BANK OF UGANDA

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Address: 37 - 45 Kampala Road
Postal: P. O. Box 7120, Kampala
Tel: +256 414 258 441/6
Fax: +256 414 233 818
Email: info@bou.or.ug
Web: www.bou.or.ug

CONTENTS

FOREWORD vi

EXECUTIVE SUMMARY 1

PART I: SUPERVISION OF FINANCIAL INSTITUTIONS 4

Chapter 1: Supervision of Financial Institutions 5

1.1. Introduction 5
1.2. On-site Inspection 5
1.3. Off-site surveillance of Supervised Financial Institutions 9

Chapter 2: Regulatory Reforms to Strengthen the Financial Sector 10

2.1 Licensing, approvals and expansion 10
2.2 Regulatory Developments 10
2.3 Strengthening supervision 11
2.4 Credit Reference Bureau Services 12

PART II: ASSESSMENT OF FINANCIAL STABILITY 13

Chapter 3: Performance of the Banking Sector 14

3.1. Banks' assets and liabilities 14
3.2. Capital Adequacy 14
3.3. Funding and liquidity 15
3.4. Performance of credit 16
3.5. Earnings and profitability 18
3.6. Sensitivity to market risk 18
3.7. Performance of D-SIBs 18
3.8. Conclusion and Outlook for Financial Stability 18

Chapter 4: Performance of Non-Bank Financial Institutions and Oversight of Payment System 19

4.1 Credit Institutions (CIs) 19
4.2 Microfinance Deposit-taking Institutions (MDIs) 19
4.3 Foreign exchange bureaus and money remittance companies 20
4.4 Financial market infrastructure analysis 21

Chapter 5: Potential risks to the SFI's Stability 24

PART III: STATISTICAL APPENDICES 25
Appendix I: Financial Soundness Indicators for Supervised Financial Institutions 26
Appendix II: Aggregated Statement of Financial Position for SFIs 28
Appendix III: Aggregated Statement of Comprehensive and other income for SFIs 31
Appendix IV: Credit Reference Bureau Statistics 32
Appendix V: Risks faced by Supervised Financial Institutions 33

ABBREVIATIONS

ASR	Annual Supervision Report
ACH	Automated Clearing House
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
BOU	Bank of Uganda
CBR	Central Bank Rate
CRB	Credit Reference Bureau
EFT	Electronic Funds Transfer
FCS	Financial Card System
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
MAC	Monetary Affairs Committee
MDIs	Microfinance deposit-taking institutions
MoFPED	Ministry of Finance, Planning and Economic Development
NIRA	National Identification and Registration Authority
NPLs	Non-performing loans
PIs	Participating Institutions
ROA	Return on average Assets
ROE	Return on average Equity
RTGS	Real Time Gross Settlement
RWA	Risk-Weighted Assets
SFI	Supervised Financial Institution
Shs.	Ugandan Shilling
UNISS	Ugandan National Inter-bank Settlement System

List of Figures

Figure 1: Composition of banks' capital 15
Figure 2: Analysis of deposits........ 15
Figure 3: Interest rates in the domestic interbank market (percent) 15
Figure 4: Annual changes in the stock of commercial bank loans (percent)........ 16
Figure 5: Analysis of Loan Applications (Shs. Trillion)........ 16
Figure 6: Commercial banks sub-sector NPLs........ 17
Figure 7: Capital Adequacy Indicators – Cis sub-sector........ 19
Figure 8: UNISS Transactions by volume and value 21
Figure 9: ACH transactions by volume and value. 22

List of Tables

Table 1: Number of licensed branches/outlets for supervised financial institutions 10
Table 2: Excerpt of banks' assets 14
Table 3: Aggregate capital adequacy ratios for the commercial bank sub-sector (percent) 14
Table 4: Key indicators of commercial bank sub-sector liquidity (percent)........ 16
Table 5: Commercial banks sub-sector allocation of bank loans (percent) 17
Table 6: Commercial banks sub-sector foreign currency exposure ratio (percent)........ 18
Table 7: UNISS volume and values transacted in foreign currencies 22
Table 8: ACH Foreign Currency Activity (currency)........ 23
Table 9: Summary of the mobile money services performance year on year........ 23

FOREWORD

Bank of Uganda (BOU) publishes the Annual Supervision Report (ASR) to inform the public about issues relating to prudential regulation and supervision of Uganda's financial institutions. Prudential regulation aims at protecting the financial system as a whole as well as protecting the safety of depositors' funds in individual institutions. The ASR 2019 therefore, provides information on BOU's supervisory activities during the year, reforms undertaken to improve the existing regulatory framework, performance of the financial system, and potential risks to financial stability.


GOVERNOR, BANK OF UGANDA
Prof. Emmanuel Tumusiime Mutebile

The supervised financial institutions (SFIs) were sound, with net-profits having increased over the year under review. SFIs capital ratios stood above the minimum statutory requirements despite a slight deterioration in the ratio of non-performing loans to total loans. Also, the aggregate return on equity and return on assets, improved slightly during the period under review.

The SFIs continued to maintain adequate specific provisions against identified credit losses thus demonstrating a high level of credit risk management.

The SFIs have continued to improve their products and services in addition to enhancing their branch networks, countrywide, as depicted in the continued increase of the various outlets like branches, automated teller machines, and agents during the period of review.

Overall, the adequacy of capital, liquid assets, and substantial funding from deposits posed minimal risk to the stability of SFIs over the review period. However, SFIs need to improve corporate governance, internal controls, and reduce concentration risk.

Prof. E. Tumusiime-Mutebile
GOVERNOR

EXECUTIVE SUMMARY

The ASR highlights two (02) thematic areas namely; the supervision of financial institutions and the assessment of financial stability. The section on supervision of the financial institutions underscores activities that were undertaken by Bank of Uganda in the supervision, licensing & expansion programs by financial institutions and regulatory reforms to strengthen the financial sector. On the other hand, the section on the assessment of financial stability explains the financial sector indicators, financial performance of commercial banks, credit institutions and microfinance deposit-taking institutions and analyses the financial market infrastructure.

During the year 2019, BOU conducted risk based supervision the commercials banks, credit institutions, microfinance deposit-taking institutions and foreign exchange bureaus and money remittance companies. The assessment of commercial banks revealed an improvement in the use of credit reference bureaus for credit related information and decision making during credit appraisal, and continued leverage on digital channels to facilitate business growth and financial inclusion. Overall the commercial banks registered a slowdown in branch expansion as they switched preference towards a lean and efficient branch network coupled with growing adoption of cashless transactions by the public. However, weaknesses were noted in adherence with corporate governance standards; credit, strategic and operational risks management. Credit risks continued to pose major concerns due to credit concentration; weak credit underwriting and administration standards. The commercial banks remained highly susceptible to cyber security risks given their increased reliance on digitalisation and online platform service delivery. The Anti-Money Laundering and Countering Financing of Terrorisms (AML/CFT) mitigation measures and processes remained weak in some commercial banks.

BOU issued commercial banking licenses to Afriland First Bank Uganda Limited, while Opportunity Bank Uganda Limited and BRAC Uganda Limited were granted approval to up-grade their banking licences classes from a credit institutions and micro finance deposit-taking institution to a commercial bank and credit institution respectively. BOU also received two applications for commercial banking licenses while one financial institution expressed interest in operating the Islamic banking window. Commercial banks also continued to enhance their geographical presence across the county to further support their deposit mobilisation through agent banking expansions and establishment of Automated Teller Machines (ATM) outlets.

The regulatory reforms registered during the year 2019 include; the drafting of regulations for large Savings and Credit Co-operative (SACCOs); amendments of the MDI Act 2003, the Foreign Exchange Act, 2004 and the Foreign Exchange (Forex Bureaus and Money Remittance) Regulations, 2016; and the finalisation of the amendments of the financial institutions (Credit Reference Bureau) regulations, 2019. BOU continued to strengthened supervision by participating in supervisory college meetings for banking groups, harmonising the examination methodologies with the East African Community (EAC) Partner States' Central Banks and embarking on the electronic-Know Your Customer (e-KYC) project.

The financial stability assessment revealed that the overall banking sector registered growth in total assets funded mainly by customer deposits. The growth in total assets of the commercial banks was largely in the less risky assets of investments in government securities compared to loans and advances to the private sector. The holding of government securities as a proportion of total assets increased from 13.1 percent in 2018 to 16.4 percent in 2019 while the gross loans and advances as a proportion of total assets decreased from 46 percent in 2018 to 44 percent in 2019. On the other hand, the growth in total assets in credit institutions and micro finance deposit-taking institutions was mainly due to increase in loans and advances to the private sector.

The financial sector indicators for the year ended December 2019 revealed that the banking sector registered core and total capital to risk weighted assets ratios which were above the minimum statutory capital requirement ratios. However, the leverage ratio (non-risk based capital requirements) in the commercial banks dropped from 11.1 percent in December 2018 to 10.7 percent in December 2019, but was above the Basel III recommended minimum of 3 percent. Asset quality, which is measured by the ratio of non-performing loans to total gross loans and advances (NPL ratio) deteriorated in the commercial banks and credit institutions sub-sector from 3.4 percent and 2.7 percent in December 2018 to 4.7 percent and 3.6 percent in December 2019 respectively. However, the NPL ratio remained unchanged at 3.6 percent as at December 2019 in the micro finance deposit-taking institutions sub-sector. Earning performance, which is measured by profitability in the commercial banks increased by Shs.119bn or 17.3 percent during the year ended 2019. However, profitability in the credit institutions and micro finance deposit-taking institutions sub-sector reduced by Shs.1.5 billion or 14.5 percent and Shs.0.2 billion or 1.0 percent, respectively. The liquid assets-to-deposit ratio for the commercial banks sub-sector was 48.6 percent as at the end of 2019, higher than 45.5 percent at the end of 2018 and above the minimum statutory liquid assets-to-deposit ratio of 20 percent. Additionally, the exposure to foreign exchange risk remained low in the commercial banks, with a ratio of foreign currency exposure to core capital at 8.1 percent and was within the regulatory limit of +/-25 percent.

