BANK OF UGANDA

ANNUAL SUPERVISION REPORT

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ABBREVIATIONS

AFRITAC	Africa Regional Technical Assistance Centre
BCBS	Basel Committee on Banking Supervision
BCPs	Basel Core Principles
BOU	Bank of Uganda
COMESA	Common Market for Eastern and Southern Africa
CBR	Central bank rate
CDS	Central Depository System
CRB	Credit Reference Bureau
CRS	Credit Reference System
CSD	Central Securities Depository
DPF	Deposit Protection Fund
EAC	East African Community
EAPS	East African Payment System
ECS	Electronic Clearing System
EFT	Electronic Funds Transfer
FCS	Financial Card System
FEA	Foreign Exchange Act 2004
FIA	Financial Institutions Act 2004
FL	Financial Literacy
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
KfW	German Kreditanstalt fur Wiederaufbau
LCR	Liquidity Coverage Ratio
LTV	Loan to Value
MAC	Monetary Affairs Committee
MDIs	Microfinance deposit-taking institutions
MFPED	Ministry of Finance, Planning and Economic Development
NIM	Net Interest Margin
NPLs	Non-performing loans
NSSF	National Social Security Fund
REPSS	Regional Payment and Settlement System
ROA	Return on average assets
ROE	Return on average equity
RTGS	Real Time Gross Settlement System
SACCO	Savings and credit cooperative
SFI	Supervised Financial Institution
SIFI	Systemically Important Financial Institution
UNISS	Ugandan National Inter-bank Settlement System
URBRA	Uganda Retirement Benefits Regulatory Authority
Ushs	Uganda Shillings

FOREWORD

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

GOVERNOR BANK OF UGANDA
Prof. Emmanuel Tumusiime-Mutebile

The banking industry in Uganda remains resilient to shocks with adequate capital and liquidity buffers. The key Financial Soundness Indicators show that banks performance improved in the year to December 2015, compared to the year to December 2014.The Ratio of Tier 1 capital held by Commercial banks was 18.6 percent in 2015, well above the regulatory minimum of 8 percent. Annual net after tax profits increased by 11.5 percent to USh. 541.2 billion between December 2014 and December 2015. However, asset quality deteriorated with the ratio of non-performing loans (NPLs) to total gross loans rising from 4.1 percent to 5.3 percent between December 2014 and December 2015. Notwithstanding the above, the banking sector has adequate capital to absorb losses.

During 2015, Bank of Uganda instituted several regulatory reforms aimed at improving the soundness of the financial system. The Financial Institutions Act 2004 was amended in January 2016. This has paved way for the implementation of Agent Banking, Islamic Banking, bancassurance, the revision of capital requirements and the reform of the Deposit Protection Fund (DPF). Bank of Uganda has put in place initiatives to implement these reforms in 2016. The implementation of the Capital Conservation Buffer will be expedited in order to further strengthen bank soundness. The DPF for Commercial Banks, Credit Institutions and for the Microfinance Deposit-taking Institutions will be merged into a single Fund, which shall be a separate legal entity from the Central Bank. Metropol (U) Ltd was licensed in November, 2015 as the second Credit Reference Bureau in Uganda, which is expected to further improve loan quality.

Throughout the year ending December 2015, systemically important payment systems operated efficiently and did not experience any major disruption or downtime.

Prof. E. Tumusiime-Mutebile
GOVERNOR

PART I: SUPERVISION OF FINANCIAL INSTITUTIONS

Chapter 1: Supervision of Financial Institutions

1.1 Introduction

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

1.2 On-site inspection

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

Commercial banks

During 2015, BOU conducted on-site examinations of all the 25 licensed commercial banks. In line with the risk based supervision approach, the on-site examinations focused on the areas that posed the highest risks to the banks All banks were adequately capitalized. However, some banks exhibited weaknesses in the management of strategic, credit and Money Laundering and Financing of Terrorism (ML/TF) risks as detailed below;

a) Key supervisory concerns regarding strategic risk include; unrealistic assumptions underlying banks' strategic objectives, delayed implementation of initiatives and projects and high staff turnover coupled with weak succession planning.

b) With regard to credit risk, most banks' credit portfolios were highly concentrated among the top 20 borrowers in each bank.

c) Some banks were yet to effectively automate the suspicious transaction monitoring process, undermining their ML/TF risk management framework.

Following the on-site examinations, specific directives were issued to banks to address the identified supervisory concerns and follow-up examinations were undertaken to assess compliance thereof.

Credit institutions

During 2015, BOU conducted full scope on-site examinations of three out of the four Credit Institutions (CIs) and a follow-up examination of the other institution. Overall, all the credit Institutions remained well capitalized, liquid and financially sound during the year ended December 2015.

However, examination findings revealed weaknesses in the management of most risks inherent in the CI's business activities. The key supervisory concerns related to strategic and corporate governance, credit and operational risks. Specific and time-bound directives were issued to the institutions to address the concerns raised.

BOU will continue to exercise close supervision of the CIs through off-site surveillance, review of both internal and external audit reports and targeted onsite examinations in a bid to ensure safety of depositors' funds, 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

As at December 31, 2015, the three Microfinance Deposit-taking Institutions (MDI) were financially sound, liquid and adequately capitalized. The overall financial rating of the MDIs was *satisfactory*.

The onsite inspections of MDIs revealed a number of challenges. The key supervisory concerns highlighted in the on-site inspections related to high levels of risk in the strategic, operational, credit and compliance risk.

Foreign exchange bureaus and money remittance companies

The Foreign Exchange Bureau and Money remittance sector remained financially sound and well capitalized. All foreign exchange bureaus and money remitters maintained total capital and reserves above the statutory requirement of Ushs.20 million. The total number of foreign exchange bureaus and money remittance outlets increased from 471 as at end December, 2014 to 505 as at end December, 2015. This comprised of 280 Foreign Exchange Bureau outlets) and 225 money remittance outlets. As at December, 2015, the Money Remitters comprised of 60 Foreign Exchange Bureaus, 3 Credit Institutions and 3 Microfinance Deposit-taking Institutions.

Forty nine (49) onsite examinations and thirty five (35) follow-up examinations for foreign exchange bureaus and money remitters were conducted during the year. The findings indicated that there were some lapses with regard to the identification of suspicious transactions and the recording of the source and purpose of funds. It was also noted that there was limited understanding of the provisions of the AML Act, 2013, particularly the requirement for enhanced due diligence for suspicious customer transactions. Directives were issued for the institutions to address the gaps identified.

All foreign exchange bureaus continued to submit periodic offsite returns throughout the year. In order to improve the accuracy and timeliness of offsite reports, foreign exchange bureaus were directed to procure and install Management Information Systems (MIS) with the capacity of generating electronic receipts. These MIS solutions have supported the submission of electronic returns via the Banking Supervision Application and greatly enhanced electronic processing of information.

Payment Systems

Bank of Uganda oversees payment systems to support confidence in the national currency and financial stability. There were a number of payment system oversight activities conducted by the BoU during 2015 and these include; monitoring the usage and operational performance of Uganda's Real Time Gross Settlement System (RTGS) and the Electronic Clearing System (ECS) as well as payment instruments' such as mobile money and Automated Teller Machines (ATMs).

In 2015, payment and settlement systems continued to operate satisfactorily, with key systems processing payments effectively, and exhibiting a high degree of availability.

1.3 Off-site analysis of Supervised Financial Institutions (SFIs)

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

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,

b) Decrease in interest income on government securities,

c) Depreciation of the Uganda Shilling against the United States dollar,
d) Increase in non-performing loans and,
e) A 100 percent loan loss of each bank's largest borrowers.

The shocks chosen were those considered plausible and realistic while others are pegged to previous adverse experiences such as the bank closures 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 2015 are shown in Table 1.

Table 1: Stress test shock for quarter ended 31st December, 2015

Stress Test Variable	Number of banks [a)]	Aggregate l capital shortfall (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	0	0.0
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	0	0.0
Depreciation of Ush. against US Dollar by 30 percent	0	0.0
Increase in non-performing loans		
Increase in NPLs by 100 percent	4	25.5
Increase in NPLs by 200 percent	11	310.0
Loan loss of each bank's largest borrowers		
Default by single largest borrower	9	43.2
Default by 3 largest borrowers	17	595.4

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 restore the affected institutions' capital to the minimum statutory levels.*

The analysis of default by the banks' three largest borrowers and an increase in NPLs by 200 percent revealed large potential losses. It showed that if each bank's three largest borrowers were to default, with a loan loss of 100 percent, 17 banks would become under-capitalised with an aggregate capital shortfall of Ush. 595.4 billion. If NPLs were to increase by 200 percent, assuming the increase is in the loss category which requires full provisioning, 11 banks would become under-capitalised with an aggregate capital shortfall of Ush.310.0 billion. A decline in the net interest margin, decrease in interest income from government securities and depreciation of the Uganda shilling would not require any additional capital from the banks.

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

2.1 Licensing, approvals and expansion

Statutory Management of Imperial Bank (U) Ltd

On October 13, 2015, the Central Bank of Kenya (CBK) placed Imperial Bank Kenya Limited, the majority Shareholder of Imperial Bank (U) Limited (IBUL), under receivership. Consequently, Bank of Uganda took over the management of IBUL and subsequently appointed a statutory manager to control the affairs of the bank until resolution of IBUL's Shareholding.

Bank of Uganda formally exited the statutory management of Imperial Bank (U) Limited (IBUL) on March 7, 2016 and withdrew the statutory manager following a sale of the 58.6 percent ordinary shares of IBUL formerly held by Imperial Bank Kenya Limited to Exim Bank (Tanzania) Limited.

Licencing

BOU issued a Microfinance Deposit-taking Institution licence to Yako Microfinance Limited in September 2015.

In addition, Bank of Uganda licensed Bata Forex Bureau Limited, based in Arua town. Two branch licences were issued to Guild Frank Forex Bureau, Kabalagala Branch and Dahabshiil Money Transfer, Mbale Branch.

Bank branches and automated teller machines

The expansion of financial services continued as indicated by the increase in the number of bank branches, which rose from 564 in 2014 to 573 in 2015, while the total number of automated teller machines (ATMs) operated by commercial banks increased from 830 to 842 in 2015, an increase of 1.4 percent. However, 56.0 per cent of bank branches and 63.2 per cent of ATMs are located in the Kampala and metro regions of Uganda.

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

	2012	2013	2014	2015
Commercial bank branches	496	542	564	573
Bank ATMs	714	768	830	842
Foreign exchange bureaus	205	248	267	280
Money remitters	205	186	204	225
MDIs branches	99	70**	70	76
Credit institutions branches	47	52	55	57

Source: Bank of Uganda

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

In addition, as at the end of December 2015, there were 11 institutions connected to the Interswitch network.[1] 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 5 years.

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

Table 3: Number of ATMs under Interswitch system

Bank / Institution	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
DFCU	26	29	33	46	46
Postbank Uganda	0	0	25	31	33
UBA Uganda	14	14	14	14	14
Cairo International Bank	2	3	3	4	4
Finance Trust Bank	3	6	7	7	8
Orient Bank	19	21	22	21	21
Global Trust Bank	5	8	15	0	0
Imperial Bank	0	4	4	6	6
GT Bank				0	1
Commercial Bank of Africa Uganda				0	1
Centenary Bank				152	156
Opportunity Bank	0	4	4	4	4
Total	**69**	**89**	**127**	**285**	**294**

Source: Bank of Uganda

2.2 Regulatory reforms

Anti-money laundering and countering the financing of terrorism

In order to enhance the supervision of SFI's Anti-Money Laundering /Combating the Financing of Terrorism (AML/CFT) frameworks, BOU with Technical Assistance from IMF East Afritac developed on-site examination procedures for AML/CFT. The implementation of the procedures is ongoing as part of the RBS methodology.

