BANK OF UGANDA

ANNUAL SUPERVISION REPORT

December 2020 | Issue No. 1

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ISSN print: 2079-6293
ISSN web: 2079-6307

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ABBREVIATIONS

ACH	Automated Clearing House
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
BOU	Bank of Uganda
CB	Commercial Bank
CBR	Central Bank Rate
CIs	Credit Institutions
CRB	Credit Reference Bureau
EAMU	East African Monetary Union
EFT	Electronic Funds Transfer
FCS	Financial Card System
FMI	Financial Market Infrastructure
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
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
RBS	Risk Based Supervision
ROA	Return on average Assets
ROE	Return on average Equity
RWAs	Risk-Weighted Assets
SFIs	Supervised Financial Institutions
Shs	Uganda Shilling
UNISS	Ugandan National Inter-bank Settlement System

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FOREWORD

GOVERNOR, BANK OF UGANDA
Prof. Emmanuel Tumusiime Mutebile

Bank of Uganda publishes the Annual Supervision Report to inform the public about issues relating to prudential regulation, supervision of Uganda's Financial Institutions, and developments in the financial sector.

During the year 2020, the COVID-19 Pandemic caused considerable disruption to the financial health of corporate entities and households across all sectors of the economy. Bank of Uganda, within its mandate, took appropriate action to moderate the likely impact of the pandemic on the performance of Supervised Financial Institutions in particular, and the financial system as a whole. The actions included the introduction of credit relief measures and the establishment of emergency liquidity assistance facilities for financial institutions that might need it. A significant number of financial institution consumers were able to benefit from the credit relief measures, which in our assessment moderated the impact of the COVID-19 pandemic on households and firms.

The performance of Supervised Financial Institutions was not adversely affected by the COVID-19 pandemic induced disruptions to economic activity. Profitability of Commercial Banks increased albeit marginally by 6.37 percent to Shs.855 billion, while the value of non-performing loans was largely unchanged throughout the course of the year ending December 2020. The ratio of non-performing loans to total gross loans stood at 5.3 percent as at end of December 2020 compared to 4.9 percent at the end of December 2019.

This report, in five chapters, provides specific information about Bank of Uganda's supervisory activities during the year, performance of Supervised Financial Institutions, and developments in the financial sector during the review period.

Prof. E. Tumusiime-Mutebile
GOVERNOR

PART I: SUPERVISION OF FINANCIAL INSTITUTIONS

Chapter 1: Supervision of Financial Institutions

1.1 Introduction

This chapter reports on the activities undertaken by the Bank of Uganda in the supervision of Financial Institutions conducted through on-site inspections and off-site surveillance. Supervised Financial Institutions (SFIs) are comprised of Commercial Banks, Credit Institutions, Microfinance Deposit-taking Institutions, Foreign Exchange Bureaus, and Money Remitters. These are licensed and regulated by the Bank of Uganda.

1.2 On-site Inspection

The key objectives of on-site inspections is to independently evaluate: the financial condition of SFIs; the sufficiency and efficacy of its policies, procedures and controls governing the various business operations; and adequacy of risk management systems put in place relative to the risks assumed. The risk management practices in the SFIs are assessed using the Risk Based Supervision (RBS) methodology. The assessment also encompasses evaluation of the extent of compliance with the applicable laws, prudential regulations, guidelines, circulars and corrective actions to address deficiencies in SFIs operations.

Commercial Banks

Bank of Uganda (BOU) conducted ten (10) on-site inspections of Commercial Banks during 2020.

In order to ensure compliance with the Standard Operating Procedures issued by Ministry of Health, requiring the public to observe social distancing, a hybrid approach of remote working and limited field inspections was adopted for the examinations conducted between July 2020 and December 2020. Over the same period, meetings with stakeholders of SFIs were mainly conducted virtually. The examinations placed emphasis on areas deemed to pose significant risk to banks' operations and specific time-bound Corrective Actions were issued to address identified supervisory concerns. The key findings from the onsite examination for banks are summarised below;

1.	**Corporate Governance**
	i) Inadequate Board composition ii) Cases of senior management usurping the powers of the Board iii) Failure to ensure timely resolution of supervisory findings and audits issues iv) Lapses in succession planning v) A disconnect between approved policies, SFI operating environment, and the actual business practises in SFIs.
2.	**Strategic Risk**
	i) The implementation failures for strategic initiatives aimed at driving growth and minimizing losses in some SFIs.
3.	**Credit Risk**
	i) Concentration amongst a few borrowers ii) Shortcomings in credit Management Information Systems of some SFIs iii) Operational lapses in International Financial Reporting Standard (IFRS) 9 implementation.
4.	**Operational Risk**
	Supervisory concerns were largely people and process related. i) Growth in the incident and materiality of internally perpetuated or assisted frauds. ii) Cybersecurity vulnerability, inadequacies in AML/CFT frameworks, and KYC procedures and compliance thereto. iii) Instances of non-compliance with regulatory requirements. As a result, a number of penalties were levied upon some of the non-compliant SFIs.

Credit Institutions

A full-scope on-site examination of one Credit Institution was conducted during the year. In addition, a targeted on-site examination of one Credit Institution and a follow up on-site examination of one Credit Institution were conducted during the year.

The key supervisory concerns included: significant lapses and weaknesses in policies and procedural framework, corporate governance practices, credit underwriting and administration, Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) procedures and practices, human resource, procurement and contract management, business continuity management, as well as cases of non-compliance with regulatory requirements. Additionally, some of the institutions were undercapitalized.

Specific and time bound directives were issued to the institutions with supervisory shortcomings in order to enhance their control environment. In certain cases, BOU took additional corrective actions in accordance with the provisions of applicable laws and prudential regulations to deter non-compliance.

Microfinance Deposit-taking Institutions

Targeted On-site examinations for two Microfinance Deposit-taking Institutions were conducted during the year. Key supervisory concerns included weakness in corporate governance, delays in implementing strategic initiatives, lapses in credit risk management, operational weaknesses especially related to cyber fraud and non-compliance with regulatory requirements.

Foreign Exchange Bureaus and Money Remittance Companies

During the year ended December 31, 2020, twenty (37) on-site examinations of foreign exchange bureaus and money remittance companies were conducted. These comprised of twenty (20) full scope examinations, seventeen (17) follow up inspections.

The key examination findings related to lapses in compliance with the Anti-Money Laundering Act, 2013 and its implementing Regulations, inaccurate statutory reporting in the quarterly submissions to BOU, inability for management information systems to support book keeping processes, and weaknesses in internal controls particularly with regard to cash management. Directives were issued for the identified weaknesses to be addressed within stipulated timelines.

1.3 Off-site surveillance of Supervised Financial Institutions

Off-site surveillance entails the analysis of financial and other regulatory information submitted to BOU by SFIs. It facilitates the regular assessment and monitoring of SFIs' financial condition and compliance with prudential requirements. It feeds into the BOU Early Warning Indicators and informs the on-site investigation of identified red flags.

2.1 Licensing, approvals and expansion

Centenary Rural Development Bank Limited undertook a corporate re-organisation exercise which led to the creation of Centenary Rural Development Group Limited as the majority shareholder effective July 01 2020.

In addition, NC Bank Uganda Limited and CBA Bank Uganda Limited underwent a business amalgamation process that created NCBA Bank Uganda Limited effective June 15, 2020.

During the year, BOU considered an application from Yako Bank Limited, previously a Microfinance Deposit-Taking Institution) for a licence to conduct business as a Credit Institution (Class 5). The licence was granted on May 26, 2020.

Bank branches and Automated Teller Machines

The total number of bank branches decreased from 580 in 2019 to 566 in 2020. Similarly the total number of automated teller machines (ATMs) operated by Commercial Banks decreased from 851 in 2019 to 837 in 2020. This decrease was attributed to closure of branches by banks. Increased preference to digital channels such as Internet Banking, Mobile Banking, Mobile Money and Agent Banking was overserved during the year. Table 1 below shows the number of branches and ATMs of SFIs.

Table 1: SFI Branches/Outlets

	2017	2018	2019	2020
CB branches	544	549	580	566
ATMs	821	839	851	837
FXBs	260	275	291	316
MRs	241	258	208	156
MDIs	78	80	97	97
CIs	66	66	66	228

Source: Bank of Uganda

2.2 Regulatory Developments

Large Savings and Credit Cooperatives

Draft Regulations for the Large SACCOs (Registered societies) are being reviewed and will be published after review and approval processes are concluded.

