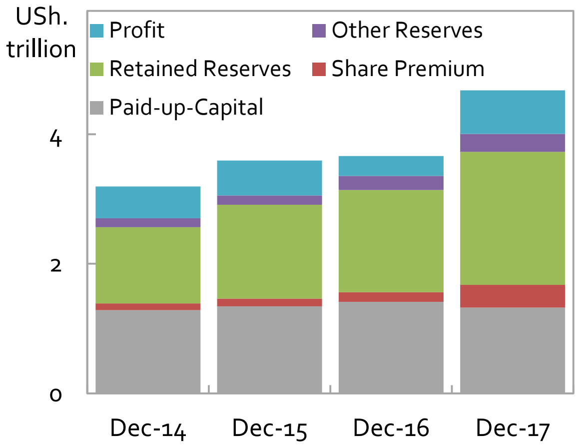
Table 4: Aggregate capital adequacy ratios for the banking sector (percent)

	Dec 2014	Dec 2015	Dec 2016	Dec 2017
Total capital adequacy ratio	22.2	21.0	19.8	23.2
Tier 1 capital adequacy ratio	19.7	18.6	17.3	20.9
Leverage ratio	11.0	11.1	9.6	11.2

Source: Bank of Uganda

Total shareholders' equity in the banking system grew by 27.6 percent from USh 3.7 trillion to USh 4.7 trillion in 2017. This was far higher than the 1.9 percent growth registered in the previous year and was largely attributed to the increase in retained earnings. However, paid-up capital reduced by 6.2 percent from USh.1.4 trillion in 2016 to USh.1.3 trillion in 2017, on account of the resolution process for Crane Bank.

Figure 1: Composition of banks' capital

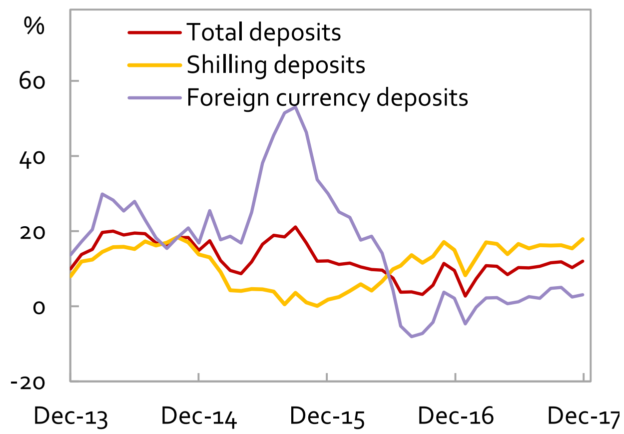


Source: Bank of Uganda

3.3. Funding and liquidity

As at end of December 2017, customer deposits accounted for 83.2 percent of the total liabilities of the banking sector. Customer deposits grew by 12.0 percent to close at USh.18.2 trillion in 2017, compared to the 9.5 percent growth registered in 2016. Specifically, shilling deposits increased by 17.8 percent to USh.11.6 trillion during the year, while foreign currency deposits grew by 3.1 percent over the same period. The latter constituted 36.5 percent of total deposits at end of 2017, down from 39.6 percent in 2016.

Figure 2: Annual growth in customer deposits (percent)



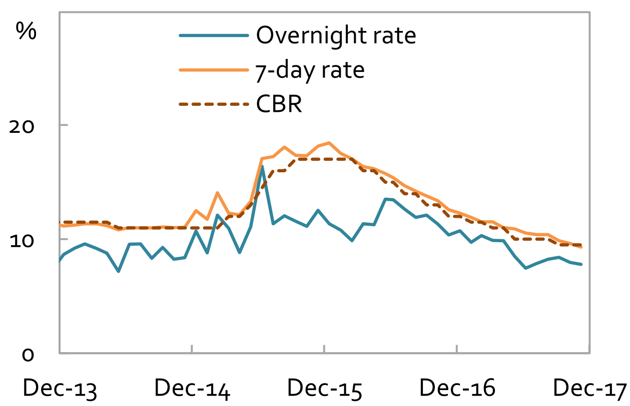
Source: Bank of Uganda

Activity in the interbank market

In response to the easing of the monetary policy rate, the central bank rate (CBR), the 7-day weighted average and the overnight interbank rates progressively declined to 9.3 percent and 7.8 percent, respectively by end of December 2017, down from 12.6 percent and 10.4 percent, respectively as at end of 2016. There was more stability in the interbank rates, around the CBR.

The activity in the interbank market decreased during 2017, with a total of USh.21.7 trillion traded, down from USh.24.3 trillion in 2016. This could be attributed to better funding conditions in the sector as banks benefited from increased deposits.

Figure 3: Interest rates in the domestic interbank market (percent)



Source: Bank of Uganda

Liquidity

Banks held liquidity buffers well above the minimum requirement in 2017. The ratio of liquid assets to total deposits increased from 42.5 percent as at end of 2016 to 54.6 percent as at end of 2017, well above the regulatory minimum of 20.0 percent. Commercial banks held USh.9.9 trillion in liquid assets at the end of December 2017, and this was 18.6 percent more than the level held at end of 2016. With the increase in funding noted above, banks' liquid assets increased as the banks opted for more investment Government of Uganda and BOU securities, which increased by USh.2,175.0 billion, while only increasing their lending to the private sector by a meagre USh.168.4 billion.

Table 4: Key indicators of bank liquidity (percent)

	Dec 2014	Dec 2015	Dec 2016	Dec 2017
Liquid assets to total deposits	43.9	46.4	51.5	54.6
Liquid assets to total assets	29.7	31.7	35.3	37.4
Total loans to total deposits	71.4	73.1	70.8	64.1
Interbank borrowing to total deposits	2.6	2.7	2.0	1.5

Source: Bank of Uganda

The Liquidity Coverage Ratio (LCR) assesses whether, in the event of a 30-day liquidity stress scenario, a bank holds sufficient high quality liquid assets to meet its projected net cash outflows over this period. Banks are required to maintain a minimum LCR of 100 percent.

Measured by the LCR, the banking industry's liquidity improved in 2017, as the average monthly industry LCR over this period stood at 313.6 percent, compared to an average of 251.3 percent in 2016.

3.4. Performance of credit

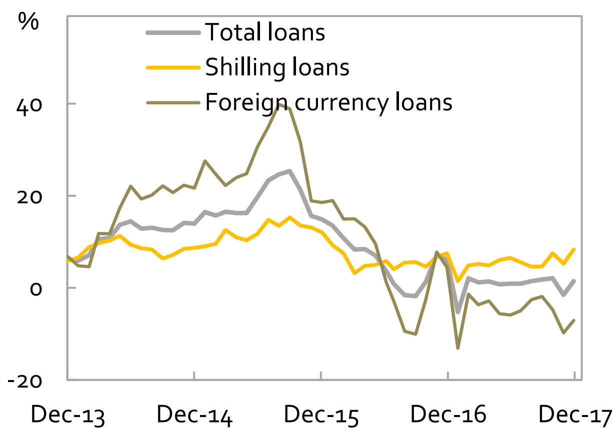
Lending activity

Overall, the growth in bank loans and advances was subdued despite the easing of monetary policy during the year. In 2017, bank credit to the private sector increased by 1.5 percent to USh.11.5 trillion, lower than 6.1 percent growth registered in 2016.