Consolidated Supervision and market risk

During the 15th Ordinary Monetary Affairs Committee Meeting (MAC), the EAC Governors directed the Partner States Central Banks to strengthen the supervision of cross border banks in the region. In this regard, BOU, with Assistance from the IMF, drafted procedures for undertaking consolidated supervision in 2015. In addition, a pilot examination of KCB was completed. BOU will roll out consolidated supervision to other cross border banks in due course.

In addition, BOU and the IMF developed examination procedures for market risk. The procedures will be incorporated into the onsite examination manual as part of the RBS methodology.

Amendments to the FIA (2004) Islamic Banking

Following the approval of the amendments to the FIA, 2004, BOU is in the process of instituting the requisite regulatory and supervisory framework which will fully operationalize the Financial Institutions (Amendment) Act 2016. Part IV of this report provides a summary of the key amendments and an update on the actions BOU has taken to implement the revised act.

MDI Act

Bank of Uganda submitted the proposed amendments to the MDI Act 2003 to the Ministry of Finance Planning and Economic Development (MoFPED). The MoFPED is planning to hold consultative meetings with all the relevant stakeholders during the course of 2016 before forwarding them to the First Parliamentary Counsel for drafting.

The discussions between Bank of Uganda, MoFPED and various other stakeholders on the Tier IV Microfinance Bill were concluded and the Bill passed by Cabinet. It is due to be presented to Parliament for discussion. Once the bill is approved by Parliament, Tier IV institutions, including Savings and Credit Cooperative Organisations (SACCOs) which meet a certain threshold of volume of voluntary savings will come under the regulation and supervision of the Bank of Uganda. Those below the threshold will be under the purview of the proposed Uganda Microfinance Regulatory Authority.

Foreign Exchange Act and Regulations

There are gaps in regulatory framework for foreign exchange bureau, which have posed challenges in the enforcement of compliance and the evaluation of product innovations. For example, the law does not explicitly provide for civil penalties as administrative sanctions. In addition, the law does not provide room for new product innovations that have emerged over the years, such as transmission of money remittances into beneficiaries mobile phones/mobile wallets.

To address the regulatory gaps and promote the continued safety and stability, Bank of Uganda finalised the proposed amendment of the Foreign Exchange Act, 2004 and the Foreign Exchange (Forex Bureaus and Money Remittance) Regulations, 2006. The amendments were submitted to MoFPED and Bank of Uganda shall continue to follow-up to ensure that they are acted on expeditiously.

Nevertheless, BOU has received applications for new products with most of them aiming at leveraging the wide and cost effective outreach of the mobile money platforms. Given that these products were not envisaged at the time of enacting the current laws, the proposals are being evaluated on a case by case basis by BOU.

In addition, supervisory activities in the foreign exchange bureau and money remittance sector have continued to be negatively impacted by the low levels of governance awareness in the industry. This is being addressed through continued public awareness workshops. The signing of the MOU with the Uganda Forex Bureau and Money Remittance Association (UFBMRA) for example will pave way for the joint coordination and arrangement of training workshops for the players in the sector.

2.4 Deposit Protection Fund (DPF)

During the year, Bank of Uganda continued to administer the Deposit Protection Funds (DPF) for Commercial Banks and Credit Institutions (under the FIA, 2004) and Microfinance Deposit-taking Institutions (under the MDI Act, 2003). All institutions paid their annual premiums for 2015 while those whose performance was rated marginal and unsatisfactory paid the risk-adjusted premiums accordingly.

The FIA 2004 was amended in January 2016 which paved way for the reform of the Deposit Protection Fund. Key highlights in the amended Act include; the Deposit Protection Funds (DPF) for Commercial Banks and Credit Institutions (under the FIA, 2004) and Microfinance Deposit-taking Institutions (under the MDI Act, 2003) will be merged into a single Fund, the Fund shall be a separate legal entity from the Central Bank and the Fund may act as a receiver or liquidator of a financial institution, if appointed for that purpose by the Central Bank.

Deposit Protection Fund for Commercial banks and Credit Institutions

The market value of the DPF for banks under the FIA 2004 increased in 2015. The total fund amounted to Ushs. 312.8 billion as at December 31,2015, comprising of treasury bills (Ushs. 117.2 billion), treasury bonds (Ushs. 175.8 billion) and cash (Ushs. 19.8 billion).

Deposit Protection Fund for Microfinance Deposit-taking Institutions

As at December 31, 2015, the market value of the DPF under the MDI Act, 2003 amounted to Ushs. 9.6 billion, comprising of treasury bills (Ushs. 4.7 billion), treasury bonds (Ushs. 4.7 billion) and cash (Ushs.0.2 million).

2.5 Credit reference bureau services

The number of financial cards delivered to Participating Institutions during 2015 were 142,738, raising the cumulative number of cards to 1,235,845 registered from 617 branches installed on the financial card system. A total of 613,829 credit enquiry records were recorded on the CRB, raising the cumulative number of credit enquiry records to 2,948,915 as at end December,2015.

During the course of the year, Metropol U Limited was granted full licence to operate credit reference bureau in Uganda, bringing the number of CRB operators to two. Metropol was expected to go live in March 2016.

As part of the opening up the market to competition, the process of separation of the financial card system from the Credit Reference bureau had commenced. However following the enactment of the Registration of Persons Act 2015, there was a perceived conflict between Bank of Uganda's mandate to licence a biometric system provider and the Act. Consequently the licensing process was halted pending clearance from Solicitor General's Office which was received in January 2016. The negotiations with M/s Technobrain Limited are set to resume.

Following the amendment of the Financial Insitutions Act in January 2016, the proposed expansion of the CRB system to other lenders outside the ambit of Bank of Uganda was hence permitted. Consequently, BOU is finalising the draft Credit Reference Service Regulations to regulate the competitive market environment and the acredited Credit providers.

Other developments

The Federal Republic of Germany through KFW agreed to support Bank of Uganda to undertake the following activities:

a) Public awareness for the credit reference system deposit protection fund and financial literacy linked to the 2016 World savings Day Activities.

b) Support Bank of Uganda and Participating Institutions in improving the utilisation of credit reference bureau data.

2.6 Strengthening capacity for supervision

Home-Host Supervisory Relationships

In line with the Basel Core Principle 13 on Home-Host relationships, the BOU was represented at supervisory colleges for Standard Chartered Bank, Stanbic bank, Barclays Africa Group, United Bank for Africa, Equity Bank, Kenya Commercial Bank and Diamond Trust Bank.

The supervisory college meetings emable BOu to obtain a better understanding of the operations of the Parent Banking Groups of Ugandan banks, the risks they face and ability to address the challenges. A key objective for all groups is to put in place 'living wills' that would facilitate the efficient resolution of these groups. Following a directive from the Reserve Bank of South Africa, which is the home supervisor of Barclays Africa Group and Stanbic bank, the two banks have embarked on drafting group resolution plans which will also apply to their Ugandan subsidiaries.

Uganda Forex Bureau and Money Remittance Association

Bank of Uganda signed a Memorandum of Understanding with the Uganda Forex Bureau and Money Remittance Association (UFBMRA). The MOU is expected to increase the cooperation between BOU and UFBMRA and to promote self-regulation in the forex bureau and money remittance sub-sector.

In an effort to improve Governance awareness in the sector a training workshop was held for the Directors and Managers of Forex Bureaus and Money Remittance companies on October 8, 2015. Discussions were held with participants on a number of areas, including; submission of statutory returns to Bank of Uganda, consolidated reporting, Risk Based Supervision, operational and compliance risk management, cyber security vulnerabilities and the relevant mitigation strategies.

Oversight of Payment Systems

In the two years since BOU created a unit to conduct oversight of payment systems, the capacity for conducting compliance assessments has been significantly strengthened through training and TA from the IMF. A Draft Oversight Framework and an Oversight Procedures Manual were completed in 2015 with assistance from the IMF and Systemically Important Payment Systems (SIPS) were identified using CPSS-IOSCO principles. In addition, a data reporting framework was implemented and rolled out to all banks to compile data for monitoring the safety and reliability of payment services.

BOU is working with other stakeholders to follow up the expeditious enactment of the National Payments Systems Act. A consultant has been hired to the National Payments System policy, which is expected to be completed by May 2016.

2.7 Regional cooperation

Regulatory harmonisation in the East African Community

The EAC Secretariat constituted the Technical Working Group on Microfinance (TWG), comprising of representatives from the MFIs Regulatory/supervisory Authorities, the Association of MFIs, the EAC Partner States' Ministries of Finance and the East African Microfinance Network to review and conclude on the main tenets of the draft EAC Microfinance Policy.

The EAC TWG on Macroprudential Statistics harmonized definitions for a list of Financial Soundness Indicators (FSIs) for banks. This will enable the EAC region to produce and disseminate cross-country comparable indicators in order to improve the capacity to monitor regional financial stability and inform policy decisions.

Under the TWG on Macroprudential Analysis and Stress Testing, the EAC Partner states are working with the IMF to enhance systemic risk analysis and aim to undertake a regional stress test exercise and draft a risk assessment report for MAC by December 2016. This is aimed at harmonising financial stability practices across the East African region as a convergence criterion for the monetary union.

In addition, during 2015, the TWG on Crisis Management agreed and harmonised a list of measures to enhance the resolution powers, processes and enabling legislation for financial institutions in the EAC Partner States. With IMF TA in January 2016 the TWG also developed ten harmonised principles for Emergency Liquidity Assistance (ELA) frameworks for the EAC. This will facilitate harmonisation and convergence of crisis management arrangements in the EAC region and enhance the orderly resolution of domestic financial crises, cross-border banks and limit the potential for contagion across borders.

PART II: ASSESSMENT OF FINANCIAL STABILITY

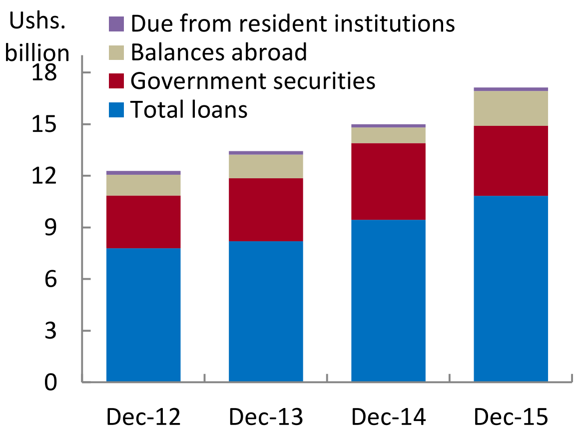
Chapter 3: Performance of the Banking Sector

This chapter provides an overview of the Banking Sector performance in 2015. Overall, the banking system remained sound, with bank liquidity and capital buffers remaining well above the minimum requirement. However, there was a rise in credit risk as shown by the increase in the ratio of non-performing loans to total loans.

