BANK OF UGANDA

ANNUAL SUPERVISION REPORT

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Contents

ABBREVIATIONS

AFRITAC	Africa Regional Technical Assistance Centre
AML	Anti-money Laundering
ATM	Automated Teller Machine
BIS	Bank for International Settlements
BCPs	Basel Core Principles
BOU	Bank of Uganda
COMESA	Common Market for Eastern and Southern Africa
CDD	Customer Due Diligence
CI	Credit Institution
CRB	Credit Reference Bureau
CRS	Credit Reference System
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
FEA	Foreign Exchange Act 2004
FI	Financial Institution
FIA	Financial Institutions Act 2004
FSB	Financial Stability Board
GDP	Gross Domestic Product
GSIB	Global Systemically Important Bank
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
LTV	Loan to Value

MAC	Monetary Affairs Committee
MDI	Microfinance Deposit-taking Institution
MMSP	Mobile Money Service Provider
MNO	Mobile Network Operator
MFPED	Ministry of Finance, Planning and Economic Development
NIM	Net Interest Margin
NPLs	Non-Performing Loans
REPSS	Regional Payment and Settlement System
ROA	Return on average assets
ROE	Return on average equity
RTGS	Real Time Gross Settlement System
SACCO	Savings and Credit Cooperative
SFI	Supervised Financial Institution
SIFI	Systemically Important Financial Institution
UCC	Uganda Communications Commission
UNICEF	United Nations Children's Fund
UNISS	Ugandan National Inter-bank Settlement System
UShs	Uganda Shillings
TLAC	Total Loss Absorbing Capacity

FOREWORD

The prudential regulation and supervision of financial institutions is a statutory responsibility of the Bank of Uganda (BOU). As part of this responsibility, BOU publishes the Annual Supervision Report to provide an account of the main supervisory activities undertaken during the year and the developments in the financial sector regulatory framework. The report also provides information on the status of the financial sector and the potential risks to its stability.

Overall, the performance of Uganda's banking sector improved in the year to December to 2014. The sector remained profitable and well capitalised with the aggregate core capital to risk weighted assets ratio standing at 19.7 percent, well above the statutory minimum requirement of 8 percent. There was a 14 percent growth in credit, which together with a 16.4 percent reduction in non-performing loans supported improved profitability. The sector registered a 17.2 percent increase in profit, from Ushs.414 billion in 2013 to Ushs.485.2 billion in 2014. Whereas credit risks eased during the year with overall sector vulnerability being low, non-performing loans still posed a challenge to some banks during 2014.

Bank of Uganda continued to engage the relevant stakeholders regarding the amendments to the Financial Institutions Act, 2004. When completed, these amendments will pave way for the introduction of Islamic banking, banc assurance, agency banking and reforms in the deposit protection fund.

Growth continued to be registered in the mobile money services, with the number of registered mobile money customers increasing by 32.4 percent from 14.2 million in December 2013 to 18.8 million in December 2014, therefore increasing access to financial services. As part of BOU's financial inclusion initiatives, efforts shall continue to be geared at fostering an enabling regulatory environment for the growth of mobile money and other financial services. The measures being taken in this regard are described in Chapter 6 of this report.

Louis Kasekende (PhD)

DEPUTY GOVERNOR

PART I: SUPERVISION OF FINANCIAL INSTITUTIONS

Chapter 1: Supervision of Financial Institutions

1.1 Introduction

This chapter presents the highlights of the key activities undertaken by Bank of Uganda in pursuit of its statutory mandate of ensuring a safe and sound financial system through on-site and offsite surveillance of Supervised Financial Institutions (SFIs).

1.2 On-site inspection

The objective of on-site examination is to review the SFIs financial condition, evaluate the adequacy of their risk management systems and assess the degree of compliance with laws, regulations, prudential guidelines and supervisory recommendations.

Commercial banks

During 2014, BOU conducted on-site examinations of all the licensed commercial banks. Guided by the risk based supervision methodology, the examinations were focused on the areas that posed the greatest risks to the banks. Following the examinations, specific directives were issued to the banks to address the identified supervisory concerns.

The on-site examinations established that all banks, except one which was closed during the year, were adequately capitalized. The sector achieved a recovery in loan quality, from the high level of non-performing loans that followed the economic downturn in 2011 / 2012, as reflected by the improvement in the ratio of non-performing loans to total loans from 5.6 percent in December 2013 to 4.1 percent in December 2014. The banking sector posted credit growth of 14 percent during 2014, which augmented the sector's profitability. The on-site examinations however established that corporate governance weaknesses, strategic risk concerns especially with regard to new product development and weaknesses in operational risk management posed challenges to some banks.

Credit Institutions

During 2014, BOU conducted full scope on-site examinations of two out of the three Credit Institutions (CIs) and follow-up examinations of two institutions. The key supervisory concerns related to strategic, credit and operational risks attributed to the increased competition in financial markets. Other challenges relating to corporate governance and shortcomings in information technology were being addressed.

BOU will continue to exercise close supervision of the CIs through off-site surveillance to ensure their safety, financial soundness and compliance with statutory and regulatory requirements. All the CIs are expected to remain well capitalized, profitable and financially sound in the coming year.

Microfinance Deposit-taking Institutions

BOU conducted on-site examinations of the three Microfinance Deposit-taking Institutions (MDIs) that operated during the year. These institutions remained financially safe and sound. However, controls in the areas of corporate governance and operational risk management needed to be strengthened. EFC Limited which was granted an MDI licence in November 2014 is due for inspection during 2015.

Foreign Exchange Bureaus and Money Remitters

During 2014, BOU undertook 54 on-site inspections and 57 follow-up examinations of Foreign Exchange Bureaux and Money Remitters. Overall, the level of the institutions' compliance with laws and regulations were found to be satisfactory. The major supervisory concerns related to the institutions' compliance with the Anti-Money Laundering Act, 2013 and the slow implementation of appropriate management information systems to support electronic information processing.

1.3 Off-site analysis of banks

Bank of Uganda undertakes continuous off-site surveillance of banks through the collection and analysis of financial information. Off-site analysis plays a key role in the planning of on-site examinations and in the implementation of the risk-based supervision methodology. It also ensures that banks comply with Bank of Uganda statutory and prudential requirements at all times. During 2014, BOU issued new benchmarks to be used in the analysis of the financial performance of commercial banks.

Stress testing

Stress tests were conducted on a quarterly basis to quantify the magnitude of losses which banks would incur in the event that they encounter specific shocks, and the impact of these losses on the banks' capital. The shocks included in the stress tests were:

a) Decline in Net Interest Margin (NIM),
b) Decrease in interest income on government securities,
c) Depreciation of the Uganda Shilling against the United States dollar,
d) Increase in Non-Performing Loans (NPLs) and,
e) A 100 percent loan loss for each bank's largest borrower.

The particular shocks chosen in the stress tests were considered plausible and some were derived from previous adverse experiences such as the bank failures of 1999 to 2001 and the economic downturn of 2011/2012. The results of the tests conducted on the banks' financial positions at the end of December 2014 are shown in Table 1.

Table 1: Stress test shock for the quarter ended December 31, 2014

Stress Test Variable	Number of banks [a)]	Aggregate additional capital (Ush. billion) [b)]
Decline in net interest margin		
Decrease in net interest income by 20 percent	0	0.0
Decrease in net interest income by 50 percent	1	0.18
Decrease in interest income from government securities		
Decrease in income from government securities by 20 percent	0	0
Decrease in income from government securities by 50 percent	0	0
Depreciation of Shilling against US dollar		
Depreciation of Ush. against US Dollar by 20 percent	1	0.7
Depreciation of Ush. against US Dollar by 30 percent	2	1.4
Increase in non-performing loans		
Increase in NPLs by 100 percent	5	6.8
Increase in NPLs by 200 percent	9	107.9
Loan loss of each bank's largest borrowers		
Default by single largest borrower	6	24.0
Default by 3 largest borrowers	16	362.3

Source: Bank of Uganda

Notes:

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

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

Default by the banks' largest borrowers and an increase in NPLs by 100 percent posed the biggest threat to the banks, with six and five banks respectively unable to meet the statutory capital levels if the shocks were to materialise. The resultant shortfall in capital would be Ushs. 24 billion and Ushs 6.8 billion respectively. If the largest three borrowers were to default with 100 percent loan loss, 16 banks would be undercapitalised by Ushs 362.3 billion, while an increase in non-performing loans by 200 percent in the loss category would lead to an aggregate capital shortfall of Ushs.107.9 billion distributed cross nine banks. Depreciation of the Uganda shilling and a reduction in interest income would require only a minor capital injection from two banks while a 50 percent reduction in income from Government securities would not require any additional capital from the banks.

Whereas credit risk continues to remain significant, the aggregate capital shortfall from the shocks is fairly small compared to the sector's aggregate total capital which stood at Ushs 2.9 trillion as at December 31, 2014.

1.4 Offsite analysis of Non-Bank Financial Institutions

BOU continued to exercise close supervision of the Credit Institutions and Microfinance Deposit-taking Institutions through off-site surveillance to ensure their sustained safety, financial soundness and compliance with statutory and regulatory requirements. BOU also conducted off-site monitoring of the forex bureaux and money remitters throughout 2014. Delays by some forex bureaux to submit statutory returns, which were the main concern from the offsite surveillance, were being addressed.

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

2.1 Introduction

This chapter presents the key developments in the financial sector such as licensing of new institutions, new product innovations, payments systems and regulatory reforms.

2.2 Licensing and approvals

Licensing

Bank of Uganda invoked the provisions of the Financial Institutions Act, 2004 and closed Global Trust Bank Limited (GTBL) on July 25, 2014. Subsequently, BOU arranged for GTBL to be resolved through a Purchase of Assets and Assumption of Liabilities Agreement with DFCU Bank Limited. Under the agreement, DFCU took over all deposit liabilities of GTBL and acquired selected liquid assets and performing loans of GTBL that were required to cover the depositor liabilities. As at December 31, 2014, the number of licensed banks in Uganda stood at twenty five.

BOU granted a Tier II licence to Top Finance Bank Limited in September 2014 to conduct Credit Institution business subject to implementation of certain directives. The institution is in the process of implementing the directives issued by BOU.

In addition, BOU issued a Microfinance Deposit-taking Institution licence to EFC Uganda Limited while 21 Foreign Exchange Bureaux and seven (7) money remittance companies were licensed.

Bank branches, automated teller machines and other supervised financial institutions

Financial outreach increased during 2014 as shown by the increase in bank branches and Automated Teller Machines (ATMs). The number of bank branches increased from 542 in December 2013 to 564 in December 2014, while the total number of ATMs operated by commercial banks increased from 768 to 830 over the same period.

Financial services continued to expand outside the Kampala and metro regions of Uganda. The percentage of branches and ATMs in the Kampala or metro regions reduced from 69.4 percent and 76.6 percent respectively as at December 2013, to 55.7 percent and 63 percent respectively as at December 2014. Table 2 shows the evolution in the number of banks, bank branches, ATMs, Credit Institutions, Microfinance Deposit – taking Institutions, Foreign Exchange Bureaux and Money Remittance outlets in Uganda over the last four years.

Table 2: Number of licensed branches / outlets for supervised financial institutions

	2011	2012	2013	2014
Commercial bank branches	455	496	542	564
Bank ATMs	637	714	768	830
Foreign exchange bureaus	184	205	248	267
Money remittance outlets	173	205	186	204
MDIs branches	98	99	70*	75
Credit Institutions branches	44	47	52	55

Source: Bank of Uganda

*The decrease in number of MDI branches between 2012 and 2013 was due to the transformation of Uganda Finance Trust to a commercial bank.

Interswitch System

The Interswitch network links participating institutions and enables their customers to access shared ATMs and Points of Sale (POS) services. As at the end of December 2014, there were 10 financial institutions connected to the Interswitch network.[1] The system which is run by Interswitch East Africa (Uganda) Limited provides solutions that facilitate interoperability of ATMs for a number of banks. Table 3 shows the change in the number of ATMs linked to Interswitch over the last 4 years. Centenary Bank and Commercial Bank of Africa

[1] 8 commercial banks and two credit institutions are connected to the Interswitch network, namely; United Bank for Africa, Cairo International Bank, Centenary Bank, DFCU, Finance Trust Bank, Imperial Bank Uganda, Orient Bank, Commercial Bank of Africa, Opportunity Bank, Postbank Uganda

joined the Interswitch network during 2014, whereas Global Trust Bank was closed by Bank of Uganda in July 2014 and is therefore no longer on the network.