Shilling denominated loans expanded by 8.3 percent in 2017 to USh. 6.9 trillion, which was higher than the 7.5 percent growth registered in the previous year. However, foreign currency denominated loans fell by 7.1 percent in 2017, down from the 4.4 percent growth registered in 2016. Foreign currency denominated loans constituted 40.7 percent of total loans as at end of December 2017, down from 44.4 percent as at end of December 2016.

Banks continued to exercise caution in lending due the high default rates suffered in 2016, even though 2017 registered significant improvement in loan performance.

Figure 4: Annual changes in the stock of bank loans (percent)

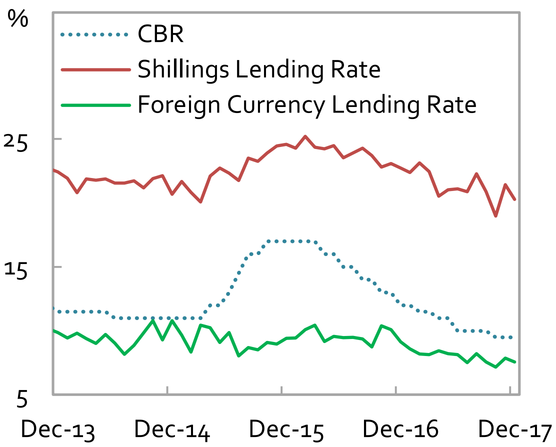


Source: Bank of Uganda

Following the reduction in the CBR from 12.0 percent in December 2016 to 9.5 percent in

December 2017, interest rates on shilling loans eased. The weighted average lending rate for shilling loans reduced from 22.7 percent in December 2016 to 20.3 percent in December 2017, while the lending rate for foreign currency loans reduced from 9.2 percent to 7.6 percent over the same period.

Figure 5: Commercial banks' weighted average lending rates and the CBR (percent)



Source: Bank of Uganda

Sectoral analysis of bank lending indicates that the real estate and construction; trade and commerce; and household sectors claimed the largest shares of bank lending as at December 2017. Notable was the growth in the share of personal and household loans, supported in part by BOU's accommodative monetary policy stance and the expectation of improvement in macroeconomic conditions (BOU Lending Survey reports, 2017).

In terms of annual sectoral credit growth, the agriculture sector registered the highest growth, of 28.1 percent in 2017. On the other hand, lending to the real estate and construction sector decreased by 11.0 percent over the same period.

Table 6: Sector allocation of bank loans

Sector	Percent	Dec. 2015	Dec. 2016	Dec. 2017
		%	%	%
Agriculture	Share of Total	9.5	9.8	12.4
	YoY growth	15.8	9.3	28.1
Manufacturing	Share of Total	14.8	13.7	12.6
	YoY growth	19.9	-2.2	-6.9
Trade & commerce	Share of Total	18.7	18.6	18.7
	YoY growth	9.1	5.3	2.4
Real estate & construction	Share of Total	24.1	23.4	20.5
	YoY growth	19.2	3.0	-11.0
Personal & household loans	Share of Total	15.2	16.5	18.6
	YoY growth	18.7	14.9	14.7
All other sectors	Share of Total	17.6	18	17.2
	YoY growth	18.7	8.9	-3.5

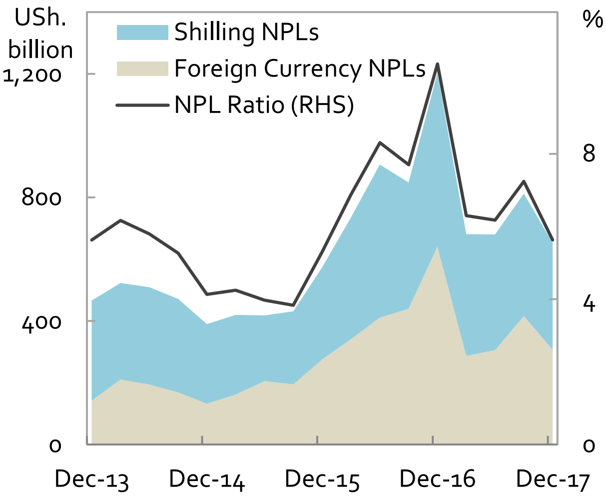
Source: Bank of Uganda

Loan quality and non-performing loans

The aggregate industry NPL ratio (non-performing loans to total gross loans) improved from 10.5 percent as at December 2016 to 5.6 percent as at December 2017. The aggregate NPLs dropped by 45.8 percent from USh.1.2 trillion in December 2016 to USh.652.1 billion in December 2017.

By currency, there was improvement in credit quality in the industry's NPL ratio for both foreign currency denominated loans and shilling loans, from 12.6 percent and 8.8 percent respectively at end December 2016, to 6.5 percent and 5.0 percent respectively at the end of December 2017.

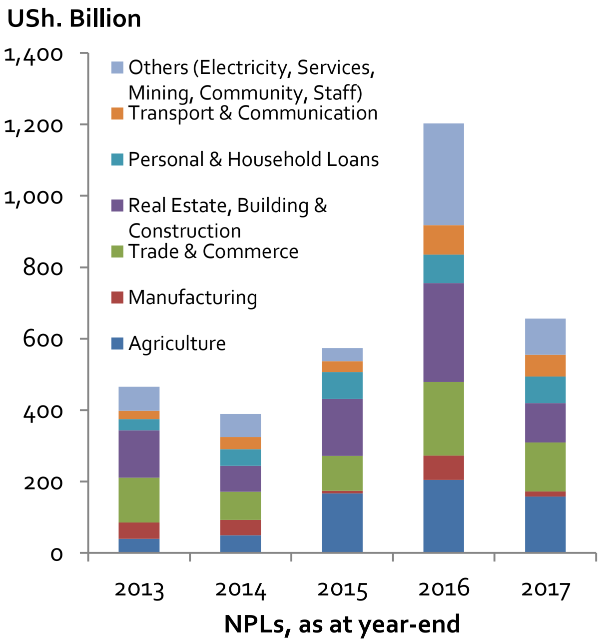
Figure 7: Banks' NPLs



Source: Bank of Uganda

By sector, agriculture (USh.158.2 billion), and Trade and Commerce (USh.137.2 billion) accounted for most of the banking industry NPLs, as illustrated in the figure below. Notable also is that the proportion of NPLs attributed to the Real estate, Building and Construction sector decreased by USh.166.9 billion, over the year ended 2017.