3.1 Changes in banks' assets and liabilities

The banking sector's **total assets** grew by 10.9 percent from USh.19.6 trillion to USh.21.7 trillion between December 2014 and December 2015. This was mainly due to an increase in loans and advances of 14.9 percent in 2015, and an increase of 119 percent in funds due from banks abroad. Conversely, banks' holdings of government securities dropped by 8.9 percent from USh.4.5 trillion to USh.4.1 trillion as at December 2015. Chart 2 shows the change in composition of banks' assets over time.

Figure 1: Changes in Banks' Asset portfolios



Source: Bank of Uganda

During 2015, foreign currency denominated components of the banks' balance sheets grew faster than shilling denominated components. Foreign currency deposits rose by 29.9 percent, compared with 16.9 percent in 2014. Foreign currency loans grew by 18.5 percent, down slightly from 21.6 percent in the previous year. The share of foreign currency loans to total loans grew from 43.7 percent to 45.1 percent.

Table 4: Annual changes in Banks' major assets

	Dec-12	Dec-13	Dec-14	Dec-15
Total Assets				
Values (USh. Trillion)	15.5	17.3	19.6	21.7
Annual growth (%)	19.1	12.0	13.1	10.9
Government securities				
Values (USh. Trillion)	3.1	3.7	4.5	4.1
Annual growth (%)	47.3	19.5	22.3	(8.9)
Loans				
Values (USh. Trillion)	7.8	8.3	9.4	10.8
Annual growth (%)	11.6	6.2	14.0	14.9

Source: Bank of Uganda

Table 5: Foreign Currency denominated assets and liabilities (percentage ratios)

	Dec-12	Dec-13	Dec-14	Dec-15
Foreign currency assets to total assets	31.7	30.8	31.8	37.5
Foreign currency liabilities to total liabilities	36.2	38.1	39.2	44.2
Foreign currency loans to total loans	40.7	41.0	43.7	45.1
Foreign currency deposits to total deposits	34.9	36.1	36.7	42.5

Source: Bank of Uganda

3.2 Adequacy of banks' capital

The banking sector held adequate capital to withstand shocks at the end of December 2015. All commercial banks met the minimum regulatory capital adequacy requirements, with an aggregate industry-wide tier 1 capital adequacy ratio and total capital adequacy ratio of 18.6 percent and 21.0 percent respectively. The leverage ratio (regulatory tier 1 capital to total assets plus off-balance sheet items) was relatively stable at 11.1 during 2015.

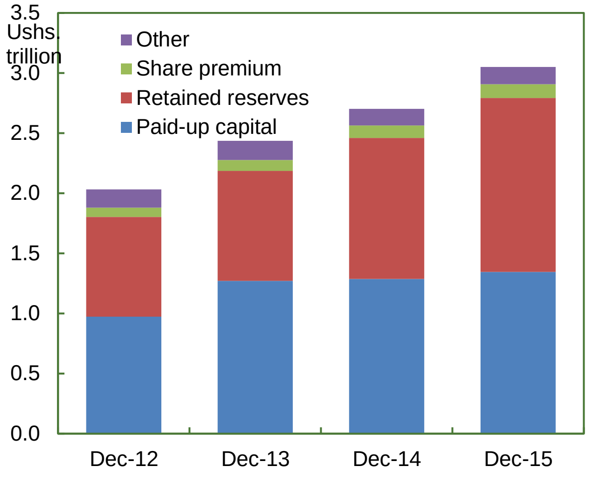
Table 6: Capital Adequacy Ratios

	Dec-12	Dec-13	Dec-14	Dec-15
Total Capital Adequacy Ratio	21.9	22.9	22.2	21.0
Tier 1 Capital Adequacy Ratio	18.8	19.9	19.7	18.6
Leverage Ratio	10.6	11.1	11.0	11.1

Source: Bank of Uganda

The total shareholders' equity of the banking system grew by 12.6 percent from USh.3.2 trillion to USh.3.6 trillion between December 2014 and December 2015.

Figure 2: Composition of banks' capital



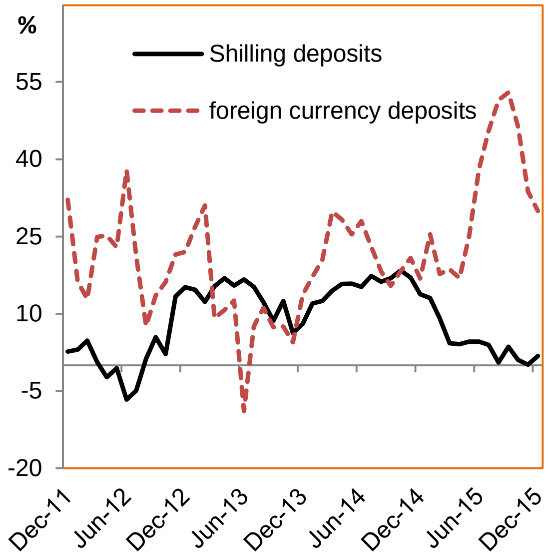
Source: Bank of Uganda

3.3 Funding and liquidity

Deposit Growth

Bank funding conditions remained stable with deposits contributing 81.8 percent of the total funding of the banking sector. The year-on-year growth rate of deposits in 2015 was 12.1 percent, down from 14.9 percent in 2014. Shilling deposits grew by 1.8 percent to Ushs8.52 trillion compared to a growth of 13.8 percent the previous year. Foreign currency denominated deposits increased by 30 percent to USh.6.3 trillion during the period which was higher than the 16.9 percent growth in the previous year.

Figure 3: Annual growth in Customer Deposits

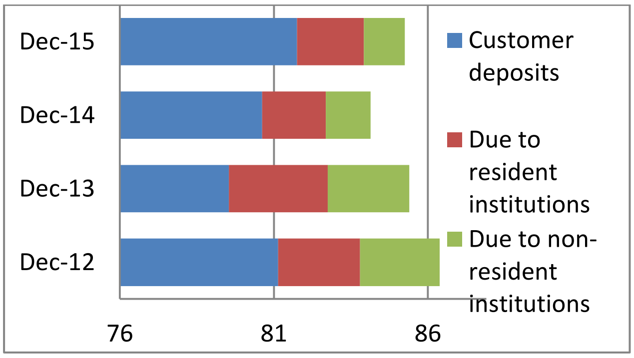


Source: Bank of Uganda

Interbank Activity

Total interbank volumes traded during 2015 amounted to USh.22.3 trillion, dropping from USh.27.7 trillion in the previous year. The 7-day weighted average and the overnight interbank rates increased from 11 percent and 8.4 percent respectively to 18.2 percent and 12.5 percent, respectively.

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



Source: Bank of Uganda

Liquidity

Commercial banks' liquidity improved during 2015. The nominal amount of liquid assets grew by 18.4 percent from USh.5.8 trillion to USh.6.9 trillion in 2015. The increase in liquid assets was largely due to the rise in in funds due from banks abroad which grew by 119 percent from Ush.0.92 trillion to USh.2 trillion between December 2014 and December 2015. The ratio of liquid assets to total deposits stood at 46.4 percent, above the regulatory minimum of 20 percent. In addition, the monthly LCR results in December 2015 indicate that all but one bank held sufficiently high quality liquid assets to sustain them through a 30-day stress scenario.

Table 7: Key Indicators of bank liquidity (percent)

	Dec-12	Dec-13	Dec-14	Dec-15
Liquid assets to total deposits	42.0	42.5	43.9	46.4
Liquid assets to total assets	28.4	28.2	29.7	31.7
Total loans to total deposits	7435	71.9	71.4	73.1
Interbank borrowings to total deposits	3.3	4.1	2.6	2.7

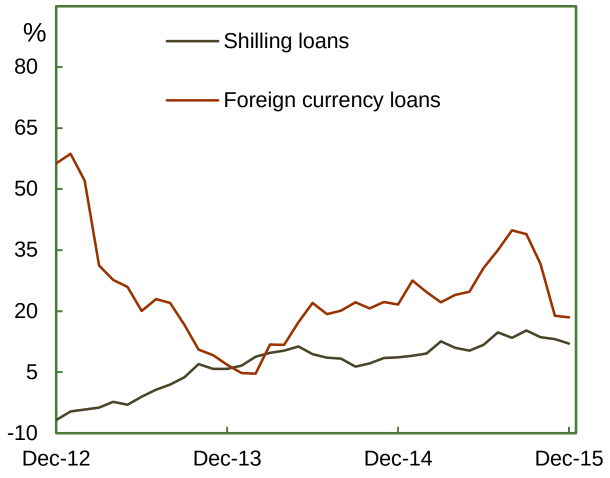
Source: Bank of Uganda

3.4 Performance of credit

Lending activity

The annual credit growth increased from 14.0 percent in 2014 to 14.9 percent in December 2015. This was due to the growth in shilling loans by 12 percent to Ush 5.9 trillion compared to the 8.7 percent growth in the previous year. Growth of foreign currency loans declined to 18.5 percent in 2015 to reach USh.4.9 trillion, compared to the 21.6 percent growth in 2014.

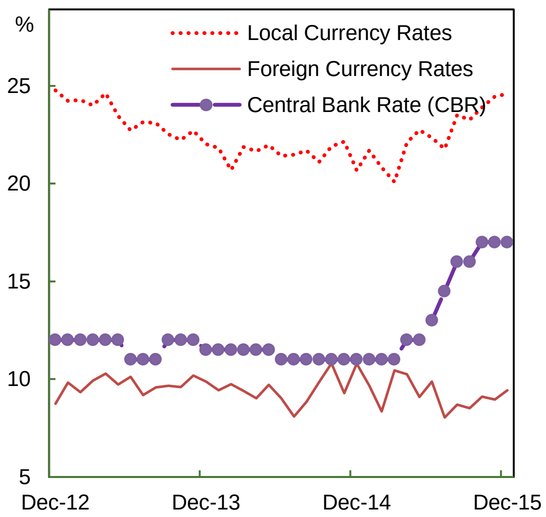
Figure 5: Annual percentage growth of loans



Source: Bank of Uganda

The growth in shilling loans was despite the growth in the commercial banks' weighted average lending rate that stood at 24.6 in December 2015 compared to 20.7 percent in the previous year. The Central Bank Rate (CBR) was increased from 11 percent in December 2014 to 17 percent in December 2015. The weighted average lending rate for foreign currency loans decreased from 10.8 percent at the end of December 2014 to 9.4 percent at the end of December 2015.

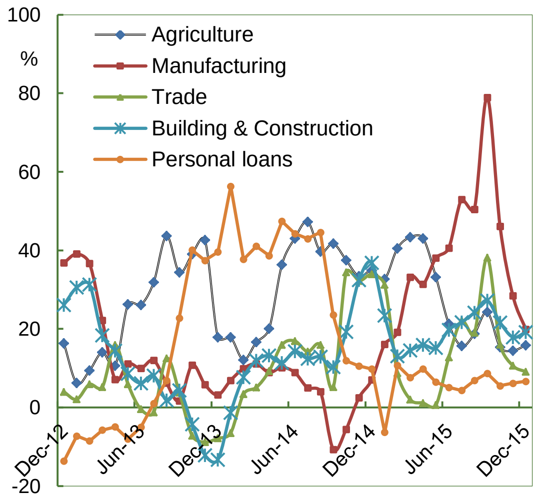
Figure 6: Weighted average lending rates for commercial banks



Source: Bank of Uganda

Analysis of bank lending by sector shows a shift with the highest growth in loans during 2015 being recorded in the manufacturing sector. Loans to the manufacturing sector grew by 19.9 percent over the period, compared to a growth of 7.1 percent in the previous year. Building and construction sector grew by 19.1 percent in 2015, compared to a 36.9 percent growth rate experienced in 2014.