Based on the indicator based methodology, BOU identified four commercial banks as Domestic Systemically Important Banks (D-SIBs) as at December 2019 which accounted for 51.0 percent of total assets of the banking sector. All D-SIBs were adequately capitalized, held sufficient liquidity buffers, and were profitable during the year ended 2019. Money remittance inflows increased by 4.0 percent or USD $22.2million while outflows reduced by 3.2 percent or USD$ 10.6 million during 2019. Furthermore, the number of shillings transactions through Uganda National Interbank and Settlement Systems (UNISS) increased significantly by 7.1 percent to 824,218, thus registering 8.8 percent year on year growth in value of transactions to Shs.363.1 trillion as at end of 2019. Similarly, there were 115,409 transactions denominated in foreign currency (mainly USD) totalling USD$10.4 billion during year 2019. The number and values of cheques and Electronic Funds Transfers (EFTs) processed through the Automatic Clearing House (ACH) increased during the year 2019 due to the reduced time in the cheque clearing process. A total of 1.4 million cheque transactions valued at Shs.7.8 trillion were cleared in the ACH during 2019. However, the value of foreign currency cheques cleared through the ACH declined by 8.4 percent from USD $241.2 million in 2018 to USD$221.0 million during

2019. Mobile money operations also grew during 2019 as the volumes and values of transactions increased by 52.6 percent and 2.9 percent to 2.8 billion and Shs.73.1trillion during 2019 from 1.9 billion and Shs.71.0 trillion during 2018. This was on account of the increase in the uptake of the services for transactions such as airtime top-up and payment of over-the-top (OTT) tax.

In conclusion, the medium term outlook for financial stability is susceptible to potential downside risks including; the impact of the coronavirus (Covid-19) pandemic, the lingering threat of more US-China trade tensions over tariffs and regional geopolitical risks. These could weigh down investment sentiment in Uganda's export markets, slow down domestic and global economic growth and adversely affect loan performance in Uganda, thus further driving higher ratio of non-performing loans to total loans, with negative knock-on effect on bank profitability.

PART I: SUPERVISION OF FINANCIAL INSTITUTIONS

4.1 Introduction

This chapter reports on the activities undertaken by the BOU in the supervision of financial institutions through on-site inspection and off-site surveillance. The SFIs comprise of commercial banks, credit institutions, microfinance deposit-taking institutions, foreign exchange bureaus and money remitters.

4.2 On-site Inspection

The objective of on-site inspection is to independently verify that adequate policies, procedures and controls are in place for the various SFIs, assess appropriateness of the risk management systems in place relative to the respective risk profiles and financial conditions of the supervised financial institutions. An assessment of an SFI's risk management framework is carried out using the risk-based supervision methodology and includes an assessment of the level of compliance with the applicable laws and the corresponding regulations; guidelines, circulars and corrective actions that are issued by the BOU from time to time.

Commercial Banks

On a positive note, as part of the credit appraisal process, the banking sector exhibited improvement in use of credit related information on prospective borrowers obtained from the credit reference bureaus. The sector also continued to leverage on digital channels including internet banking, on-line account opening, mobile wallets and mobile lending in order to drive business growth. This comes on the backdrop of a slowdown in branch expansion in favor of a leaner and more efficient branch network as well as the growing adoption of cashless transactions by the public. Other positive initiatives spearheaded by the commercial banks include the establishment and operationalisation of the alternative dispute resolution framework through the International Centre for Arbitration and Mediation in Kampala (ICAMEK). Additionally, commercial banks undertook collaborative projects that involve shared technology platforms to bring down the cost of service delivery and improve operational efficiencies while increasing outreach such as the shared Agent Banking Platform.

During the year, BOU conducted twenty-four (24) on-site examinations of commercial banks during the financial year 2018/2019 of which twenty-one (21) were full scope while three (3) were targeted. The on-site examinations revealed a number of cross-cutting supervisory concerns in corporate governance as well as in the different risk areas namely; strategic, credit, operational and compliance that are described in detailed below

The examinations revealed that the limited number of independent board members in some banks constrained the proper constitution and operation of some critical board committees. This limitation extended to low levels of board performance. Furthermore, some of the boards of directors of some banks were not involved in making critical decisions such as the recruitment of senior management, and the amendment of organizational structures. The examination findings also revealed ineffective oversight of some boards with regard to credit, operational and strategic risks.

The on-site examinations further established that the senior management of some SFIs breached professional standards and ethics in the execution of their responsibilities. This reflected negatively on their fitness and probity, and in some cases, accordingly, BOU invoked Section 2 of the third schedule of the Financial Institutions Act, 2004, and relieved the affected officers of their duties.

The recurring weaknesses in strategic risk revolved around strategy formulation, in particular the use of unrealistic assumptions in financial projections, as well as the absence of specificity in the initiatives needed to achieve these strategic plans. Also noted were lapses in strategy implementation including inadequate monitoring, and delays in the delivery of projects earmarked as critical success factors. These weaknesses were more pronounced for SFIs with high staff turnover and ineffective succession plans.

The one-site examinations also revealed that some banks overstated their profitability due to optimistic valuations of their loan quality and laxity in loan loss provisioning. Also revealed were instances of misapplication of International Financial Reporting Standards (IFRS) standards on revenue recognition with respect to certain types of assets. .

Credit risk continues to pose a major risk to the banking sector, as there were identified supervisory concerns over credit concentration, weaknesses in credit underwriting and administration standards. The main supervisory concerns regarding credit underwriting included: inadequate credit analyses; failure to obtain up-to-date audited financial statements; mis-matches between borrowers' repayment schedules and their cash flows; weaknesses in security perfection processes, non-adherence to the loan-to-value ratios as stipulated in their internal credit policies; in addition to failures to obtain independent valuation reports for collateral used secure credit. With regard to credit administration, follow-up of non-performing borrowers was glaringly weak as evidenced by increased findings of instances where there were no call reports, and expired insurance covers. Some banks engaged in ever-greening poorly performing facilities and as a result understated their of non-performing loans. There continues to be instances where some SFIs do not consider CRB information in their credit analysis and loan origination processes.

With respect to operational risk, there were concerns over the functionality of the core banking systems (CBS) as some banks' CBS did not adequately support operations such as rollout of innovative products, timely and accurate regulatory reporting, and credit risk monitoring and full automation of key bank processes. Nonetheless, a number of banks migrated to new CBS or upgraded existing ones to address the above-mentioned challenges. There were also weaknesses noted in the risk management frameworks (RMFs) as some banks' RMFs were silent on the required frequency for conducting Risk Control Self Assessments (RCSAs) with a knock-on effect on the timely identification of key operational risk indicators. For some banks, their RCSAs had no input from frontline staff and managers in the risk identification process, control assessment and/or development of action plans for processes with high residual risks. Delays were also noted in the resolution of identified internal control lapses, and for addressing inaccuracies in risk ratings.

The on-site examinations further noted the emergence of cyber-security related risks both in count and sophistication, given the increasing reliance by banks on digitization and online platforms for service delivery. There were predominantly manifested through fraud using payment systems infrastructure, and incidences of internal staff collusion in the commission of this type of fraud, taking advantage of weak internal controls. Deficiencies in outsourcing processes remained prevalent, due to absence of Service Level Agreements or weak contracting terms therein. This was exacerbated by findings of: inexistent or deficient Business Continuity Plans for critical service providers; and failure by some banks to test the effectiveness and relevance of their Business Continuity, and Disaster Recovery Plans on a regular basis.

Anti-Money Laundering mitigation measures and processes remained weak for some banks. There were many incidences where: information on beneficial owners was scanty if it was available; funds transfers being conducted with no information on source and use of funds; poor identification and inadequate risk profiling of politically exposed persons (PEPs); and lapses in risk profiling of customers during account reactivation. It is of particular supervisory concern that identification and flagging of suspicious transactions is not automated for all banks. There were incidences of non-compliance with statutory and regulatory requirements including misreporting in statutory returns. BOU levied penalties on the offending banks, as provided for under the Financial Institutions Act, 2004.

Credit Institutions (CIs)

Full-scope on-site examinations of three credit institutions were conducted for some institutions during the review period. The key supervisory concerns included borderline and in some cases low capital ratios, lapses in adherence to policies and procedures, shortfalls in credit management oversight, anomalies in the credit management information systems, continued unprofitability, weaknesses in the CBS, lapses in know your employee practices, cases of non-compliance with the Financial Institutions Act, 2004 and its implementing regulations, weaknesses in the institutions' AML/CFT frameworks and practices, inadequate business continuity management, and weaknesses around procurement processes and human resource management. These lapses were exacerbated by ineffective board oversight at some credit Institutions

During the review period, BOU contracted an external audit firm to conduct a forensic investigation into the operations of one credit institution. This followed allegations of financial misconduct at the institution, which had resulted in investigations by various Government agencies. Following completion of the audit, the credit institution was issued with time bound directives that are being implemented by management.

A pre-licensing inspection of BRAC Uganda Bank Limited was also conducted during the review period. This examination was focused on bringing BRAC Uganda to the level of compliance required by the FIA 2004. BOU issued time bound corrective actions and is following up on the status of implementation.

Microfinance Deposit-taking Institutions (MDIs)

During the year 2019, the MDIs registered positive growth in financial inclusion initiatives as they increasingly adopted low cost and affordable digital delivery channels such as digital field automation tools and internet banking. Additionally, all the MDIs complied with the requirement of the Institute of Certified Public Accountants Uganda (ICPAU) which directed that all the Heads of Finance and Internal Audit to be registered members of

ICPAU by December 2019. This initiative further enhanced the level professionalism and improved staff capacity in financial reporting.

On-site examinations for two (02) microfinance deposit-taking institutions were conducted during the year. In addition, follow up examination was conducted for all the MDIs during the period under review.