Table 3: Number of ATMs under the Interswitch system

Bank / Institution	Dec-11	Dec-12	Dec-13	Dec - 14
Centenary Bank	-	-	-	153
DFCU	26	29	33	42
Postbank Uganda	0	0	25	33
UBA Uganda	14	14	13	12
Cairo International Bank	2	3	3	4
Finance Trust Bank	3	6	7	7
Orient Bank	19	21	22	24
Global Trust Bank	5	8	15	-
Imperial Bank	0	4	4	5
SmartPoint	9	10	12	12
Opportunity	-	-	-	4
Commercial Bank of Africa	-	-	-	1
Total	**78**	**95**	**134**	**298**

Source: Bank of Uganda

Developments in product innovation

During 2014, BOU approved several new alternative channels and e-banking solutions for commercial banks. These included mobile money bulk payments solutions, cross boarder mobile money transfers and derivative instruments.

Bank Supervision Application (BSA)

In pursuit of continuous improvement in processes, BOU rolled out a communication tool under the BSA to facilitate electronic delivery of letters and circulars to SFIs. The functionality was launched in July 2014 and has yielded the benefits of timely delivery of communications from BOU. It has also reduced the risk and costs associated with delivery of physical documents from BOU to SFIs' premises.

2.3 Regulatory reforms

Amendment of the Financial Institutions Act, 2004 and the Credit Reference Regulations 2005.

During the year, the Bank of Uganda continued to work with the First Parliamentary Counsel on the draft Financial Institutions (Amendment) Bill, 2014 and the draft Financial Institutions (Credit Reference System) Regulations 2013. The Amendments to the Financial Institutions Act, 2004 will enable islamic banking, banc assurance and agency banking to be conducted in Uganda. The amendments will also reform the deposit protection fund.

The revised draft Credit Reference System Regulations provide for the supervision of new Credit Reference Bureaus, licensing and supervision of the Financial Card System as a separate entity from the CRB and strengthening of data protection across the market, among other things.

Amendment of the Microfinance Deposit-taking Institutions Act, 2003

Bank of Uganda is currently preparing amendments to the MDI Act, 2003.

BOU held discussions with Ministry of Finance, Planning and Economic development (MFPED) and other stakeholders on the Tier IV Microfinance Bill. Once the bill is approved by Parliament, Tier IV institutions, including Savings and Credit Cooperative Organisations (SACCOs) which hold voluntary savings above a predetermined threshold, will come under the regulation and supervision of Bank of Uganda. Those with savings below the threshold will be under the purview of another regulatory body that is to be created under the Microfinance Bill.

Amendment of the Foreign Exchange Act, 2004 and the Foreign Exchange Regulations, 2006

BOU concluded the consultation process on the proposed amendments to the Foreign Exchange Act 2004 and the Foreign Exchange (Forex Bureaus and Money Remittance) Regulations 2006. The key proposals include revision of the minimum capital requirements to cater for evolving risk profiles of these institutions, and proposals to strengthen the supervision of the institutions by providing for civil penalties.

Bank of Uganda also enhanced the initial and ongoing vetting requirements for Forex Bureaux and Money Remittance companies.

Developments in Anti-Money Laundering

The Financial Intelligence Authority was established on July 01, 2014 pursuant to Section 18 of the Anti-Money Laundering (AML) Act 2013 which came into force on November 01, 2013. The Authority's duties include amongst others, enhancing the identification of the proceeds of crime and fast tracking the implementation of anti-money laundering measures as stipulated in the AML Act 2013.

Other Developments

BOU continued with the review of the Risk Management Guidelines (2010) to address the evolving risk profiles of SFIs. The guidelines are being benchmarked against those of the regional EAC Central Banks before finalisation.

The on-site procedures on consolidated supervision, which were developed with the help of IMF East AFRITAC, were incorporated into the Risk-Based Supervision Manual. The procedures will be piloted in onsite examinations during the course of 2015.

2.4 Mobile money services

Growth continued to be registered in the mobile money services, with a number of initiatives launched by different Mobile Network Operators (MNOs) to improve the services available to mobile money customers. The number of registered mobile money customers increased by 4.6 million or 32.4 percent from 14.2 million in December 2013 to 18.8 million in December 2014. The total value of transactions for the year was Ush.24 trillion up from Ush.18.7 trillion in 2013, a growth of 28.3 percent. The number of transactions increased by 24.2 percent from 399.5 million transactions recorded in December 2013 to 496.2 million transactions in December 2014. Other developments under mobile money services are discussed under Chapter 6 of this report.

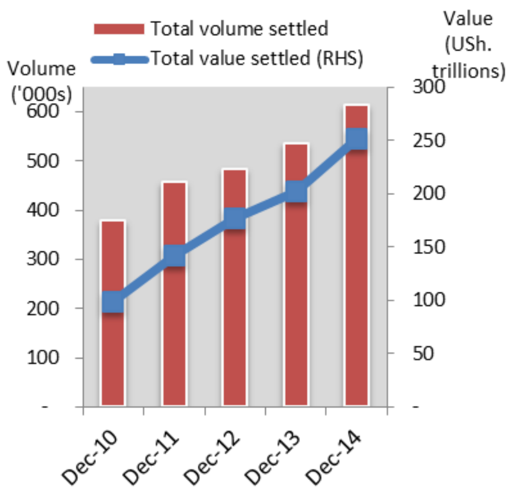
2.5 Oversight of payment systems

Bank of Uganda oversees the key payment systems used by the banking sector. This oversight entails monitoring the usage and operational performance of Uganda's Real Time Gross Settlement System (RTGS), known as the Ugandan National Inter-bank Settlement System (UNISS), the Electronic Clearing System (ECS), payment platforms such as mobile money and the performance of Automated Teller Machines (ATMs). During 2014, all payment and settlement systems continued to operate satisfactorily with minimal interruption and downtime.

UNISS performance in Ugandan Shillings

UNISS transactions for both domestic currency and foreign-denominated currency registered significant growth in 2014. The overall UNISS transaction volume in Uganda Shillings during the year totalled 612,510 with a value of USh.251.1 trillion. This represents a 14.5 percent increase in the volume of transactions and a 24.5 percent increase in the value of these transactions in 2014, compared to the year ended December 2013, where the overall UNISS transactions were 534,843 with a value of USh.201.7 trillion.

Chart 1: UNISS Transactions by volume and value (in USh. trillions)



Source: Bank of Uganda

UNISS performance in foreign denominated currencies

Table 4 provides data on transactions in foreign currency conducted in the UNISS.

Table 4: UNISS volume and values transacted in foreign currencies

	2013	2014
Total value settled in all foreign currencies (USD equivalent; billions)	5.121	7.664
Proportion by currency (value)		
USD (%)	97.6%	97.7%
EUR (%)	2.1%	1.7%
GBP (%)	0.2%	0.3%
KES (%)	0.008%	0.28%
TZS (%)	0.0%	0.0001%
Total volume settled	73,665	93,192
Proportion by currency (volume)		
USD (%)	96.9%	97.4%
EUR (%)	2.3%	1.7%
GBP (%)	0.7%	0.7%
KES (%)	0.08%	0.25%
TZS (%)	0.0%	0.003%

Source: Bank of Uganda

East African Payment System (EAPS)

The East African Payment System (EAPS) is a multicurrency system, which connects the RTGS Systems of the East African Community (EAC) member countries. Rwanda joined Kenya, Tanzania and Uganda on the EAPS network in December 2014. EAPS has successfully completed its first calendar year in operation with no significant disruption or downtime throughout this period, while volumes and values of transaction have increased month on month.

In terms of value, the majority of EAPS transactions were in Kenyan Shillings. In terms of volume, the majority of transactions received (inward) by Uganda were in Ugandan shillings, with the majority sent out (outward) by Uganda in Kenyan shillings.

Table 5: Performance of EAPS (December 2013 to December 2014)

	Inward	Outward
Total value settled in all currencies (UGX equivalent; billions)	**183.91**	**192.83**
Proportion by currency (value)		
UGX (%)	13.9%	15.0%
KES (%)	85.9%	84.9%
TZS (%)	0.1%	0.1%
Total volume settled	**1,181**	**2,538**
Proportion by currency (volume)		
UGX (%)	68.8%	35.6%
KES (%)	29.6%	61.8%
TZS (%)	1.5%	2.6%

Source: Bank of Uganda

COMESA Regional Payment and Settlement System (REPSS)

REPSS is a cross-border clearing system for transfer of funds within the Common Market for Eastern and Southern Africa (COMESA) in both United States dollars and Euros. Uganda joined the COMESA Regional Payment and Settlement System (REPSS) on February 28, 2014, with the first REPSS Ugandan generated transaction effected on September 29, 2014. Since joining the system, there have been 10 transactions in total with a value of USD 302,385.

Monitoring of payment services

In an effort to improve the effectiveness of the payment systems oversight function, Bank of Uganda revised the 'National Payment System Secretariat (NPSS) Report' and renamed it the 'Statistical Report on Payment Services'. New data items covering recent developments in payment services such as mobile financial services and internet banking have been included. The return will be completed on a monthly basis and submitted both electronically and in hard copy within 10 days after the end of the month to which it relates. This change in reporting will enhance the collection of timely, relevant and accurate information on payment services from SFIs.

2.6 Credit Reference Bureau (CRB) services

Progress of the CRB services

The CRB issued over 144,171 financial cards during 2014, raising the cumulative total to 1,093,107 cards since its inception. Over 604 branches had installed the Financial Card System (FCS) while 580 branches had installed the CRB system. A total of 611,895 credit enquiries were made in 2014, raising the cumulative number of enquiries from 1,723,191 as at December 2013 to 2,335,086 as of December 2014.

The quality of data submission by the 31 participating institutions to the CRB has improved with average industry acceptance rates ranging between 90% - 95%. Nonetheless, the data clean-up process is still on-going.

Separation of the Financial Card System from the Credit Reference Bureau

During the past year, CompuScan CRB Limited continued to manage both the CRB services and Financial Card System (FCS) identification services in Uganda. This agreement remained in force pending final separation of the FCS from the CRB.

Following an in-depth evaluation of bids for the provision of biometric identification for the FCS, Techno Brain Limited emerged the winner of the tender. Bank of Uganda has initiated discussions with Techno Brain to execute the service level agreement for the FCS.

2.7 Deposit Protection Fund

The market value of the DPF under the FIA 2004 amounted to Ushs. 224 billion as at December 31, 2014. This comprised of treasury bills (Ushs. 111.5 billion), treasury bonds (Ushs. 111.6 billion) and cash (Ushs. 870 million).

As at December 31, 2014, the market value of the DPF under the MDI Act, 2003 amounted to Ushs. 9.9 billion, comprising of treasury bills (Ushs. 4.3 billion), treasury bonds (Ushs. 4.3 billion) and cash (Ushs.1.3 million).

2.8 Enhancing access to financial services

During 2014, a number of initiatives were implemented under the four identified Pillars for promoting financial inclusion as highlighted below;

Financial Literacy

BOU conducted a number of activities aimed at promoting financial literacy. These included;

- The secondary school challenge and the national secondary schools music festival
- Mass financial consumer education through lectures, sensitisation workshops and radio talk shows.
- Collaborative arrangements with Institutions such as Rotary Clubs.

Financial Consumer Protection (FCP)

- BOU carried out sensitisation of financial services customers through "Know Your Rights" campaigns across the country.

- Key facts documents for loans and savings products intended to enhance transparency and disclosures by SFIs were translated into seven major local languages.

Financial Innovations

- BOU continued with efforts to ensure that all SFIs and Mobile Network Operators (MNOs) comply with the Mobile Money Guidelines. MNOs implemented the non-exclusivity clauses of the guidelines which led to increase in the number of agents.