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

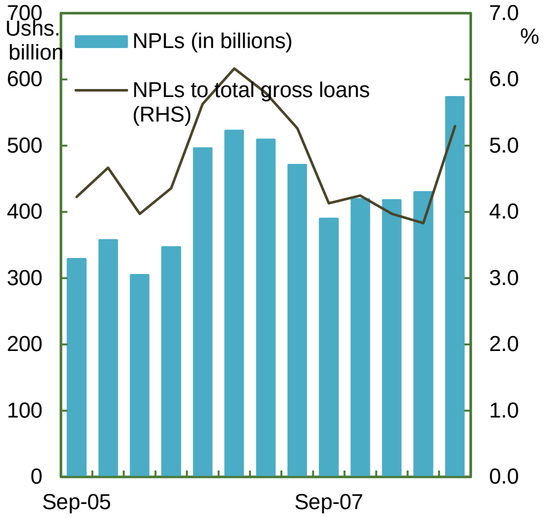


Source: Bank of Uganda

Loan quality and non-performing loans

Commercial banks' asset quality declined in 2015. The Non– performing loans (NPL) ratio (NPLs to total gross loans) rose from 4.1 percent in December 2014 to 5.3 percent at the end of December 2015. The volume of NPLs grew from USh.389.6 billion in December 2014 to USh.573.4 billion in December 2015.

Figure 8: Changes in banks' NPLs

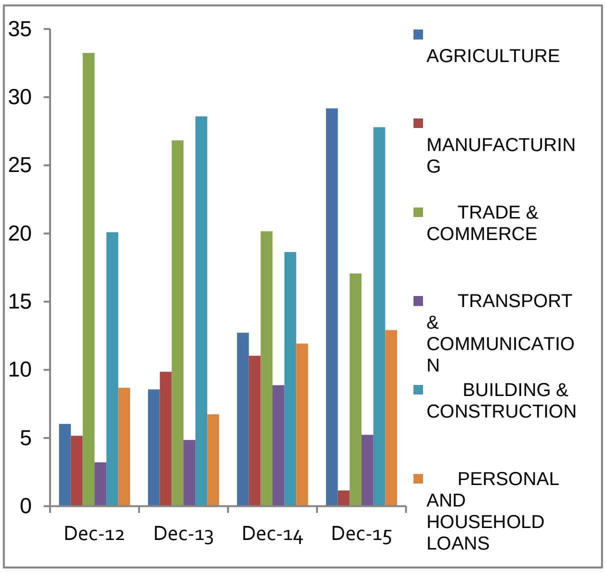


Source: Bank of Uganda

The industry NPL ratio for foreign currency loans and shilling loans rose from 3.2 percent and 4.9 percent respectively in December 2014, to 5.0 percent and 5.6 percent respectively at the end of December 2015. The shilling non-performing loans grew by USh.40.3 billion and the foreign currency non-performing loans grew by USh.143.5 billion in the year to December 2015

Sectoral analysis of NPLs shows that Trade and Commerce sector accounted for the largest share of NPLs with 20.2 percent at the end of December 2015. The agriculture sector recorded the biggest increase in its total bad loans by USh.117.8 billion, majorly in foreign currency denominated NPLs. As such, the sector's NPL ratio rose from 5.6 percent to 16.2 percent between December 2014 and December 2015. On the other hand, the manufacturing sector showed the most improvement in loan performance. The sector's NPLs dropped by USh.36.4 billion, improving its NPL ratio from 3.2 percent in December 2014 to 0.4 percent at the end of December 2015.

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



Source: Bank of Uganda

Table 8: NPLs for major business sectors (percent)

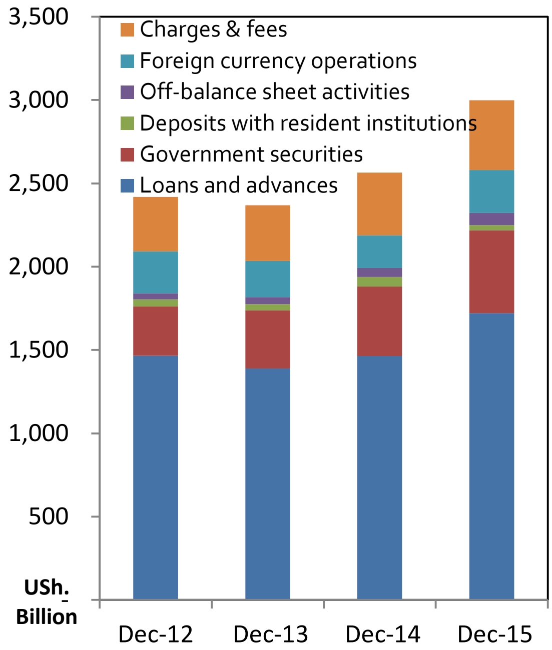
	NPL Ratio	Dec 2014	Mar 2015	June 2015	Sept 2015	Dec 2015
Agriculture	Foreign currency	6.5	8.1	7.5	8.3	23.7
	Shillings	4.5	5.2	4.6	4.8	6.7
Manufacturing	Foreign currency	2.3	2.3	2.7	0.0	0.2
	Shillings	5.6	5.7	7.8	1.3	0.8
Trade & commerce	Foreign currency	1.9	2.1	5.2	6.3	1.4
	Shillings	5.9	5.0	2.6	4.7	7.1
Transport	Foreign currency	5.5	6.0	5.1	4.0	3.2
	Shillings	9.4	9.2	7.7	3.7	7.9
Building & construction	Foreign currency	3.4	4.3	4.0	3.7	5.6
	Shillings	3.3	3.0	2.6	3.2	6.7
Personal & household loans	Foreign currency	4.7	5.7	5.7	6.4	4.8
	Shillings	2.9	2.9	4.0	4.5	4.5
Industry ratio	**Foreign currency**	**3.2**	**3.8**	**4.2**	**3.7**	**5.0**
	Shillings	**4.9**	**4.6**	**3.8**	**4.0**	**5.6**

Source: Bank of Uganda

3.5 Earnings and profitability

Banks' annual after tax profits rose by 11.5 percent to USh.541.2 billion in 2015. Provisions for bad debts grew by only 2.6 percent to from USh.212.2 billion to USh.217.7 billion during 2015. However, bank profitability ratios remained unchanged. Average return on equity (ROE) dropped slightly from 16.1 percent to 16.0 percent while return on assets (ROA) was stable at 2.6 percent during 2015. Income from loans and advances continued to provide the largest share (54 percent) of total banking sector income in 2015.

Figure 10: Composition of banks' income



Source: Bank of Uganda

Table 9: Profitability indicators for the banking sector (percent)

	2012	2013	2014	2015
ROA	3.9	2.5	2.6	2.6
ROE	24.2	15.2	16.1	16.0
Cost to income	70.9	77.2	68.7	69.2

Source: Bank of Uganda

3.6 Sensitivity to market risk

The proportion of the banks' foreign currency assets to total assets grew from 31.8 percent to 37.5 percent while the share of foreign currency deposits to total deposits increased from 36.7 percent to 42.5 percent between December 2014 and December 2015. The ratio of foreign currency exposure to regulatory tier 1 (core) capital was at 5.9 percent at the end of December 2015 which was well within the regulatory requirement of +/-25 percent. The ratio of foreign currency loans to foreign currency deposits reduced from 64.5 percent in the previous year to 59.2 percent in December 2015, which was still within the statutory limit of 80 percent.

Table 10: 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-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	64.5	31.8
Dec-15	-5.9	101.8	59.2	37.5

Source: Bank of Uganda

3.7 Performance of Domestic Systemically Important Banks

The performance of domestic systemically important banks (D-SIBs)[2] is crucial because of the potential risks these banks pose, on account of their systemic importance, to the financial system. In 2015, Ugandan D-SIBs accounted for 35.9 percent of total banking sector assets, lower than 42.2 percent they accounted for in 2014. Indicators show that the systemic risk posed by the three D-SIBs remained low during 2015. However, there was a decline in asset quality among D-SIBS with NPL ratio rising from 3.5 percent in December 2014 to 7.6 percent in December 2015. While this reflected the general performance of the banking sector, the decline in quality among DSIBs was also on account of the performance of one bank with a significant

[2] The D-SIBs at December 2015 were Stanbic bank, Standard Chartered bank and Crane bank.

exposure to one borrower. All the DSIBs have adequate capital to absorb losses.

Table 11: Selected Indicators for D-SIBs (percent)

Indicator	Dec-12	Dec-13	Dec-14	Dec-15
Tier 1 capital adequacy ratio	20.6	22.7	22.9	15.4
NPLs to total gross loans (NPL ratio)	4.0	5.2	3.5	7.6
Total D-SIB assets to total industry assets	49.71	44.7	42.2	35.9

Source: Bank of Uganda

3.8 Conclusion

In 2015, the performance of the banking sector remained sound. Bank liquidity and capital buffers remained well above the minimum requirements. Profitability remained stable throughout 2015.

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However, there was an increase in credit risk, with the growth in the NPL ratio. Most of this credit deterioration was in foreign currency denominated loans. Moving forward, commercial banks should remain vigilant to ensure that loan quality does not deteriorate.

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

This chapter presents the financial indicators for the non-bank financial institutions (NBFI) sector including credit institutions, microfinance deposit-taking institutions, foreign exchange bureaux and money remittance outlets. The Performance of Systemically Important Payment Systems is also presented.

4.1 Credit institutions

Overview

Total assets of the Credit Institutions (CIs) grew strongly during 2015. Overall, total assets inceased by 25.3 percent to USh.389.6 billion in 2015. The increase is largely due to increased lending activity and commencement of operations by Top Finance Bank Limited (TFBL) in May 2015. The increase in assets was also reflected in the rise in net loans and advances by 20.3 percent from USh.187.3 billion as at end December, 2014 to USh.225.3 billion as at end December, 2015, while total deposits rose by 30.3 percent to UShs.254.3 billion over the same period.

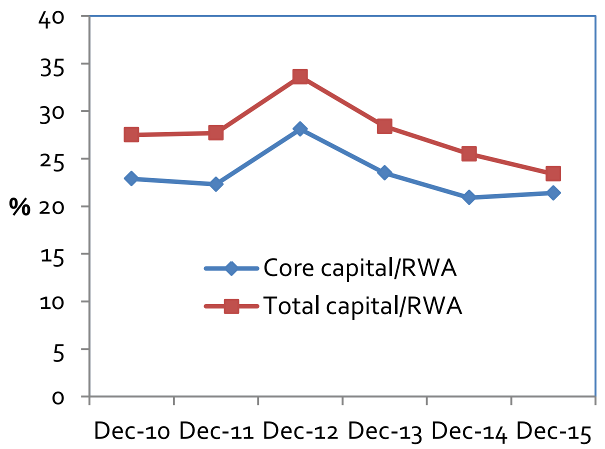
Indicators of financial soundness

Overall, all the credit Institutions remained well capitalized, liquid and financially sound during the year ended December 2015.

a) Capital adequacy

All the institutions maintained their respective paid-up capital above the statutory minimum of USh.1billion. The sector's core capital and total capital to risk weighted assets (RWA) ratios stood at 21.4 percent and 23.4 percent respectively. The core capital ratio had improved from 20.9 percent as at end of December 2014. However, the total capital ratio had declined from 25.5 percent as at end of December 2014, largely due to the expiry of a subordinated debt previously held at one of the CIs. The overall core capital of the CIs stood at USh.61.1 billion while total capital amounted to USh.66.7 billion.