Key supervisory findings included weaknesses in strategic planning, weak credit management oversight and control gaps in management information systems, high staff turnover and vacant positions at senior management levels coupled with inadequate succession planning. Additionally, gaps were noted in the risk management frameworks exemplified by operational lapses relating to business continuity management, anti-money laundering, contracts management, and procurement.

On-site visits and assessments were conducted for the 43 eligible Tier 4 Large SACCOs (Registered Societies). The focus of these visits was to determine the readiness of the management teams of these institutions for regulation and supervision by BOU as mandated by Section 110 of the Tier 4 Microfinance and Money Lenders Act, 2016.

The findings revealed that majority of the eligible SACCOs have established organizational structures with legally-constituted boards and basic board committees supported by senior management to carry out the various functions. Various policies and procedures are in place but need enhancement to protect members' funds and to uphold good corporate governance practices. Other findings related to challenges of maintaining the required minimum capital, lack of credible credit history to refer to before extending credit, limited funding sources and a high cost of information and communication technology.

Foreign Exchange Bureaus and Money Remittance Companies

The forex bureau and money remittance subsector recorded an increase in product innovation with increased diversity in funds transfer platforms. More forex bureaus also commenced offering mobile money services which reduced the handling of physical cash at the premises. Additionally, an increase was noted in the number of requests for approval of online funds transfer options, reflecting the increased role of fintechs in the delivery of financial services in Uganda.

During the year ended December 31, 2019, sixty six (66) on-site examinations of foreign exchange bureaus and money remittance companies were conducted. Of these, forty three (43) were full scope, four (4) were targeted, and nineteen (19) were follow up inspections.

The key examination findings related to: lapses in compliance with the Anti-Money Laundering Act 2013 and its implementing Regulations; inadequate management information systems that do not support proper book keeping processes; and significant weaknesses in internal controls especially with regard to cash management. Corrective Actions were issued for the resolution of the identified weaknesses, with specific timelines for implementation. Follow-up examinations will be conducted to assess the extent of compliance with the corrective measures.

4.3 Off-site surveillance of Supervised Financial Institutions

Off-site surveillance is centred on the analysis of financial and other regulatory information submitted to BOU by SFIs. It enables the regular assessment and monitoring of SFIs' financial condition and compliance with prudential requirements, and informs the risk based on-site investigation of identified anomalies and outliers.

2.1 Licensing, approvals and expansion

In September 2019, BOU issued to M/s Afriland First Bank Uganda Limited a commercial banking license (Class 1) after fulfilling all the necessary regulatory requirements as set out in the prior conditional approval. During the same period Opportunity Bank Limited was granted approval to convert from a credit institution to a commercial bank and accordingly received a commercial banking license (Class 1).

In addition, in March 2019, BOU approved the Stanbic Bank Uganda Ltd. corporate reorganisation that resulted in the creation of a new beneficial shareholder known as Stanbic Uganda Holdings Ltd., a non-operating holding company.

Furthermore, in January 2019, BOU received an application from Tropical Bank Limited to operate an Islamic Banking Window, which is still undergoing assessment as we await establishment of a Central Shari'ah Advisory Council at BOU. In April 2019, BOU received two applications for commercial banking licences (Class 1); however, BOU awaits full documentation in order to assess these applications.

During the year, BOU considered an application from BRAC Uganda Bank Limited for a licence to conduct business as a credit institution (Class 5). The licence was granted on 7 March, 2019.

Bank branches and Automated Teller Machines

The total number of bank branches increased marginally from 549 in 2018 to 580 in 2019. Similarly, the total number of ATMs operated by commercial banks marginally increased from 839 in 2018 to 851 in 2019. This increase is attributed to the branch expansion initiatives adopted by some banks to enhance their geographical presence countrywide and further support their deposit mobilisation efforts. Details are indicated in Table 1.

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

	2016	2017	2018	2019
Commercial bank branches	570	544	549	580
ATMs	860	821	839	851
Foreign exchange bureaus	267	260	275	291
Money remitters	241	241	258	208*
MDIs branches	78	78	80	97
Credit institutions branches	61	66	66	210

Source: Bank of Uganda

** The drop from 258 to 208 is due the fact that some Credit Institutions opted to offer money remittance services under the FIA, 2004 and therefore no longer hold money remittance licences issued under the* Foreign Exchange Act, 2004.

2.2 Regulatory Developments

Large Savings and Credit Cooperatives

Draft regulations for the large SACCOs (registered societies) were under review by the First Parliamentary Counsel (FPC), Ministry of Justice and Constitutional Affairs and were submitted to the MOFPED for gazetting upon completion.

Microfinance Deposit-taking Institutions (MDIs)

The proposed amendments to the MDI Act, 2003 were reviewed by the Supervision Directorate and on completion of the review exercise, the draft proposals were forwarded to Ministry of Justice and Constitutional Affairs for further action.

Foreign exchange bureaus and money remittance companies

In April, 2019, Cabinet approved the proposed amendments to the Foreign Exchange Act, 2004 and the Foreign Exchange (Forex Bureaus and Money Remittance) Regulations, 2006. A draft Amendment Bill was subsequently prepared by the First Parliamentary Counsel, Ministry of Justice and Constitutional Affairs and was reviewed at a stakeholders' validation workshop held in November 2019. The bill aims to enhance the capital adequacy requirements, strengthens BOU's supervisory powers in a profound manner, and seeks for the harmonization of Foreign Exchange Act, 2004 provisions with other laws such as the Anti Money Laundering Act, 2013 and the convergence criteria on the harmonisation of supervisory rules and practices under the EAMU protocols.

During the year, BOU in liaison with the Joint Task Force on unlicensed foreign exchange trade commenced plans for a public awareness campaign on the dangers of dealing with unlicensed foreign exchange dealers and unlicensed money transfer operators. This is the second phase of the approved strategy to address the challenges posed by unlicensed foreign exchange dealers. It is envisaged that enforcement activities will only commence after public awareness has been conducted.

BOU continued with efforts to improve governance and risk management in the foreign exchange sub-sector by holding a training workshop for the directors and employees of forex bureaus and money remittance companies in October 2019. The workshop discussed sound corporate governance practices, benefits of a good compliance culture by Forex Bureaus and Money Remitters as envisaged under the AML Act, 2013 and how to build and nurture a sound internal control environment.

CRB Regulations

Comments were received from the Ministry of Finance Planning and Economic Development on the revised draft Financial Institutions (Credit Reference Bureau) Regulations, 2019 and BOU provided a response to the comments. The revised regulations will be submitted to First Parliamentary Counsel for Legislative drafting. Once approved, the revised CRB Regulations will open access to the credit reference services to new entrants as other Accredited Credit Providers (ACPs) in addition the existing pioneer CRBs.

2.3 Strengthening supervision

Supervisory colleges

In line with the Basel Core Principle 13 on home-host relationships, staff participated in the supervisory colleges of Absa Bank Group Limited, Standard Bank Limited, Ecobank Transnational Incorporated, and United Bank for Africa to gain insights on these banking groups and identify vulnerabilities within the banking groups with potential to impact the local subsidiaries.

Harmonisation of Examination Methodologies

The East African Community (EAC) Partner States' Central Banks carry out joint on-site examinations with a view to harmonise examination approaches. Accordingly, BOU staff participated in a number of joint examinations with Bank of Tanzania in order to harmonize supervision standards, and practices within the region.

IFRS 9 assessment and guidance

Following the successful implementation of IFRS 9 in the banking sector during the year 2018, the Supervision Directorate in the year 2019, continued to study the modalities of expected credit loss provisioning through quarterly reports submitted by the SFIs. During the year, the Directorate also developed supervisory procedures for the review of IFRS 9 during onsite examinations.

Capacity building

BOU continued to build capacity of staff to enable supervisors keep abreast of emerging supervisory concepts, accounting standards and emerging risks. To that end, staff participated in training workshops, seminars and awareness programs in: implementation of International Financial Reporting Standards (IFRS) 9 and 16, Risk Management, Basel II and Basel III, Credit Reference Operations, Data Protection, Cyber Security among others.

e-KYC Project

Bank of Uganda in conjunction with the National Identification and Registration Authority (NIRA), National Information Technology Authority (NITA), Uganda Bankers Association (UBA), and Financial Sector Deepening Uganda (FSDU) embarked on the implementation of the e-KYC Project. This priority project for the financial sector will ease some of the structural challenges that drive the cost of financial services in the country, from both an information asymmetry and AML/CFT compliance point of view. Under the arrangement, SFIs will have access to a platform for the remote and real time authentication of the identity of financial services consumers making Know-Your-Customer (KYC) checks more accurate and less cumbersome. In addition, reducing information asymmetry by leveraging technology will support the achievement of two key pillars of the National Financial Inclusion Strategy 2017-2022, namely: reducing barriers to financial inclusion and access to financial services; and putting in place and efficient digital infrastructure.

2.4 Credit Reference Bureau Services

The number of financial cards issued to borrowers as at December 31, 2019 stood at 1,785,512 reflecting an upward increase of 8.9 percent from 1,639,235 as at December 31, 2018 while the number of branches of Participating Institutions installed on the Credit Reference Bureau system increased from 551 t0 591 mostly on account of new branches of BRAC Bank Uganda Limited following its being licensed as a credit institution by Bank of Uganda. The number of credit enquiries made to the CRBs increased by 19.47 percent from 1,034,706 as at 31 December 2018 to 1,236,126 as at 31 December 2019.

PART II: ASSESSMENT OF FINANCIAL STABILITY

3.1. Banks' assets and liabilities

Over the year to December 2019, total assets of the banking sector grew by 16.7 percent or Shs.4.7 trillion from Shs.28.1 trillion in December 2018 to Shs.32.8 trillion in December 2019. This growth rate was higher than the 6.0 percent growth registered in the year ended December 2018. The growth in total assets during 2019 was largely on account of an increase in banks' gross loans and advances and holdings of government securities.