- There was a reduction in the number of complaints due to the requirement to confirm the recipients' details prior to sending the money.

2.9 Strengthening capacity for supervision

In order to enhance capacity for supervision, members of staff participated in local, regional and overseas training programs in the areas of risk based supervision, deposit insurance schemes, Basel Core Principles (BCPS) for effective Bank supervision, implementation of Basel II and III, credit information sharing and risk management, anti-money laundering among others. In addition, the following was undertaken as part of staff capacity building;

a) BOU participated in the Supervisory Colleges of United Bank for Africa, Commercial Bank of Africa, NC Bank, Barclays Bank and Standard Chartered Bank. Supervisory Colleges are an essential part of effective supervisory oversight of international banking groups and provide a forum to discuss risks facing banking groups.

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

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

2.10 Regional cooperation

Regulatory harmonisation in the East African Community

In May 2014, the Bank Supervision and Financial Stability Sub-Committee of the Monetary Affairs Committee (MAC) of the East African Community (EAC) held a meeting to review the implementation status of the Governors' decisions made at the 16th MAC meeting. The subsequent 17th MAC meeting also held in May 2014 made the following key decisions which are being implemented by the Bank Supervision and Financial Stability Sub-Committee.

a) EAC Partner States' Central Banks are to implement the convergence criteria relating to supervisory rules and practices.

b) EAC Partner States' Central Banks are to undertake self-assessments on compliance with the 29 BCPs for Effective Banking Supervision by September 2014.

c) EAC Partner States' Central Banks are to address the remaining gaps to comply with the BCPs for Effective Banking Supervision as per agreed timelines.

d) EAC Partner States' Central Banks undertook to support other domestic financial sector regulators to develop and issue Business Continuity Management guidelines for financial institutions under their purview.

e) Bank of Uganda is to follow up with the First Parliamentary Counsel on the Financial Institutions (Capital Adequacy-Amendment for Market Risks) Regulations 2014 as well as the legal and regulatory amendments to facilitate regulation and supervision of Shariah-compliant banking products, bancassurance and other incidental financial services.

f) EAC Partner States' Central Banks are to formulate and implement targeted financial inclusion policies based on their diagnostic studies and exchange information on new initiatives related to financial sector consumer protection. This is meant to protect consumers and enhance financial inclusion within the East African region.

g) EAC Partner States' Central Banks are to strengthen the regulation, supervision and surveillance of domestic financial systems by implementing those aspects of the Basel III framework and G20 financial stability recommendations that are relevant to the region.

h) EAC Partner States' Central Banks are to finalise formal information sharing arrangements with home regulators of foreign financial institutions operating in their jurisdictions and to continue sharing financial soundness indicators on quarterly basis through Bank of Tanzania.

i) EAC Partner States' Central Banks are to finalise development of stress tests in line with the Cihak framework[2] by June 2015 and to develop macro stress testing frameworks by June 2017.

[2] The Cihak framework is an excel based stress testing model developed by Martin Cihak of the IMF for testing the resilience of banks to plausible shocks.

j) EAC Partner States' Central Banks are to complete the compilation and reporting of the expanded set of core and encouraged Financial Soundness Indicators in line with the IMF Compilation Guide and submit them to the EAC Secretariat and IMF by December 2017.

k) EAC Partner States' Central Banks are to develop a harmonized macro-prudential policy framework with objectives, indicators and instruments in line with emerging best practice by IMF, BIS and FSB by May 2015. In addition, the Central Banks are to develop a framework for conducting a regional financial stability assessment by December 2016 and to develop resolution plans for banks with cross border operations.

2.11 Crisis management framework

In order to enhance the capacity of the authorities to manage a systemic financial crisis, BOU developed a financial crisis management plan. The plan provides guidance on financial crisis detection, crisis management and crisis resolution. As part of the plan, it will be necessary to review BOU's framework for acceptable collateral for emergency liquidity assistance. In the year ahead, BOU plans to work with other financial sector regulators to expand the scope of the crisis management plan to the entire financial sector. In addition the BOU crisis management framework will be harmonised with those of the EAC Partner States' Central Banks..

2.12 Ongoing and planned activities for 2015

Bank Supervision Application (BSA)

Following the successful launch of the BSA communication module, Bank of Uganda shall roll out an additional feature of the tool, which will enable SFIs to electronically send communications to BOU. The feature is expected to be rolled out during the course of 2015.

Payment systems oversight

BOU will continue to focus on strengthening the oversight of payment systems by adopting the relevant internationally recognised guidelines and best practices. Continued oversight will ensure that the payment systems in Uganda support the smooth functioning of the financial system while improving efficiency gains for the economy as a whole.

Credit Reference Bureau activities

a) Review of the CRB legal framework

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

b) Evaluation of licence applications to operate CRB business

As part of the process to open up the CRB services to other providers, BOU conducted a due diligence of Metropol CRB Limited in Kenya to ascertain its data hosting, processing and security arrangements as well as robustness of its information and communication technology platform. A CRB licence application from Creditinfo Limited was also undergoing review as of December 2014. The review of the above licence applications is expected to be completed in the coming year.

c) Data submission framework

Following the completion of the review for the data submission framework in a competitive CRB market, the Final Data Standardisation Manual, Data Submission Specification Manual, Data Validation Rules (and Data Submission Protocol are to be released to the market during the course of 2015.

Enhancing access to financial services

BOU, in conjunction with the key stakeholders, will continue to implement measures to foster the creation of an enabling environment to boost the level of access to financial services in the country. During 2015 BOU will implement the planned activities specified in the strategy paper on financial inclusion as follows:

- Enhance the collaborative arrangements initiated with institutions such as Rotary Clubs.

- Develop regulations on agent banking once the legal provisions allowing the conduct of Agency Banking are passed.
- Hold stakeholder workshops involving financial institutions, the BOU and the public to discuss Financial Consumer Protection (FCP) issues.
- Conduct radio appearances on FCP issues and work with media agents to provide financial education to the general public.
- Conduct sensitisation workshops to help create public awareness on mobile money financial services.
- Hold season two of the secondary schools challenge.

PART II: ASSESSMENT OF FINANCIAL STABILITY

Chapter 3: Banking Sector Performance

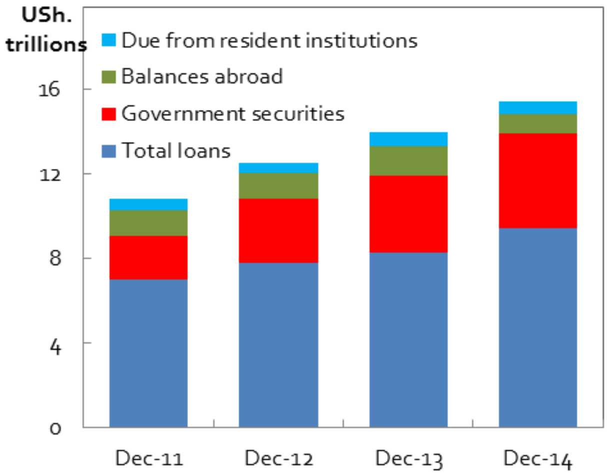
3.1 Introduction

This chapter provides an overview of the Banking Sector performance in 2014. Overall, the performance improved in 2014, compared to 2013. The banking sector is well capitalised and registered strong growth in bank lending. Bank liquidity and profitability also improved in the year to December 2014.

3.2 Changes in banks' assets and liabilities

The total assets of banking sector registered higher growth in 2014 compared to 2013. This was mainly due to an increase in loans and advances of 14 percent to USh.9.4 trillion in the year to December 2014, which was more than double the growth of 6.2 percent in the previous year. Chart 2 shows the change in composition of banks' assets over time.

Chart 2: Composition of banks' asset portfolios



Source: Bank of Uganda

Off-balance sheet items grew by 24.7 percent between December 2013 and December 2014, reversing the trend from the negative 3.1 percent growth rate, which was recorded in 2013. The increase was mainly due to growth of forward contracts during the period.

During 2014, foreign currency denominated components of the banks' balance sheets grew faster than shilling denominated components. Foreign currency deposits rose by 16.9 percent compared to 13.7 percent in 2013. Similarly, foreign currency loans grew by 21.6 percent in the year to December 2014 compared to 6.8 percent in 2013. As a result, the share of foreign currency loans to total loans grew from 41 percent to 43.7 percent. This may increase the exposure of the banking sector to foreign exchange shocks.

Table 6: Annual developments in banks' assets and deposits

	Dec-11	Dec-12	Dec-13	Dec-14
Assets				
Volumes (UShs. trillion)	13.0	15.4	17.3	19.6
Annual growth (%)	14.9	19.1	12.0	13.1
Deposits				
Volumes (UShs. trillion)	8.9	10.5	11.5	13.2
Annual growth (%)	11.0	17.5	10.0	14.9
Loans				
Volumes (UShs. trillion)	7.0	7.8	8.3	9.4
Annual growth (%)	27.9	11.6	6.2	14.0
Off-Balance Sheet Items				
Volumes (UShs. trillion)	3.0	3.2	3.1	3.7
Annual growth (%)	71.4	6.8	-3.1	18.9

Source: Bank of Uganda

Table 7: Foreign currency denominated assets and liabilities (percentage ratios)

	Dec-11	Dec-12	Dec-13	Dec-14
Foreign currency assets to total assets	27.9	31.7	30.8	31.8
Foreign currency liabilities to total liabilities	32.9	36.2	38.1	39.2
Foreign currency loans to total loans	29.1	40.7	41.0	43.7
Foreign currency deposits to total deposits	33.6	34.9	36.1	42.1

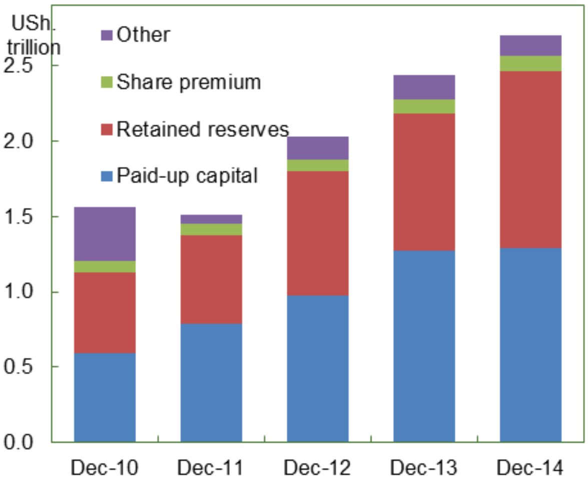
Source: Bank of Uganda

3.3 Adequacy of banks' capital

The banking sector maintained adequate capital to withstand shocks as at December 2014. The aggregate core capital and total capital/RWA ratios stood at 19.7 percent and 22.2 percent respectively, well above the statutory minimum requirements of 8 percent and 12 percent respectively as at December, 2014.

The leverage ratio (regulatory tier 1 capital to total assets plus off-balance sheet items) was relatively stable at 11.1 percent during 2014.

Chart 3: Composition of banks' capital



Source: Bank of Uganda

The total shareholders' equity of the banking system grew by 17.2 percent from USh.2.9 trillion in December 2013 to USh.3.4 trillion in December 2014 mainly due to an increase in retained reserves of 28.3 percent during 2014.

3.4 Funding and liquidity

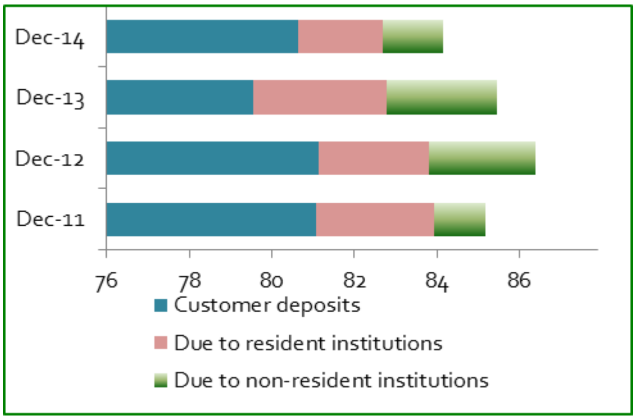
Deposit growth

Banks in Uganda are largely funded by customer deposits, which are more stable than whole sale funding. Deposits accounted for 80.6 percent of total liabilities in December 2014, a level that remains relatively unchanged compared to December 2013. The year-on-year growth rate of deposits in 2014 was 14.9 percent, up from 10 percent registered in 2013. Both shilling and foreign currency deposits exhibited stronger growth during 2014 from 8 percent and 13.7 percent in 2013 to 13.8 percent and 16.9 percent, respectively.