Figure 8: Sectoral composition of banks' NPLs (USh. trillion)

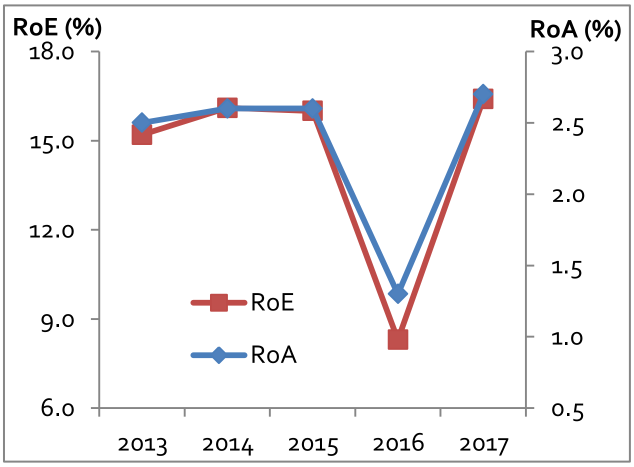


Source: Bank of Uganda

3.5. Earnings and profitability

The banking sector's profitability improved significantly during 2017. The net after-tax profits more than doubled from Ush.302.1 billion for the year 2016 to Ush.672.9 billion for the year 2017. The aggregate return on equity (ROE) and return on assets (ROA) improved from 8.3 percent and 1.3 percent to 16.4 percent and 2.7 percent respectively, over the same period. The improvement was largely attributed to a reduction in provisions for bad debts. While aggregate profitability improved, six banks were loss-making in 2017, one less than the seven banks that registered losses for 2016.

Figure 9: Banks' Annual Profitability (percent)

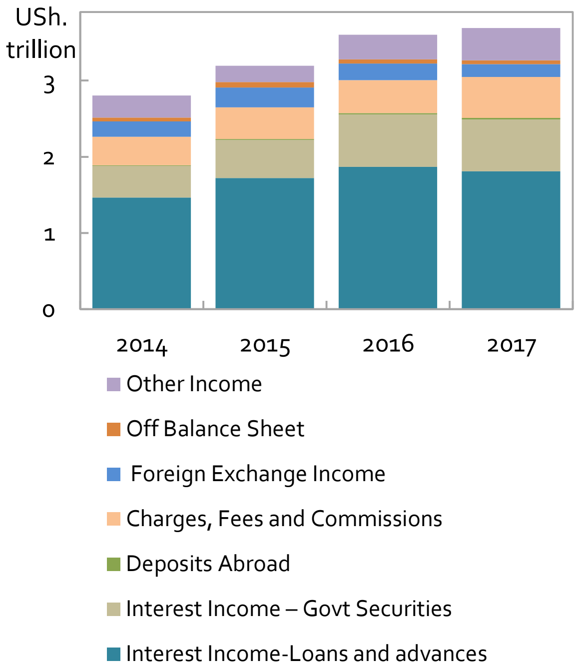


Source: Bank of Uganda

While interest earned on loans and advances still accounted for most of the banks' income, the contribution from non-interest sources – charges, fees and commissions – increased significantly in 2017. Noteworthy is that due to the decrease in interest rates in 2017, interest income from government securities and loans and advances decreased, relative to 2016, even though the stock of both asset classes had increased by end of 2017.

percent to 36.5 percent between December 2016 and December 2017.

Figure 10: Composition of banks' gross income (USh. trillion)



Source: Bank of Uganda

3.6. Sensitivity to market risk

The banking sector's exposure to market risk remained low, as at end of December 2017. The ratio of foreign currency exposure to regulatory core capital stood at 5.4 percent at the end of December 2017, well within the regulatory requirement of +/-25 percent. The ratio of foreign currency loans to foreign currency deposits was 71.5 percent as at the end of December 2017, which was still within the statutory limit of 80 percent.

The proportion of the banks' foreign currency assets to total assets reduced from 35.6 percent to 29.6 percent, while the share of foreign currency deposits to total deposits declined from 39.6 percent to 36.5 percent between December 2016 and December 2017.

Table 5: Banks' foreign currency exposure (percent)

	Forex exposure/ core capital	Forex assets/ forex liabilities	Forex loans/ forex deposits	Forex assets/ total assets
Dec-13	-3.0	96.8	81.7	30.8
Dec-14	-6.9	97.1	85.1	31.8
Dec-15	-5.9	101.8	77.6	37.5
Dec-16	-8.5	99.2	79.3	35.6
Dec-17	-5.4	92.4	71.5	29.6

Source: Bank of Uganda

3.7. Conclusion

In 2017, Uganda's banking sector registered an improvement in performance, relative to 2016. The banking system was sound and resilient, with capital and liquidity buffers well above the minimum requirements. NPLs, which eroded banks' profitability in 2016, fell during 2017 supported by the easing of monetary policy and the pickup in economic performance. However, lending to the private sector grew sluggishly, by 1.5 percent in 2017. The very low credit growth is largely attributed to banks' risk aversion given high default rates from the private sector obligors in the recent past, with banks instead opting to invest in government securities.

Chapter 4: Performance of Non-Bank Financial Institutions and Oversight of Payment Systems

4.1. Credit institutions

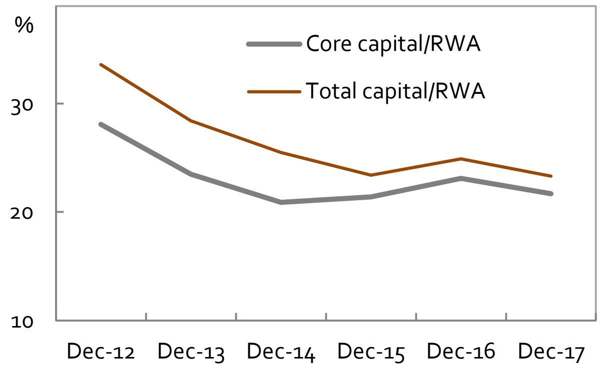
Total assets of the credit institutions (CIs) grew by 17.2 percent, from USh.463.1 billion as at end-December 2016 to USh.542.8billion as at end-December 2017. The increase was largely due to increased lending activity as net loans and advances increased by 20.3 percent from USh.259.5 to USh.312.3 billion during the same period. Total deposits rose by 23.5 percent, from USh.303.9 billion to USh.375.3 billion over the same period.

Overall, all CIs were well capitalised, liquid and generally financially sound during 2017.

Capital adequacy and liquidity

All CIs maintained their respective paid-up capital above the statutory minimum of USh.1 billion. The consolidated CIs core and total regulatory capital to risk-weighted assets ratios stood at 21.7 percent and 23.3 percent respectively, at end of 2017. This was a decrease from 23.1 percent and 24.9 percent respectively as at end of December 2016, mainly on account of the rising NPLs and loss making trend of newly licenced institutions. The aggregate core capital of the CIs stood at USh.86.5 billion while total regulatory capital amounted to USh.92.8 billion.

Figure 11: Capital adequacy ratios for CIs (percent)



Source: Bank of Uganda

The CIs' key liquidity indicators were satisfactory. The ratios of liquid assets to total deposits and loans to deposits were 45.2 percent and 83.2 percent, respectively.

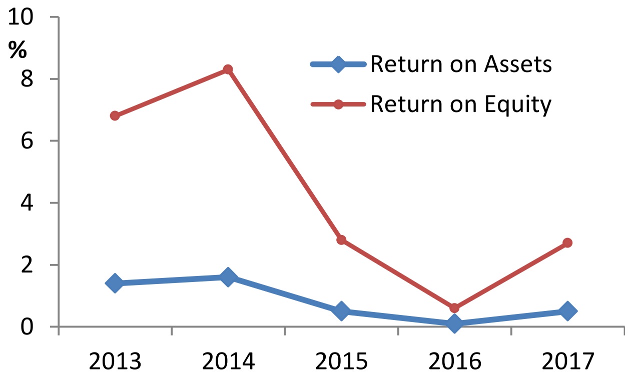
Asset quality

During 2017, credit institutions' asset quality deteriorated, with non-performing loans increasing by 2.9 percent from USh.10.5 billion as at the end of December 2016 to USh.10.8 billion as at the end of December 2017. Two of the four CIs accounted for the majority of the rise in NPLs and by sector; the largest increase in NPLs was recorded in the trade and commerce sector.