In February 2020, Bank of Uganda through the Minister of Finance, Planning and Economic Development sought a Legal Opinion from the Attorney General on the full implications of the regulatory regime for Large SACCOs following the enactment of the Cooperative Societies (Amendment) Act, 2020. In October 2020, the Attorney General opined that that SACCOs that fall under the ambit of Section 110 of the Tier 4 Microfinance Institutions and Money Lenders Act, 2016, are to be regulated and supervised by the Central Bank while the Registrar of Cooperative Societies is still mandated to register and deregister Cooperative Societies as per the Cooperative Societies (Amendment) Act, 2020.

Microfinance Deposit-taking Institutions

A Regulatory Impact Assessment (RIA) for the proposed amendments to the Microfinance Deposit-taking Institutions Act, 2003 commenced in October 2020. The RIA Report is expected to be completed by the end of April 2021. The RIA Report will then be submitted to Ministry of Finance, Planning and Economic Development (MOFPED) for further action.

Foreign Exchange Bureaus and Money Remittance companies

The BOU submitted its final comments on the Foreign Exchange (Amendment) Bill, 2020 and is following up with the relevant Government departments to have the Bill enacted. The Bill aims to enhance the capital adequacy requirements, strengthen BOU's supervisory powers, 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.

Credit Reference Bureau 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 responses to the comments. The revised Credit Reference Bureau Regulations will open access to the credit reference services to new entrants and other Accredited Credit Providers (ACPs) in addition to the existing pioneer Credit Reference Bureaus.

2.3 Strengthening Supervision

Review of Risk-Based Supervision Framework

BOU embarked on review of the Risk Based Supervision framework to address emerging risks and tailor it to the current operating environment. This process is expected to be concluded during 2021.

Supervisory Colleges

In line with the Basel Core Principle 13, regarding the strengthening of relationships between Home and Host supervisors of Banking Groups, so as to deepen consolidated supervision, BOU took part in the supervisory colleges' arranged by Home supervisors of three subsidiaries of foreign banks operating in Uganda. The underlying objective of the colleges was to enable Host and Home regulators develop better appreciation of risk profiles and vulnerabilities affecting these Banking Groups and develop joint frameworks to address the key concerns, relevant from a supervisory perspective.

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 core principles for effective supervision, supervision in the era of the pandemic, Financial Soundness Indicators, 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

Development works for the BOU-NIRA e-KYC Project progressed into the final phase during the year.

2.4 Credit Reference Services

The number of financial cards issued to borrowers as at December 31, 2020 stood at 1,968,620. This was an increase of 10.3 percent from 1,785,512 as at December 31, 2019. The number of branches of Participating Institutions installed on the Credit Reference Bureau system increased from 591 to 598. However, the number of enquiries made to the CRBs decreased by 34.41 percent from 1,236,126 as at December 31, 2019 to 810,782 as at December 31, 2020. This is on account of reduction in credit applications and enquiries during the lockdown.

PART II: ASSESSMENT OF FINANCIAL STABILITY

Chapter 3: Performance of the Banking Sector

3.1 Introduction

The emergence of the COVID-19 pandemic during the year ended December 2020 and the necessary measures to contain it posed an unprecedented shock to the banking sector, heightening risks to financial sector stability. Nevertheless, the banking sector remained resilient, supported by strong capital and liquidity buffers as well as BOU policy measures.

3.2 Banks' assets and liabilities

Over the year to December 2020, total assets of the banking sector grew by 16.8 percent (Shs.5.5 trillion) from Shs.32.8 trillion in December 2019 to Shs.38.3 trillion in December 2020. This growth rate was slightly higher than the 16.7 percent growth registered in the year ended December 2019. This was largely on account of an increase in holdings of government securities which rose by 39.9 percent (Shs.2.9 trillion) to Shs.10.1 trillion, gross loans and advances by 12.3 percent (Shs.1.8 trillion) to Shs.16.3 trillion, and balances with banks abroad which increased by 22.6 percent (Shs.0.59 trillion) to Shs.3.19 trillion.

Furthermore, during 2020, banks increased the investment in liquid and less risky assets i.e. government securities and cash balances in comparison to loans and advances to the private sector. Hence, the holding of government securities as a proportion of total assets increased from 21.97 percent to 26.29 percent, while the ratio of gross loans and advances to total assets reduced from 44.04 percent to 42.51 percent over the year to December 2020. Details are highlighted in Table 2.

Table 2: Excerpt of banks' assets

	2017	2018	2019	2020
Total assets				
Volumes (Shs. trillion)	26.5	28.1	32.8	38.3
Annual growth (%)	12.0	6.0	16.7	16.8
Government securities				
Volumes (Shs. trillion)	5.6	6.0	7.2	10.1
Annual growth (%)	9.1	8.3	19.6	39.9
Loans				
Volumes (Shs. trillion)	11.7	12.9	14.5	16.3
Annual growth (%)	1.5	10.9	11.8	12.3
REPO Loan & BOU Deposit Facility				
Volumes (Shs. trillion)	2.5	2.8	3.3	3.6
Annual growth (%)	-11.0	9.4	19.7	8.0

Source: *Bank of Uganda*

3.3 Capital Adequacy

The banking sector remained adequately capitalized, with capital buffers improving over the year to December 2020. The aggregate industry core and total capital adequacy ratios stood at 20.6 percent and 22.2 percent, an improvement compared to December 2019 of 20.1 percent and 21.8 percent respectively. The consolidated Leverage Ratio (the non-risk based capital requirement) increased from 10.7 percent to 11.0 percent between December 2019 and December 2020, and remained well above the prudential limit of 6 percent. Details are indicated in Table 3.

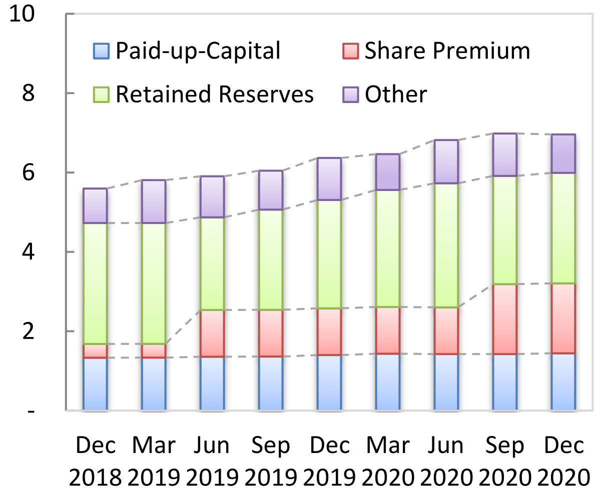
Table 3: Aggregate capital adequacy ratios for the banking sector (percent)

	2017	2018	2019	2020
Total capital adequacy ratio	23.2	21.6	21.8	22.2
Core capital adequacy ratio	20.9	19.8	20.1	20.6
Leverage ratio	11.2	11.1	10.7	11.0

Source: Bank of Uganda

Total shareholder's funds grew by 10.9 percent from Sh.5.8 trillion in December 2019 to Shs.6.5 trillion in December 2020. The increase was largely driven by a rise in the industry's share premium of USh.585.3 billion in the year ended or December 2020, as highlighted in Figure 1.

Figure 1: Composition of banks' capital (Shs. Trillion)

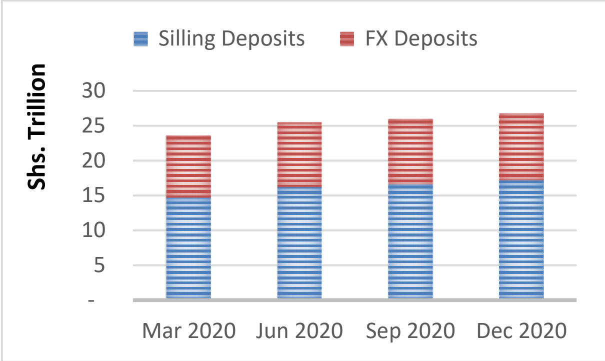


Source: Bank of Uganda

3.4 Funding and liquidity

Aggregate liquidity and funding conditions improved across the banking sector. Customer deposits, which constitute the largest source of funding, increased by 17.1 percent from Shs.22.9 trillion to Shs.26.8 trillion over the year ended December 2020. The growth is slightly higher than the growth of 16.7 percent in 2019. The growth in customer deposits was mostly driven by shilling deposits, which increased by 19.9 percent to Shs.17.2 trillion, while foreign currency deposits rose by 12.3 percent to Shs.9.6 trillion. As a share of the total deposits, demand deposits accounted for 56.6 percent, time deposits 22.2 percent, and savings deposits 21.3 percent.