However, the during 2019, banks increased the investment in liquid or the less risky assets i.e. government securities, BOU REPOs and cash balances in comparison to loans and advances to the private sector. The holding of government securities as a proportion of total assets increased from 13.1 percent in 2018 to 16.4 percent in 2019, while the ratio of gross loans and advances to total assets reduced from 46 percent in 2018 to 44 percent over the year to December 2019. Details are highlighted in Table 2.

Table 2: Excerpt of banks' assets

	Dec 2016	Dec 2017	Dec 2018	Dec 2019
Total assets				
Volumes (Shs. trillion)	23.7	26.5	28.1	32.8
Annual growth (%)	9.1	12.0	6.0	16.7
Government securities				
Volumes (Shs. trillion)	5.1	5.6	6.0	7.2
Annual growth (%)	25.6	9.1	8.3	19.6
Loans				
Volumes (Shs. trillion)	11.5	11.7	12.9	14.5
Annual growth (%)	6.1	1.5	10.9	11.8
REPO Loan & BOU Deposit Facility				
Volumes (Shs. trillion)	0.8	2.5	0.6	1.7
Annual growth (%)	0.0	204.1	-75.4	178.4

Source: Bank of Uganda

3.2. Capital Adequacy

The banking sector remained adequately capitalized, with capital buffers improving over the year to December 2019. The aggregate industry core and total capital adequacy ratios stood at 20.1 percent and 21.8 percent, respectively, an improvement compared to the December 2018 status. The improvement in industry capital adequacy was partly due to additional capital injections during 2019 totalling Shs.37.2bn coupled with organic growth in form of retained earnings during the year 2019.

However, the consolidated leverage ratio (the non-risk based capital requirement) dropped from 11.1 percent to 10.7 percent between December 2018 and December 2019, but remained well above the Basel III recommended minimum of 3 percent. Details are indicated in Table 3

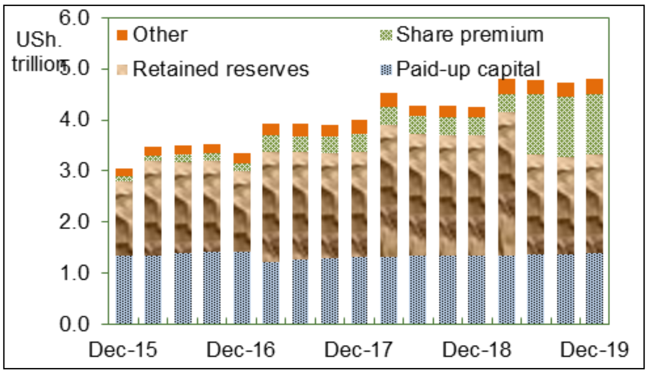
Table 3: Aggregate capital adequacy ratios for the commercial bank sub-sector (percent)

	Dec 2016	Dec 2017	Dec 2018	Dec 2019
Total capital adequacy ratio	19.8	23.2	21.6	21.8
Core capital adequacy ratio	17.3	20.9	19.8	20.1
Leverage ratio	9.6	11.2	11.1	10.7

Source: Bank of Uganda

Total shareholder's funds grew by 13.8 percent from Shs.4.9 trillion in December 2018 to Shs.5.6 trillion in December 2019. The increase was largely driven by a rise in the industry's share premium of Shs.829.9 billion in the year ended or December 2019, as highlighted in Figure 1.

Figure 1: Composition of banks' capital

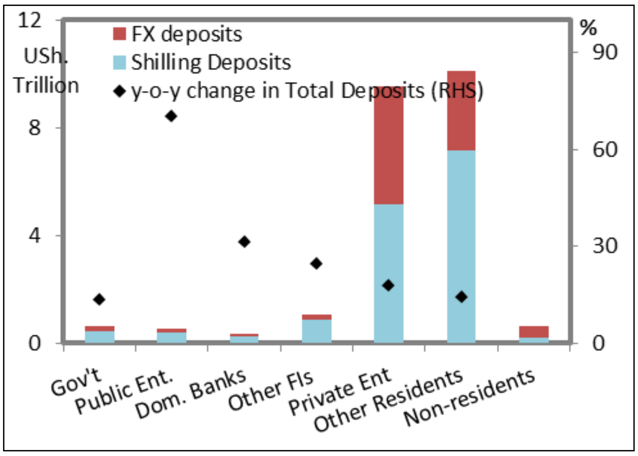


Source: Bank of Uganda

3.3. Funding and liquidity

Aggregate liquidity and funding conditions improved across the banking sector. Customer deposits, which constitute the largest source of funding, increased by 16.7 percent from Shs.19.6 trillion to Shs.22.9 trillion, over the year ended December 2019. The growth is higher than the growth of 7.8 percent in December 2018. As a share of the total deposits, demand deposits constitute 55.3 percent, time deposits 23.6 percent and Savings deposits 21.1 percent. Shilling deposits, which constitute 62.8 percent of total deposits, increased by 19.4 percent to Shs.14.3 trillion, while FX deposits rose by 12.5 percent to Shs.8.5 trillion. This is all depicted in figure 2.

Figure 2: Analysis of deposits

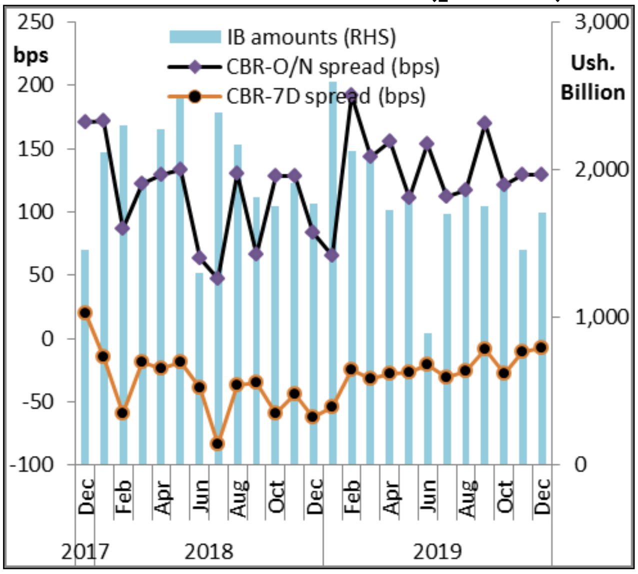


Source: Bank of Uganda

Activity in the interbank market

Interbank funding costs reduced through 2019, with both the 7-day and overnight rates trending within the ±3.0 percent band on the Central Bank Rate (CBR). For Q4-2019, the overnight and 7-day rates averaged 7.9 percent and 9.2 percent, down from the Q4-2018 averages of 9.14 percent and 10.36 percent, respectively.

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



Source: Bank of Uganda

Liquidity

In 2019, the banking sector held strong liquidity buffers. The industry liquid assets–to–deposits ratio was 48.6 percent at the end of 2019, higher than 45.5 percent held at the end of 2018, and well above the minimum requirement of 20 percent. The increase in the liquidity ratio echoes the significant rise in banks' investment in government securities, the repo loan, and cash balances.

The liquidity coverage ratio (LCR), that determines whether or not a bank holds sufficient high quality liquid assets (HQLA) to withstand a 30-day stress scenario, stood at 234.3 percent compared to 261.6 percent in December 2018. This was higher than the 100 percent LCR minimum requirement. In addition, all banks met the LCR minimum requirement on a consolidated basis. Details are highlighted in Table 4.

Table 4: Key indicators of commercial bank sub-sector liquidity (percent)

	Dec 2016	Dec 2017	Dec 2018	Dec 2019
Liquid assets to total deposits	51.5	54.6	45.5	48.6
Liquid assets to total assets	35.3	37.4	31.7	33.9
Total loans to total deposits	70.8	64.1	66.0	63.2
LCR	223.1	311.2	261.6	234.3

Source: Bank of Uganda

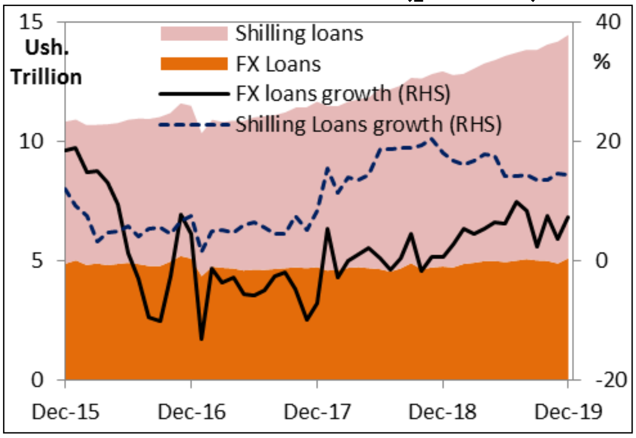
3.4. Performance of credit

Lending activity

Gross loans and advances increased by 11.5 percent (Shs.1.5 trillion), to Shs.14.5 trillion, which was higher than 10.9 percent growth over the period ended December 2018. Shillings and foreign currency denominated loans increased by 14.4 percent and 7.3 percent respectively, compared to growth of 0.6 percent and 18.0 percent in 2018.

Notably, the proportion of foreign currency denominated loans to total loans reduced from 36.8 percent to 35.4 percent over the year, easing banks' exposure to foreign exchange risk. This is all depicted in Figure 4.

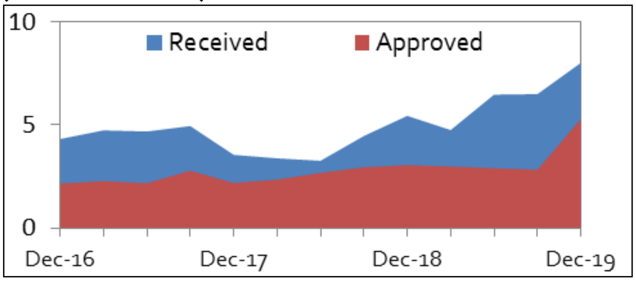
Figure 4: Annual changes in the stock of commercial bank loans (percent)



Source: Bank of Uganda

Credit growth in 2019 demonstrated an increase in demand for credit, as shown by the upward trend in the value of applications received in Figure 5. This in line with the BOU bank lending survey (Q4–2019) which indicated that banks somewhat eased lending conditions/standards.