Earnings and profitability

The CIs sector registered net after-tax profits of USh.2.7 billion during 2017. This represented a substantial increase, as compared to a net profit of USh.0.5 billion that was incurred during 2016. Consequently, the ROA and ROE ratios stood at 0.5 percent and 2.7 percent, respectively. Interest income continued to be the major source of income for the CIs, contributing USh.90.3 billion during the year 2017.

Figure 12: Profitability for CIs (percent)



Source: Bank of Uganda

4.2. Microfinance deposit-taking institutions

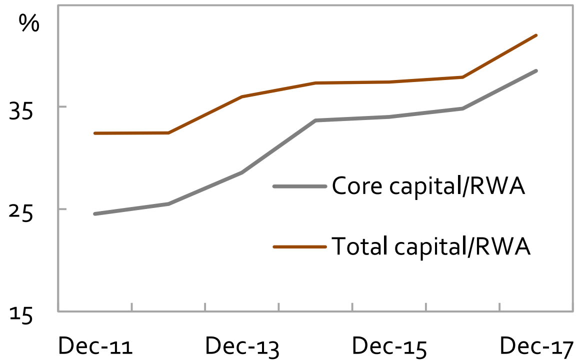
As at the end of 2017, the overall financial condition and performance of the MDIs was rated fair. Four of the five licensed MDIs remained adequately capitalised. One MDI breached the minimum capital adequacy requirement and is taking steps to restore its capital. Two MDIs were profitable while three recorded losses.

Over the year ended 2017, CIs' total assets increased marginally by 0.03 percent to USh.469.7 billion; customer deposits increased by USh.10.6 billion or 5.2 percent to USh.214.7 billion; while gross loans decreased by USh.14.4 billion or 4.8 percent to USh.283.0 billion.

Capital adequacy

All MDIs maintained their respective paid-up capital above the statutory minimum requirement of USh.500 million. The sub-sector's core and total regulatory capital to risk-weighted assets ratios stood at 38.5 percent and 41.9 percent respectively, up from 34.8 percent and 37.9 percent, as at end December 2016. The aggregate core capital and total capital grew by 8.6 percent and 8.8 percent respectively, while total risk weighted assets reduced by 1.8 percent following the decrease in gross loans as noted above.

Figure 13: Capital adequacy ratios for MDIs (percent)

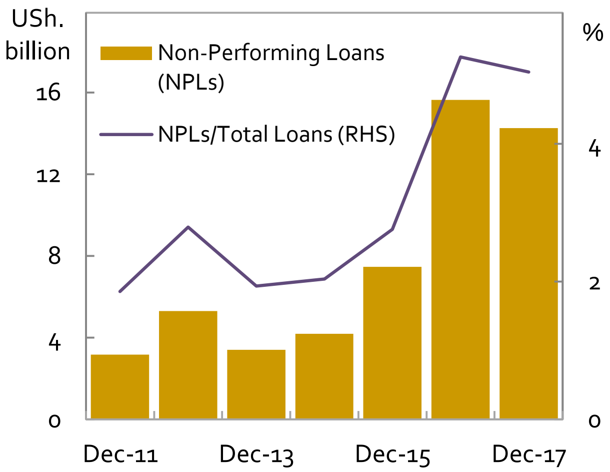


Source: Bank of Uganda

Asset quality

Asset quality improved albeit marginally, as manifested by a decrease in NPLs by 8.8 percent to Ush.14.3 billion. The MDIs generally focused more on loan recovery and less on disbursement, which led to the slight improvement in portfolio performance. The asset quality, represented by the ratio of NPLs to total loans, consequently improved to 5.0 percent from 5.3 percent as at end-December 2016.

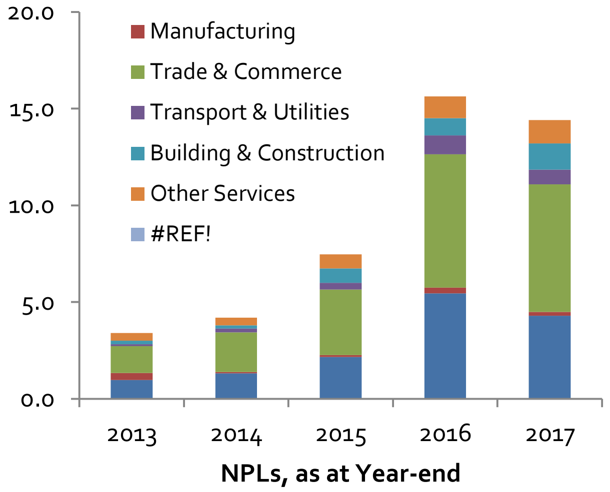
Figure 14: Asset quality of MDIs



Source: Bank of Uganda

By sector, Trade and Commerce, and agriculture still accounted for the largest proportions of NPLs, with USh.6.6 billion and USh.4.3 billion, respectively.

Figure 15: Sectoral Composition of NPLs (USh. Billions)



Earnings and profitability

The MDIs' aggregate after-tax profit was USh.13.8 billion in 2017, a decline as compared to USh.14.2 billion earned in the previous year. Operating expenses increased by 1.8 percent, while interest income from advances dropped by 0.1 percent. Consequently, the ROA and ROE ratios declined marginally from 3.1 percent and 10.5 percent respectively in 2016, to 2.9 percent and 9.41 percent respectively in 2017.

Liquidity

All MDIs maintained liquid assets well above the statutory minimum requirement of 15 percent of total deposit liabilities. Liquid assets as a proportion of deposits increased to 59.3 percent as at December 2017, from 55.7 percent as at December 2016. Total liquid assets held increased by 11.9 percent to USh.127.4 billion. This was largely due to the growth in balances with financial institutions in Uganda, by 8.6 percent.

4.3. Foreign exchange bureaus and money remittance outlets

Foreign exchange bureaus and money remitters continued to be financially sound, profitable and adequately capitalised as at end-December 2017. By end of 2017, the sub-sector comprised 188 foreign exchange bureaus with a total of 260 branches/outlets and 67 money remitters with a total of 241 branches/outlets. The money remitters were comprised of foreign exchange bureaus, MDIs, and credit institutions.

Total assets held by the sub-sector stood at USh.117.8 billion as at December 2017, reflecting a 5.7 percent growth from the USh.111.4 billion reported in 2016.