Figure 11: Capital adequacy ratios for credit institutions



Source: Bank of Uganda

b) Asset quality

In 2015 Credit Institutions' asset quality declined. Non-performing loans increased by 11.7 percent from USh.7.7 billion as at the end of December, 2014 to USh.8.6 billion as at the end December, 2015. However, a concurrent more than proportionate increase in loans and advances resulted in a decline in the ratio of non-performing advances to total advances from 4.1 percent to 3.7 percent over the same period.

c) Earnings

Credit Institutions recorded overall year-to-date profits of USh.1.0 billion during 2015. This reflected a substantial drop in profitability of 80.0 percent below the profits of USh.5.0 billion earned during 2014.This was largely attributed to an increase in loan loss provisions and newly licensed Credit institution(s) which are yet to recover their start-up costs. Consequently, the resultant ROA and ROE ratios stood at 0.3 percent and 1.4 percent respectively. Interest income continued to be the major source of income for the CIs, contributing USh.69.0 billion during 2015.

d) Liquidity

The Credit Institutions' key liquidity indicators were satisfactory. Liquid assets stood at USh.117.7 billion while the ratios of liquid assets to total deposits and loans to deposits were 46.3 percent and 82.4 percent respectively.

4.2 Microfinance deposit-taking institutions (MDIs)

Overview

Total assets of MDIs grew by 24.2 percent, from UShs.322.9 billion as at end December, 2014 to UShs.401.0 billion as at end December, 2015. Gross loans increased by 31.3 percent from UShs.206.0 billion to UShs.270.4 billion. Customer deposits increased by 25.9 percent from UShs.145.2 billion to UShs.182.9 billion over the review period. The increase in deposits was attributed to the continuous mobilization drive implemented by the MDIs.

Indicators of financial soundness

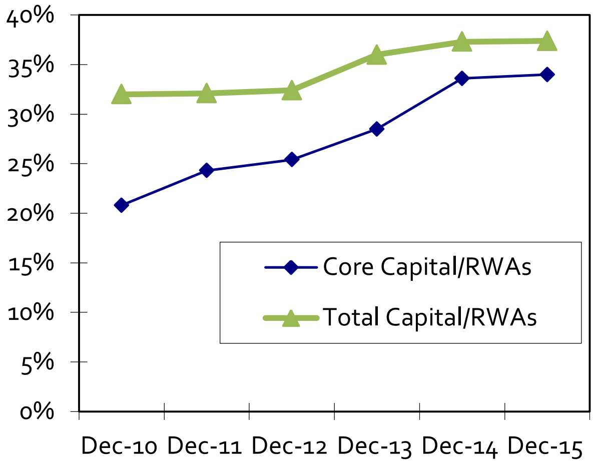
Overall, MDIs were financially sound, profitable, well capitalised and liquid during the year ended December, 2015.

a) Capital adequacy

All MDIs maintained paid up capital which was above the statutory minimum requirement of UShs.500 million. The core capital and total capital to risk weighted assets ratios stood at 33.9 percent and 37.4 percent respectively, compared to 33.6 percent and 37.3 percent, as at end December, 2014.

The aggregate total capital held grew by UShs.27.8 billion or 28.9 percent from Ushs.96.1 billion as at end December, 2014 to Ushs.123.9 billion for the year ended December, 2015.

Figure 12: Capital adequacy ratios for MDIs

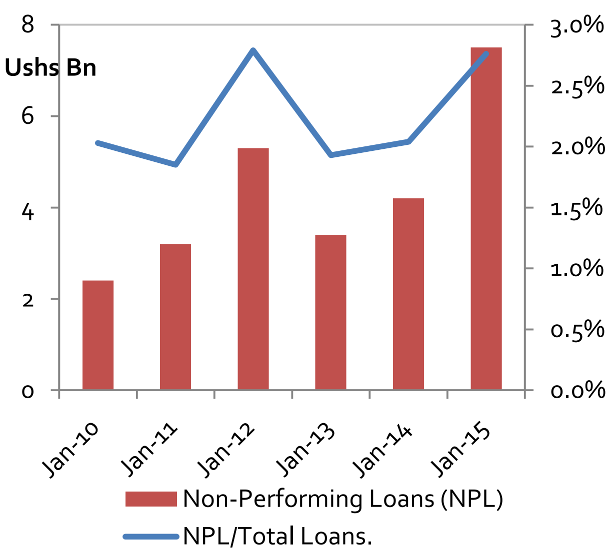


Source: Bank of Uganda

b) Asset quality

The MDIs registered a deterioration in asset quality, with the volume of non-performing loans increasing by 3.3 billion or 78.6 percent from Ushs.4.2 billion to Ushs.7.5 billion. Correspondingly, the overall portfolio at risk increased to 2.8 percent compared to 2.0 percent as at end December, 2014. The deterioration the quality of assets notwithstanding, the volume of gross loans outstanding grew by UShs.64.4 billion or 31.3 percent during the review period.

Figure 13: Asset quality ratios for MDIs



Source: Bank of Uganda

c) Earnings

The net after tax profits declined from Ushs. 17.7 billion in 2014 to Ushs. 12.2 billion in 2015. The decline in earnings was partly due the cost of loanable funds during the period. Subsequently, the annualised ROA and ROE ratios declined to 3.2 percent and 10.4 percent from 5.6 percent and 20.3 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.4.3 billion or 5.4 percent from UShs.80.1 billion as at end December, 2014 to UShs.84.4 billion as at end December, 2015. However, liquid assets as a proportion of deposits decreased to 46.1 percent from 55.2 percent as at December 31, 2014.

4.3 Foreign Exchange Bureaus and Money Remittance Outlets

Overview

The Foreign Exchange Bureaus and Money Remittances sub-sector continued to be financially sound, profitable and most were adequately capitalized for the period ended December, 2015. The number of foreign exchange bureau outlets stood at 280 compared to 267 as at end December, 2014, while the money remitters rose to 66 from 57 as at end December, 2014.

Key Indicators for foreign exchange bureaus and money remittance outlets

a) Profitability

Profitability of the sub-sector declined by 25.9 percent, from Ushs.2.7 billion in2014 to Ushs.2.0 billion in 2015. This was caused by increased expenses of some foreign exchange bureaus.

b) Assets

Total assets held by the sub-sector stood at Ushs.99.7 billion as at end December, 2015, reflecting a 21.6 percent growth from Shs.82.0 billion as at end December, 2014. This growth was largely driven by increased cash and bank balances.

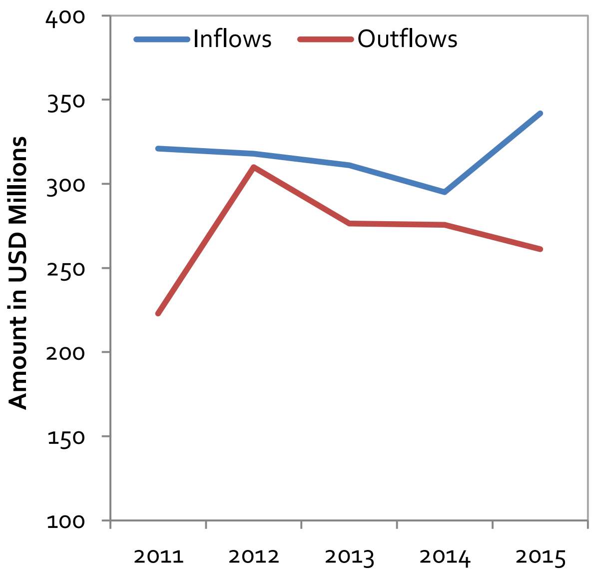
c) Capital and reserves

Total capital and reserves held by the sub sector as at end December, 2015 stood at **Shs.58.0 billion** an increase of **Shs.10.3 billion** or **21.0 percent** from **Shs.47.8 billion** as at end December, 2014. The top ten (10) foreign exchange bureaus accounted for **Shs.30.9 billion** which was **53.2 percent** of the total capital in the sector. With the exception of seven, all foreign exchange bureaus and money remitters maintained total capital and reserves above the statutory requirement of Ushs.20 million. Directives were issued for the undercapitalized institutions to raise more capital in order to meet the statutory minimum requirements.

d) Money remittances

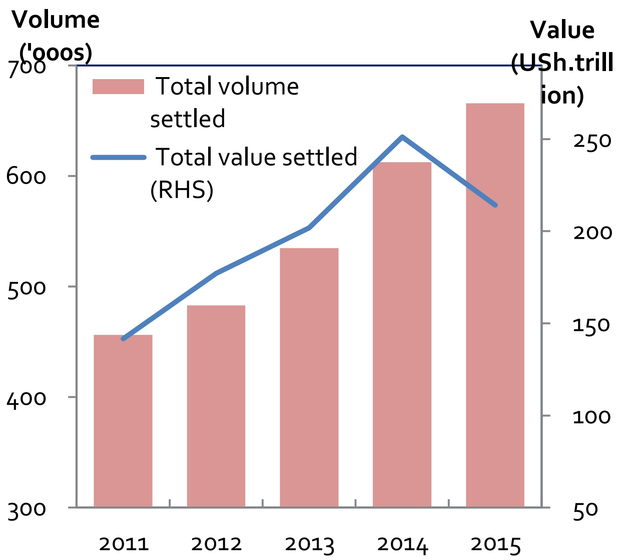
Total inflows increased by US$ 47.0 million or 15.9 percent from US$294.9 million for the year ended December 2014 to US$341.9 million as at end December 2015. The outflows on the other hand decreased by US$14.5 million or 5.3 percent from US$275.6 million as at end December 2014 to US$261.1 million as at December 2015. Reports from forex bureaus indicated that they attributed the reduction in outward remittances partly to the depreciation in the foreign exchange rate that was experienced for most of the year, which affected trade flows.

Figure 14: Money remittances



Source: Bank of Uganda

Figure 156: UNISS Annual Transactions by volume and value (in USh. billions)



Source: Bank of Uganda

4.4 Oversight of payment systems

UNISS performance in Ugandan Shillings

In 2015, the UNISS operations did not encounter any major disruptions. The volumes in terms of domestic and foreign denominated currency continued to grow but the values reduced during the same period. The volume of UNISS transactions in 2015 rose by 9 percent to 665,773 as compared to 612,510 witnessed in the previous year. On the contrary, the value of these transactions declined by 14.7 percent from USh.251.1 trillion in 2014 to USh.214.2 trillion in 2015.

UNISS performance in foreign denominated currencies

The transactions in dollars continue to register robust activity in terms of both value and volumes settled in 2015, with USD7.64 billion settled in 104,633 transactions (Table 5). This was a significant increase from USD6.9 billion settled in 90,751 transactions in 2014. The Kenyan shilling recorded the second highest number of transactions with an equivalent of USD 3.4 billion.