Figure 2: Analysis of deposits

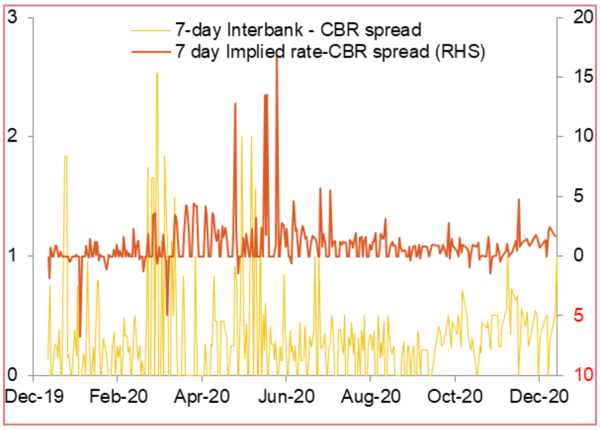


Source: Bank of Uganda

Activity in the interbank market

Wholesale interbank funding conditions improved, as shown by the reduction in interbank interest rates, spreads, and volatility of interbank funding. The quarterly average spread between 7-day interbank rate and the Central Bank Rate (CBR) reduced further from 0.66 percent in June 2020 to 0.32 percent in September 2020 and to 0.39 percent in December 2020. Similarly, the quarterly average spread between the 7-day swap implied rate and the CBR declined from 3.19 percent in June 2020 to less than 1.0 percent in September 2020 and December 2020.

Figure 3: Trend in the cost of wholesale funding



***Source**: Bank of Uganda*

Liquidity

Liquidity risk reduced as SFIs built up ample liquidity buffers during the year to withstand adverse episodes, resulting in an improvement in banks' resilience to liquidity shocks. This positive outcome was an indication of the effectiveness of BOU monetary and macro prudential policy actions. There were also several additional complimenting factors including the partial easing of the lockdown in June 2020, and heightened risk aversion to private sector credit that led banks to increase their investment in government securities thereby boosting their liquid asset holdings.

In 2020, the industry liquid assets–to–deposits ratio was 50.7 percent at the end of 2020, higher than 48.6 percent held at the end of 2019, and well above the minimum regulatory requirement of 20 percent. The increase in the liquidity ratio echoes the significant rise in banks' investment in government securities and cash balances.

The Liquidity Coverage Ratio (LCR), which measures whether a bank holds sufficient high quality liquid assets (HQLA) to withstand a 30-day stress scenario, stood at 229.6 percent compared to 234.3 percent in December 2019. In addition, all banks met the LCR regulatory minimum requirement of 100 percent. Details are provided in Table 4.

Table 4: Key indicators of bank liquidity (percent)

	2017	2018	2019	2020
Liquid assets to total deposits	54.6	45.5	48.6	50.7
Liquid assets to total assets	37.4	31.7	33.9	35.4
Total loans to total deposits	64.1	66.0	63.2	60.8
LCR	311.2	261.6	234.3	229.6

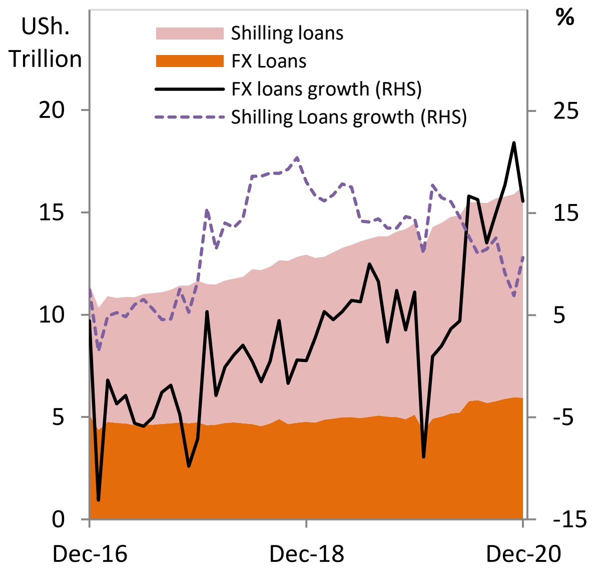
Source: *Bank of Uganda*

3.5 Performance of credit

Lending activity

Gross loans and advances increased by 12.3 percent (Shs.1.8 trillion), to Shs.16.3 trillion, which was higher than 11.8 percent growth over the period ended December 2019. This growth partly reflected a pickup in lending in the quarter ending December 31, 2020, and a significant component of capitalisation of interest on restructured loans, which, as a share of new net lending increased from 4.5 percent in the year to December 2019 to 11.6 percent in the year to December 2020. Shillings and foreign currency denominated loans increased by 19.9 percent and 12.3 percent compared to growth of 19.4 percent and 12.4 percent in 2019 respectively. The proportion of foreign currency denominated loans to total loans increased from 35.4 percent to 36.4 percent over the year. This is depicted in Figure 4.

Figure 4: Annual changes in the stock of bank loans



Source: *Bank of Uganda*

Loan growth over the year 2020, was spread across a number of sectors. Community and social services, and transport sectors registered the largest nominal increase in loans, by Shs.738.4 billion and Shs.435.0 billion respectively. In percentage terms, loans to the community and social services sector registered the fastest growth of 140.5 percent. Details are indicated in Table 5.

Table 5: Sector allocation of bank loans (percent)

Sector		2018	2019	2020
Agriculture	Share of	12.7	13.5	17.1

Sector		2018	2019	2020
	Total			
	Annual growth	14.2	18.1	2.1
Manufacturing	Share of Total	13.0	12.8	17.2
	Annual growth	14.4	10.4	6.6
Trade and commerce	Share of Total	18.9	19.2	23.1
	Annual growth	11.9	13.5	-3.4
Real estate and construction	Share of Total	19.8	20.2	27.9
	Annual growth	6.7	14.3	10.5
Personal and household loans	Share of Total	18.7	18.4	25.2
	Annual growth	11.5	9.9	8.8

Source: *Bank of Uganda*

Despite the pick-up in loan growth to some sectors, asset quality remains a major risk, due to the slow economic recovery, as indicated by;

a) Weak economic activity that has increased loan losses to SFIs. Aggregate write-off of bad loans rose by 46.9 percent from USh.165.2billion in 2019 to USh.242.6billion in 2020, with USh.56.9billion in the quarter to December 2020.

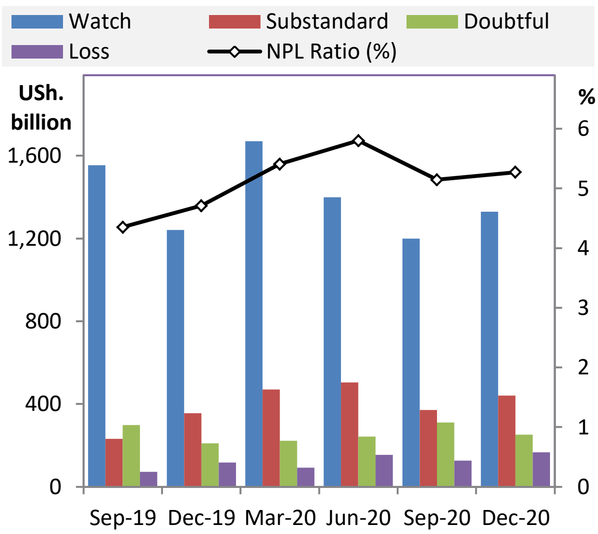
b) The trend in the ratio of month-on-month loan repayments to stock of loans remains below the pre-COVID-19 historical average.

c) Aggregate non-performing loans (NPLs) increased over the year ended December 2020 across all banking institutions. The NPL ratio for commercial banks, credit institutions and microfinance deposit-taking institutions rose from 4.9 percent, 3.6 percent and 3.6 percent in December 2019 to 5.3 percent, 8.1 percent and 6.3 percent in December 2020, respectively. It should be noted that the rise in NPLs would have been higher but was effectively moderated by the Credit Relief Measures introduced by BOU, which have ensured that the economic stress faced by borrowers has a muted negative impact on SFI's asset quality.

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 2020. The aggregate industry NPL ratio for commercial banks increased from 4.9 percent in December 2019 to 5.3 percent in December 2020. This was on the back of weak economic activity hampered by the onset of the COVID-19 pandemic which adversely affected the income of borrowers. There was a significant increase in the stock of NPLs by 22.4 percent (USh.156.3 billion) from USh.696.8 billion as at end December 2019 to USh.853.1 billion as at end December 2020. This is depicted in Figure 6.

Figure 5: Banks' NPLs



Source: *Bank of Uganda*

By sector, NPLs under the trade and commerce sector registered the largest rise of Shs.24.6 billion (or 11.8 percent), and the sector's NPLs accounted for 27.1 percent of the industry stock of NPLs as at end 2020. However, the utilities sector held the highest NPL ratio of 18.2 percent. The implication is that the adverse performance of the sectors where banks are highly concentrated can significantly affect the banks' asset quality and profitability. Going forward it is expected that the slow pace of recovery is likely to continue negatively affecting loan quality until economic activity is stronger.