Solvency of the sub-sector

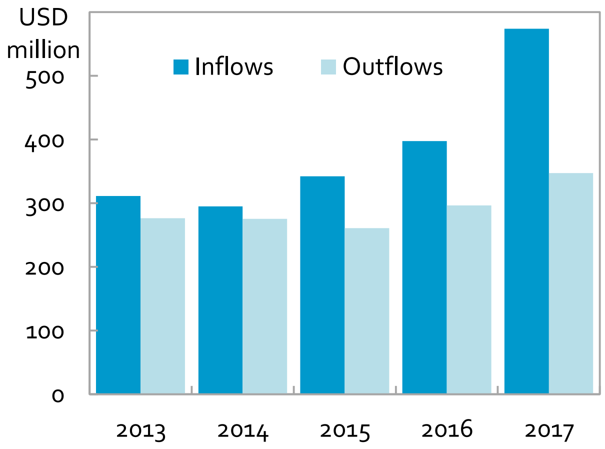
Total capital and reserves held by the sub-sector as at end of 2017 stood at USh.62.8 billion, representing a marginal increase of 0.4 percent from the USh.62.5 billion held in December 2016.

There was an increase in profitability of the sub-sector, with profit-before-tax increasing by 5.0 percent from USh.9.2 billion in 2016 to USh.9.6 billion in 2017.

Money remittances

Total inflows increased by 44.5 percent from USD 397.2 million during 2016 to USD 573.89 million during 2017. The outflows also increased by USD 50.5 million or 17.0 percent from USD 296.6 million in 2016 to USD 347.2 million during 2017.

Figure 16: Money remittances (USD millions)



Source: Bank of Uganda

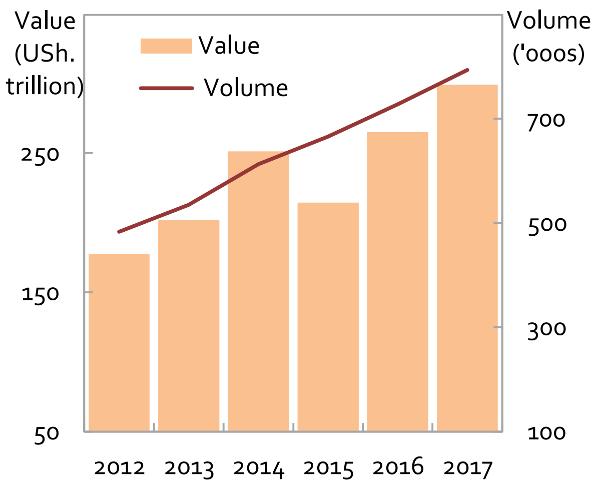
4.4. Payment systems

Payment systems are essential for the circulation of money in the economy, hence an integral part of the financial system, and its stability. This section provides an analysis of the performance of payment systems overseen by BOU that is; the Uganda National Interbank Settlement System (UNISS), the Electronic Clearing System (ECS), and mobile money services.

UNISS performance in Ugandan shillings

During 2017, the volume of transactions grew by 9.0 percent from 727,522 in 2016 to 793,230. The value of these transactions increased by 12.8 percent from USh.264.9 trillion in 2016 to USh.298.9 trillion in 2017.

Figure 17: UNISS annual transactions by volume and value



Source: Bank of Uganda

UNISS performance in foreign denominated currencies

Transactions in United States dollars (USD) registered the highest activity in terms of both value and volumes settled in foreign denominated currencies. A total of USD 7.9 billion was settled in 124,021 transactions as compared to USD 7.1 billion settled in 115,021 transactions in the previous year, 2016. The Kenyan shilling (KES) recorded the second highest volume and value of transactions with an equivalent of USD 415.8 million settled in 6,637 transactions.

Table 8: UNISS volume and values transacted in foreign currencies

	2016	2017
Total value settled in all foreign currencies (USD equivalent; millions)	**7,836**	**8,643**
Proportion (percent) by currency (value)		
USD	91.1	91.5
EUR	3.0	2.9
GBP	0.9	0.7
KES	4.8	4.8
TZS	0.0	0.1
RWF	0.2	0.0

	2016	2017
Total volume settled	**123,867**	**134,163**
Proportion (percent) by currency (volume)		
USD	92.9	92.4
EUR	1.7	1.8
GBP	0.6	0.6
KES	4.6	4.9
TZS	0.2	0.1
RWF	0.0	0.0

Source: Bank of Uganda

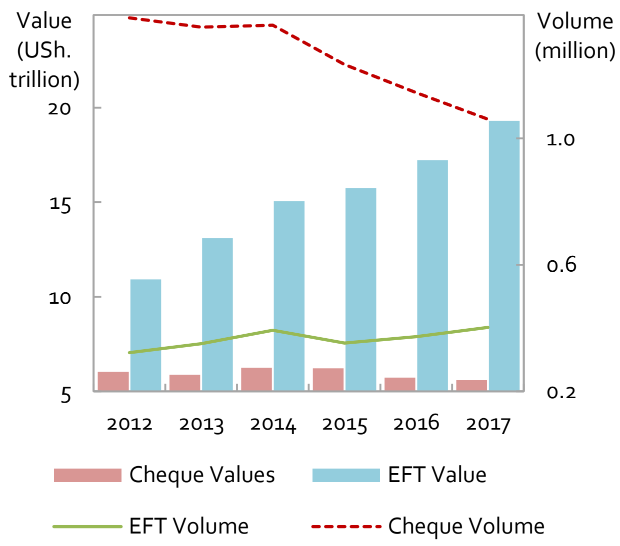
Performance of the Electronic Clearing System

The Electronic Clearing System (ECS) automates the processing of cheque clearing and electronic funds transfer (EFT) transactions, both in Uganda Shillings (UGX) and the widely used foreign currencies, namely: USD, EUR, GBP and KES.

In 2017, 1.1 million cheques, valued at USh.5.6 trillion, were cleared in the ECS. This was a slight decline from 1.14 million cheque transactions, equivalent to a value of USh.5.7 trillion, processed through the ECS in 2016.

On the other hand, the total volume of EFT (credits and debits) transactions increased significantly by 6.3 percent to 8.4 million in the year as compared to the 7.9 million transactions recorded in 2016. Similarly, the value of these EFT transactions increased by 12.1 percent from USh.17.2 trillion to USh.19.3 trillion over the same period.

Figure 18: Performance of the ECS in Uganda shillings



Source: Bank of Uganda

A total of 71,233 EFTs denominated in foreign currencies, equivalent to USD 835.7 million, were cleared through the ECS during 2017. This was an increase from the activity registered in 2016, of 65,122 EFT transactions, equivalent to USD 792.7 million. The US dollar transactions accounted for 96.9 percent and 93.7 percent of these EFTs volumes and values respectively.

On the other hand, the value of foreign currency denominated cheques cleared through the ECS declined by 4.7 percent from USD 260.4 million in 2016 to USD 248.2 million in 2017, as also the volume of cheques reduced by 6.3 percent to 70,276 in 2017. USD cheques accounted for the highest share of foreign currency denominated cheques transactions, with 99.4 percent and 99.6 percent of the volumes and values, respectively.

Mobile money services

As at end-December 2017, there were seven mobile money service providers and these included; MTN, Airtel, Uganda Telecom, Africell, M-Cash, EzeeMoney and Micropay. The number of registered customers across the networks increased by 8.4 percent, from 21.6 million as at December 2016 to 23.4 million as at December 2017.

Mobile money activity continued its growth, during 2017. Transaction values increased by 44.0 percent to USh.63.1 trillion in 2017, up from USh.43.8 trillion recorded in 2016. The number of transactions rose by 23.8 percent over the same period.