Table 12: UNISS volume and values transacted in foreign currencies

	2013	2014	2015
Total value settled (USD millions)	5,117	7,161	8,328
Proportion by currency (value)			
USD (percent)	97.7	96.4	91.7
EUR (percent)	2.0	1.7	3.5
GBP (percent)	0.2	0.3	0.6
KES (percent)	0.02	1.67	4.10
TZS (percent)	0.00	0.00	0.04
RWF (percent)	0.00	0.00	0.00
Total volume settled	**73,805**	**95,154**	**111,560**
Proportion by currency (volume) USD (percent)	96.7	95.4	93.8
EUR (percent)	2.3	1.6	2.0
GBP (percent)	0.7	0.6	0.6
KES (percent)	0.19	2.27	3.42
TZS (percent)	0.08	0.09	0.14
RWF (percent)	0.00	0.00	0.01

Source: Bank of Uganda

East African Payment System (EAPS)3

The East African Payment System (EAPS) is a multicurrency system, which connects the RTGS Systems of the EAC member countries. EAPS successfully completed the year 2015 with no significant disruption or downtime. The volumes and values of transaction continue to register significant growth month on month. Table 2 shows that in terms of value, the majority of EAPS transactions were made in Kenyan Shillings representing 83.7 percent for inward transactions and 84.7 percent for outward transactions.

Table 13: Performance of EAPS (2015)

	Inward	Outward
Total value settled (USh. billions)	550.36	563.85
Proportion by currency (value)		
UGX (percent)	15.2	14.1
KES (percent)	83.7	84.7
TZS (percent)	1.1	1.1
RWF (percent)	0.01	0.03
Total volume settled	2,398	4,461
Proportion by currency (volume)		
UGX (percent)	64.5	37.5
KES (percent)	34.0	59.4
TZS (percent)	1.2	2.8
RWF (percent)	0.3	0.2

Source: Bank of Uganda

Common Market for Eastern and Southern Africa (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. In 2015, a total of 194 transactions were made, 7 Euro and 187 US dollar transactions. This is equivalent to EUR 767,788.7 and USD 7.39 million.

ECS – Electronic Funds Transfers and cheques: performance in Ugandan Shillings

ECS is a clearing system which automates the processing of cheque clearing and execution of Electronic Funds Transfer (EFT) transactions. In 2015, 1.27 million cheque transactions valued at USh.6.21 trillion were cleared in the ECS as compared to the 1.36 million cheque transactions valued at 6.24 trillion cleared in 2014. The total volume EFT transactions including credits and debits, dropped by 8.0 percent to 7.6 million in 2015 as compared to the 8.2 million transactions recorded the in the previous year. On the other hand, the value of these transactions rose by 4.7

[3] note that all cross border transactions in KES and TZS are now considered as EAPS transactions. In previous classification, they were considered UNISS transactions.

percent to USh.15.8 trillion in 2015, an increase from the USh.15.1 trillion witnessed in the previous year.

Mobile money services

Mobile money continues to grow significantly with regards to the volume and value of transactions, as well as the number of registered users. The number of registered mobile money telephone lines increased in the year 2015 by 12.2 percent from 18.8 million to 21.1 million. Annual transactions were valued at USh.32.5 trillion, up from USh.24.1 trillion recorded in 2014. The number of transactions increased by 39.8 percent from 496.3 million transactions recorded in 2014 to 693.6 million transactions in 2015. There were six mobile money service providers as at the end of December 2015; MTN, Airtel, Uganda Telecom, Africell, M-Cash and EzeeMoney.

Table 14: Performance of mobile money services

	Number of transactions ('ooos)	Value of transactions (USh. billion)	Number of registered customers
2011	87,481	3.75	2,879,968
2012	241,728	11.6	8,870,873
2013	399,461	18.64	14,243,379
2014	496,269	24.05	18,800,416
2015	693,514	32.5	21,102,851

Source: Bank of Uganda

Chapter 5: Macroprudential Assessment and Outlook

Overall, systemic risk has been benign over the year to December 2015. However, both micro and macro risks to the banking system are likely to rise in 2016 associated with credit risk and potential for a slowdown in capital inflows.

5.1 Risks from the macroeconomy

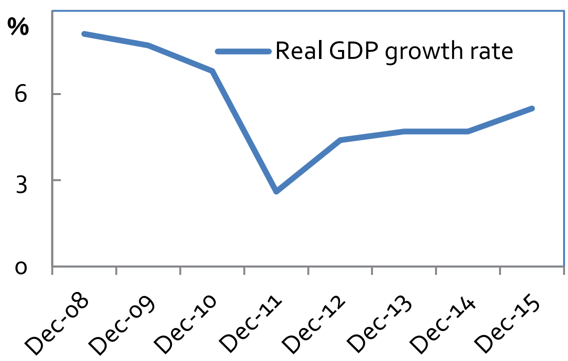
The macro environment remains challenging for banks. The IMF reduced World Economic Growth projections for 2016 to 3.2 percent in April 2016 down 0.6 percentage point from the previous estimates made last October 2015. Soft consumer demand in the developed countries and China which are a major market for Uganda's exports, risks from capital outflows and a reduction in commodity prices remain the main risks.

In Uganda, the forecast for GDP growth in 2016 has been revised downwards from 5.8 percent to 5.0 percent. This is mainly due to a drop in export performance and projected decline in private sector investment and consumption[4].

Banks have indicated that they may tighten lending conditions as reported in the latest bank lending survey for 2015/16[5], where commercial banks expect the projected macro-economic conditions to negatively impact the ability of small and medium size enterprises to repay their loans.

This scenario is further augmented by the risk of offshore capital outflows because of the likely increase of interest rates in developed economies and the weaknesses in emerging markets and the recent reduction in interest rates in Uganda. This could lead to a reduction of capital inflows and a withdrawal of offshore deposits held with commercial banks. At the moment, the banks hold adequate reserves to absorb risks from capital outflows..

Figure 17: Real GDP growth rates for Uganda



Source: Bank of Uganda

5.2 Risks from bank lending

Credit risk heightened during 2015 following the upward trend in commercial banks weighted lending rates from 20.4 percent in March 2015 to 24.3 percent in December 2015. Higher lending rates are likely to increase the debt service-to-income ratio (DIR) repayment burden for households and enterprises which affected their ability to service existing debt. While the CBR was reduced in March 2016, the stickiness of lending rates is likely to affect loan quality and continue to increase NPLs in the medium term.

The rising trend of bank lending in foreign currency also poses challenges to banks. The increase in the ratio of foreign currency loans to total loans could affect borrower's ability to repay their loans if they earn in local currency. The ratio of foreign currency loans to total loans adjusted for depreciation effects has risen from 24 percent in December 2010 to 43.2 percent in December 2015.

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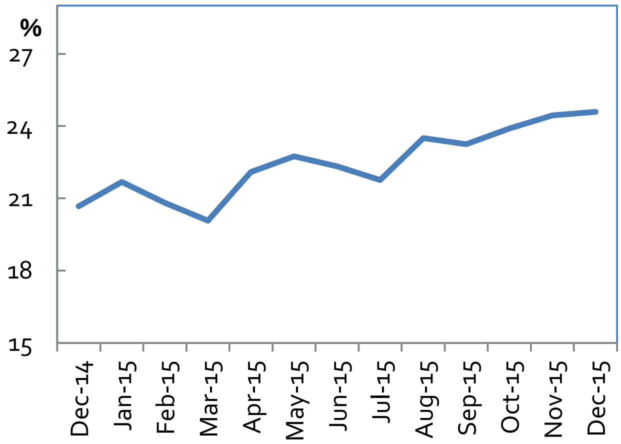
[4] State of the economy report December 2015

[5] Bank Lending Survey Report Q2 FY 2015/16

Focusing on sectoral credit risk, the building and construction sector had the largest share of foreign currency bank loans at end December 2015. A rapid rise in property and land prices can lead to the build-up of risks if lenders and borrowers speculate on prices going up further for example by extending mortgages at high Loan-to-Value Ratios (LTV). For now indicators show that these risks are still moderate, with the average LTV ratio for the banking sector between 50-70 percent in December 2015 for lending for residential and commercial mortgages. In addition, the ratio of foreign currency loans to foreign currency deposits was 59.2 percent in December 2015, well below the limit of 80 percent.

A concern however, arose from data indicating that the LTV for foreign currency loans for land purchase had risen to 75 percent as at end September 2015. To address this risk, the Bank's Financial Stability Committee introduced an upper limit of 70 percent on the LTV of foreign currency loans for land purchase. Banks should also remain vigilant in enforcing the requirement for foreign currency borrowers to have cash streams in foreign currency.

Figure 168: Average commercial bank Lending rates



Source: Bank of Uganda

5.3 Conclusion

Overall, the banking sector remains resilient. Stress tests conducted by BOU in December 2015, showed that banks have sufficient capital and liquidity buffers to absorb losses and withstand offshore withdrawals of deposits.

BOU will continue to conduct surveillance and take appropriate policy actions to ensure that the banking sector remains sound.

PART III: SPECIAL TOPIC

Chapter 6: Highlights of the Financial Institutions Act (2004) Amendments

6.1 Introduction

In January 2016, Parliament passed the Financial Institutions (Amendment) Act, 2016. This Chapter provides highlights of the amendments and the FIA and the actions BOU will take to implement them.

6.2 Rationale for revising the FIA (2004)

The main objectives for the amendments were;

a) Make provisions for Agent banking, Islamic banking and Bancassurance.

b) Give BOU the powers to prescribe the post crisis regulatory agenda through revision of bank capital especially by including Basel III measures.

c) To strengthen the banking sector, while allowing for innovation. Among others this will reform the Deposit Protection Fund (DPF), Credit Reference Bureau (CRB) and other amendments.

The amendments will enhance financial inclusion and strengthen the functioning and resilience of the financial system to both macro and macro risks.

6.3 Agent Banking

Section 4 of the principal FIA has been amended to allow a person licensed to carry out financial institution business to conduct the licensed business through an Agent. The place or places at which the licensee is authorized to conduct Agent banking will have a license that indicates the word "Agents" (amended Section 12 of the FIA).

Agents will be authorized to carry out activities such as account opening, cash withdrawing and cash depositing on behalf of licensed financial institutions. The new regulations will also authorize the use of already existing retail infrastructure and agents, and widespread information and communications technologies to transmit transaction details.

Agent Banking and Branchless Banking will have several advantages. Key among them is that it will increase the outreach of financial services in Uganda, particularly in the rural areas.

Bank of Uganda has drafted the regulations for Agent Banking and expects to circulate them to stakeholders for review during May 2016.

6.4 Islamic Banking

The FIA was amended to allow for Islamic Banking. By definition, An Islamic financial institution is one whose statute, rules and procedures expressly state its commitment to the principles of Islamic Shari'ah and to the banning of the receipt and payment of interest on any of its operations' (Organization of Islamic Conference)6

Islamic banks can thus be viewed as depository institutions whose core business is financial intermediation on the basis of a combination of profit and loss sharing (PLS) or equity as opposed to debt financing.

An already licensed financial institution carrying on business, may apply to the Central Bank in accordance with this Act to carry on Islamic financial business and offer Islamic financial products to its customers in addition to its existing licensed business (amended FIA Part XIIIA, 115A).

[6] *Uganda became a member of the OIC in 1974*

BOX 1: What is Islamic Banking?