3.6 Earnings and profitability

Banking sector profitability improved in the year to December 2020. Aggregate net-after-tax profit increased to USh.848.5 billion compared to Shs.887.5 billion earned during the year to December 2019. The industry's aggregate return on assets (ROA) and return on equity (ROE) were 2.4 percent and 14.2 percent for the year ended December 2020, lower than 2.9 percent and 16.7 percent for 2019 respectively. Five commercial banks, albeit small by their relative asset size in the industry, were loss-making, during the year ended December 2020.

3.7 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 -4.1 percent. This was within the regulatory requirement of +/-25 percent. Over the year, the share of banks' foreign currency assets to total assets ratios increased from 29.0 percent in December 2019 to 30.1 percent in December 2020. The ratio of foreign currency loans to foreign currency deposits was 62.1 percent as at the end of 2020, which was within the statutory limit of 80 percent.

Table 6: Banks' foreign currency exposure (percent)

	Forex exposure/ core capital	Forex assets/ forex liabilities	Forex loans/ forex deposits	Forex assets / total assets
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
Dec-20	-4.1	99.1	50.6	30.1

Source: *Bank of Uganda*

3.8 Performance of D-SIBs

Bank of Uganda employs an indicator based methodology to identify Domestic Systemically Important Banks (D-SIBs) annually. At the end of December 2020, five banks were designated as D-SIBs namely; Stanbic, Standard Chartered, Centenary, DFCU and Absa. The five banks accounted for 57.0 percent of total banking sector assets at the end of December 2020. All D-SIBs were all adequately capitalized, held sufficient liquidity buffers, and were profitable over the period under review.

3.9 Conclusion and Outlook for Financial Stability

Overall risk to financial sector stability edged up marginally in the year to December 2020, but remained relatively contained by BOU policy action implemented over the pandemic period. However, several potential vulnerabilities remain, related to the pace of the economic recovery and its effect on the income and loan repayment capacity of firms and households and banks' loss absorbency.

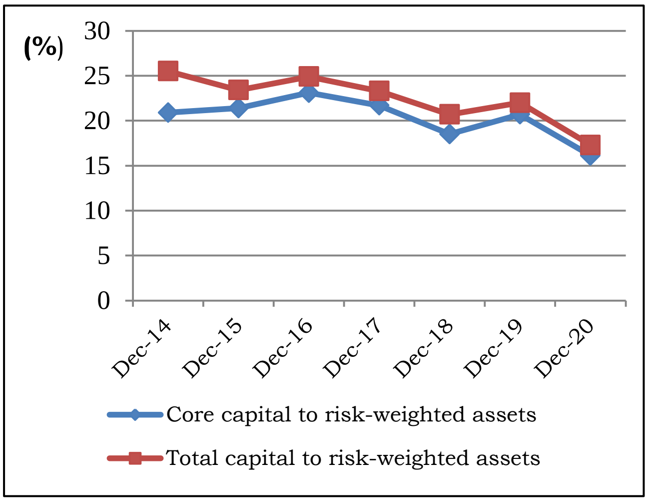
4.1 Credit Institutions

Total assets held by Credit Institutions increased by Shs.210.3 billion or 24.68 percent to Shs.1,062.5 billion, largely due to growth in balances held with financial institutions in Uganda. Net loans and advances increased by Shs.56.3 billion or 10.85 percent from Shs.518.5 billion to Shs.574.8 billion, while total deposits grew by Shs.156.8 billion or 35.89 percent to Shs.593.7 billion over the review period.

Capital adequacy and liquidity

The core and total capital to Risk Weighted Assets (RWAs) ratios declined to 16.1 percent and 17.3 percent from 20.7 percent and 22.0 percent in December 2019, respectively as depicted in Figure 6. Aggregate core capital stood at Shs.120.8 billion while total capital amounted to Shs.129.6 billion.

Figure 6: Capital Adequacy Indicators



***Source**: Bank of Uganda*

However, three of five credit institutions were undercapitalised and fell short of the minimum core and total capital adequacy requirements of 10 percent and 12 percent, respectively.

The aggregate liquid assets-to-total deposits ratio stood at 59.2 percent, which was above the statutory liquidity requirement of 20 percent. Aggregate liquid assets held by the sub-sector increased by Shs.139.9 billion or 66.18 percent to Shs.351.3 billion.

Asset Quality

The aggregate NPL-to-Total Assets ratio was 8.1 percent, more than double the ratio in 2019 of 3.6 percent. This was on account of an increase in NPLs by Shs.29.9 billion or 155.73 percent during 2020. However, the ratio of specific provisions-to-NPLs improved to 46.6 percent from 41.5 percent over the same period indicating an improvement in coverage for credit losses.

Earnings and Profitability

Credit Institutions recorded a net loss of Shs.14.7 billion compared to a net profit of Shs.9.1 billion reported in 2019. Total income declined by Shs.11.3 billion or 5.27 percent while total expenses grew by Shs.22.7 billion or 11.42 percent over the review period. Consequently, ROA and ROE ratios both declined from 1.1 percent and 5.6 percent to minus 1.6 percent and minus 9.0 percent, respectively. Interest income from loans and advances continued to be the major source of earnings for Credit Institutions and amounted to Shs.133.9 billion or 66.19 percent of total income.

4.2 Microfinance Deposit-taking Institutions

Total assets held by Microfinance Deposit-taking Institutions increased by Shs.112 billion or 17.7% percent to Shs.743.2 billion. This growth was largely due to growth in balances with financial institutions in Uganda by 44.7 percent or Shs.71.3 billion and loans by 10.3 percent or Shs.38.4 billion. Total liabilities increased by Shs.103.4 billion or 23.8 percent mainly due to an increase in deposits of Shs.71.4 billion or 25.1 percent and long-term borrowing of Shs.32.2 billion or 44.6 percent.

Capital Adequacy

The aggregate core and total capital to Risk-Weighted Assets ratios stood at 35.3 percent and 38.0 percent, compared to 37.5 percent and 40.1 percent as at end December 2019 respectively. Both ratios were above the statutory minimum requirements of 15 percent and 20 percent respectively.

Asset Quality

The aggregate portfolio-at-risk ratio deteriorated from 3.6 percent in 2019 to 6.2 percent in 2020 due to an increase in non-performing loans by Shs.12.2 billion or 90.2 percent. The ratio of specific provisions to non-performing loans stood at 66.2 percent, indicating adequate coverage for credit losses.

Earnings

Microfinance Deposit-taking Institutions registered a net profit-after-tax of Shs.19.7 billion which was an increase of Shs.1.9 billion or 10.7 percent from Shs.17.8 billion recorded for the year ended December 31, 2019. Resultantly, Return-on-Assets (ROA) and Return-on-Equity (ROE) stood at 2.7 percent and 9.6 percent, respectively during the review period. Interest income from loans and advances continued to be the major source of earnings for Microfinance Deposit-Taking Institutions and amounted to Shs.141.1 billion or 72.2 percent of total income.

Liquidity

The aggregate liquid assets-to-total deposits ratio stood at 68.7 percent, well above the statutory liquidity requirement of 15 percent. Total liquid assets held by the subsector increased by Shs.72.0 billion or 41.7 percent from Shs.172.7 billion as at December 31, 2019 to Shs.244.7 billion largely due to an increase in balances held with financial institutions in Uganda. The ratio of total loans to total deposits stood at 74.9 per cent, and was below the 85 percent prudential limit.

4.3 Foreign Exchange Bureaus and Money Remittance companies

As at December 31, 2020, the Forex Bureau and Money Remittance sub-sector comprised of 214 Foreign Exchange Bureaus (316 outlets), 80 Money Remitters (156 outlets), and 3 Microfinance Deposit-taking Institutions (75 outlets). During the year, Bank of Uganda issued 11 foreign exchange bureau and 7 money remittance licences.

Solvency of the sub-sector

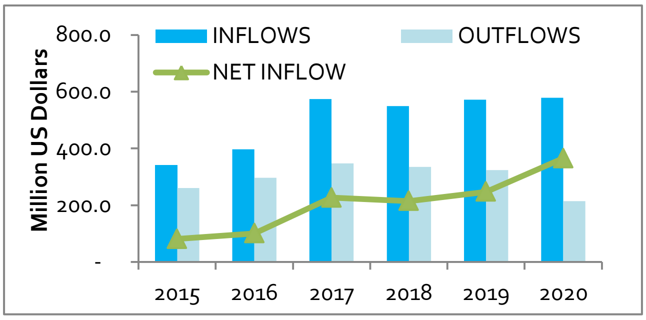
As at December 31, 2020, total capital and reserves held by the sub sector stood at Shs.84.9 billion depicting an increase of Shs.3.5 billion or 4.3 percent from Shs.81.4 billion as at December 31, 2019. However, 48.4 percent or Shs.41.1 billion of the total capital and reserves of the sub-sector was held by ten (10) largest bureaus.