Table 6: Performance of mobile money services

	Number of transactions ('000's)	Value of transactions (USh. trillion)	Number of registered customers ('000's)
2011	87,481	3.75	2,878.0
2012	241,728	11.6	8,870.9
2013	399,461	18.64	14,243.4
2014	496,269	24.05	18,800.4
2015	693,574	32.7	21,102.9
2016	974,746	43.8	21,585.5
2017	1,206,845	63.1	23,391.7

Source: Bank of Uganda

There were incidents of operational risk in mobile money payments, with several fraud cases reported, some of which were perpetrated by staff of the Mobile Money network operators. Therefore, this calls for proper internal controls at the MNOs to mitigate internally perpetuated fraud.

Chapter 5: Systemic Risk Assessment and Outlook

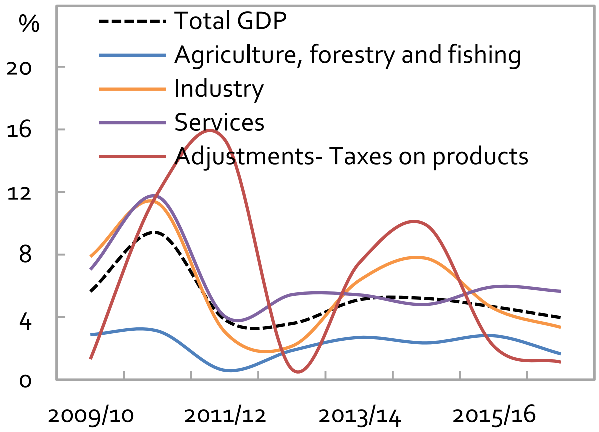
5.1. Summary of risks facing the banking sector

Risks from the macroeconomy

The slowdown in the domestic economy during last year continued to weigh on the performance of the banking system in the year to December 2017. Uganda's gross domestic product (GDP) expanded by 4.0 percent in financial year 2016/17 in real terms, lower than 4.8 percent in 2015/16 (Figure 19). The low output represented macroeconomic challenges which were reflected in the increased credit defaults of households and corporations.

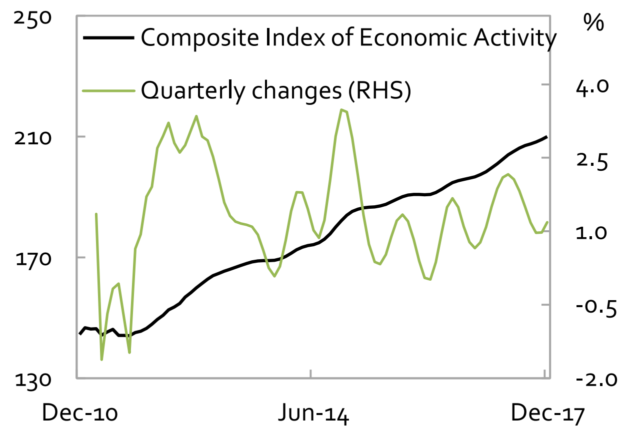
However, in the second half of 2017, indicators showed that global financial conditions had improved, while domestic economic activity started to pick up. The economy is expected to expand at a solid pace of 6.5 percent in the financial year2017/18, boosted by accommodative monetary policy, public investments, increasing growth in consumption and improved agricultural productivity. The Composite Index of Economic Activity (Figure 20), which is the BOU's high frequency indicator of economic activity, points to a strengthening of economic activity in the first quarter of the financial year 2017/18 (BOU State of the Economy Report, 2017). Hence, the improving macroeconomic environment is expected to enhance the prospects for financial stability in 2018.

Figure 19: Annual GDP growth (percent)



Source: Uganda Bureau of Statistics

Figure 20: Evolution of the Composite Index of Economic Activity



Source: Bank of Uganda

However, despite the generally positive economic outlook, the economy still faces a number of risks. Growth has not been even across all sectors and growth of private sector credit remains subdued.

Credit risk

During 2017, there was an improvement in the aggregate industry NPL ratio from 10.5 percent as at December 2016 to 5.6 percent as at December 2017. However, a major challenge facing banks is the slow growth of loans, which rose by only 1.5 percent in 2017, far lower than the 6.1 percent growth recorded in the previous year. The share of total loans to total deposits, which averaged 74.2 percent in the four years to December 2016, reduced to 64.1 percent at December 2017. In particular, banks constricted credit to the real estate and manufacturing sectors. The risk to banks is that slow loan growth may affect bank profitability and income in 2018.

Looking ahead to 2018, bank performance is expected to improve, as economic growth picks up and banks clear the legacy of bad loans. The improved prospects are supported by the improving macroeconomic environment and accommodative monetary policy, which is expected to enhance the financial position of households and corporations.

PART III: STATISTICAL APPENDICES

6.1 APPENDIX 1: Financial Soundness Indicators for Supervised Financial Institutions

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

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Capital adequacy						
Regulatory capital to risk-weighted assets	21.9	22.9	22.2	21.0	19.8	23.2
Regulatory tier 1 capital to risk-weighted assets	18.8	19.9	19.7	18.6	17.3	20.9
Total qualifying capital to total assets	14.9	14.4	14.7	14.7	13.4	17.6
Asset quality						
NPLs to total gross loans	4.2	5.6	4.1	5.3	10.7	5.6
NPLs to total deposits	3.1	4.1	3.0	3.9	7.4	3.6
Specific provisions to NPLs	45.9	47.2	48.9	41.6	60.4	54.6
Earning assets to total assets	71.3	69.7	71.5	69.2	67.3	71.9
Large exposures to gross loans	34.6	36.3	38.3	41.0	42.4	38.0
Large exposures to total capital	104.7	105.2	113.2	123.5	153.6	94.8
Earnings & profitability						
Return on assets	3.9	2.5	2.6	2.6	1.3	2.7
Return on equity	24.2	15.2	16.1	16.0	8.3	16.4
Net interest margin	12.8	11.5	11.0	11.3	12.9	11.6
Cost of deposits	4.1	3.7	3.6	3.3	3.5	2.8
Cost to income	70.9	77.2	68.7	69.3	84.9	74.0
Overhead to income	40.1	46.7	40.0	42.0	49.6	48.9
Liquidity						
Liquid assets to total deposits	42.0	42.5	44.0	46.4	51.5	54.6
Total loans to total deposits	74.5	74.2	74.2	74.2	70.8	64.1
Market sensitivity						
Foreign currency exposure to regulatory tier 1 capital *	-0.6	-3.0	-7.0	-5.9	8.5	-5.4
Foreign currency loans to foreign currency deposits	79.3	62.2	64.5	59.2	57.0	56.2
Foreign currency assets to foreign currency liabilities	105.0	96.8	97.1	101.8	98.8	92.4