Figure 5: Analysis of Loan Applications (Shs. Trillion)



Source: Bank of Uganda

Loan growth over the year 2019, was spread across most sectors. The real estate and trade sectors registered the largest nominal increase in loans, by Shs.365.1 billion and Shs.330.6 billion, respectively. However, in percentage terms, loans to the agriculture sector registered the fastest growth of 18.1 percent, with lending to agro-processing accounting for the largest increase of Shs.219.2 billion. In the year to December 2019, the Government's contribution under the Agricultural Credit Facility (ACF) increased by 30.6 percent (Shs.19.4 billion) to Shs.82.9 billion, accounting for a 4.3 percent of banks' lending to agriculture sector. Details are indicated in Table 5.

Table 5: Commercial banks sub-sector allocation of bank loans (percent)

Sector		Dec. 2017	Dec. 2018	Dec 2019
Agriculture	Share of Total	12.4	12.7	13.5
	Annual growth	28.1	14.2	18.1
Manufacturing	Share of Total	12.6	13	12.8
	Annual growth	-6.9	14.4	10.4
Trade & commerce	Share of Total	18.7	18.9	19.2
	Annual growth	2.4	11.9	13.5
Real estate & construction	Share of Total	20.5	19.8	20.2
	Annual growth	-11.0	6.7	14.3
Personal & household loans	Share of Total	18.6	18.7	18.4
	Annual growth	14.7	11.5	9.9

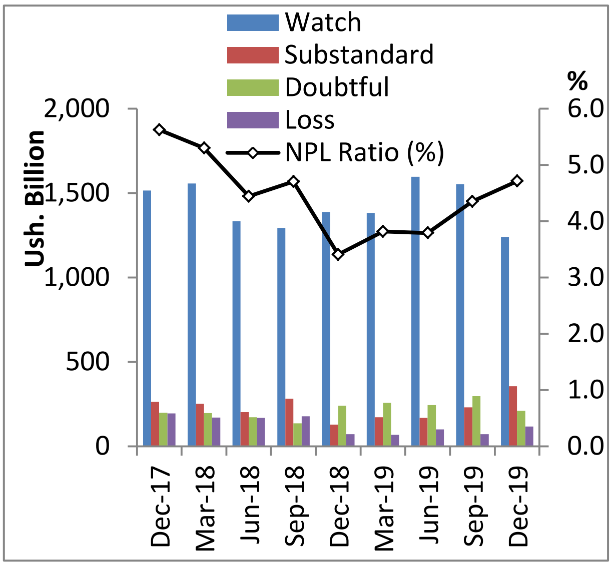
Source: Bank of Uganda

Data shows that prices of real estate property – the main collateral in banks' lending – remained relatively stable. The Residential Property Price Index from UBOS shows that prices within Greater Kampala Metropolitan Area rose by 1.2 percent through 2019, compared to 5.2 percent recorded in the year 2018. Nevertheless, banks should pursue prudent loan-to-value ratio policies, given the potential for revaluations in real estate prices.

Asset quality and non-performing loans

Asset quality, as measured by the ratio of non-performing loans to total gross loans and advances (NPL ratio), deteriorated in the year to December 2019. The aggregate industry NPL ratio increased from 3.4 percent in December 2018 to 4.7 percent in December 2019. There was a significant increase in the stock of NPLs (numerator) by 54.5 percent (Shs.240.3 billion) from Shs.441.1 billion as at end December 2018 to Shs.681.4 billion as at end December 2019. This is depicted in Figure 6

Figure 6: Commercial banks sub-sector NPLs



Source: Bank of Uganda

By sector, NPLs under the trade and commerce sector registered the largest rise of Shs.109.3 billion (or 111.1 percent), and the sector's NPLs accounted for 30.5 percent of the industry stock of NPLs as at end 2019. However, the agriculture sector held the highest NPL ratio of 7.8 percent.

The quarterly stress tests conducted by BOU also indicated that a few banks face exposure to rising credit risk from shocks related to loan concentration and liquidity risks related to withdrawal of offshore funds.

3.5. Earnings and profitability

Banking sector profitability improved in the year to December 2019. Aggregate net-after-tax profit increased to Shs.807.5 billion compared to Shs.688.5 billion earned during the prior year to December 2018. The industry's aggregate return on assets (ROA) and return on equity (ROE) were 2.9 percent and 16.8 percent for the year ended December 2019, higher than 2.5 percent and 14.4 percent for 2018, respectively. Seven banks, albeit small by their relative asset size in the industry, were loss-making, during the year ended December 2019.

3.6. Sensitivity to market risk

The banking sector's exposure to foreign exchange risk remained low, with the ratio of foreign currency exposure to core capital at 8.1 percent, with most banks closing the year 2019 with long US dollar positions. However, this was within the regulatory requirement of +/-25 percent. Over the year under review, the share of banks' foreign currency assets to total assets reduced from 31.0 percent in December 2018 to 29.0 percent in December 2019, resulting in a reduction in banks' balance sheet exposure to foreign exchange rate risk. The ratio of foreign currency loans to foreign currency deposits was 60.1 percent as at the end of 2019, which was within the statutory limit of 80 percent.

Table 6: Commercial banks sub-sector foreign currency exposure ratio (percent)

	Forex exposure/ core capital	Forex assets/ forex liabilities	Forex loans/ forex deposits	Forex assets / total assets
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
Dec-18	-7.5	94.1	63.0	31.0
Dec-19	8.1	92.4	60.1	29.0

Source: Bank of Uganda

3.7. Performance of D-SIBs

BOU employs an indicator based methodology to identify D-SIBs annually. At the end of December 2019, four banks were designated as D-SIBs namely; Stanbic, Standard Chartered, Centenary and Absa. The four banks accounted for 51.0 percent of total banking sector assets at the end of December 2019. All D-SIBs were all adequately capitalized, held sufficient liquidity buffers, and were profitable over the period under review.

3.8. Conclusion and Outlook for Financial Stability

Overall risk to financial sector stability remained moderate but edged up marginally in the year to December 2019, as reflected in the systemic risk heat map.

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

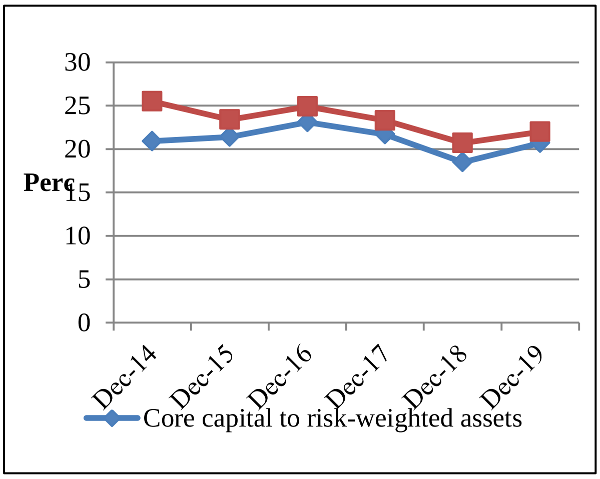
4.1 Credit Institutions (CIs)

Total assets held by CIs increased by Shs.213.8 billion or 33.49 percent to Shs.852.2 billion, largely due to growth in lending activity. Net loans and advances increased by Shs.117.3 billion or 29.24 percent from Shs.401.2 billion to Shs.518.5 billion, while total deposits grew by Shs.11.3 billion or 2.66 percent from Shs.425.6 billion to Shs.436.9 billion over the review period.

Capital adequacy and liquidity

CIs maintained paid-up capital above the statutory minimum requirement of Shs.1 billion. The core and total capital to Risk Weighted Assets (RWAs) ratios stood at 20.7 percent and 22.0 percent, respectively, up from 18.5 percent and 20.7 percent as at the end of December 2018. Aggregate core capital stood at Shs.137.8 billion while total capital amounted to Shs.146.6 billion, as depicted in figure 7.

Figure 7: Capital Adequacy Indicators – Cis sub-sector



Source: Bank of Uganda

The aggregate liquid assets-to-total deposits ratio stood at 48.4 percent, which was above the statutory liquidity requirement of 20 percent. Aggregate liquid assets held by the sub-sector increased by Shs.66.3 billion or 45.69 percent from Shs.145.0 billion in December 2018 to Shs.211.4 billion.

Asset Quality

The aggregate NPL-to-Total Assets ratio increased from 2.7 percent in 2018 to 3.6 percent in 2019. However, the ratio of specific provisions-to-NPLs dropped from 45.0 percent to 41.5 percent over the period under review.

Earnings and Profitability

CIs net profits declined by Shs.1.5 billion or 14.15 percent from Shs.10.6 billion in 2018 to Shs.9.1 billion. Total incomes and total expenses grew by Shs.64.2 billion or 42.97 percent and Shs.64.4 billion or 47.88 percent, respectively over the period under review. ROA and ROE ratios both declined from 1.7 percent and 8.7 percent to 1.1 percent and 5.6 percent, respectively. Interest income continued to be the major source of earnings for CIs and amounted to Shs.174.9 billion or 81.88 percent of total income.

4.2 Microfinance Deposit-taking Institutions (MDIs)

Overview

The overall financial condition of the Microfinance Deposit-taking Institutions (MDIs) as at December 31, 2019 was rated **satisfactory**. Based on the CAMEL indicators, the financial performance of four MDIs were rated **satisfactory** and only one MDI was rated **fair**. However, all the five licensed MDIs remained adequately capitalized and complied with the minimum statutory liquidity requirement during the period under review.