Profit before tax decreased sharply by 57.8 percent or Shs.9.3 billion from Shs.16.1 billion in 2019 to Shs.6.8 billion in 2020. The decrease in profitability was in part attributed to the business disruption events in much of the year 2020.

Money remittances

Money remittance inflows slightly increased by 1.3 percent from USD 571.4 million for the year ended December 2019 to USD 579.0 million for the period ending December 2020. Outflows on the other hand significantly decreased by 34.0 percent from USD 324.1 million to USD 213.8 million, as depicted in Figure 7.

Figure 7: Money remittances



***Source**: Bank of Uganda*

4.4 Financial market infrastructure analysis

Financial market infrastructures (FMIs) are essential in every economy as they represent the platforms and interfaces through which financial transactions are performed. They are designed to provide and improve on the stability of the financial system. Therefore, the proper functioning of FMIs is vital to maintain financial stability as their failure due to solvency reasons or operational disruptions could lead to systemic instability. FMIs analysed 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

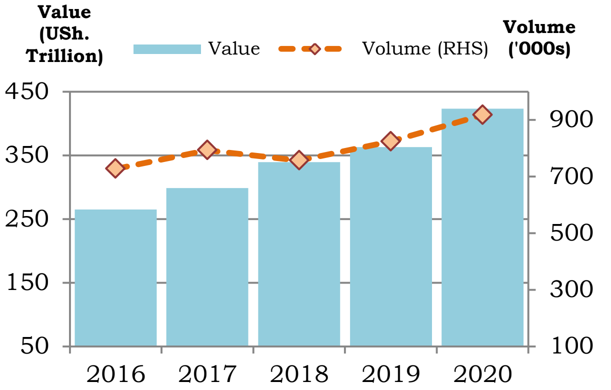
The Uganda National Interbank and Settlement Systems (UNISS) is Uganda's real gross settlement system. It allows real time settlement for high value and time critical payments.

In the year 2020, the UNISS experienced some interruptions but these did not exceed the recommended 2 hour maximum downtime rule and as result all payment obligations were fulfilled.

Performance in Uganda shillings

In the year 2020, the volume of transactions through UNISS recorded an annual growth of 11.4 percent from 824,218 in 2019 to 917,800. The value of these transactions grew significantly by 16.5 percent in 2020 to Shs.423.2 trillion as shown in the Figure 8.

Figure 8: UNISS Transactions by volume and value



***Source**: Bank of Uganda*

Transactions denominated in foreign currency

The equivalent of USD 10.9 billion was settled in 101,974 transactions in 2020. 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 British Pounds (GBP), Euros (EUR), Kenyan shilling (KShs.) Tanzanian Shillings (TZS) and Rwandan Francs (RWF). Details are indicated in Table 7 below.

Table 7: UNISS volume and values transacted in foreign currencies

Year ended	Dec-18	Dec-19	Dec-20
Value (USD equivalent; millions)	9,782	10,428	10,912
Volume	115,403	115,409	101,974

***Source**: Bank of Uganda*

Performance of Automatic Clearing House

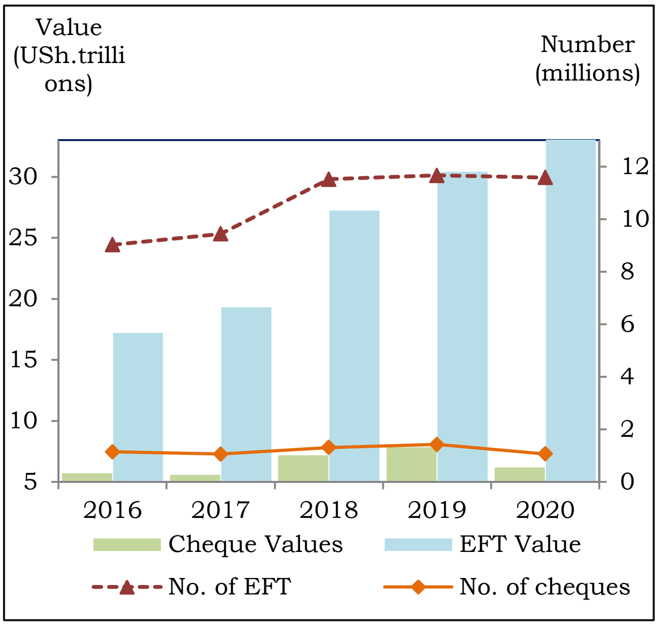
The Automatic Clearing House (ACH) automates the process of clearing cheques and electronic funds transfer (EFT) transactions, both in Uganda Shillings (Shs) and the widely used foreign currencies (USD, EUR, GBP and KES).

In the year 2020, no down time was witnessed on the ACH.

Transactions in Uganda shillings

During the year 2020, the total volume and value of EFT (credits and debits) transactions grew by 2.7 percent to 10.5 million and 11.8 percent to Shs.34.0 trillion respectively as depicted in Figure 9. This increase was due to efforts by banks and the government to promote use electronic payments and maintain physical distance to control the spread of COVID - 19. The volumes and values of cheques declined with volumes of cheques significantly dropping by 25.1 percent to 1,066,163 while the value of cheques decreased by 20.9 percent to Shs.6.2 trillion.

Figure 9: ACH transactions by volume and value.



***Source**: Bank of Uganda*

Transactions in foreign currencies

Transactions in the main foreign currencies – USD, EUR, GBP and KES for EFTs continued to grow in the year 2020. The value of EFTs cleared through the ACH decreased by 3.1 percent from USD 1.28 billion to USD 1.24 billion (a total of 100,328 EFTs transactions). However, the value of foreign currency cheques cleared through the ACH declined significantly by 24.1 percent from USD 221.0 million to USD 167.7 million. Details are indicated in Table 8 below.

Table 8: ACH Foreign Currency Activity (currency)

	EFTS	
	Volume (000's)	**Value (USD. equivalent million)**
Dec-18	92.1	1,069.6
Dec-19	108.9	1,279.1
Dec-20	100.3	1,240.9
	Cheques	
	Volume (000's)	**Values (USD equivalent million)**
Dec-18	81.7	241.2
Dec-19	84.6	221.0
Dec-20	61.9	167.7

***Source**: Bank of Uganda*

Performance of Mobile Money Services

In 2020, mobile money operations continued to grow. The volumes of mobile money transactions rose significantly by 24.1 percent to 3.5 billion while the value grew by 28.2 percent to USh.93.7 trillion. This growth was significant in the quarter ending December 2020 as economic activity increased following continued easing of lockdown measures and as banks and the government continued to encourage the use of non-cash payments to limit the spread of COVID-19. A total of 30.7 million customers were registered for the service at the end of December 2020 of which 19.8 million customers are active. Details are indicated in Table 9.

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

Year ended	**2018**	**2019**	**2020**
No. of transactions (billions)	1.9	2.8	3.5
Value of transactions	71.0	73.1	93.7

(Shs. trillions)			
Y-O-Y growth of no of transactions (%)	54.2	52.6	24.1
Y-O-Y growth of value of transactions (%)	12.5	2.9	28.2
No of registered customers(million)	24.5	27.1	30.7

***Source**: Bank of Uganda*

In conclusion, the stability and efficiency of FMIs in the year 2020 supported financial stability. Furthermore, the National Payment Systems Act, 2020 was enacted. The main objective of the Act is to provide for the safety and efficiency of payment systems and prescribe the framework to govern the oversight and protection of payment systems. Significant progress has been made in finalising the implementing regulations for the National Payment Systems Act, 2020, which will enhance regulation of emerging risks from payment systems.

Chapter 5: Credit Relief Measures

5.1 Uptake of Credit Relief during the COVID-19 Pandemic

5.1.1 Background

In April 2020, BOU granted exceptional permission to all SFIs to provide credit relief through the restructuring of loans of borrowers who were affected by the COVID-19 pandemic. The objective of the credit relief program was to minimise the economic impact of the COVID-19 pandemic and maintain financial sector stability. The credit relief program came into effect on 1st April 2020 with an initial duration of one year ending 31st March 2021, and it excluded loans that were already classified as loss as at 31st March 2020, as well as facilities that were granted after 1st April 2020.

5.2 Performance of the credit relief measures

5.2.2 Demand for credit relief

Between the inception of the Credit Relief Measures (CRM) in April 2020 and December 2020, the cumulative total credit relief applied for by distressed borrowers amounted to Shs.7.9 trillion, of which Shs.7.7 trillion was approved and granted by SFIs, translating into a high acceptance rate of 97.6 percent. As a result, approximately 44.6 percent of the loans in the banking sector benefitted from some of the credit relief measures during this period.