**Net short open position if negative. Net long open position if positive.*

Source: Bank of Uganda

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

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Capital adequacy						
Core capital to risk-weighted assets	28.1	23.5	20.9	21.4	23.1	21.7
Total capital to risk-weighted assets	33.6	28.4	25.5	23.4	24.9	23.3
Provisions to core capital	10.2	13.5	11.9	11.1	11.9	9.9
Asset quality						
NPLs to total gross loans	4.2	3.4	4.0	3.6	4.0	3.5
Earnings & profitability						
Return on assets	2.4	1.4	1.6	0.5	0.1	0.5
Return on equity	10.5	6.8	8.3	2.8	0.6	2.7
Net interest margin	5.2	5.2	5.2	4.9	4.8	4.6
Cost of deposits	3.6	4.4	4.3	5.4	5.5	5.0
Cost to income	97.5	92.9	99.5	87.8	101.1	90.2
Liquidity						
Liquid assets to total deposits	57.8	50.4	42.3	46.3	52.3	45.2
Loans to deposits	58.5	68.9	75.9	82.4	76.3	83.2
Market sensitivity						
Foreign currency loans to foreign currency deposits	71.7	57.3	66.6	47.8	50.7	33.5
Foreign currency assets to foreign currency liabilities	143.9	129.0	105.4	117.0	109.2	91.6

Source: Bank of Uganda

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

	Dec- 12	Dec - 13	Dec - 14	Dec -15	Dec- 16	Dec- 17
Capital adequacy						
Core capital to risk-weighted assets	25.4	28.5	33.6	34.6	34.8	38.5
Total capital to risk-weighted assets	32.4	36	37.3	38.2	37.81	41.9
Asset quality						
Portfolio at risk	2.7	1.9	2	2.7	5.3	5.0
Earnings & profitability						
Return on assets (year-to-date)	4.2	3.5	5.6	3.9	3.09	2.9
Return on equity (year-to-date)	17.2	12	20.3	13	10.47	9.4
Liquidity						
Liquid assets to total deposits	58.5	62.4	55.1	43.8	55.75	59.3
Loans to deposits	69.9	78	72.4	83.1	79.17	80.1

Source: Bank of Uganda

6.2 APPENDIX 2: Aggregated Balance Sheets for Supervised Financial Institutions

Table 2A: Commercial banks' aggregated balance sheet (USh. billion)

As at year end	2012	2013	2014	2015	2016	2017
ASSETS						
Cash & cash assets	667.4	692.0	786.6	811.3	810.8	1,109.0
Balances with BOU	1,341.6	1,730.1	2,104.81	1,982.6	2,858.7	2,544.5
Bank of Uganda securities	-	-	-	-	51.0	1,988.8
Due from financial institutions	1,622.2	2,043.7	1,692.8	2,634.8	2,645.5	2,260.8
Government securities	3,053.2	3,648.7	4,463.2	4,064.8	5,105.3	5,570.0
Total gross loans & advances	7,789.7	8,274.6	8,247.3	9,501.8	11,493.3	11,661.6
LESS: Provisions	-187.9	-261.7	-229.3	-285.6	-820.2	-410.5
Net loans & advances	7,601.8	8,012.9	8,018.0	9,216.2	10,673.0	11,251.1
Net fixed assets	519.3	583.2	821.3	925.9	838.3	819.0
Other assets	660.4	610.3	671.6	691.9	706.4	984.9
TOTAL ASSETS	**15,465.9**	**17,320.9**	**19,586.1**	**21,722.2**	**23,689.2**	**26,528.1**
LIABILITIES						
Deposits	10,457.7	11,504.3	13,218.7	14,821.1	16,235.7	18,181.1
Due to financial institutions	513.7	825.9	563.4	630.1	595.5	499.4
Administered funds	359.1	1,033.2	1,187.6	1,255.9	1,063.3	1,283.9
Other liabilities	1,558.3	892.9	1,425.7	1,398.1	1,851.3	1,631.3
TOTAL LIABILITIES	**12,888.8**	**14,463.8**	**16,395..4**	**18,129.1**	**19,746.3**	**21,595.7**
SHAREHOLDERS' FUNDS						
Paid-up capital	973.6	1,272.3	1,287.4	1,346.8	1,414.6	1,326.5
Share premium	75.7	91.8	102.3	115.4	145.9	347.8
Retained reserves	830.6	914.3	1,174.3	1,446.6	1,578.5	2,053.5
Other reserves	152.7	159.7	139.2	143.2	500.0	531.8
Profit – Loss (current year)	544.5	414.0	487.4	541.1	303.9	672.8
TOTAL SHAREHOLDERS' FUNDS	**2,577.0**	**2,857.1**	**2,857.1**	**2,857.1**	**3,942.9**	**4,932.4**
OFF BALANCE SHEET ITEMS						
Letters of Credit	352.0	354.2	354.2	354.2	337.2	348.6
Guarantees & performance bonds	1,046.3	1,157.3	1,157.3	1,157.3	2,548.1	3,176.4
Unused loans/overdrafts commitment	1,023.3	1,092.8	1,092.8	1,092.8	2,079.0	2,407.2
Other off balance sheet items	765.1	483.5	483.5	483.5	736.8	252.1
TOTAL OFF BALANCE SHEET ITEMS	**3,186.7**	**3,087.8**	**3,582.0**	**3,829.6**	**5,701.1**	**6,184.3**

Source: Bank of Uganda

Table 2B: Aggregated balance sheet for credit institutions (USh. billion)

As at year end	2012	2013	2014	2015	2016	2017
ASSETS						
Cash	7.7	11.5	14.6	16.4	18.6	23.5
Balances with institutions in Uganda	55.9	63.1	56.2	70.3	117.3	123.9
Balances with commercial banks outside Uganda	0.7	0.5	0.3	1.0	1.5	3.1
Investments	12.5	7.9	11.4	29.9	20.2	19.1
of which Government securities	12.5	7.9	11.4	29.9	20.2	19.1
Loans and advances (Net)	115.9	147.6	187.3	225.3	251.0	305.6
of which administered funds	-	-	-	-	-	0.4
Premises and fixed assets (Net)	20.2	23.4	28.4	32.3	35.7	41.3
Other assets	8.1	11.7	12.8	14.4	18.8	26.3
Total assets	**221.1**	**265.7**	**311.0**	**389.6**	**463.1**	**542.8**
LIABILITIES						
Total deposit liabilities to depositors	133.0	164.9	195.1	254.3	303.9	375.3
Loan Insurance Fund	4.3	4.8	4.9	4.9	4.8	5.1
Balances due to commercial banks/associated companies/residents/non-residents	17.2	21.5	21.9	27.3	30.0	24.5
Borrowings at Bank of Uganda	0.6	0.6	0.4	0.3	0.2	
Administered funds	-	-	-	-	-	4.6
Other liabilities	14.5	16.3	22.4	17.5	25.6	26.3
Provisions	2.0	3.1	5.3	2.4	2.7	3.2
Capital	44.3	50.7	56.3	81.9	87.4	100.4
of which paid up capital	21.9	21.8	21.8	54.1	66.6	84.1
Profit for current year	5.2	3.7	5.0	1.0	(0.17)	2.7
Total liabilities and capital	**221.1**	**265.7**	**310.9**	**389.6**	**463.1**	**542.8**

Source: Bank of Uganda

Table 2C: Aggregated balance sheet for microfinance deposit-taking institutions (USh. billion)