Financial Soundness of MDIs

Total assets held by MDIs increased by Shs.109.6 billion or 21.0 percent to Shs.631.2 billion. This growth was largely due to gross loans that increased by Shs.59.1 billion or 18.9 percent, and fixed assets that increased by Shs.24.0 billion or 53.9 percent. Cash assets and balances with financial institutions in Uganda increased by Shs.1.5 billion or 10.6 percent and Shs.25.4 billion or 18.95 percent respectively. Total liabilities increased by Shs.93.0 billion or 27.2 percent mainly due to an increase in other liabilities of Shs.26.4 billion or 120.0 percent, and Shs.49.7 billion or 21.2 percent increase in deposits. Table 2c in appendix 1highlights the key financial soundness indicators for MDIs.

Capital Adequacy

All MDIs maintained their paid-up capital above the statutory minimum requirement of Shs.500 million. The aggregate core and total capital to risk-weighted assets ratios stood at 37.5 percent and 40.1 percent, compared to 41.4 percent and 44.8 percent as at end December 2018, respectively. Both ratios were above the statutory minimum requirements of 15 percent and 20 percent, respectively.

a) Asset Quality

The MDIs portfolio-at-risk ratio remained at 3.6 percent due to a proportionate increase in both gross loans and non-performing loans of 19.0 percent. The ratio of provisions to non-performing loans stood at 67.9 percent, indicating adequate provisions to cover potential credit losses.

Earnings

Aggregate net profit after-tax reduced by Shs.0.2 billion or 1.0 percent and amounted to Shs.17.8 billion as at end December 2019. This was due to a more than proportionate increase in total expenses of Shs.22.4 billion or 15.4 percent, compared to an increase in total income of Shs.22.1 billion or 13.0 percent. As of December 2019, return-on-assets (ROA) and return-on-equity (ROE) stood at 3.1 percent and 10.0 percent respectively. This was a marginal decrease from 3.5 percent and 10.6 percent respectively for ROA and ROE as at of December 2018. It should be noted that all MDIs were profitable during the period under review.

Liquidity

All MDIs maintained liquid asset ratios in excess of the statutory minimum requirement of 15 percent of total deposit liabilities. Total liquid assets held increased by Shs.28.3 billion or 19.6 percent to Shs.172.7 billion largely due to an increase in deposits and balances held with financial institutions in Uganda. The liquid assets-to-deposits ratio declined to 60.7 percent as at December 2019 compared to 61.5 percent reported as at December 2018. However, the ratio of total loans to total deposits stood at 79.3 percent, and was well below the 85 percent prudential limit.

4.3 Foreign exchange bureaus and money remittance companies

Overview

As at December 31, 2019, the Forex Bureau and Money Remittance sub-sector comprised of 206 Foreign Exchange Bureaus (291 outlets), 75 Money Remitters (142 outlets), and 3 Microfinance Deposit-taking Institutions (66 outlets). During the year, BOU issued 18 forex bureau and 9 money remittance licences.

Onsite and offsite examinations

Foreign exchange bureaus and money remitters continued to submit periodic returns for off-site analysis throughout the year using the Bank Supervision Application, with administrative actions taken against the non-compliant operators.

Solvency of the sub-sector

As at December 31, 2019, the total capital and reserves held by the sub sector stood at Shs.81.4 billion depicting an increase of Shs.12.9 billion or 18.8 percent from Shs.68.5 billion as at December 31, 2018. However, 49.3 percent or Shs.40.1 billion of the total capital and reserves of the sub-sector was held by the top ten (10) bureaus.

Profit before tax increased by 34.2 percent or Shs.4.1 billion to Shs.16.1 billion on account of increased turnover particularly during periods of exchange rate depreciation and attendant revaluation gains during the period under review.

Money remittances

Money remittance inflows increased by 4.0 percent or USD22.2 million year on year to USD571.4 million in 2019. Outflows on the other hand decreased by 3.2 percent or USD 10.6 million from USD334.7 million to USD324.1 million over the same period.

4.4 Financial market infrastructure analysis

Financial Market Infrastructures (FMIs) facilitate clearing and settlement of monetary and financial transactions, such as payments and securities. If not prudentially managed, they can pose a significant risk to the financial system. As a consequence, FMIs require sound design, and high standards of operational and financial resilience. The FMIs analyzed are: Uganda National Interbank and Settlement Systems (UNISS), Automatic Clearing House (ACH) and mobile money services.

Performance of the Uganda National Interbank and Settlement Systems (UNISS)

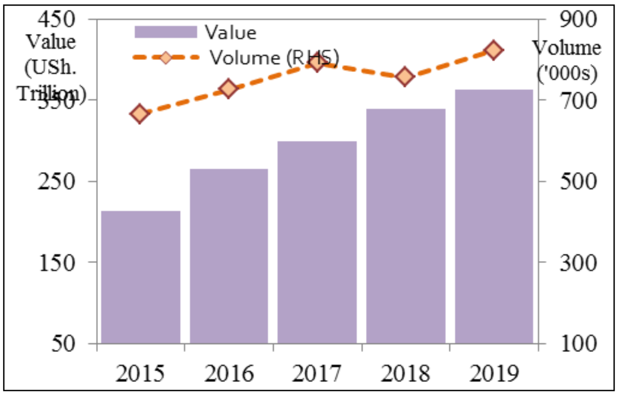
The Uganda National Interbank and Settlement Systems (UNISS) is Uganda's real gross settlement system. It is mainly used for high value and time critical payments. It also helps improve efficiency in payment systems by mitigating settlement risks as accounts have to be prefunded.

In the year 2019, UNISS experienced some interruptions but these did not exceed the recommended 2-hour maximum downtime rule.

a) Performance in Uganda shillings

In the year 2019, the volume of transactions through UNISS increased notably by 7.1 percent to 824,218, with the value of these transactions growing by 8.8 percent year on year to Shs.363.1 trillion as shown in figure 8.

Figure 8: UNISS Transactions by volume and value



Source: Bank of Uganda

a) Transactions denominated in foreign currency

The equivalent of USD 10.4 billion was settled in 115,409 transactions in the year 2019. Transactions in United States dollars (USD) registered the highest activity in terms of both value and volumes settled. Other foreign currency transactions through UNISS, include; the Sterling Pounds (GBP), Euros (EUR), Kenyan shilling (KSh.) Tanzanian Shillings (TZS) and Rwandan Francs (RWF).

Table 7: UNISS volume and values transacted in foreign currencies

	Dec-17	Dec-18	Dec-19
Volume:			
EUR	2,391	2,906	3,385
GBP	863	1,208	1,577
KES	6,637	7,294	7,756
RWF	50	92	59
TZS	201	485	453
USD	124,021	103,418	102,179
Total	**134,163**	**115,403**	**115,409**
Value (USD millions)			
EUR	250	326	265
GBP	62	102	36
KES	416	386	483
RWF	3.5	3.1	10.7
TZS	5.6	8.1	19.0
USD	7,905	9,603	8,968
Total	**8,643**	**10,428**	**9,782**

Source: Bank of Uganda

Performance of Automatic Clearing House (ACH)

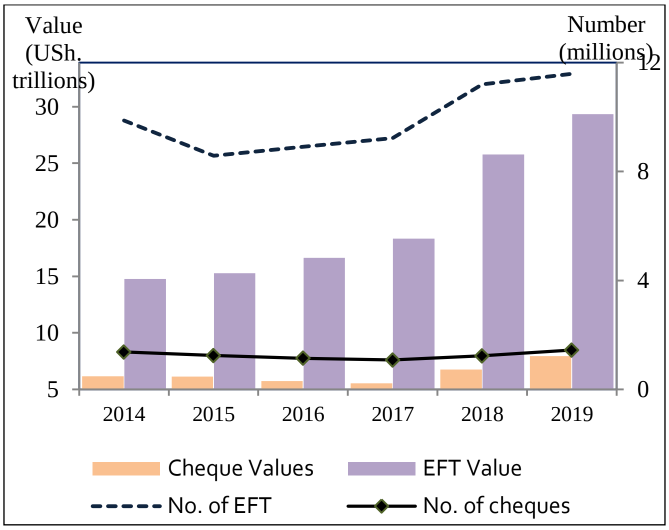
The Automatic Clearing House (ACH) automates the process of clearing cheques and electronic funds transfer (EFT) transactions, both in Uganda Shillings (Shs.) and the widely used foreign currencies (USD, EUR, GBP and KES).

In the year 2019, the number of transactions processed through the ACH continued to increase due to the reduced time in the cheque clearing process. The ACH automates the process of clearing cheques and electronic funds transfer (EFT) transactions, both in Uganda Shillings (Shs.) and the widely used foreign currencies (USD, EUR, GBP and KES). In the period under review, no down time was witnessed on the ACH.

b) Transactions in Uganda shillings

During the year 2019, the volumes and values of cheques and EFTS grew significantly. In this period, 1.4 million cheque transactions valued at Shs.7.8 trillion were cleared in the ACH. The total volume of EFT (credits and debits) transactions grew albeit marginally from 10.21 million to 10.24 million. Nonetheless, the value of these transactions rose by 11.7 percent from Shs.27.2 trillion to Shs.30.4 trillion over the same period, as depicted in figure 9.

Figure 9: ACH transactions by volume and value.



Source: Bank of Uganda

c) Transactions in foreign currencies

Transactions in the main foreign currencies – USD, EUR, GBP and KES for EFTs continued to grow in the year 2019. The value of EFTS cleared through the ACH increased significantly by 19.6 percent from USD 1.1 billion to USD 1.3 billion (a total of 92,070 EFTs transactions). However, the value of foreign currency cheques cleared through the ACH declined by 8.4 percent from USD 241.2 million to 221.0 million. Details are indicated in Table 8.