Chart 1: Stock of outstanding restructured loans by sector (USh. billion)

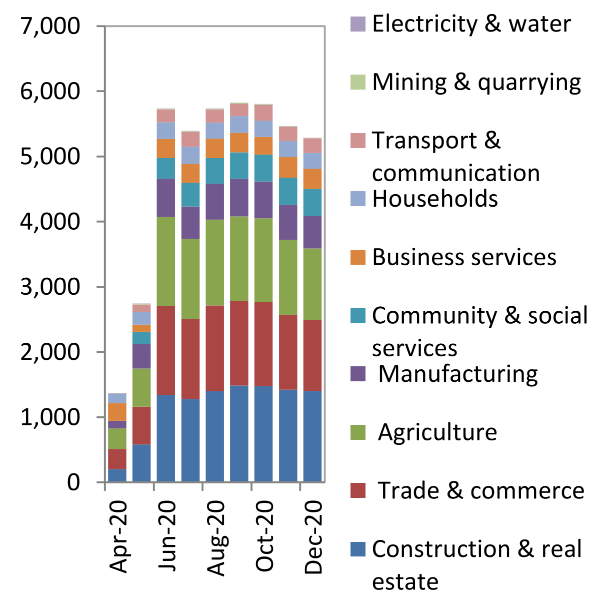
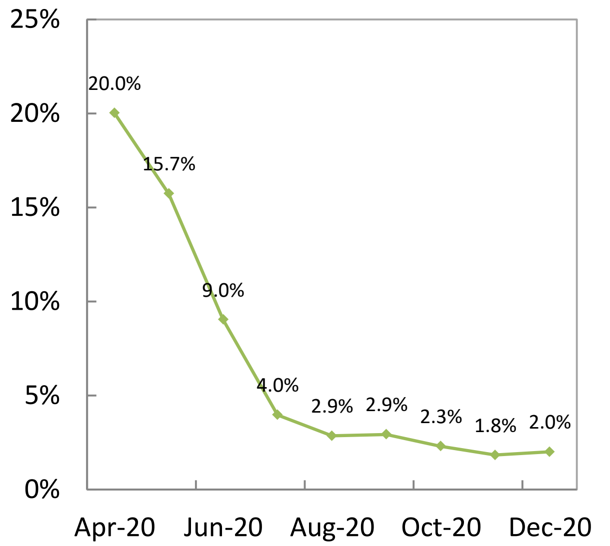


Chart 2: Ratio of value of credit relief applications to total loans (percent)



The monthly value of applications for credit relief as a proportion of gross loans reduced from 20.0 percent in April 2020 to 2.0 percent in December 2020, an indication that the majority of distressed borrowers eligible for credit restructuring had been served under the program. After accounting for restructured loans that had matured and been repaid, as at end-December 2020, the stock of loans that were still under restructuring was Shs.4.83 trillion, equivalent to 29.0 percent of gross loans. By sector, the construction, trade and agriculture sectors consistently registered the largest shares of credit relief extended between April 2020 and December 2020.

5.2.3 Performance and quality of restructured credit facilities

The guidelines issued by BOU for the extension of credit relief permitted SFIs to restructure credit facilities to distressed borrowers up to two times1 for the duration of the credit relief program.

Accordingly, following the slow recovery of economic activity, in August 2020 the loans that had been restructured once already started to mature and by December 2020, loans that had been restructured for a second time had increased from Shs.264.1 billion or 5.2 percent of restructured loans to Shs.606.2 billion or 12.5 percent of total restructured loans in December 2020, as shown in table 10 below. On a sectoral basis, loans restructured for a second time rose in real estate, trade (which includes the tourism and hospitality sector), and community and social services (which includes education). This trend suggests that as at December 2020, the financial condition of some of the borrowers that received credit relief remained tenuous.

Table 10: Performance trend of stock of loans under credit relief

Month	Loans under 2nd restructure (Shs. billion)	Loans under 2nd restructure to total restructured loans (%)	Past due loans (Shs. billion)	Past due loans as a share of total restructured loans (%)
Jul-2020			134.1	2.7
Aug-2020	264.1	5.2	807.2	16.0
Sept-2020	424.9	8.1	763.2	14.6
Oct-2020	574.6	11.1	766.5	14.8
Nov-2020	615.1	12.4	1,109.2	22.4
Dec-2020	606.2	12.5	764.5	15.2

Source: *Bank of Uganda*

As at the end of December 2020, the restructured loans that were past due, that is, loans whose borrowers had missed at least one instalment, remained high on account of some borrowers' credit relief maturing. The increase in past-due restructured loans was likely driven by slow economic activity, coupled with the hesitation by some borrowers to continue to obtain credit relief on account of the uncertainty regarding the pace of economic recovery, especially since some sectors remain under partial lockdown. The past due restructured loans as at December 2020 amounted to Shs.764.5 billion, which was equivalent to 15.2 percent of the total stock of restructured loans as shown in table 10 above.

Of the past due restructured loans, 20 percent or Shs.151.6 billion were classified as non-performing loans (NPLs), while Shs.612.8 billion were classified as 'watch listed', that is, they were still performing but had missed a payment by 1-89 days. In addition, the exposure of some individual SFIs to past due restructured loans remains high at more than 10 percent of their total gross loans. The most affected institutions were largely micro deposit-taking institutions (MDIs) and credit institutions as a consequence of the disproportionate impact of the pandemic on small

[1]Bank of Uganda conducted country-wide print and radio publicity campaign from November 2020 – February 2021, to enhance awareness of CRM and ensure that distressed borrowers are made aware that they qualify for a second loan restructuring.

and medium enterprises (SMEs) and micro borrowers that constitute the bulk of their loan portfolios.

Table 11: Sectoral distribution of past due restructured loans as at end-December 2020

Sector	Shs. billion	As a share of total past due loans (%)
Agriculture	102.8	13.4
Construction and real estate	230.5	30.1
Business services	29.0	3.8
Community and social services	30.1	3.9
Electricity and water	0.8	0.1
Manufacturing	22.0	2.9
Mining and quarrying	2.8	0.4
Others	3.2	0.4
Personal loans and households	45.1	5.9
Trade and commerce	227.5	29.8
Transport and communication	36.8	4.8
Mobile loans	33.8	4.4
Total	**764.5**	**100.0**

Source: *Bank of Uganda*

The high level of past due restructured loans presents a potential risk that these facilities could potentially progress to NPLs and necessitate higher provisions from SFIs in the next 3 months, if economic activity remains subdued. It is therefrom that the supervisory concern on the ability of the affected institutions to absorb the effect of additional provisions on their capital arises, especially if these borrowers remain distressed.

5.2.4 Assessing the resilience of banks against restructured credit default

Bank of Uganda conducted stress tests to assess the resilience of banks to a significant deterioration in the economic outlook, and to determine banking sector's ability to absorb the losses expected from deterioration in past due restructured loans, especially if the credit relief measures were not extended beyond March 2021.

The results indicated that, under (i) a macro scenario featuring a slower GDP growth than projected by BOU, and (ii) a scenario where all past due restructured loans become NPLs, all banks, except for two were likely to maintain capital ratios above minimum requirements as a result of these shocks. Therefore, as at end-December 2020, most banks were in a position to withstand loan losses under a broad range of scenarios, while retaining sufficient capital to continue lending.

However, despite the aggregate resilience to loan losses, there remains considerable uncertainty about the future trajectory of the pandemic, the pace of economic recovery, and how this will affect the Ugandan economy and SFIs. In addition, under severe scenarios, the viability of a few banks which currently have high exposure to restructured loans is likely to come into question, as loan losses rise materially from current low levels, which could weaken their capital positions.

5.2.5 Extension of the credit relief program beyond March 2021

The credit relief program has, thus far, achieved the objectives set at its inception of maintaining financial stability by enabling financial institutions to absorb the economic impact of the pandemic and alleviating its adverse effect on borrowers. Although the program was scheduled to end on 31st March 2021, BOU's assessment revealed that a significant downside risks to the economic outlook relating to the rate of recovery and the potential worsening of the pandemic remained a threat to financial stability. As at end-December 2020, the economic stresses faced by businesses and households had not yet significantly hit the SFIs non-performing loan metrics. Almost a third of gross loans in the banking industry remain under payment deferrals, while the level of past due restructured loans is significant As the payment deferrals come to an end, banks are likely to experience a significant deterioration in their loan books and rising losses. In addition, several sectors that are still under partial lockdown such as tourism, accommodation and hospitality, real estate and trade continue to be adversely affected, and they are likely to face longer recoveries which will affect their debt-servicing capabilities.