Interbank activity

Total interbank volumes traded during the year to December 2014 increased to USh.27.7 trillion, from USh.25.8 trillion during the same period in 2013. The 7-day weighted average interbank rate dropped from 11.42 percent to 10.9 percent between December 2013 and December 2014. A rise in traded volumes and a drop in the interest rate signified better funding conditions for the banks.

Chart 4: Banks' sources of funding (as a percent of total liabilities)



Source: Bank of Uganda

Liquidity

Commercial bank liquidity improved during 2014. The nominal amount of liquid assets grew by 18.4 percent from USh.4.9 trillion to USh.5.8 trillion in 2014. The increase in liquid assets was largely due to the rise in holdings of government securities. Bank of Uganda continues to closely monitor liquidity risk in the banking sector with the rolling out of the Liquidity Coverage Ratio (LCR).

Table 8: Indicators of banks' liquidity

	Dec-11	Dec-12	Dec-13	Dec-14
Liquid assets to total deposits	37.6	42.0	42.5	44.0
Liquid assets to total assets	25.8	28.4	28.3	29.7
Total loans to total deposits	78.4	74.5	71.9	71.4

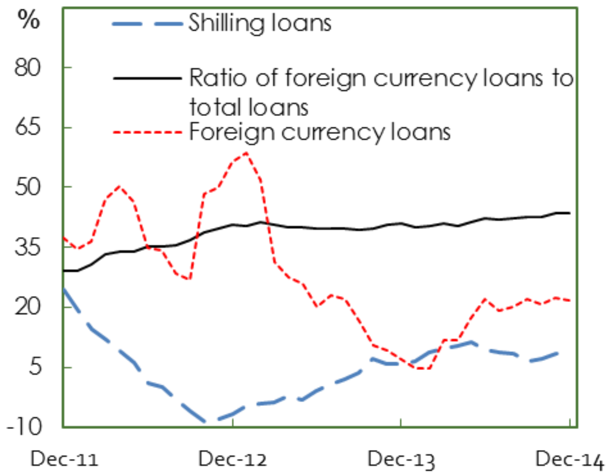
Source: Bank of Uganda

3.5 Performance of credit

Lending activity

Overall bank lending continued to pick up strongly in 2014, growing by 14 percent to USh.9.4 trillion in December 2014 up from USh.8.3 trillion in December 2013. This improvement was mainly due to foreign currency loans which grew by 21.6 percent in 2014 compared to a 6.8 percent growth witnessed in 2013. Local currency loans on the other hand grew by 8.7 percent compared to 5.8 percent in 2013.

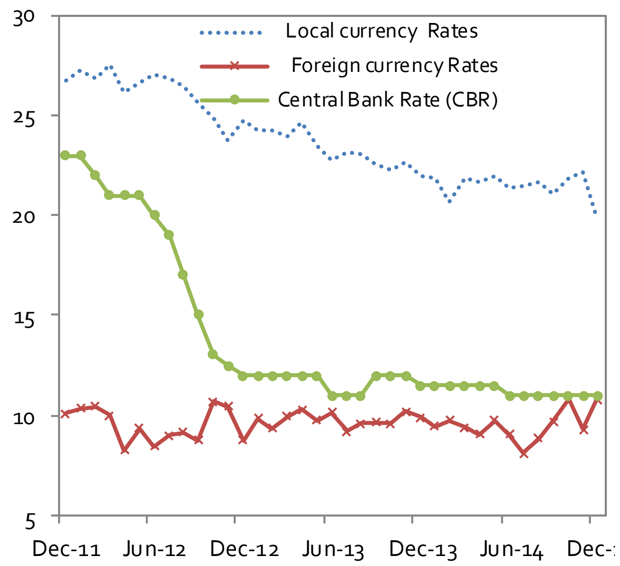
Chart 5: Annual percentage growth of loans



Source: Bank of Uganda

The growth in shilling loans was partly a result of relative stability of lending rates during the year. This came against the backdrop of declining inflationary pressures during the period. The commercial banks' weighted average lending rate stood at 21.5 percent for shilling loans and 9.5 percent for foreign currency loans at the end of December 2014 compared to 22.6 percent and 9.9 percent, respectively in the previous year.

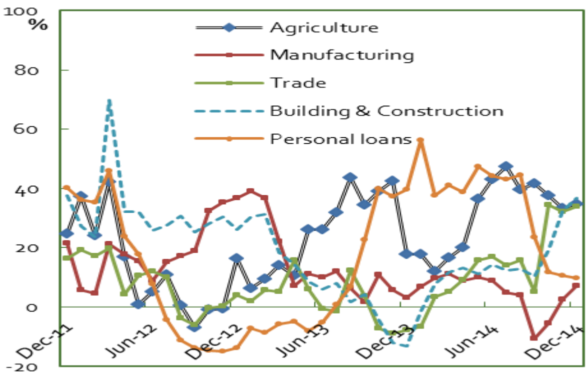
Chart 6: Weighted average lending rates for commercial banks



Source: Bank of Uganda

Analysis of bank lending by sector shows a shift in lending patterns. The highest growth in loans during 2014 was recorded in the building and construction sector, as compared to personal and household loans in 2013. Loans to the building and construction sector grew by 36.9 percent over the period, compared to a decline of 13.3 percent in the previous year. Conversely, loans to the personal and households sector grew by 9.8 percent in 2014, compared to a 39.6 percent growth rate experienced in 2013.

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

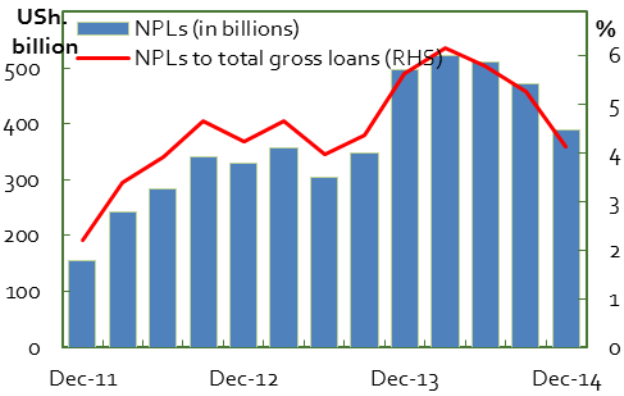


Source: Bank of Uganda

Loan quality and non-performing loans

Commercial bank's asset quality continued to improve in 2014. The NPL ratio (NPLs to total gross loans) reduced from 5.6 percent in December 2013 to 4.1 percent at the end of December 2014. The volume of NPLs declined from USh.465.8 billion in December 2013 to USh.389.6 billion in December 2014. However, there was also significant write off of loans amounting to USh.317.9 billion in the year to December 2014.

Chart 8: Changes in banks' NPLs

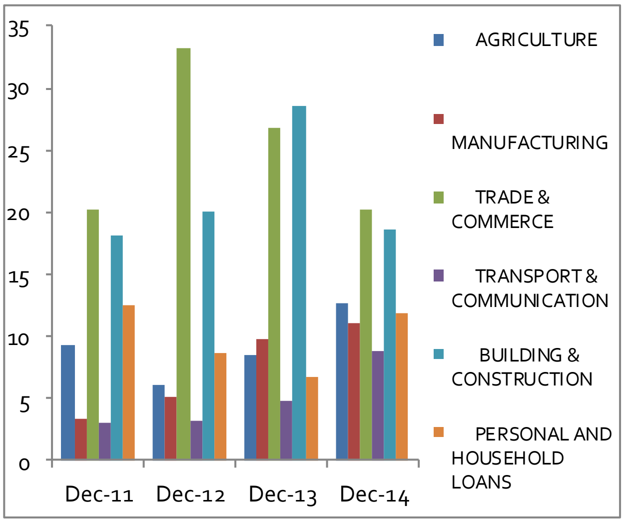


Source: Bank of Uganda

In terms of currency denomination, at the end of December 2014, the average industry NPL ratio for shilling loans stood at 4.9 percent, down from 6.6 percent in December 2013. This was aided by a decrease in the volume of shilling NPLs by USh.66.2 billion during the period. The foreign currency NPL ratio also dropped from 4.2 percent to 3.2 percent during the same period, reflecting the reduction in the volume of foreign currency NPLs from USh.141.6 billion to USh.131.7 billion.

The most significant sectoral credit risk is from trade and commerce and the building and construction sectors. During 2014, the trade and commerce and the building and construction sectors continued to account for the largest share of the total NPLs, as in the previous year, with 20.2 percent and 18.6 percent of total NPLs in the banking sector respectively. The transport and communication and the agriculture sector held the highest sectoral NPL ratios for the period under review with ratios of 6.9 percent and 5.6 percent respectively. Bank of Uganda continues to monitor the trends in sectoral credit risk and to conduct quarterly aggregate stress tests to calibrate the likelihood and impact of these risks.

Chart9: Sectoral non-performing loans (as a percentage of total NPLs)



Source: Bank of Uganda

Table 9: NPLs for major business sectors (percent)

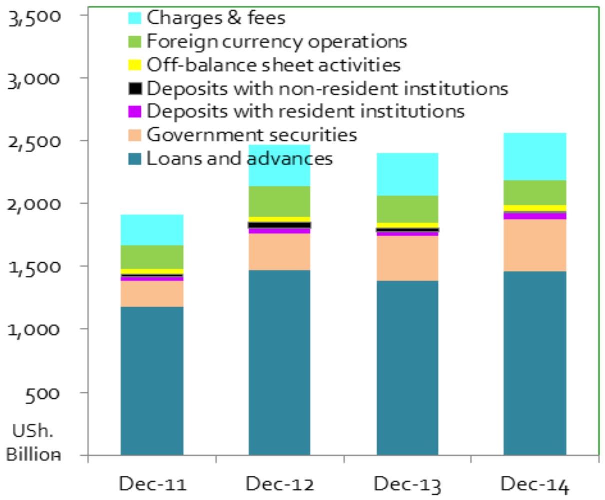
	NPL Ratio	Dec 2013	Mar 2014	June 2014	Sept 2014	Dec 2014
Agriculture	Foreign currency	11.5	18.5	9.0	6.2	6.5
	Shillings	9.9	5.8	5.6	4.8	4.5
Manufacturing	Foreign currency	2.5	3.1	3.9	4.2	2.3
	Shillings	6.2	5.4	5.2	9.5	5.6
Trade & commerce	Foreign currency	11.8	7.6	7.3	2.2	1.9
	Shillings	7.2	6.9	6.6	6.8	5.9
Transport	Foreign currency	4.9	10.1	2.0	7.2	5.5
	Shillings	4.3	3.4	3.0	11.6	9.4
Building & construction	Foreign currency	3.7	3.6	3.9	5.3	3.4
	Shillings	12.6	6.7	7.3	5.6	3.3
Personal & household loans	Foreign currency	0.5	4.1	3.1	4.8	4.7
	Shillings	2.4	2.6	3.1	3.4	2.9
Industry ratio	**Foreign currency**	**4.2**	**6.0**	**5.2**	**4.4**	**3.2**
	Shillings	**6.6**	**6.3**	**6.2**	**5.9**	**4.9**

Source: Bank of Uganda

3.6 Earnings and profitability

The banking system profits grew by 17.2 percent in 2014. In nominal terms, banks' profit after tax stood at USh.485.2 billion in 2014, compared to USh.414 billion in 2013. The rise in banks' earnings was mainly on account of the growth in interest income from government securities by 21.9 percent or USh.77.3 billion. This was coupled with a reduction in provisions for bad debts by USh.36.8 billion as the level of non-performing loans dropped during the year to December, 2014.

Chart 10: Composition of banks' income



Source: Bank of Uganda

Key ratios of bank earnings and profitability rebounded from the drops during the previous year. The cost-of-deposits also reduced slightly from 3.7 percent in 2013 to 3.6 percent in 2014.