As at year end	2012	2013	2014	2015	2016	2017
ASSETS						
Notes and coins	9	5.7	6.2	8.6	10.2	11
Balances with institutions in Uganda	48.8	52.2	73.9	74.7	106.8	116
Government securities	0.9	0	0	1.1	2.8	1.5
Net loans outstanding	**186.5**	**173.6**	**203.1**	**265.7**	**286.7**	**273.8**
Inter branch/ due from own offices	0	0	0.01	0	0	0
Net fixed assets	13.7	12.9	15.9	25.2	34.4	36.9
Long-term investments	-	-	-	-	-	0.1
Other assets	17.6	19.7	24	25.7	28.6	30.5
Total assets	**276.5**	**264.1**	**323.1**	**401**	**469.5**	**469.8**
LIABILITIES						
Deposit liabilities	99.9	92.7	145.3	182.9	204.1	214.7
Loan insurance fund	14.1	16.9	12.1	10.5	7.3	7.9
Borrowings	57.2	46.9	32.3	41.9	70.6	53.8
Other liabilities	18.3	18.9	22.5	27.6	31.2	24.7
Grants/deferred income	7.4	5.5	5.5	6.8	6.3	6.9
Inter branch/ Due to own Offices	-	-	-	-	-	0
Other long-term Liabilities	0.6	0.6	0.3	0	0	0
Total liabilities	**197**	**181**	**218**	**269.7**	**319.5**	**308**
FINANCED BY:						
Capital	66.8	69.9	98.9	123.6	142.5	153.3
Subordinated debt	12.8	13.1	6	7.7	7.7	8.5
Preference shares	-	-	-	-	-	0
Total liabilities & equity	**276.6**	**264**	**323**	**401**	**469.7**	**469.8**

Source: Bank of Uganda

6.3 APPENDIX 3: Income Statements for Supervised Financial Institutions

Table 3A: Commercial banks' aggregated income statement (USh. billion; *annualised*)

For Year	2012	2013	2014	2015	2016	2017
INCOME						
Interest income						
Advances	1,465.3	1,389.5	1,464.1	1,722.0	1,868.8	1,808.0
Government securities	296.5	349.8	416.1	497.6	689.3	681.9
Deposits abroad	49.3	29.5	8.6	12.0	17.3	22.3
Other	23.6	91.0	132.0	68.8	117.7	151.5
Charges, fees & commissions	326.9	335.3	376.1	419.3	429.9	533.8
Foreign exchange income	250.6	216.4	197.6	257.6	219.7	170.6
Other income	183.3	127.2	153.9	147.9	261.1	323.7
TOTAL INCOME	**2,595.5**	**2,538.7**	**2,802.3**	**3,196.6**	**3,603.8**	**3,691.9**
EXPENSES						
Interest expense on deposits	401.4	406.8	438.5	467.6	539.9	480.3
Other interest expenses	193.3	119.8	154.3	189.8	169.3	157.7
Provisions for bad debts	205.9	247.9	212.2	217.7	638.2	295.4
Salaries, wages, staff costs	437.8	504.4	583.9	646.9	723.9	773.9
Premises, depreciation, transport	198.1	221.7	253.9	296.5	322.2	328.9
Other expenses	405.2	458.3	494.8	612.6	664.6	704.2
TOTAL EXPENSES	**1,841.7**	**1,958.9**	**1,925.4**	**2,213.5**	**3,057.8**	**2,740.3**
Extraordinary credits (charges)	0.9	0.1	0.0	0.0	0.0	0.0
Net profit before tax	754.7	579.9	664.7	765.3	546.0	951.6
LESS: Corporation tax	199.9	165.9	179.5	224.1	243.9	278.7
NET PROFIT AFTER TAX	**544.8**	**414.0**	**485.2**	**541.2**	**302.1**	**672.9**

Source: Bank of Uganda

Table 3B: Aggregated income statement for credit institutions (USh. billion; *annualised*)

For Year	2012	2013	2014	2015	2016	2017
INCOME						
Interest on loans and advances	31.7	37.2	49.8	60.1	67.6	73.5
Interest on government securities	2.2	1.6	4.6	3.1	3.6	2.9
Other interest income	0.3	8.1	1.3	5.8	10.9	2.1
Total interest income	41.0	46.9	55.7	69.0	82.0	90.3
Total non-interest income	15.4	20.0	20.2	25.3	28.4	34.5
TOTAL INCOME	**56.4**	**66.9**	**75.9**	**94.3**	**110.5**	**124.8**
EXPENSES						
Total interest expense	4.6	6.6	7.8	12.2	15.8	16.9
Provisions for bad debts	2.8	6.3	4.2	8.0	6.4	8.4
Salaries & other staff costs	19.9	24.3	28.4	33.8	39.3	33.9
Other non-interest expense	21.9	24.4	29.3	36.7	47.4	38.3
TOTAL EXPENSES	**49.2**	**61.6**	**69.7**	**90.7**	**108.9**	**120.7**
Taxation	1.9	1.6	1.0	2.6	3.7	2.3
NET INCOME	**5.2**	**3.7**	**5.2**	**1.0**	**(0.17)**	**2.7**

Source: Bank of Uganda

Table 3C: Aggregated income statement for microfinance deposit-taking institutions (USh. billion; *annualised*)

For Year	2012	2013	2014	2015	2016	2017
INCOME						
Total credit income	99.0	82.5	97.8	110.0	138.6	141.3
Total other income	10.6	11.2	13.8	16.9	22.8	24.3
GROSS FINANCIAL INCOME	**109.6**	**93.7**	**111.6**	**126.9**	**161.4**	**165.6**
EXPENSES						
Total financial expenses of lending funds	15.7	12.0	15.8	16.9	31.4	29.9
Provision for bad debts	5.0	3.4	4.6	5.3	12.3	11.5
Net financial income	88.9	78.3	91.3	104.8	117.6	124.1
Total operating expenses on financial services	75.5	66.3	73.3	84.3	100.0	104.9
NET INCOME FROM OPERATIONS	**13.4**	**11.9**	**17.9**	**20.3**	**17.6**	**19.2**
Total grant income for financial services	1.1	1.7	2.9	0.8	1.3	0.6
Total grant income for non-financial services	-	-	-	-	-	0.2
Income from non-financial services	0.01	0.03	0.005	0.3	0.9	0.0
Total operating expenses on non-financial services	0.09	0.08	0.004	0.8	0.0	0.2
Net operating profit/loss from non-financial services	-0.1	-0.05	0.001	-0.5	0.9	0.2
NET PROFIT FOR THE PERIOD	**14.4**	**13.6**	**20.8**	**18.3**	**21.8**	**20.3**
Corporation tax	2.7	3.2	3.1	6.1	7.6	6.5
NET PROFIT AFTER TAX	**11.6**	**10.4**	**17.7**	**12.2**	**14.1**	**13.8**
RETAINED EARNINGS	21.9	33.6	46.9	61.8	53.7	61.1

Source: Bank of Uganda

6.4 APPENDIX 4: Credit Reference Bureau Activities

	Dec-2010	Dec-2011	Dec-2012	Dec-2013	Dec-2014	Dec-2015	Dec-2016	Dec-2017
Branches on FCS	505	528	547	590	600	617	616	593
Branches on CRB	503	525	542	579	580	593	603	559
Cumulative Financial Cards	478,568	667,412	802,906	948,936	1,093,107	1,235,845	1,378,329	1,503,324
Number of Enquiries (During year)	146,435	536,024	472,231	568,501	611,895	613,829	614,620	596,406

Source: Bank of Uganda