Based on the foregoing conclusions, Bank of Uganda subsequently assessed the need to extend the credit relief measures, to enable banks and borrowers cope with the adverse effect of the ongoing pandemic until economic recovery picks up, and to support credit provision by banks. The key implication considered in extending the credit relief program was the risk of moral hazard, whereby SFIs have an increased incentive to delay the implementation of the necessary prudential action to properly classify loan asset quality and address the associated credit risk. Hence, in order to address this risk and still ensure financial stability in this period of uncertainty, Bank of Uganda took the following actions:

1. The credit relief program was extended for an additional six months from 01st April 2021 to 30th September 2021. Granting of any credit relief will be at the discretion of the SFI, and extensions are to be allowed only if the SFI believes that the borrower is in position to repay by the end of the relief period.

2. The guidance and regulatory forbearance provided by BOU to SFIs at the start of the CRM in April 2020 is to continue during the six month extension of the credit relief measures.

3. SFIs were encouraged to implement the IFRS 9-related guidance from BOU by recognizing bad loans promptly, particularly those whose financially distressed condition is likely to be permanent.

4. In order to enhance the success of the program, Bank of Uganda conducted a country-wide print media and radio publicity campaign and sensitization of the public to ensure that eligible borrowers who are still financially distressed are made aware of the extension of the program and utilize it effectively.

PART III: STATISTICAL APPENDICES

Appendix I: Financial Soundness Indicators for SFIs

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

	2015	2016	2017	2018	2019	2020
Capital adequacy						
Regulatory capital to risk-weighted assets	21.0	19.8	23.2	21.6	21.8	22.2
Regulatory tier 1 capital to risk-weighted assets	18.6	17.3	20.9	19.8	19.3	20.7
Total qualifying capital to total assets	14.7	13.4	17.6	17.6	14.8	14.5
Asset quality						
NPLs to total gross loans	5.3	10.7	5.6	3.4	4.9	5.3
NPLs to total deposits	3.9	7.4	3.6	2.3	3.1	3.2
Specific provisions to NPLs	41.6	60.4	54.6	54.1	43.7	45.0
Earning assets to total assets	69.2	67.3	71.9	69.1	69.7	69.2
Large exposures to gross loans	41.0	42.4	38.0	42.9	26.3	28.1
Large exposures to total capital	123.5	153.6	94.8	112.5	126.9	124.8
Earnings & profitability						
Return on assets	2.6	1.3	2.7	2.5	2.5	1.8
Return on equity	16.0	8.3	16.4	14.4	13.8	10.3
Net interest margin	11.3	12.9	11.6	11.1	11.3	10.0
Cost of deposits	3.3	3.5	2.8	2.3	2.6	2.4
Cost to income	69.3	84.9	74.0	73.9	76.5	79.8
Overhead to income	42.0	49.6	48.9	53.7	54.7	55.1
Liquidity						
Liquid assets to total deposits	46.4	51.5	54.6	45.5	48.6	50.7
Total loans to total deposits	74.2	70.8	64.1	66.0	63.2	60.8
Market sensitivity						
Foreign currency exposure to regulatory tier 1 capital *	-5.9	8.5	-5.4	-7.5	7.9	-4.1
Foreign currency loans to foreign currency deposits	77.6	79.3	71.5	63.0	51.4	50.6
Foreign currency assets to foreign currency liabilities	101.8	99.2	92.4	94.1	91.6	99.1

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

Source: *Bank of Uganda*

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

	2015	2016	2017	2018	2019	2020
Capital adequacy						
Core capital to risk-weighted assets	21.4	23.1	21.7	18.5	20.7	16.1
Total capital to risk-weighted assets	23.4	24.9	23.3	20.7	22.0	17.3
Provisions to core capital	11.1	11.9	9.9	9.4	9.5	23.5
Asset quality						
NPLs to total gross loans	3.6	4.0	3.5	2.7	3.6	8.1
Specific provisions to NPLs	54.2	60.0	50.0	45.0	41.5	46.6
Earnings & profitability						
Return on assets	0.5	0.1	0.5	1.7	1.1	-1.6
Return on equity	2.8	0.6	2.7	8.7	5.6	-9.0
Net interest margin	4.9	4.8	4.6	17.1	20.3	14.6
Cost of deposits	5.4	5.5	5.0	3.3	2.9	3.6
Cost to income	87.8	101.1	90.2	86.9	88.8	109.5
Liquidity						
Liquid assets to total deposits	46.3	52.3	45.2	34.1	48.4	59.2
Loans to deposits	82.4	76.3	83.2	84.6	118.7	96.8

Source: *Bank of Uganda*

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

	2015	2016	2017	2018	2019	2020
Capital adequacy						
Core capital to risk-weighted assets	34.6	34.8	38.5	41.4	37.5	35.3
Total capital to risk-weighted assets	38.2	37.81	41.9	44.8	40.1	38.0
Provisions to core capital	6.5	10.4	8.5	6.5	7.0	10.9
Asset quality						
NPLs to total gross loans	2.7	5.3	5.0	3.6	3.6	6.2
Specific provisions to NPLs	63.4	68.3	64.1	67.5	67.9	66.2
Earnings & profitability						
Return on assets	3.9	3.09	2.9	3.5	3.1	2.6
Return on equity	10.4	10.5	9.4	10.6	10.0	10.0
Cost to income	86.6	86.8	87.8	85.7	87.5	87.9
Liquidity						
Liquid assets to total deposits	43.8	55.75	59.3	61.5	60.7	68.7
Loans to deposits	83.1	79.17	80.1	79.9	79.3	74.8

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	2015	2016	2017	2018	2019	2020
ASSETS						
Cash & cash assets	811.3	810.8	1,109.0	1,293.4	1,318.3	1,623.2
Balances with BOU	1,982.6	2,858.7	2,544.5	2,784.0	3,331.4	3,599.32
Bank of Uganda securities	-	51.0	1,988.8	438.8	1,249.7	406.4
Due from financial institutions	2,547.6	2,594.3	2,049.0	2,958.4	3,203.9	4,162.2
Government securities	4,064.8	5,105.3	5,570.0	6,032.9	7,215.0	10,095.0
Total gross loans & advances	9,501.8	11,493.3	11,661.6	12,935.7	14,459.5	16,281.2
LESS: Provisions	285.6	820.2	410.5	273.8	347.9	465.2
Net loans & advances	9,216.2	10,673.0	11,251.1	12,661.9	14,111.6	15,816.0
Net fixed assets	925.9	838.3	819.0	854.4	1,161.0	1,139.3
Other assets	843.2	757.7	1,196.7	1,097.0	1,237.3	1,492.9
TOTAL ASSETS	**21,722.2**	**23,689.1**	**26,528.1**	**28,120.8**	**32,828.2**	**32,828.2**
LIABILITIES						
Deposits	14,821.1	16,235.7	18,181.1	19,595.7	22,870.6	26,775.8
Due to financial institutions	630.1	595.5	499.4	574.1	683.9	1,222.8
Administered funds	1,255.9	1,063.3	1,283.9	1,023.5	941.4	1,150.5
Other liabilities	1,422.0	2,132.9	1,890.3	2,403.7	2,712.2	2,679.8
TOTAL LIABILITIES	**18,129.1**	**20,027.4**	**21,854.7**	**23,597.0**	**27,208.1**	**31,828.8**
SHAREHOLDERS' FUNDS						
Paid-up capital	1,346.8	1,414.6	1,326.5	1,332.8	1,400.4	1,481.1
Share premium	115.4	145.9	347.8	347.8	1,177.7	1,763.0
Retained reserves	1,446.6	1,578.5	2,053.5	2,358.8	1,926.8	1,923.6
Other reserves	143.2	218.9	272.7	209.1	307.8	484.4
Profit – Loss (current year)	541.1	303.9	672.8	688.5	807.5	853.5
TOTAL SHAREHOLDERS' FUNDS	**3,593.1**	**3,661.8**	**4,673.3**	**4,937.0**	**5,620.2**	**6,505.5**
OFF BALANCE SHEET ITEMS						
Letters of Credit	354.2	337.2	348.6	383.4	417.7	596.3
Guarantees & performance bonds	1,841.3	2,548.1	3,176.4	3,561.0	3,913.7	3,545.9
Unused loans/overdrafts commitment	1,325.9	2,079.0	2,407.2	2,687.4	3,521.4	3,915.6
Other off balance sheet items	168.4	148.4	362.9	461.7	1,199.4	352.4
TOTAL OFF BALANCE SHEET ITEMS	**3,829.6**	**5,112.7**	**1,109.0**	**7,048.5**	**9,052.2**	**8,410.3**