1. Introduction and Pillars

Islamic Banking (IB) is defined as banking that is consistent with Shari'ah. Shari'ah stipulates the dos and don'ts in the execution of financial transactions, which can be classified under **four (4)** main pillars;

i) **Prohibitions:** Shari'ah prohibits interest, products with excessive uncertainty, gambling, as well as the financing of activities that are considered harmful to society say, alcohol, pornography, armaments, etc.

ii) **Fairness and honesty:** Parties should honour the principles of fair treatment and the sanctity of contracts.

iii) **Real Economic Activities:** Transactions must be underpinned by real economic activities.

iv) **Risk sharing:** There must be risk sharing in economic transactions.

2. Sources of funds

Apart from their own equity, Islamic banks rely on two main sources of funds;

- **Transaction deposits** such as savings and current accounts, which are risk free but yield no return. Current Account depositors do not receive remuneration for their funds, because the guaranteed funds will not be used for Profit and Loss Sharing (PLS) ventures.
- **Investment deposits**, which carry the risks of capital loss. The depositor earns a profit or incurs a loss depending on the performance of the funded project. **Investment Deposits** are further divided into two categories; **Unrestricted Investment Deposits** in which the Institution has absolute freedom in the deployment of the deposited funds and **Restricted Investment** Deposits where the customer specifies the project in which the Financial Institution should invest their funds.

3. Uses of Funds

Islamic Financial Institutions utilize funds (Equity and Customer deposits) to offer financing contracts to customers using the following broad contracts;

- **Debt-like financing** which may be structured in two ways; i) **Murabahah** or **cost plus,** where a Financial Institution buys an asset on behalf of the customer and sells it to the customer at a mark-up. The customer can pay upfront or in instalments. If the client delays to repay the mark-up does not increase. This is the most popular form of contract used in Islamic Banking. i) **Ijarah** or **lease** which is similar to the lease in Conventional Banking. The bank buys and leases out an asset or equipment to its client for a rental fee. The ownership of the asset remains with the lessor who bares any inherent risks of maintaining the asset.
- **Profit and loss sharing contracts**, which are subdivided into two main types (i) **Mudarabah** *(Finance by way of Trust)* where the financier provides funds and the customer provides labour and skills towards a venture jointly owned by both parties. Profits are shared according to a pre-agreed ratio but losses are borne by the financier unless there is evidence of negligence by the customer (ii) **Musharakah** *(Finance by way of partnership)* where the financier and the customer both contribute capital towards an investment venture and are active partners in the day-to-day running of the business. In practice, the Financial Institution appoints the customer as their agent in the management of the business. Profits and losses are shared in accordance with a pre-determined ratio, which is normally proportionate to the capital contribution of the parties.
- **Fee based financing contracts** e.g **Wakalah** or **Agency** contracts where one party (say an importer) authorizes a Financial Institution to issue on its behalf a letter of credit to the bank of an exporter) for a specified fee or commission.
- **Salaam (Advance Purchase).** Forward purchase of specified goods for full forward payment. Mainly used

to finance agricultural products. **Istisna (commissioned manufacture).** One party buys the goods and the other undertakes to manufacture them according to agreed specifications. Used to finance construction and manufacturing contracts.

4. Main differences between Islamic and Conventional Banking

1) As a result of prohibition of interest, Islamic Financial Institutions (IFIs) are funded by non-interest bearing accounts as well as profit-sharing investment accounts.
2) On the asset side, IFIs do not engage in lending, but in sales, leases, profit-and-loss sharing financing and fee-based services.
3) Unlike in Conventional Banking, Islamic Banking transactions **must be** backed by real assets or economic activity.

Any financial institution wishing to conduct Islamic Banking will institute a Shari'ah Advisory Board to advise, approve and review its Islamic financial business in order to ensure that it complies with the Shari'ah (amended FIA Part XIIIA, 115B).

BOU has undertaken several initiatives in the period leading to the enactment of the amendments to prepare for implementing Islamic banking in Uganda. The supervisory capacity of the bank has been enhanced with skills on regulating Islamic banking with assistance from the IMF and the Islamic Development Bank. In addition, a consultant was engaged to develop Islamic Banking Regulations and Supervisory tools, which are expected to be ready by end May 2016. A Sharia Advisory Board will also be established at BOU.

Islamic Banking is expected to enhance access to banking services (*financial sector widening*) and increase the range of financial products offered in the sector (*financial sector deepening*). It is also envisaged that Islamic banking will attract foreign capital investment, which will boost employment.

6.5 Bancassurance

Banks in many countries now provide insurance services to their customers in collaboration with an insurance company. However, the FIA (2004) prohibited financial institutions from among other things, engaging in insurance business.

The amendments in the FIA ***(Part XIIB)*** permit the Central Bank to grant permission to a bank to provide Bancassurance business subject to compliance with the regulations issued by the Central Bank and the provisions of the Insurance Act implemented by the Insurance Regulatory Authority. "Bancassurance" means using a financial institution and its branches, sales network and customer relationships to sale insurance products.

The Insurance Regulatory Authority and BOU are working together to complete the regulations for bancassurrance.

6.6 The Deposit Protection Fund

The amended FIA provides for the reform of the Deposit Protection Fund (DPF). The Deposit Protection Funds (DPF) for Commercial Banks, Credit Institutions and for the Microfinance Deposit-taking Institutions will be merged into a single Fund. The Fund shall be a separate legal entity from the Central Bank. It may act as a receiver or liquidator of a financial institution, if appointed for that purpose by the Central Bank.

This revision will ensure that the Uganda DPF operates in line with EAC regional and international best practice.

6.7 Revision of Capital

The Amendments to the FIA (2004) will allow Bank of Uganda to revise the minimum capital requirements for commercial banks in Uganda, in line with the decision of the EAC Monetary Affairs Committee to harmonise capital requirements in the region and implement Basel III capital buffers. Higher capital requirements will strengthen the capacity of banks to withstand negative shocks and thus make them more resilient to risks.

The capital requirements that will be implemented by BOU include;

a) A Capital Conservation Buffer of 2.5 percent of Risk Weighted Assets (RWA) that will apply to all commercial banks.

b) Additional capital requirements for D-SIBs, which will range from 1-3.5 percent of RWA. BOU published the framework for classifying banks as Domestic Systemically Important banks (DBSIBs) in the *Financial Stability Report of* June 2014.

c) A macroprudential countercyclical buffer of up to 2.5 percent of Risk Weighted Assets (RWA) that will apply to all commercial banks when triggered by BOU during periods of excessive credit growth. A special topic on the countercyclical buffer and its application to Uganda was published in the *Financial Stability Report of* June 2012. A guiding note for banks will follow later this year.

The Table below provides a summary of the revised minimum capital requirements.

Table 15: Minimum Capital Requirements for Banks in Uganda

Sector	**Tier 1 Capital/ RWA (%)**	**Total Capital/ RWA (%)**
Minimum Requirement (Harmonised in the EAC)	**10**	**12**
Add; Capital Conservation Buffer (all Banks)	**12.5**	**14.5**
Add: Capital for DSIBs - (1-3.5%).	**16.0**	**18.0**

Source: Bank of Uganda

The implementation of the buffers will be effected in 2016. BOU issued a guiding note in 2014 directing to all banks to set aside adequate reserves to meet the revised capital buffers and all banks already meet the enhanced Capital Requirements.

6.8 Credit Reference Bureau

The Financial Institutions Act 2004 amendments enacted in January 2016 provide for expansion of the CRB to other credit providers or service providers and the licensing of a Biometric Information Provider for the Financial Card System. The draft Credit Reference System Regulations to regulate the competitive CRB market are undergoing review and will be submitted to the First Parliamentary Counsel by April 30, 2016.

6.9 Other Amendments

The FIA amendments also the following issues;

a) Regarding allotment of shares, Section 20 of the principal Act provides that the registrar of companies shall not register any transfer or allotment of shares of a bank without the written consent of the Central Bank.

b) There are restrictions on mortgage banks under Section 45 of the principal Act. A mortgage bank shall not advance or make more than twenty five percent of all its loans or other credit accommodations for a purpose other than real estate.

c) All fines and penalties recovered by the Central Bank shall be retained by the Central Bank and used to offset the costs of supervision.

d) Regarding money laundering, Section 130 of the principal Act provides that a financial institution shall promptly report to the Financial Intelligence Authority any suspected money laundering activity related to any account held with the financial institution

6.10 Conclusion

The FIA Amendments (2016) are timely and will strengthen the stability and efficiency of the Ugandan banking system, while allowing for growth and innovation.

PART IV: STATISTICAL APPENDICES

APPENDIX 1: FINANCIAL SOUNDNESS INDICATORS FOR SUPERVISED FINANCIAL INSTITUTIONS

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

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Capital Adequacy							
Regulatory capital to risk-weighted assets	20.9	20.2	20.3	21.9	22.9	22.2	21.0
Regulatory tier 1 capital to risk-weighted assets	18.7	17.5	17.9	18.8	19.9	19.7	18.6
Total qualifying capital to total assets	13.6	13.0	14.6	14.8	14.9	16.3	16.5
Asset quality							
NPLs to total gross loans	4.2	2.1	2.2	4.2	5.6	4.1	5.3
NPLs to total deposits	3.0	1.4	1.7	3.1	4.1	3.0	3.9
Specific provisions to NPLs	57.2	65.0	50.9	45.9	47.2	48.9	41.6
Earning assets to total assets	78.0	77.1	74.0	71.3	69.7	71.5	69.2
Large exposures to gross loans	32.2	35.7	34.6	34.6	36.3	38.3	41.0
Large exposures to total capital	94.3	124.4	120.9	104.7	105.2	113.2	123.5
Earnings & profitability							
Return on assets	3.0	2.7	4.0	3.9	2.5	2.6	2.6
Return on equity	18.8	18.0	27.3	24.2	15.2	16.1	16.0
Net interest margin	10.8	10.0	11.7	12.8	11.5	11.0	11.3
Cost of deposits	3.7	2.9	3.2	4.1	3.7	3.6	3.3
Cost to income	75.4	75.7	68.1	70.9	77.2	68.7	69.3
Overhead to income	52.3	53.1	43.9	40.1	46.7	40.0	42.0
Liquidity							
Liquid assets to total deposits	44.7	39.8	37.6	42.0	42.5	44.0	46.4
Total loans to total deposits	71.7	68.0	78.4	74.5	74.2	74.2	74.2
Market Sensitivity							
Foreign currency exposure to regulatory tier 1 capital	-0.7	-1.6	-3.6	-0.6	-3.0	-7.0	-5.9
Foreign currency loans to foreign currency deposits	57.9	61.4	62.8	79.3	62.2	64.5	59.2
Foreign currency assets to foreign currency liabilities	107.0	98.0	100.2	105.0	96.8	97.1	101.8