Table 10: Profitability indicators for the banking sector (percentage ratios)

	2011	2012	2013	2014
ROA	4.0	3.9	2.5	2.6
ROE	27.3	24.2	15.3	16.1
Cost to income	68.1	70.9	77.2	68.7

Source: Bank of Uganda

3.7 Sensitivity to market risk

The proportion of the banks' foreign currency assets to total assets grew from 30.8 percent to 31.8 percent while the share of foreign currency deposits to total deposits increased slightly from 36.1 percent to 36.7 percent between December 2013 and December 2014. The ratio of foreign currency exposure to regulatory tier 1 (core) capital was at -6.9 percent at the end of December 2014 which was well within the regulatory requirement of +/- 25 percent. The ratio of foreign currency loans to foreign currency deposits reduced from 62.2 percent in the previous year to 59.1 percent in December 2014, which was still within the statutory limit of 80 percent.

Banks also improved the match between foreign currency assets and liabilities during the year as depicted by the foreign assets to foreign liabilities ratio of 97.1 percent recorded as at December 2014. This depicts low exposure to foreign exchange risk.

Table 11: Banks' foreign currency exposure (percent)

	Forex exposure to core capital	Forex assets to forex liabilities	Forex loans to forex deposits	Forex assets to total assets
Dec-11	-3.6	100.2	62.8	27.9
Dec-12	-0.6	105.0	79.3	31.7
Dec-13	-3.0	96.8	62.2	30.8
Dec-14	-6.9	97.1	59.1	31.8

Source: Bank of Uganda

3.8 Performance of Domestic Systemically Important Banks

The performance of domestic systemically important banks (D-SIBs)[3] is crucial because of the potential impact their performance poses to the financial system. In 2014, Ugandan D-SIBs accounted for 44.3 percent of the total banking sector assets, lower than 44.7 percent accounted for in 2013. Indicators show that the systemic risk posed by the four D-SIBs remained low during 2014. There was a small improvement in asset quality among D-SIBS with the aggregate ratio of non-performing loans to total gross loans improving from 5.2 percent in December 2013 to 4.8 percent in December 2014.

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

Indicator	Dec-12	Dec-13	Dec-14
Tier 1 capital adequacy ratio	20.6	22.7	18.1
NPLs to total gross loans (NPL ratio)	4.0	5.2	4.8
Total D-SIB assets to total industry assets	49.71	44.7	44.3

Source: Bank of Uganda

3.9 Conclusion

In 2014, the performance of the banking sector improved notably in respect to bank lending and profitability. The sector remained financially sound with strong capital and liquidity supported by enhanced banking supervision and surveillance of Bank of Uganda. Moving forward, Bank of Uganda will continue to emphasize strict and more prudent underwriting standards in order to ensure improved loan quality.

[3] The D-SIBs as at December 2014 were Stanbic bank, Standard Chartered bank, Citibank and Crane bank.

Chapter 4: Performance of Non-Bank Financial Institutions

4.1 Introduction

This chapter presents the financial indicators of the Non-Bank Financial Institutions (NBFI) sector, including Credit Institutions, Microfinance Deposit-taking Institutions, Foreign Exchange Bureaus and Money Remitters. The Sector remained well capitalised, liquid and profitable during 2014, with the key indicators well above the required regulatory limits.

4.2 Credit institutions

Overview

Total assets of the Credit Institutions (CIs) grew by Ushs.45.2 billion or 17 percent from Ushs.265.7 billion as end December, 2013 to Ushs.310.9 billion as at December, 2014 largely due to increased lending activity. Similarly, total advances increased by Ushs.39.7 billion or 26.9 percent from Ushs.147.6 billion as at end December, 2013 to Ushs.187.3 billion as at end December, 2014 while total deposits rose by Ushs.30.2 billion or 18.3 percent from Ushs.164.9 billion to Ushs.195.1 billion in the same period.

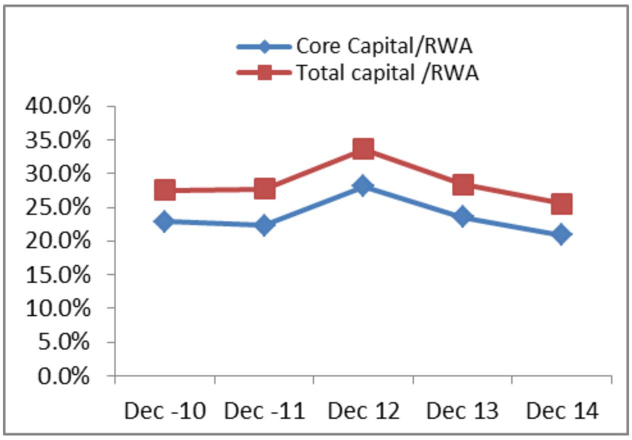
Indicators of financial soundness

Overall, all the CIs remained profitable, financially sound, well capitalized and liquid during 2014.

a) Capital adequacy

All the CIs maintained their respective paid-up capital above the statutory minimum of Ushs.1 billion. The sector's core capital and total capital to risk weighted assets ratios stood at 20.9 percent and 25.5 percent respectively. This was however a slight decline from 23.5 percent and 28.4 percent respectively as at December 31, 2013. The overall core capital of the CIs stood at Ushs.49.5 billion while total capital amounted to Ushs.60.4 billion.

Chart 11: Capital adequacy ratios for credit institutions



Source: Bank of Uganda

b) Asset quality

In 2014 Credit Institutions' asset quality declined. Non-performing loans increased by Ushs.2.5 billion or 48.1 percent from Ushs.5.2 billion as at the end of December, 2013 to Ushs.7.7 billion as at the end December, 2014, resulting into an increase in the ratio of non-performing advances to total advances from 3.5 percent to 4.1 percent over the same period.

c) Earnings

Credit Institutions recorded overall year-to-date profits of Ushs.5 billion reflecting an improvement of 35.1 percent or Ushs.1.3 billion above the profits of Ushs.3.7 billion reported in 2013. The resultant ROA and ROE ratios stood at 1.6 percent and 8.2 percent respectively. Interest income continued to be the major source of income for the CIs, totalling Ushs.55.7 billion during the period under review.

d) Liquidity

The Credit Institutions' key liquidity indicators were satisfactory. Liquid assets stood at Ushs.82.5 billion while the ratios of liquid assets to total deposits and loans to deposits were 42.3 percent and 75.9 percent respectively.

4.3 Microfinance Deposit-taking Institutions (MDIs)

Overview

The aggregate balance sheet of the MDIs grew by Ushs.58.9 billion or 22.31 percent, with total assets rising to Ushs.322.9 billion as at December 31, 2014 compared to Ushs.264 billion as at December 31, 2013. Loans increased by UShs.29.4 billion or 16.9 percent from Ushs.173.6 billion to Ushs.203 billion while customer deposits increased by Ushs.52.5 billion or 56.6 percent from Ushs.92.7 billion to Ushs.145.2 billion over the review period. The increase in deposits was due to the mobilization drives the MDIs embarked on during the course of the year.

Indicators of financial soundness

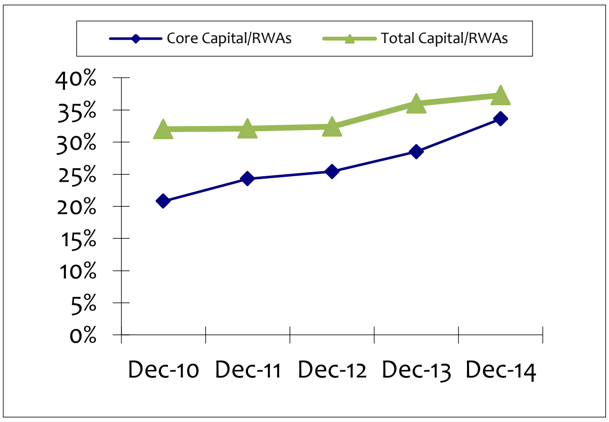
Overall, MDIs were financially sound, profitable, well capitalised and liquid during the year ended December 2014.

a) Capital adequacy

All MDIs maintained paid up capital above the statutory minimum requirement of UShs.500 million. The core capital and total capital to risk weighted assets ratios stood at 33.6 percent and 37.3 percent respectively, compared to 28.5 percent and 36 percent, as at December 31, 2014.

The aggregate total capital held grew by Ushs.18.2 billion or 23.4 percent from Ushs.77.9 billion as at December 2013 to Ushs.96.1 billion.

Chart 12: capital adequacy ratios for MDIs

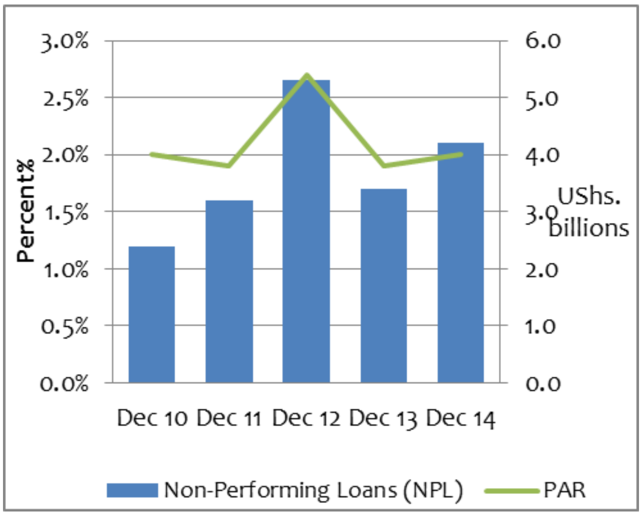


Source: Bank of Uganda

b) Asset Quality

There was a slight deterioration in asset quality, with an increase of Ushs.0.8 billion or 23.5 percent registered in non-performing loans. Similarly, the overall portfolio at risk increased marginally to 2 percent compared to 1.9 percent as at December 31, 2013.

Chart 13: Asset Quality ratios for MDIs



Source: Bank of Uganda

c) Earnings

The net profit after tax improved substantially by UShs.7.3 billion or 70.2 percent from Ushs.10.4 billion in 2013 to Ushs.17.7 billion in 2014. The growth in earnings was mainly on account of increase in credit income of Ushs.15.3 billion. The annualised ROA and ROE ratios rose to 5.6 percent and 20.3 percent from 3.5 percent and 12 percent, respectively.

d) Liquidity

All the 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 Ushs.22.2 billion or 38.3 percent from Ushs.57.9 billion as at December 2013 to Ushs.80.1 billion for the period under review. However, liquid assets as a proportion of deposits declined to 55.1 percent compared to 62.4 percent at December 31, 2013.

4.4 Foreign Exchange Bureaux and Money Remitters

Overview

Growth was registered in the foreign exchange and money remittance sub sector, with the number of foreign exchange bureau outlets increasing to 267 as at December 2014 from 248 as at December 2013. Similarly, the number of licensed money remitters increased from 54 as at December 2013 to 57 as at December 2014.

Key performance indicators for foreign exchange bureaus and money remittance outlets

a) Earnings

There was a significant improvement in profitability of the sub-sector, with profit after tax increasing by 71.3 percent, from Ushs.5.9 billion in 2013 to Ushs.10.2 billion in 2014. The increase in net profit was driven by a more than proportionate increase in income of 15.4 percent compared to a 5.6 percent increase in expenses.

b) Assets

Total assets held by the sub-sector declined by 2.8 percent from Ushs.84.4 billion as at December 2013 to Ushs.82 billion as at December 2014. This was largely due to a decrease in cash and bank balances held by the sub-sector.

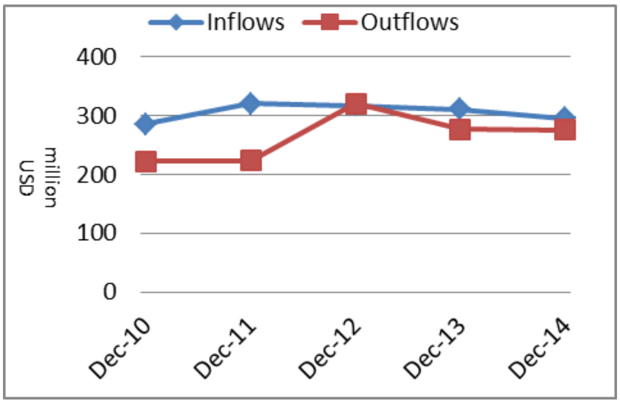
c) Capital and reserves

Total capital and reserves increased by 7.7 percent from Ushs.44.4 billion as at December 2013 to Ushs.47.8 billion as at December 2014.