Source: *Bank of Uganda*

Table 2B: Aggregated Statement of Financial Position for Credit Institutions

Shs. Billion, as at year end	2015	2016	2017	2018	2019	2020
ASSETS						
Cash	16.4	18.6	23.5	22.9	25.9	31.4
Balances with institutions in Uganda	70.3	117.3	123.9	101.0	162.9	264.4
Balances with commercial banks outside Uganda	1.0	1.5	3.1	0.5	1.1	1.6
Investments	29.9	20.2	19.1	20.7	21.5	53.9
of which Government securities	29.9	20.2	19.1	20.7	21.5	53.9
Loans and advances (Net)	225.3	251.0	305.6	401.2	518.5	574.8
of which administered funds	-	-	0.4	14.6	14.1	21.3
Premises and fixed assets (Net)	32.3	35.7	41.3	60.2	93.3	92.2
Other assets	14.4	18.8	26.3	32.0	29.1	44.2
Total assets	**389.6**	**463.1**	**542.8**	**638.4**	**852.2**	**1,062.5**
LIABILITIES						
Total deposit liabilities to depositors	254.3	303.9	375.3	425.6	436.9	593.7
Loan Insurance Fund	4.9	4.8	5.1	6.5	35.6	34.6
Balances due to commercial banks/associated companies/residents/non-residents	27.3	30.0	24.5	36.2	116.3	173.1
Borrowings at Bank of Uganda	0.3	0.2				
Administered funds	-	-	4.6	8.2	10.5	17.9
Other liabilities	17.5	25.6	26.3	33.7	86.6	72.8
Provisions	2.4	2.7	3.2	3.9	5.1	5.5
Capital	81.9	87.4	100.4	122.5	163.7	161.4
of which paid up capital	54.1	66.6	84.1	96.6	139.8	150.4
Profit for current year	1.0	(0.17)	2.7	10.6	9.1	(17.8)
Total liabilities and capital	**389.6**	**463.1**	**542.8**	**638.4**	**852.2**	**1,062.5**

Source: *Bank of Uganda*

Table 2C: Aggregated Statement of Financial Position for Microfinance Deposit-taking Institutions

Shs. Billion, as at year end	2015	2016	2017	2018	2019	2020
ASSETS						
Notes and coins	8.6	10.2	11	14.1	15.4	16.9
Balances with institutions in Uganda	74.7	106.8	116	134.2	159.6	230.9
Government securities	1.1	2.8	1.5	2.7	0.08	4.0
Net loans outstanding	**265.7**	**286.7**	**273.8**	**304.7**	**362.2**	**392.8**
Inter branch/ due from own offices	-	-	-	-	0.007	0.007
Net fixed assets	25.2	34.4	36.9	44.6	68.6	70.8
Long-term investments	-	-	0.1	0.1	0.1	0.1
Other assets	25.7	28.6	30.5	21.2	24.9	27.8
Total assets	**401**	**469.5**	**469.8**	**521.5**	**631.2**	**743.3**
LIABILITIES						
Deposit liabilities	182.9	204.1	214.7	234.8	284.5	355.9
Loan insurance fund	10.5	7.3	7.9	7.9	7.8	7.0
Borrowings	41.9	70.6	53.8	58.2	72.3	104.6
Other liabilities	27.6	31.2	24.7	22	48.5	52.9
Grants/deferred income	6.8	6.3	6.9	10.5	12.6	8.3
Inter branch/ Due to own Offices	-	-	-	-	-	-
Other long-term Liabilities	-	-	-	-	0.8	-
Total liabilities	**269.7**	**319.5**	**308**	**333.4**	**426.5**	**528.7**
FINANCED BY:						
Capital	123.6	142.5	153.3	179.3	196.1	204.7
Subordinated debt	7.7	7.7	8.5	8.5	8.5	9.7
Preference shares	-	-	-	-	-	-
Total liabilities & equity	**401**	**469.7**	**469.8**	**521.5**	**631.2**	**743.3**

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*	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
INCOME						
Interest income						
Advances	1,722.0	1,868.8	1,808.0	1,903.0	2,157.0	2,232.7
Government securities	497.6	689.3	681.9	609.0	729.2	856.1
Deposits abroad	12.0	17.3	22.3	34.9	65.2	42.7
Other	68.8	117.7	151.5	161.4	125.2	152.6
Charges, fees & commissions	419.3	429.9	533.8	518.0	581.1	586.9
Foreign exchange income	257.6	219.7	170.6	252.9	243.3	302.1
Other income	147.9	261.1	323.7	264.3	357.4	350.7
TOTAL INCOME	**3,196.6**	**3,603.8**	**3,691.9**	**3,743.6**	**4,258.5**	**4,523.8**
EXPENSES						
Interest expense on deposits	467.6	539.9	480.3	426.2	529.2	597.5
Other interest expenses	189.8	169.3	157.7	144.5	157.7	157.8
Provisions for bad debts	217.7	638.2	295.4	186.6	176.8	327.8
Salaries, wages, staff costs	646.9	723.9	773.9	834.4	912.0	929.1
Premises, depreciation, transport	296.5	322.2	328.9	349.6	371.8	411.1
Other expenses	612.6	664.6	704.2	824.0	914.1	966.5
TOTAL EXPENSES	**2,213.5**	**3,057.8**	**2,740.3**	**2,765.3**	**3,061.7**	**3,389.8**
Extraordinary credits (charges)	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before tax	765.3	546.0	951.6	976.1	1,196.8	1,133.8
LESS: Corporation tax	224.1	243.9	278.7	284.3	309.4	285.3
NET PROFIT AFTER TAX	**541.2**	**302.1**	**672.9**	**691.8**	**887.5**	**848.5**

Source: *Bank of Uganda*

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

Shs. billion; *annualised*	2015	2016	2017	2018	2019	2020
INCOME						
Interest on loans and advances	60.1	67.6	73.5	89.8	155.3	133.9
Interest on government securities	3.1	3.6	2.9	2.1	2.0	3.6
Other interest income	5.8	10.9	2.1	1.8	17.5	24.6
Total interest income	69.0	82.0	90.3	107.2	174.9	162.2
Total non-interest income	25.3	28.4	34.5	42.2	38.7	40.1
TOTAL INCOME	**94.3**	**110.5**	**124.8**	**149.4**	**213.6**	**202.3**
EXPENSES						
Total interest expense	12.2	15.8	16.9	17.8	32.1	45.8
Provisions for bad debts	8.0	6.4	8.4	6.4	10.5	23.8
Salaries & other staff costs	33.8	39.3	33.9	39.0	84.1	83.7
Other non-interest expense	36.7	47.4	38.3	44.3	73.5	68.3
TOTAL EXPENSES	90.7	108.9	120.7	134.5	200.18	221.6
Taxation	2.6	3.7	2.3	4.3	5.6	4.5
NET INCOME	**1.0**	**(2.1)**	**1.8**	**10.6**	**9.1**	**(14.7)**

Source: *Bank of Uganda*

Table 3C: Aggregated Statement of Comprehensive and other income for Microfinance Deposit-taking Institutions

Shs. billion; *annualised*	2015	2016	2017	2018	2019	2020
INCOME						
Total credit income	110	139	141	145	160.3	160.3
Total other income	16.9	22.8	24.3	23.1	31.0	35.2
GROSS FINANCIAL INCOME	127	161	166	168	191.3	195.5
EXPENSES						
Total financial expenses of lending funds	16.9	31.4	29.9	24.6	29.9	41.1
Provision for bad debts	5.3	12.3	11.5	8.4	9.9	13.5
Net financial income	105	118	124	135	150	120.3
Total operating expenses on financial services	84.3	100	105	112	128	115.6
NET INCOME FROM OPERATIONS	20.3	17.6	19.2	23	22	4.7
Total grant income for financial services	0.8	1.3	0.6	0.2	0.7	1.3
Total grant income for non-financial services	-	-	0.2	-	-	-
Income from non-financial services	0.3	0.9	-	0.9	0.5	0.03
Total operating expenses on non-financial services	0.8	-	0.2	0.6	-	-
Net operating profit/loss from non-financial services	-0.5	0.9	0.2	0.3	0.5	0.03
NET PROFIT FOR THE PERIOD	18.3	21.8	20.3	24.2	23.9	25.2
Corporation tax	6.1	7.6	6.5	6.2	6.1	5.5
NET PROFIT AFTER TAX	12.2	14.1	13.8	17.9	17.8	19.7
RETAINED EARNINGS	61.8	53.7	61.1	72.5	87.7	99.1

Source: Bank of Uganda

Appendix IV: Credit Reference Bureau Statistics

	2014	2015	2016	2017	2018	2019	2020
Branches on FCS	600	617	616	593	606	639	639
Branches on CRB	580	593	603	559	551	591	598
Cumulative Financial Cards	1,093,107	1,235,845	1,378,329	1,503,324	1,639,235	1,785,512	1,968,620
Number of Enquiries (During year)	611,895	613,829	614,620	596,406	1,034,706	1,236,126	810,782

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 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