Table 8: ACH Foreign Currency Activity (currency)

Year Ended	Dec 2018		Dec 2019	
	EFT	Cheques	EFT	Cheques
Total value cleared (USD equivalent millions)				
	1,069.6	241.2	1,279.1	221
Value: Proportion (%) by currency				
USD	96.9	99.6	97.4	97.4
EUR	2.8	0.2	2.3	2.3
GBP	0.2	0.2	0.3	0.3
KES	0.1	0	0	0
Total Volume cleared('000)				
	92.1	81.7	108.9	84.06
Volume: Proportion (%) by currency				
USD	97.4	99.5	97	99.7
EUR	1.8	0.3	2.1	0.1
GBP	0.8	0.3	0.8	0.1
KES	0	0	0	0

Source: Bank of Uganda

Performance of Mobile Money Services

In 2019, mobile money operations continued to grow. The volumes of transactions rose by 52.6 percent to 2.8 billion from 1.9 billion in 2018 following an increased uptake of the service for transactions such as airtime top-up and payment of over-the-top (OTT) tax. The value of these transactions increased slightly by 2.9 percent from Shs.71.0 trillion to Shs.73.1 trillion. A total of 27.1 million were registered as customers for the service at the end of December 2019, of which 16.6 million customers were active (61.3 percent). Details are indicated in table 9.

Table 9: Summary of the mobile money services performance year on year

Year ended	Dec 2017	Dec 2018	Dec 2019
No. of transactions (billions)	1.2	1.9	2.8
Value of transactions (Shs. trillions)	63.1	71.0	73.1
Y-O-Y growth of no of transactions (%)	23.8	54.2	52.6
Y-O-Y growth of value of transactions (%)	44.0	12.5	2.9
No of registered customers	23.4	24.5	27.1

Source: Bank of Uganda

In conclusion, the FMIs remained resilient to disruption in the year 2019 and as a result were able to provide their critical services to the economy to support growth and financial stability.

Chapter 5: Potential risks to the SFI's Stability

In the near term outlook for financial stability, there are several potential downside risks, including early news about the outbreak of the coronavirus (Covid-19) in Asia towards the end of 2019, the lingering threat of more US-China trade tensions over tariffs and regional geopolitical risks, which could weigh down investment sentiment in Uganda's export markets, slow down domestic and global economic growth and adversely affect loan performance in Uganda, further driving higher the ratio of non-performing loans to total loans, with negative knock-on effect for bank profitability.

The outbreak of Corona Virus (Covid-19) which was later declared a pandemic in the early 2020, set unprecedented situations to the financial sector, however the actual impact of the pandemic to the financial sector as well as the corrective measures taken by BOU, will be updated in the subsequent report of the year ending December 2020, as the peak of the effects due to this pandemic occurred in the early 2020.

PART III: STATISTICAL APPENDICES

Appendix I: Financial Soundness Indicators for Supervised Financial Institutions

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

	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019
Capital adequacy						
Regulatory capital to risk-weighted assets	22.2	21.0	19.8	23.2	21.6	21.8
Regulatory tier 1 capital to risk-weighted assets	19.7	18.6	17.3	20.9	19.8	20.1
Total qualifying capital to total assets	14.7	14.7	13.4	17.6	17.6	17.1
Asset quality						
NPLs to total gross loans	4.1	5.3	10.7	5.6	3.4	4.7
NPLs to total deposits	3.0	3.9	7.4	3.6	2.3	3.0
Specific provisions to NPLs	48.9	41.6	60.4	54.6	54.1	44.4
Earning assets to total assets	71.5	69.2	67.3	71.9	69.1	69.8
Large exposures to gross loans	38.3	41.0	42.4	38.0	42.9	42.8
Large exposures to total capital	113.2	123.5	153.6	94.8	112.5	110.0
Earnings & profitability						
Return on assets	2.6	2.6	1.3	2.7	2.5	2.9
Return on equity	16.1	16.0	8.3	16.4	14.4	16.8
Net interest margin	11.0	11.3	12.9	11.6	11.1	11.3
Cost of deposits	3.6	3.3	3.5	2.8	2.3	2.5
Cost to income	68.7	69.3	84.9	74.0	73.9	71.9
Overhead to income	40.0	42.0	49.6	48.9	53.7	51.6
Liquidity						
Liquid assets to total deposits	44.0	46.4	51.5	54.6	45.5	48.6
Total loans to total deposits	74.2	74.2	70.8	64.1	66.0	63.2
Market sensitivity						
Foreign currency exposure to regulatory tier 1 capital *	-7.0	-5.9	8.5	-5.4	-7.5	8.1
Foreign currency loans to foreign currency deposits	85.1	77.6	79.3	71.5	63.0	60.1
Foreign currency assets to foreign currency liabilities	97.1	101.8	99.2	92.4	94.1	92.4

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

Source: Bank of Uganda

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

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Capital adequacy						
Core capital to risk-weighted assets	20.9	21.4	23.1	21.7	18.5	20.7
Total capital to risk-weighted assets	25.5	23.4	24.9	23.3	20.7	22.0
Provisions to core capital	11.9	11.1	11.9	9.9	9.4	9.5
Asset quality						
NPLs to total gross loans	4.0	3.6	4.0	3.5	2.7	3.6
Specific provisions to NPLs	44.2	54.2	60.0	50.0	45.0	41.5
Earnings & profitability						
Return on assets	1.6	0.5	0.1	0.5	1.7	1.1
Return on equity	8.3	2.8	0.6	2.7	8.7	5.6
Net interest margin	5.2	4.9	4.8	4.6	17.1	20.3
Cost of deposits	4.3	5.4	5.5	5.0	3.3	2.9
Cost to income	99.5	87.8	101.1	90.2	86.9	88.8
Liquidity						
Liquid assets to total deposits	42.3	46.3	52.3	45.2	34.1	48.4
Loans to deposits	75.9	82.4	76.3	83.2	84.6	118.7

Source: Bank of Uganda

Table 1C: Financial soundness indicators for MDIs (*percentage ratios*)

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Capital adequacy						
Core capital to risk-weighted assets	33.6	34.6	34.8	38.5	41.4	37.5
Total capital to risk-weighted assets	37.3	38.2	37.81	41.9	44.8	40.1
Provisions to core capital	5.2	6.5	10.4	8.5	6.5	7.0
Asset quality						
NPLs to total gross loans	2.0	2.7	5.3	5.0	3.6	3.6
Specific provisions to NPLs	70.8	63.4	68.3	64.1	67.5	67.9
Earnings & profitability						
Return on assets	5.6	3.9	3.09	2.9	3.5	3.1
Return on equity	20.3	10.4	10.5	9.4	10.6	10.0
Cost to income	81.8	86.6	86.8	87.8	85.7	87.5
Liquidity						
Liquid assets to total deposits	55.1	43.8	55.75	59.3	61.5	60.7
Loans to deposits	72.4	83.1	79.17	80.1	79.9	79.3

Source: Bank of Uganda

Appendix II: Aggregated Statement of Financial Position for SFIs

Table 2A: Aggregated Statement of Financial position for Commercial banks

Shs. Billion, as at year end	2014	2015	2016	2017	2018	2019
ASSETS						
Cash & cash assets	786.6	811.3	810.8	1,109.0	1,293.4	1,318.3
Balances with BOU	2,104.88	1,982.6	2,858.7	2,544.5	2,784.0	3,331.4
Bank of Uganda securities	-	-	51.0	1,988.8	438.8	1,249.7
Due from financial institutions	1,424.7	2,547.6	2,594.3	2,049.0	2,958.4	3,203.9
Government securities	4,463.2	4,064.8	5,105.3	5,570.0	6,032.9	7,215.0
Total gross loans & advances	8,274.3	9,501.8	11,493.3	11,661.6	12,935.7	14,459.5
LESS: Provisions	229.3	285.6	820.2	410.5	273.8	347.9
Net loans & advances	8,018.0	9,216.2	10,673.0	11,251.1	12,661.9	14,111.6
Net fixed assets	821.3	925.9	838.3	819.0	854.4	1,161.0
Other assets	1,967.4	843.2	757.7	1,196.7	1,097.0	1,237.3
TOTAL ASSETS	**19,586.1**	**21,722.2**	**23,689.1**	**26,528.1**	**28,120.8**	**32,828.2**
LIABILITIES						
Deposits	13,218.7	14,821.1	16,235.7	18,181.1	19,595.7	22,870.6
Due to financial institutions	563.4	630.1	595.5	499.4	574.1	683.9
Administered funds	1,187.6	1,255.9	1,063.3	1,283.9	1,023.5	941.4
Other liabilities	1,425.7	1,422.0	2,132.9	1,890.3	2,403.7	2,712.2
TOTAL LIABILITIES	**16,395.4**	**18,129.1**	**20,027.4**	**21,854.7**	**23,597.0**	**27,208.1**
SHAREHOLDERS' FUNDS						
Paid-up capital	1,287.4	1,346.8	1,414.6	1,326.5	1,332.8	1,400.4
Share premium	102.3	115.4	145.9	347.8	347.8	1,177.7
Retained reserves	1,174.3	1,446.6	1,578.5	2,053.5	2,358.8	1,926.8
Other reserves	139.2	143.2	218.9	272.7	209.1	307.8
Profit – Loss (current year)	487.4	541.1	303.9	672.8	688.5	807.5
TOTAL SHAREHOLDERS' FUNDS	**3,190.6**	**3,593.1**	**3,661.8**	**4,673.3**	**4,937.0**	**5,620.2**
OFF BALANCE SHEET ITEMS						
Letters of Credit	469.0	354.2	337.2	348.6	383.4	417.7
Guarantees & performance bonds	1,573.8	1,841.3	2,548.1	3,176.4	3,561.0	3,913.7
Unused loans/overdrafts commitment	1,162.5	1,325.9	2,079.0	2,407.2	2,687.4	3,521.4
Other off balance sheet items	376.7	168.4	148.4	362.9	461.7	1,199.4
TOTAL OFF BALANCE SHEET ITEMS	**3,582.0**	**3,829.6**	**5,112.7**	**6,295.0**	**7,048.5**	**9,052.2**