Money remittances

Total inflows decreased by US$16.2 million or 5.2 percent from US$311.1 million for the year ended December 2013 to US$294.9 million as at December 2014. Similarly, outflows decreased by US$1 million or 0.4 percent from US$276.6 million as at December 2013 to US$275.6 million as at December 2014.

Chart 14: Money remittances



Source: Bank of Uganda

Chapter 5: Macroprudential Assessment and Outlook

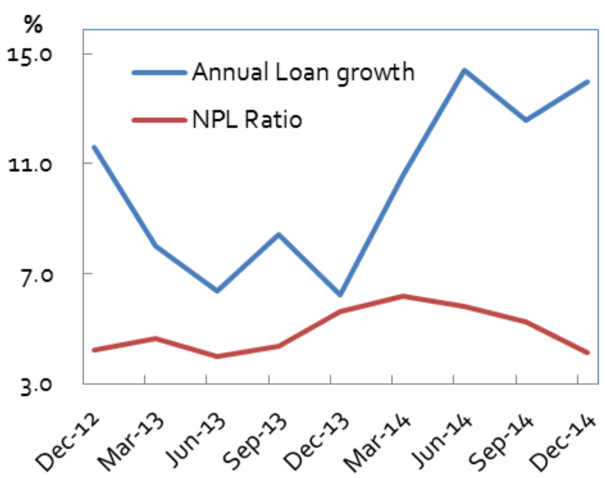
5.1 Introduction

This section of the report provides an assessment of the macro risks to the banking sector and the economy as a whole as well as the future outlook. Our overall assessment is that the major micro and macro risks to the banking system have eased since December 2013. Credit risk still poses a major challenge to the banking sector moving forward into 2015. However risks from funding and liquidity, cross border linkages, fluctuations in market prices and failure of domestic systemically important banks are moderate.

5.2 Credit Risk

The key source of potential vulnerability for the banking sector remains credit risk. It is noteworthy that the cycle for loan growth is now in an upswing phase. Annual credit growth more than doubled to 14.2 percent as at December 2014 from 6.3 percent as at December 2013. Upward swings in the credit cycle are usually associated with a decline in lending standards, which may later result into a deterioration in asset quality, especially once interest rates start rising.

Chart 15: Developments in loan growth



Source: Bank of Uganda

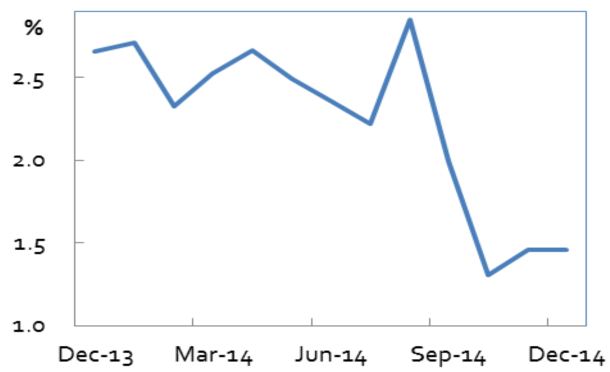
Banks hold adequate capital buffers to insulate themselves against credit shocks. Bank of Uganda will continue undertake close supervision to ensure that bank lending standards remain robust.

5.3 Funding, Liquidity and Market Risks

The volatility in the exchange rate in the second half of 2014 and early 2015 raised concerns about the risks this may pose to commercial banks. Our analysis shows that the banking system has adequate liquidity buffers to withstand liquidity and market risk shocks during a stressful period of time.

Banks remain resilient to liquidity shocks for several reasons. First, the aggregate Liquidity Coverage Ratio, which measures commercial banks' ability to handle a 30 day liquidity stress period, indicates that all commercial banks met the minimum requirement of 100 percent during 2014. Secondly, the stress tests for December 2014 indicated that the banking sector would be able to cope with a sudden reversal of capital flows out of the banking system. Borrowing from non-resident banks has declined from USh.351.3 billion as at December 2013 to USh.226.2 billion in December 2014 which constitutes only about 1.4 percent of total liabilities.

Chart 16: Non-Resident funding as a percentage of total liabilities.



Source: Bank of Uganda

Thirdly, exposure to swings in wholesale funding is low because the percentage of wholesale funding is less than 5 percent of total liabilities. Commercial banks in Uganda largely rely on retail deposits for funding as explained in chapter 3 on the performance of the banking sector.

Regarding market risk, the major form of market risk for banks comes in the form of exchange rate risk. Data for December 2014 shows that commercial banks held a net foreign open position of -6.9 percent. As such, it would take a significant appreciation of the exchange rate for the banking system to become undercapitalized.

5.4 Domestic Systemically Important Banks

The performance of Domestic Systemically Important Banks (D-SIBs) improved during 2014. All the D-SIBs were well capitalized with total capital and core capital ratios of 24.3 percent and 22.9 percent of RWA at the end of December 2014. Their average ratio of non-performing loans to total gross loans was 3.5 percent at the end of December 2014. The stress test results for December 2014 indicated that bank resilience to plausible shocks has improved and it would take a higher deterioration in asset quality to fail a DSIB, compared to 2013.

In November 2014, the Financial Stability Board (FSB) issued for consultation, proposals for a common international standard on Total Loss-Absorbing Capacity (TLAC) for Global Systemically Important Banks (GSIBs). BOU has reviewed the proposals and provided comments to the FSB regarding the way in which these proposals are likely to affect Ugandan subsidiaries of GSIBs. The major concern for BOU is that the proposals by the FSB are still silent on treatment of subsidiaries that are not deemed to be 'materially important', which may increase riskiness of these subsidiaries. It is our position that Ugandan subsidiaries of GSIBs should be treated as material subsidiaries and therefore be part of the resolution group and TLAC. In the meantime, BOU will require all DSIBs to formulate plans for orderly resolution which will be part of the financial crisis management plan.

5.5 Outlook and Way forward

During 2014, systemic risk in the banking sector reduced owing to improved liquidity conditions and increased capital buffers. In the year ahead, potential risks to the banking sector may arise from credit growth and exchange rate volatility. Bank of Uganda will continue to monitor these risks and take appropriate action.

PART III: SPECIAL TOPIC

Chapter 6: Mobile Money in Uganda

6.1 Introduction

Mobile money has significantly increased access to financial services especially in the rural areas. According to the 2013 Finscope Uganda Survey, mobile money contributed to the declining share of the population excluded from the use of financial services from 30 percent in 2009 to about 15 percent in 2013.

Mobile money is e-money[4] available to a user to conduct transactions through a mobile phone. It started off mainly as a person to person domestic remittance service but has since evolved to enable remote purchase of airtime, payment of utility bills, payment of school fees, bulk payments such as salaries, payment of television subscription fees, international remittances, and savings. Sending money to relatives in the villages using public commuter transport or through a friend, queuing up in a banking hall to withdraw cash and moving with a lot of cash to pay for goods and services are all withering away with the advent of mobile money. Mobile money offers an efficient, cost effective, convenient and secure channel to make and receive payments and therefore provides a mechanism for bringing the unbanked population into the formal financial system.

6.2 Status of the Mobile Money Services in Uganda

The mobile money business model currently adopted in Uganda involves a partnership between a Mobile Money Service Provider (MMSP) which provides the platform on which the service operates and a licensed Financial Institution (FI) which holds the escrow account. The escrow account is a bank account held by the licensed FI for and on behalf of the participants in the mobile money service. These participants are the people who have deposited cash in exchange for the e-money they receive on their mobile wallet. The total funds on this account are equal to the e-money issued to users.

[4] E-money means monetary value electronically stored, issued against receipt of funds in local currency, accepted as a means of payment by persons other than the issuer and redeemable for cash.

In April 2009, the first mobile money platform was launched in Uganda through a partnership between Stanbic Bank and MTN Uganda Limited. Since then, a total of seven mobile money platforms have been launched in Uganda. As at 31 December, 2014 there were six deployments following the acquisition of Warid Telecom by Airtel which saw Airtel Money and WaridPesa merging into Airtel Money. The six platforms are provided by partnerships between banks and MMSPs as follows:

Table 1: Mobile money partnerships

Mobile Money platform	Partner Bank
MTN Mobile Money	Stanbic Bank
MCash	Stanbic Bank
Msente	Equity Bank
Airtel Money	Equity Bank
Ezee Money	Centenary Bank
Orange Money	Standard Chartered Bank

Source: Bank of Uganda

6.3 Mobile Money Guidelines 2013

The Bank of Uganda issued Mobile Money Guidelines in October 2013. These guidelines seek to provide clarity on mobile money services to the various stakeholders, lay out the approval procedures for Mobile Money Service Providers, stipulate the roles of the various stakeholders in the market, foster consumer protection, enhance competition in the provision of mobile money services and promote financial inclusion. The guidelines cover the areas specified below:

Approval to provide mobile money services

A MMSP must be a limited liability company, and if not a BOU licensed Financial Institution (FI), it must partner with a FI which will submit an application to BOU. The FI must carry out due diligence on the MMSP to ascertain its ability to offer the service in terms of fitness and probity of management, appropriate and tested information technology (IT) systems, security measures to safeguard the integrity, authenticity and confidentiality of data and operating processes, business plans, risk management and mechanisms to detect money laundering and terrorist financing.

BOU reviews the application and if satisfied, grants an approval/a letter of 'no objection' to the FI. A MMSP may establish partnerships with several FIs and vice versa; and BOU may require diversification of the escrow account[5] over several FIs.

Roles and responsibilities of stakeholders

The guidelines stipulate the various roles and responsibilities of the stakeholders involved in the mobile money service space. These include:

i) BOU - in-charge of approval and supervision of the mobile money services and may issue directives regarding mobile money operations.

ii) The Uganda Communications Commission (UCC)- responsible for licensing and supervision of the Mobile Network Operators (MNOs) who provide the mobile networks on which the mobile money platform rides.

iii) The MMSP- responsible for managing the mobile money platform and ensuring the smooth and sound operation of the service. The MMSP is also responsible for selecting, training, supervising and managing mobile money agents. A key requirement in the guidelines is that MMSPs should not lock agents into exclusive contracts/ arrangements.

iv) The partnering licensed FI responsible for conducting proper due diligence on the MMSP and keeping the escrow account.

v) Mobile money agents- they are the interface with the customers; they register customers, perform cash in/cash out services and attend to queries. An agent must be a registered business with a physical address and must have an account in a FI.

vi) Customers- these are expected to exercise due care in performing transactions and properly follow instructions given in the operation of the mobile money service.

Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT)

The guidelines stipulate that the MMSP shall have measures in place to prevent money laundering and terrorist financing. The mobile money IT system shall have in-built mechanisms to identify suspicious transactions and the MMSP shall adhere to international Know Your Customer (KYC) standards at account opening by carrying out Customer Due Diligence (CDD). A MMSP shall set limits for frequency, volume and value of transactions, as well as report suspicious and large transactions to the partnering FI which shall in turn report them to the appropriate authorities.

Consumer Protection and Recourse

A consumer expects several benefits in terms of security, transparency, data protection as well as proper handling of complaints. The guidelines therefore provide for the following under consumer protection:

i) With regard to security, mobile money agents are required to carry out transactions only when the mobile money system is up and running, i.e. transactions should be real time.

ii) Regarding transparency, the guidelines stipulate that a customer shall obtain a copy of the agreement with the service provider and the agent shall explain the terms of the agreement to the customer very clearly in a language that the customer understands.

iii) A MMSP, as well as its agents, are required to uphold privacy and confidentiality of a customer's personal information and data.

iv) All MMSPs are required to have appropriate and effective procedures for receiving, considering and responding to complaints and these procedures must be easily available to customers at any channel used in the provision of mobile money services. MMSPs must train agents on the complaints handling mechanisms and a dedicated toll free

[5] The application submitted by the FI to BOU includes the agreement between the FI and the mobile money service provider on matters governing the provision of mobile money services including the establishment of an escrow account in the FI. The funds in the escrow account do not belong to the mobile money service provider but to the holders of the e-money in the mobile money platform. The FI must define procedures for conducting transactions in the escrow account that satisfy the FI's fiduciary responsibility.

telephone line for complaint resolution should be provided. Customers dissatisfied with the manner in which their complaints have been handled may contact BOU or seek legal redress.

Mobile Money Supervision

BOU has the powers to supervise mobile money services and may co-opt other competent persons to do so or to conduct a special audit on the operations of a MMSP. The MMSP and the FI shall maintain accurate records of the mobile money operations and shall provide periodic and ad-hoc reports to BOU. If BOU has reason to believe that the mobile money operations are not in tandem with the guidelines, or any other requirements, it may issue directions regarding improvement measures, suspend or cancel approval, or impose any other conditions it may consider appropriate. BOU developed a compliance matrix to assess the level of compliance with the mobile money guidelines and will in future develop supervision procedures for the mobile money services.

Other matters dealt with in the guidelines

i) Interoperability: MMSPs are required to utilise systems capable of being integrated with other MMSPs and payment systems within the country and internationally;

ii) System Standards: BOU may define system standards and cause inspection of the mobile money IT systems;

iii) Competition: Stakeholders are not allowed to engage in anti-competitive practices, contracts, arrangements or understandings that would inhibit competition in the market.

6.4 Key performance statistics for mobile money

The mobile money industry has witnessed phenomenal growth over the last five years. The number of registered customers has grown by 17.1 million or 1016.6% from 1.7 million in December 2010 to 18.8 million in December 2014. Similarly, the number of transactions has increased from 28.8 million in December 2010 to 496.2 million in December 2014, while the value of transactions rose from Shs.962.7 billion in December 2010 to Shs.24,050.2 billion in December 2014.

Table 2 provides details of the key performance indicators for mobile money over the last five years.

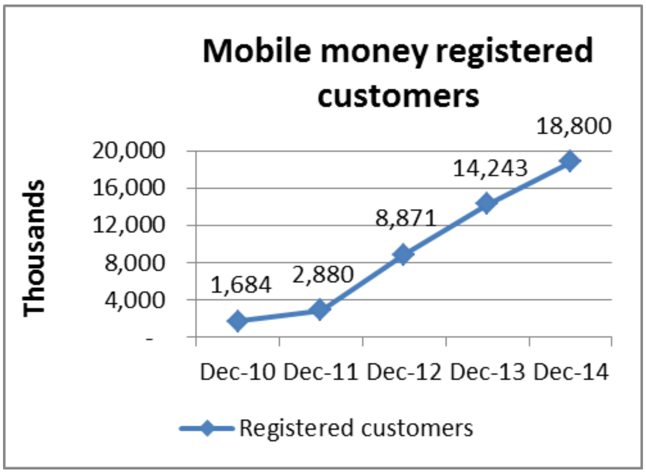
Table 2: Performance of mobile money services

	Number of transactions ('ooos)	Value of transactions (Ushs. billions)	Number of registered customers
Dec-10	28,816	962.7	1,683,713
Dec-11	87,481	3,752.9	2,879,968
Dec-12	241,728	11,662.7	8,870,873
Dec-13	399,461	18,645.2	14,243,379
Dec-14	496,249	24,050.2	18,800,416

Source: Bank of Uganda

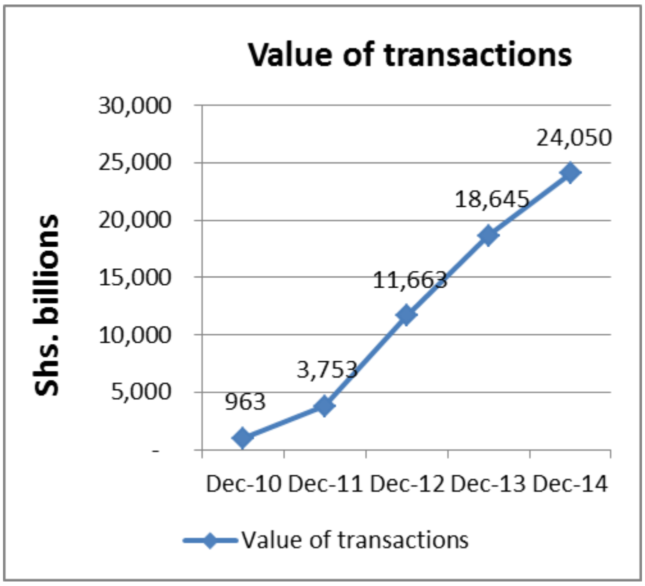
The growth trends in two of the above performance indicators are graphically illustrated in chart 1 and 2.

Chart 1: Mobile money registered customers



Source: Bank of Uganda

Chart 2: value of mobile money transactions



Source: Bank of Uganda

6.5 Challenges

The challenges faced in regulating mobile money activities include the following:

- Absence of a National Payment Systems Legislation to guide regulation and oversight of payment systems, including mobile money service providers. Under the current regulatory framework, non-banks cannot be licensed independently as designated payments services providers. Therefore, all mobile money service providers must partner with licensed financial institutions, which then apply for BOU's approval to offer mobile money services.

- Fraud and information systems security regarding the mobile money operations continues to be a challenge and BOU continues to agitate for the setup of robust risk management systems by the MMSPs. In future, BOU may appoint appropriate professionals to conduct special audits on the operations of the MMSPs, as provided for in the Mobile Money Guidelines.

6.6 Way Forward

- Given that mobile money has proved to be one of the most popular money transmission mechanisms, it is envisaged that this service will become an integral part of the national payment system. The Bank of Uganda Act is being amended to grant the Central Bank powers to regulate and supervise the payment systems. In addition, a National Payment Systems Legislation is being developed. Once this legislation is enacted, payment service providers will be directly licensed by the Central Bank as payment operators.

- BOU and UCC are in advanced stages of developing a Memorandum of Understanding to enhance the cooperative effort of regulating and supervising mobile money services.

PART IV: STATISTICAL APPENDICES

APPENDIX 1: FINANCIAL SOUNDNESS INDICATORS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 1 A: Financial soundness indicators for Commercial Banks (*percent*)

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
Capital Adequacy						
Regulatory capital to risk-weighted assets	20.9	20.2	20.3	21.9	22.9	22.2
Regulatory tier 1 capital to risk-weighted assets	18.7	17.5	17.9	18.8	19.9	19.7
Total qualifying capital to total assets	13.6	13.0	14.6	14.8	14.9	14.7
Asset quality						
NPLs to total gross loans	4.2	2.1	2.2	4.2	5.6	4.1
NPLs to total deposits	3.0	1.4	1.7	3.1	4.1	3.0
Specific provisions to NPLs	57.2	65.0	50.9	45.9	47.2	48.9
Earning assets to total assets	78.0	77.1	74.0	71.3	69.7	71.5
Large exposures to gross loans	32.2	35.7	34.6	34.6	36.3	38.3
Large exposures to total capital	94.3	124.4	120.9	104.7	105.2	113.2
Earnings & profitability						
Return on assets	3.0	2.7	4.0	3.9	2.5	2.6
Return on equity	18.8	18.0	27.3	24.2	15.2	16.1
Net interest margin	10.8	10.0	11.7	12.8	11.5	11.0
Cost of deposits	3.7	2.9	3.2	4.1	3.7	3.6
Cost to income	75.4	75.7	68.1	70.9	77.2	68.7
Overhead to income	52.3	53.1	43.9	40.1	46.7	40.0
Liquidity						
Liquid assets to total deposits	44.7	39.8	37.6	42.0	42.5	44.0
Total loans to total deposits	71.7	68.0	78.4	74.5	74.2	71.4
Market Sensitivity						
Foreign currency exposure to regulatory tier 1 capital	-0.7	-1.6	-3.6	-0.6	-3.0	-6.9
Foreign currency loans to foreign currency deposits	57.9	61.4	62.8	79.3	62.2	59.1
Foreign currency assets to foreign currency liabilities	107.0	98.0	100.2	105.0	96.8	97.1

Source: Bank of Uganda

Table 1B: Financial soundness indicators for Credit Institutions (*percent*)

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec -14
Capital Adequacy						
Core capital (Ushs. billion)	27.5	26.2	31.6	44.2	45.9	49.5
Total capital (Ushs. billion)	28.3	31.6	39.3	53.0	55.5	60.5
Risk-weighted assets (Ushs. billion)	87.0	114.6	141.4	157.6	195.6	236.8
Core capital to risk-weighted assets (% ratio)	31.6	22.9	22.3	28.1	23.5	20.9
Total capital to risk-weighted assets (% ratio)	32.5	27.5	27.7	33.6	28.4	25.5
Provisions to core capital (% ratio)	4.8	4.8	3.1	5.7	6.8	6.9
Asset Quality						
Total loans and advances (Ushs. billion)	63.5	79.7	107.2	115.9	147.6	187.5
Total provisions (Ushs. billion)	1.3	1.3	1.0	2.5	3.2	3.4
Non-performing loans (Ushs. billion)	2.1	3.3	1.7	4.9	5.2	7.7
Non-performing loans to total loans (% ratio)	3.3	4.1	1.6	4.2	3.5	4.1
Profitability						
Year-to-date profit/loss (Ushs. billion)	1.0	0.3	2.9	5.2	3.7	5.0
Quarterly net profits (Ushs. billion)	0.5	0.4	1.2	0.9	4.6	0.4
Quarterly return on assets (% ratio)	0.4	0.2	0.6	0.4	1.7	0.2
Year-to-date return on assets (% ratio)	0.8	0.1	1.5	2.4	1.4	1.6
Liquidity						
Total public deposits (Ushs. billion)	74.4	107.7	121.6	133.0	164.9	195.1
Liquid assets (Ushs. billion)	38.9	54.3	58.3	76.8	83.1	82.5
Liquid assets to deposits (% ratio)	52.3	50.4	47.9	57.8	50.4	42.3
Loans to deposits (% ratio)	65.9	56.1	62.6	58.5	68.9	75.9

Source: Bank of Uganda

Table 1 C: Financial soundness indicators for Microfinance Deposit-taking Institutions (*percent*)

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
Capital Adequacy						
Core capital (Ushs. billion)	26.1	29.8	48.1	58.0	61.8	86.6
Total capital (Ushs. billion)	35.3	45.9	63.6	73.7	77.9	96.1
Risk-weighted assets (Ushs. billion)		143.6	197.9	227.5	216.6	257.6
Core capital to risk-weighted assets (% ratio)	22.0	20.8	24.3	25.4	28.5	33.6
Total capital to risk-weighted assets (% ratio)	29.8	32.0	32.1	32.4	36.0	37.3
Asset Quality						
Total loans (Ushs. billion)	83.4	120.3	171.4	190.3	175.8	206.0
Non-performing loans (Ushs. billion)	2.3	2.4	3.2	5.3	3.4	4.2
Total provisions (Ushs. billion)		2.8	3.7	5.6	4.0	4.5
Portfolio at risk (% ratio)	2.4	2.0	1.9	2.7	1.9	2.0
Profitability						
Year-to-date profit/loss (Ushs. billion)	4.6	4.3	10.1	11.6	10.4	17.7
Year-to-date return on assets (% ratio)	3.4	2.6	4.3	4.2	3.5	5.6
Year-to-date return on equity (% ratio)	10.2	8.6	17.2	17.2	12.0	20.3
Liquidity						
Liquid assets to deposits (% ratio)	62.4	49.3	51.6	58.5	62.4	55.1
Loans to deposits (% ratio)	77.4	75.1	77.0	69.9	78.0	72.4

Source: Bank of Uganda

APPENDIX 2: AGGREGATED BALANCE SHEETS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 2A: Commercial Banks' aggregated balance sheet