Source: Bank of Uganda

Table 2B: Aggregated Statement of Financial Position for CIs

Shs. Billion, as at year end	2014	2015	2016	2017	2018	2019
ASSETS						
Cash	14.6	16.4	18.6	23.5	22.9	25.9
Balances with institutions in Uganda	56.2	70.3	117.3	123.9	101.0	162.9
Balances with commercial banks outside Uganda	0.3	1.0	1.5	3.1	0.5	1.1
Investments	11.4	29.9	20.2	19.1	20.7	21.5
of which Government securities	11.4	29.9	20.2	19.1	20.7	21.5
Loans and advances (Net)	187.3	225.3	251.0	305.6	401.2	518.5
of which administered funds	-	-	-	0.4	14.6	14.1
Premises and fixed assets (Net)	28.4	32.3	35.7	41.3	60.2	93.3
Other assets	12.8	14.4	18.8	26.3	32.0	29.1
Total assets	**311.0**	**389.6**	**463.1**	**542.8**	**638.4**	**852.2**
LIABILITIES						
Total deposit liabilities to depositors	195.1	254.3	303.9	375.3	425.6	436.9
Loan Insurance Fund	4.9	4.9	4.8	5.1	6.5	35.6
Balances due to commercial banks/associated companies/residents/non-residents	21.9	27.3	30.0	24.5	36.2	116.3
Borrowings at Bank of Uganda	0.4	0.3	0.2			
Administered funds	-	-	-	4.6	8.2	10.5
Other liabilities	22.4	17.5	25.6	26.3	33.7	86.6
Provisions	5.3	2.4	2.7	3.2	3.9	5.1
Capital	56.3	81.9	87.4	100.4	122.5	163.7
of which paid up capital	21.8	54.1	66.6	84.1	96.6	139.8
Profit for current year	5.0	1.0	(0.17)	2.7	10.6	9.1
Total liabilities and capital	**310.9**	**389.6**	**463.1**	**542.8**	**638.4**	**852.2**

Source: Bank of Uganda

Table 2C: Aggregated Statement of Financial Position for MDIs

Shs. Billion, as at year end	2014	2015	2016	2017	2018	2019
ASSETS						
Notes and coins	6.2	8.6	10.2	11	14.1	15.4
Balances with institutions in Uganda	73.9	74.7	106.8	116	134.2	159.6
Government securities	0	1.1	2.8	1.5	2.7	0.08
Net loans outstanding	**203.1**	**265.7**	**286.7**	**273.8**	**304.7**	**362.2**
Inter branch/ due from own offices	0.01	-	-	-	-	0.007
Net fixed assets	15.9	25.2	34.4	36.9	44.6	68.6
Long-term investments	-	-	-	0.1	0.1	0.1
Other assets	24	25.7	28.6	30.5	21.2	24.9
Total assets	**323.1**	**401**	**469.5**	**469.8**	**521.5**	**631.2**
LIABILITIES						
Deposit liabilities	145.3	182.9	204.1	214.7	234.8	284.5
Loan insurance fund	12.1	10.5	7.3	7.9	7.9	7.8
Borrowings	32.3	41.9	70.6	53.8	58.2	72.3
Other liabilities	22.5	27.6	31.2	24.7	22	48.5
Grants/deferred income	5.5	6.8	6.3	6.9	10.5	12.6
Inter branch/ Due to own Offices	-	-	-	-	-	-
Other long-term Liabilities	0.3	-	-	-	-	0.8
Total liabilities	**218**	**269.7**	**319.5**	**308**	**333.4**	**435.1**
FINANCED BY:						
Capital	98.9	123.6	142.5	153.3	179.3	196.1
Subordinated debt	6	7.7	7.7	8.5	8.5	8.5
Preference shares	-	-	-	-	-	-
Total liabilities & equity	**323.1**	**401**	**469.7**	**469.8**	**521.5**	**639.7**

Source: Bank of Uganda

Appendix III: Aggregated Statement of Comprehensive and other income for SFIs

Table 3A: Aggregated Statement of Comprehensive and other income for Commercial banks

Shs. billion; *annualised*	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
INCOME						
Interest income						
Advances	1,464.1	1,722.0	1,868.8	1,808.0	1,903.0	2,157.0
Government securities	416.1	497.6	689.3	681.9	609.0	729.2
Deposits abroad	8.6	12.0	17.3	22.3	34.9	65.2
Other	132.0	68.8	117.7	151.5	161.4	125.2
Charges, fees & commissions	376.1	419.3	429.9	533.8	518.0	581.1
Foreign exchange income	197.6	257.6	219.7	170.6	252.9	243.3
Other income	153.9	147.9	261.1	323.7	264.3	357.4
TOTAL INCOME	**2,802.3**	**3,196.6**	**3,603.8**	**3,691.9**	**3,743.6**	**4,258.5**
EXPENSES						
Interest expense on deposits	438.5	467.6	539.9	480.3	426.2	529.2
Other interest expenses	154.3	189.8	169.3	157.7	144.5	157.7
Provisions for bad debts	212.2	217.7	638.2	295.4	186.6	176.8
Salaries, wages, staff costs	583.9	646.9	723.9	773.9	834.4	912.0
Premises, depreciation, transport	253.9	296.5	322.2	328.9	349.6	371.8
Other expenses	494.8	612.6	664.6	704.2	824.0	914.1
TOTAL EXPENSES	**1,925.4**	**2,213.5**	**3,057.8**	**2,740.3**	**2,765.3**	**3,061.7**
Extraordinary credits (charges)	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before tax	664.7	765.3	546.0	951.6	976.1	1,196.8
LESS: Corporation tax	179.5	224.1	243.9	278.7	284.3	309.4
NET PROFIT AFTER TAX	**485.2**	**541.2**	**302.1**	**672.9**	**691.8**	**887.5**

Source: Bank of Uganda

Table 3B: Aggregated Statement of Comprehensive and other income for CIs

Shs. billion; *annualised*	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
INCOME						
Interest on loans and advances	49.8	60.1	67.6	73.5	89.8	155.3
Interest on government securities	4.6	3.1	3.6	2.9	2.1	2.0
Other interest income	1.3	5.8	10.9	2.1	1.8	17.5
Total interest income	55.7	69.0	82.0	90.3	107.2	174.9
Total non-interest income	20.2	25.3	28.4	34.5	42.2	38.7
TOTAL INCOME	**75.9**	**94.3**	**110.5**	**124.8**	**149.4**	**213.6**
EXPENSES						
Total interest expense	7.8	12.2	15.8	16.9	17.8	32.1
Provisions for bad debts	4.2	8.0	6.4	8.4	6.4	10.5
Salaries & other staff costs	28.4	33.8	39.3	33.9	39.0	84.1
Other non-interest expense	29.3	36.7	47.4	38.3	44.3	73.5
TOTAL EXPENSES	69.7	90.7	108.9	120.7	134.5	200.18
Taxation	1.0	2.6	3.7	2.3	4.3	5.6
NET INCOME	**5.2**	**1.0**	**(2.1)**	**1.8**	**10.6**	**9.1**

Source: Bank of Uganda

Table 3C: Aggregated Statement of Comprehensive and other income for MDIs

Shs. billion; *annualised*	2014	2015	2016	2017	2018	2019
INCOME						
Total credit income	97.8	110	139	141	145	160
Total other income	13.8	16.9	22.8	24.3	23.1	29.8
GROSS FINANCIAL INCOME	112	127	161	166	168	190
EXPENSES						
Total financial expenses of lending funds	15.8	16.9	31.4	29.9	24.6	29.9
Provision for bad debts	4.6	5.3	12.3	11.5	8.4	9.9
Net financial income	91.3	105	118	124	135	150
Total operating expenses on financial services	73.3	84.3	100	105	112	128
NET INCOME FROM OPERATIONS	17.9	20.3	17.6	19.2	23	23
Total grant income for financial services	2.9	0.8	1.3	0.6	0.2	0.7
Total grant income for non-financial services	-	-	-	0.2	-	-
Income from non-financial services	0.01	0.3	0.9	-	0.9	0.5
Total operating expenses on non-financial services	-	0.8	-	0.2	0.6	-
Net operating profit/loss from non-financial services	0	-0.5	0.9	0.2	0.3	0.5
NET PROFIT FOR THE PERIOD	20.8	18.3	21.8	20.3	24.2	23.9
Corporation tax	3.1	6.1	7.6	6.5	6.2	6.1
NET PROFIT AFTER TAX	17.7	12.2	14.1	13.8	17.9	17.8
RETAINED EARNINGS	46.9	61.8	53.7	61.1	72.5	87.7

Source: Bank of Uganda

Appendix IV: Credit Reference Bureau Statistics

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Branches on FCS	590	600	617	616	593	606	639
Branches on CRB	579	580	593	603	559	551	591
Cumulative Financial Cards	948,936	1,093,107	1,235,845	1,378,329	1,503,324	1,639,235	1,785,512
Number of Enquiries (During year)	568,501	611,895	613,829	614,620	596,406	1,034,706	1,236,126

Appendix V: Risks faced by Supervised Financial Institutions

Supervised financial institutions face a number of risks, which require effective risk management. BOU, through risk-based on-site inspection, monitors risk management practices at SFIs. Some of the risks faced by SFIs include, but are not limited to the following:

Credit risk is the likelihood that payments may be delayed or not paid at all, which can cause cash flow problems and impact a supervised financial institution's liquidity. It may arise when a debtor is unable to pay interest or principal according to terms of a credit agreement.

Liquidity risk arises when a SFI is unable to fulfil its obligations to creditors or depositors as and when they fall due without undue cost. It usually arises from a mismatch in the asset-liability maturity structure of a supervised financial institution.

Operational risk; This arises resulting from inadequate or failed internal processes, people and systems or from external events. The evaluation of operational risk involves an assessment of both Board and Senior Management oversight on operational risk, policies and procedural manuals, internal control environment and management information systems.

Market risk arises from changes in market prices. Market prices include interest rates, exchange rates, equity prices or any other market price. Specific labels often attach to risk arising from movement in such prices as interest rate risk, exchange rate risk, among others. A supervised financial institution may experience loss when the change in a market price is unfavourable to its position.

The task of supervision by BOU is to monitor and assess the appropriateness of risk management at supervised financial institutions, and where necessary recommend corrective action to enhance risk management practices. However, BOU is not ultimately responsible for risk management at SFIs