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
ASSETS (Ush. Billion)						
Cash & cash assets	401.5	472.9	583.0	667.4	692.0	786.6
Balances with BOU	623.6	802.7	835.8	1,341.6	1,730.1	2,104.8
Due from financial institutions	1,032.9	1,317.8	1,736.5	1,622.2	2,043.7	1,502.4
Government securities	1,832.3	2,532.5	2,073.5	3,053.2	3,648.7	4,463.2
Total gross loans & advances	4,038.9	5,461.1	6,981.0	7,789.7	8,274.6	9,431.0
LESS: Provisions	-96.9	-88.0	-89.5	-187.9	-261.7	-231.9
Net loans & advances	3,942.0	5,373.1	6,891.5	7,601.8	8,012.9	9,199.2
Net fixed assets	472.9	401.7	429.5	519.3	583.2	821.4
Other assets	327.9	409.9	432.6	660.4	610.3	705.4
TOTAL ASSETS	**8,633.0**	**11,310.5**	**12,982.4**	**15,465.9**	**17,320.9**	**19,583.6**
LIABILITIES (Ush. Billion)						
Deposits	5,630.5	8,041.7	8,903.7	10,457.7	11,504.3	13,218.7
Due to financial institutions	603.3	529.1	730.2	513.7	825.9	563.4
Administered funds	279.2	309.6	339.9	359.1	1,033.2	1,187.6
Other liabilities	773.5	864.8	1,007.0	1,558.3	892.9	1,216.7
TOTAL LIABILITIES	**7,286.6**	**9,745.2**	**10,980.8**	**12,888.8**	**14,463.8**	**16,186.5**
SHAREHOLDERS' FUNDS (Ush. Billion)						
Paid-up capital	485.8	591.9	789.6	973.6	1,272.3	1,287.4
Share premium	55.1	80.3	81.5	75.7	91.8	102.3
Retained reserves	456.7	534.1	581.2	830.6	914.3	1,174.3
Other reserves	112.8	90.3	61.0	152.7	159.7	348.2
Profit – Loss (current year)	236.1	268.7	488.3	544.5	414.0	485.0
TOTAL SHAREHOLDERS' FUNDS	**1,346.5**	**1,565.3**	**2,001.6**	**2,577.0**	**2,857.1**	**3,397.2**
OFF BALANCE SHEET ITEMS (Ush. Billion)						
Letters of Credit	201.9	335.6	392.4	352.0	354.2	469.0
Guarantees & performance bonds	520.5	608.5	786.6	1,046.3	1,157.3	1,573.8
Unused loans/overdrafts commitment	318.1	678.4	802.2	1,023.3	1,092.8	1,162.5
Other off balance sheet items	147.2	334.9	1,000.2	765.1	483.5	1,309.7
TOTAL OFF BALANCE SHEET ITEMS	**1,187.8**	**1,957.4**	**2,981.4**	**3,186.7**	**3,087.8**	**4,515.0**

Source: Bank of Uganda

Table 2B: Aggregated balance sheet for Credit Institutions

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec -14
ASSETS (Ushs. billion)						
Cash	5.4	6.1	6.7	7.7	11.5	14.6
Balances with institutions in Uganda	23.1	41.7	41.0	55.9	63.1	56.2
Balances with commercial banks outside Uganda	0.0	0.8	0.2	0.7	0.5	0.3
Investments	10.6	5.7	10.5	12.5	7.9	11.4
of which Government securities	10.4	5.7	10.4	12.5	7.9	11.4
Loans and advances	63.5	79.7	107.2	115.9	147.6	187.3
of which Administered funds*	-	-	-	-	-	-
Premises and fixed assets	15.3	16.3	19.2	20.2	23.4	28.4
Other Assets	6.0	8.6	8.9	8.1	11.7	12.8
Total assets	**123.9**	**158.9**	**193.7**	**221.1**	**265.7**	**311.0**
LIABILITIES (Ushs. billion)						
Total deposit liabilities to depositors	74.4	107.7	121.6	133.0	164.9	195.1
Loan Insurance Fund	4.0	3.4	3.6	4.3	4.8	4.9
Balances due to commercial banks/associated companies/residents/non-residents	11.1	7.5	13.2	17.2	21.5	21.9
Borrowings at Bank of Uganda	0.8	0.8	0.7	0.6	0.6	0.4
Administered funds	-	-	-	-	-	-
Other Liabilities	2.6	10.7	16.0	14.5	16.3	22.4
Provisions	2.8	0.5	0.7	2.0	3.1	5.3
Capital	27.2	28.0	35.0	44.3	50.7	56.3
of which paid up capital	18.6	16.9	17.9	21.9	21.8	21.8
Profit for current year	1.0	0.3	2.9	5.2	3.7	5.0
Total liabilities	**123.9**	**158.9**	**193.7**	**221.1**	**265.7**	**311.0**

Source: Bank of Uganda

Table 2C: Aggregated Balance sheet for Microfinance Deposit-taking Institutions

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec- 14
ASSETS (Ushs. billion)						
Notes and coins	4.0	4.9	6.9	9.0	5.7	6.2
Balances with institutions in Uganda	14.5	23.7	25.8	48.7	52.2	73.9
Government securities	4.5	2.4	7.4	0.9	0.0	0.0
Net loans outstanding	94.8	118.7	169.3	186.5	173.6	203.1
Inter branch/ due from own offices	-	35.0	374.0	0.0	0.0	0.1
Net fixed assets	9.9	11.1	12.0	13.6	12.8	15.8
Long-term investments	-	-	-	-	-	-
Other assets	8.2	9.0	11.1	17.6	19.7	23.9
Total assets	**135.8**	**169.9**	**232.9**	**276.3**	**264.0**	**323.0**
LIABILITIES (Ushs. billion)						
Deposit liabilities	36.6	62.9	76.8	99.9	92.7	145.3
Loan insurance fund	14.2	12.1	13.5	14.0	16.9	12.1
Borrowings	29.2	28.5	52.4	57.2	46.9	32.3
Other liabilities	9.2	10.0	15.6	18.3	18.9	22.5
Grants/deferred income	1.7	1.8	6.0	7.4	5.5	5.5
Inter branch/ Due to own Offices	10.0	-	-	-	-	-
Other long-term Liabilities	-	-	0.1	0.1	0.1	0.3
Total liabilities	**90.9**	**115.3**	**164.2**	**196.7**	**181.0**	**218.0**
FINANCED BY: (Ushs. billion)						
Capital	28.4	33.2	56.4	66.8	69.9	99.0
Subordinated debt	16.5	21.4	12.2	12.7	13.1	6.0
Preference shares	-	-	-	-	-	-
Total liabilities & equity	**135.8**	**169.9**	**232.9**	**276.3**	**264.0**	**323.0**

Source: Bank of Uganda

APPENDIX 3: INCOME STATEMENTS FOR SUPERVISED FINANCIAL INSTITUTIONS

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

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
INCOME (Ush. Billion)						
Interest income						
Advances	690.4	789.7	1,178.1	1,465.3	1,389.5	1,455.2
Government securities	166.4	182.9	210.7	296.5	349.8	415.1
Deposits abroad	12.4	10.7	22.2	49.3	29.5	8.6
Other	58.1	44.2	70.0	23.6	91.0	131.5
Charges, fees & commissions	218.0	214.7	252.6	326.9	335.3	373.1
Foreign exchange income	130.3	132.9	186.4	250.6	216.4	196.6
Other income	55.8	100.7	94.9	183.3	127.2	207.3
TOTAL INCOME	**1,331.3**	**1,475.8**	**2,014.7**	**2,595.5**	**2,538.7**	**2,787.5**
EXPENSES (Ush. Billion)						
Interest expense on deposits	188.5	196.8	267.0	401.4	406.8	435.7
Other interest expenses	64.5	57.3	145.2	193.3	119.8	153.9
Provisions for bad debts	56.3	79.0	77.8	205.9	247.9	214.2
Salaries, wages, staff costs	284.8	330.3	381.4	437.8	504.4	579.4
Premises, depreciation, transport	144.3	153.8	178.5	198.1	221.7	252.1
Other expenses	266.9	296.2	322.9	405.2	458.3	490.8
TOTAL EXPENSES	**1,005.4**	**1,113.4**	**1,372.8**	**1,841.7**	**1,958.9**	**2,126.1**
ADD: Extraordinary credits/charges	0.0	-0.4	-0.7	0.9	0.1	0.0
Net profit before tax	325.9	362.0	641.3	754.7	579.9	661.3
LESS: Corporation tax	89.8	93.3	153.0	199.9	165.9	179.4
NET PROFIT AFTER TAX	**236.1**	**268.7**	**488.3**	**544.8**	**414.0**	**485.0**

Source: Bank of Uganda

Table 3B: Aggregated income statement for Credit Institutions (*annual*)

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dc-14
INCOME (Ushs. Billion)						
Interest on loans and advances	16.2	21.0	27.3	31.7	37.2	49.8
Interest on government securities	1.1	0.5	0.8	2.2	1.6	4.6
Other interest income	1.7	3.1	4.1	0.3	8.1	1.3
Total interest income	19.0	24.5	32.1	41.0	46.9	55.7
Total non-interest income	10.6	9.8	13.5	15.4	20.0	20.2
TOTAL INCOME	**29.6**	**34.3**	**45.6**	**56.4**	**66.9**	**75.9**
EXPENSES (Ushs. Billion)						
Total interest expense	2.1	2.3	3.8	4.6	6.6	7.8
Provisions for bad debts	0.5	1.1	1.6	2.8	6.3	4.2
Salaries & other staff costs	12.6	14.3	17.4	19.9	24.3	28.4
Other non-interest expense	13.4	16.2	19.5	21.9	24.4	29.3
TOTAL EXPENSES	**28.6**	**33.9**	**42.3**	**49.2**	**61.6**	**69.7**
Taxation	-	0.1	0.4	1.9	1.6	1.0
NET INCOME	**1.0**	**0.3**	**2.9**	**5.2**	**3.7**	**5.2**

Source: Bank of Uganda

Table 3 C: Aggregated income statement for Microfinance Deposit-taking Institutions (*annual*)

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
INCOME (Ushs. Billion)						
Total credit income	51.2	57.0	79.1	99.0	82.5	97.8
Total other income	7.3	4.3	7.3	10.6	11.2	13.8
GROSS FINANCIAL INCOME	**58.5**	**61.3**	**86.3**	**109.6**	**93.7**	**111.6**
EXPENSES (Ushs. Billion)						
Total financial expenses of lending funds	6.2	5.6	9.4	15.7	12.0	15.8
Provision for bad debts	2.5	2.4	3.0	5.0	3.4	4.6
Net financial income	49.8	53.3	74.0	88.9	78.3	91.3
Total operating expenses on financial services	44.5	48.2	63.6	75.5	66.3	73.3
NET INCOME FROM OPERATIONS	**5.3**	**5.1**	**10.4**	**13.4**	**11.9**	**17.9**
Total grant income for financial services	0.4	0.3	1.1	1.1	1.7	2.9
Total grant income for non-financial services	-	-	-	-	-	-
Income from non-financial services	0.0	0.1	0.2	0.01	0.03	0.005
Total operating expenses on non-financial services	0.0	0.0	0.1	0.09	0.08	0.004
Net operating profit/loss from non-financial services	0.0	0.0	0.1	-0.1	-0.05	0.001
NET PROFIT FOR THE PERIOD	**5.7**	**5.4**	**11.6**	**14.4**	**13.6**	**20.8**
Corporation tax	1.1	1.1	1.5	2.7	3.2	3.1
NET PROFIT AFTER TAX	**4.6**	**4.3**	**10.1**	**11.6**	**10.4**	**17.7**
RETAINED EARNINGS	4.6	4.3	10.1	11.6	10.4	17.7

Source: Bank of Uganda

APPENDIX 4: CREDIT REFERENCE BUREAU ACTIVITIES (CUMULATIVE FIGURES)

Quarter	Dec-10	Dec-11	Dec-12	Dec- 13	Dec - 14
Branches on FCS	505	528	547	590	604
Branches on CRB	503	525	542	579	580
Financial cards issued	478,568	667,412	802,906	948,936	1,093,107
Number of enquiries	146,435	682,459	1,154,690	1,723,191	2,335,086

Source: Bank of Uganda