Source: Bank of Uganda

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

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Capital Adequacy						
Core capital (Ushs. billion)	26.2	31.6	44.2	45.9	49.5	61.1
Total capital (Ushs. billion)	31.6	39.3	53.0	55.5	60.5	66.7
Risk-weighted assets (Ushs. billion)	114.6	141.4	157.6	195.6	236.8	285.5
Core capital to risk-weighted assets (% ratio)	22.9	22.3	28.1	23.5	20.9	21.4
Total capital to risk-weighted assets (% ratio)	27.5	27.7	33.6	28.4	25.5	23.4
Provisions to core capital (% ratio)	4.8	3.1	5.7	6.8	6.9	7.3
Asset Quality						
Loans and advances (Ushs. billion) (Net)	79.7	107.2	115.9	147.6	187.3	225.3
Total provisions (Ushs. billion)	1.3	1.0	2.5	3.2	3.4	4.5
Non-performing loans (Ushs. billion)	3.3	1.7	4.9	5.2	7.7	8.6
Non-performing loans to total loans (% ratio)	4.1	1.6	4.2	3.5	4.1	3.7
Profitability						
Year-to-date profit/loss (Ushs. billion)	0.3	2.9	5.2	3.7	5.0	1.0
Quarterly net profits (Ushs. billion)	0.4	1.2	0.9	4.6	0.4	0.3
Quarterly return on assets (% ratio)	0.2	0.6	0.4	1.7	0.2	0.1
Year-to-date return on assets (% ratio)	0.1	1.5	2.4	1.4	1.6	0.3
Liquidity						
Total public deposits (Ushs. billion)	107.7	121.6	133.0	164.9	195.1	254.3
Liquid assets (Ushs. billion)	54.3	58.3	76.8	83.1	82.5	117.7
Liquid assets to deposits (% ratio)	50.4	47.9	57.8	50.4	42.3	46.3
Loans to deposits (% ratio)	56.1	62.6	58.5	68.9	75.9	82.4

Source: Bank of Uganda

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

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Capital Adequacy							
Core capital (Ushs. billion)	26.1	29.8	48.1	58.0	61.8	86.6	106.8
Total capital (Ushs. billion)	35.3	45.9	63.6	73.7	77.9	96.1	117.9
Risk-weighted assets (Ushs. billion)		143.6	197.9	227.5	216.6	257.6	308.6
Core capital to risk-weighted assets (% ratio)	22.0	20.8	24.3	25.4	28.5	33.6	34.6
Total capital to risk-weighted assets (% ratio)	29.8	32.0	32.1	32.4	36.0	37.3	38.2
Asset Quality							
Total loans (Ushs. billion)	83.4	120.3	171.4	190.3	175.8	206.0	252.6
Non-performing loans (Ushs. billion)	2.3	2.4	3.2	5.3	3.4	4.2	6.6
Total provisions (Ushs. billion)		2.8	3.7	5.6	4.0	4.5	6.8
Portfolio at risk (% ratio)	2.4	2.0	1.9	2.7	1.9	2.0	2.7
Profitability							
Year-to-date profit/loss (Ushs. billion)	4.6	4.3	10.1	11.6	10.4	17.7	14.7
Year-to-date return on assets (% ratio)	3.4	2.6	4.3	4.2	3.5	5.6	3.9
Year-to-date return on equity (% ratio)	10.2	8.6	17.2	17.2	12.0	20.3	13.0
Liquidity							
Liquid assets to deposits (% ratio)	62.4	49.3	51.6	58.5	62.4	55.1	43.8
Loans to deposits (% ratio)	77.4	75.1	77.0	69.9	78.0	72.4	83.1

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	Dec-15
ASSETS (Ushs. Billion)							
Cash & cash assets	401.5	472.9	583.0	667.4	692.0	786.6	811.3
Balances with BOU	623.6	802.7	835.8	1,341.6	1,730.1	2,104.81	1,982.6
Due from financial institutions	1,032.9	1,317.8	1,736.5	1,622.2	2,043.7	1,692.8	2,634.8
Government securities	1,832.3	2,532.5	2,073.5	3,053.2	3,648.7	4,463.2	4,064.8
Total gross loans & advances	4,038.9	5,461.1	6,981.0	7,789.7	8,274.6	8,247.3	9,501.8
LESS: Provisions	-96.9	-88.0	-89.5	-187.9	-261.7	-229.3	-285.6
Net loans & advances	3,942.0	5,373.1	6,891.5	7,601.8	8,012.9	8,018.0	9,216.2
Net fixed assets	472.9	401.7	429.5	519.3	583.2	821.3	925.9
Other assets	327.9	409.9	432.6	660.4	610.3	671.6	691.9
TOTAL ASSETS	**8,633.0**	**11,310.5**	**12,982.4**	**15,465.9**	**17,320.9**	**19,586.1**	**21,722.2**
LIABILITIES (Ushs. Billion)							
Deposits	5,630.5	8,041.7	8,903.7	10,457.7	11,504.3	13,218.7	14,821.1
Due to financial institutions	603.3	529.1	730.2	513.7	825.9	563.4	630.1
Administered funds	279.2	309.6	339.9	359.1	1,033.2	1,187.6	1,255.9
Other liabilities	773.5	864.8	1,007.0	1,558.3	892.9	1,425.7	1,398.1
TOTAL LIABILITIES	**7,286.6**	**9,745.2**	**10,980.8**	**12,888.8**	**14,463.8**	**16,395..4**	**18,129.1**
SHAREHOLDERS' FUNDS (Ushs. Billion)							
Paid-up capital	485.8	591.9	789.6	973.6	1,272.3	1,287.4	1,346.8
Share premium	55.1	80.3	81.5	75.7	91.8	102.3	115.4
Retained reserves	456.7	534.1	581.2	830.6	914.3	1,174.3	1,446.6
Other reserves	112.8	90.3	61.0	152.7	159.7	139.2	143.2
Profit – Loss (current year)	236.1	268.7	488.3	544.5	414.0	487.4	541.1
TOTAL SHAREHOLDERS' FUNDS	**1,346.5**	**1,565.3**	**2,001.6**	**2,577.0**	**2,857.1**	**2,857.1**	**2,857.1**
OFF BALANCE SHEET ITEMS (Ushs. Billion)							
Letters of Credit	201.9	335.6	392.4	352.0	354.2	354.2	354.2
Guarantees & performance bonds	520.5	608.5	786.6	1,046.3	1,157.3	1,157.3	1,157.3
Unused loans/overdrafts commitment	318.1	678.4	802.2	1,023.3	1,092.8	1,092.8	1,092.8
Other off balance sheet items	147.2	334.9	1,000.2	765.1	483.5	483.5	483.5
TOTAL OFF BALANCE SHEET ITEMS	**1,187.8**	**1,957.4**	**2,981.4**	**3,186.7**	**3,087.8**	**3,582.0**	**3,829.6**

Source: Bank of Uganda

Table 2B: Aggregated balance sheet for credit institutions

	Dec-10	Dec-11	Dec-12	Dec-13	Dec -14	Dec-15
ASSETS (Ushs. billion)						
Cash	6.1	6.7	7.7	11.5	14.6	16.4
Balances with institutions in Uganda	41.7	41.0	55.9	63.1	56.2	70.3
Balances with commercial banks outside Uganda	0.8	0.2	0.7	0.5	0.3	1.0
Investments	5.7	10.5	12.5	7.9	11.4	29.9
of which Government securities	5.7	10.4	12.5	7.9	11.4	29.9
Loans and advances (Net)	79.7	107.2	115.9	147.6	187.3	225.3
of which Administered funds*	-	-	-	-	-	-
Premises and fixed assets (Net)	16.3	19.2	20.2	23.4	28.4	32.3
Other Assets	8.6	8.9	8.1	11.7	12.8	14.4
Total assets	**158.9**	**193.7**	**221.1**	**265.7**	**311.0**	**389.6**
LIABILITIES (Ushs. billion)						
Total deposit liabilities to depositors	107.7	121.6	133.0	164.9	195.1	254.3
Loan Insurance Fund	3.4	3.6	4.3	4.8	4.9	4.9
Balances due to commercial banks/associated companies/residents/non-residents	7.5	13.2	17.2	21.5	21.9	27.3
Borrowings at Bank of Uganda	0.8	0.7	0.6	0.6	0.4	0.3
Administered funds	-	-	-	-	-	-
Other Liabilities	10.7	16.0	14.5	16.3	22.4	17.5
Provisions	0.5	0.7	2.0	3.1	5.3	2.4
Capital	28.0	35.0	44.3	50.7	56.3	81.9
of which paid up capital	16.9	17.9	21.9	21.8	21.8	54.1
Profit for current year	0.3	2.9	5.2	3.7	5.0	1.0
Total liabilities	**158.9**	**193.7**	**221.1**	**265.7**	**310.9**	**389.6**

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	Dec-15
ASSETS (Ushs. billion)							
Notes and coins	4.0	4.9	6.9	9.0	5.7	6.2	8.3
Balances with institutions in Uganda	14.5	23.7	25.8	48.7	52.2	73.9	70.1
Government securities	4.5	2.4	7.4	0.9	0.0	0.0	1.1
Net loans outstanding	94.8	118.7	169.3	186.5	173.6	203.1	248.3
Inter branch/ due from own offices	-	35.0	374.0	0.0	0.0	0.1	0
Net fixed assets	9.9	11.1	12.0	13.6	12.8	15.8	23.6
Long-term investments	-	-	-	-	-	-	-
Other assets	8.2	9.0	11.1	17.6	19.7	23.9	22.3
Total assets	**135.8**	**169.9**	**232.9**	**276.3**	**264.0**	**323.0**	**374.2**
LIABILITIES (Ushs. billion)							
Deposit liabilities	36.6	62.9	76.8	99.9	92.7	145.3	181.6
Loan insurance fund	14.2	12.1	13.5	14.0	16.9	12.1	9.2
Borrowings	29.2	28.5	52.4	57.2	46.9	32.3	24.9
Other liabilities	9.2	10.0	15.6	18.3	18.9	22.5	26.3
Grants/deferred income	1.7	1.8	6.0	7.4	5.5	5.5	6.8
Inter branch/ Due to own Offices	10.0	-	-	-	-	-	-
Other long-term Liabilities	-	-	0.1	0.1	0.1	0.3	0.0
Total liabilities	**90.9**	**115.3**	**164.2**	**196.7**	**181.0**	**218.0**	**256.6**
FINANCED BY: (Ushs. billion)							
Capital	28.4	33.2	56.4	66.8	69.9	99.0	102.8
Subordinated debt	16.5	21.4	12.2	12.7	13.1	6.0	7.7
Preference shares	-	-	-	-	-	-	-
Total liabilities & equity	**135.8**	**169.9**	**232.9**	**276.3**	**264.0**	**323.0**	**374.2**

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	Dec-15
INCOME (Ushs. Billion)							
Interest income							
Advances	690.4	789.7	1,178.1	1,465.3	1,389.5	1,464.1	1,722.0
Government securities	166.4	182.9	210.7	296.5	349.8	416.1	497.6
Deposits abroad	12.4	10.7	22.2	49.3	29.5	8.6	12.0
Other	58.1	44.2	70.0	23.6	91.0	132.0	68.8
Charges, fees & commissions	218.0	214.7	252.6	326.9	335.3	376.1	419.3
Foreign exchange income	130.3	132.9	186.4	250.6	216.4	197.6	257.6
Other income	55.8	100.7	94.9	183.3	127.2	153.9	147.9
TOTAL INCOME	**1,331.3**	**1,475.8**	**2,014.7**	**2,595.5**	**2,538.7**	**2,802.3**	**3,196.6**
EXPENSES (Ushs. Billion)							
Interest expense on deposits	188.5	196.8	267.0	401.4	406.8	438.5	467.6
Other interest expenses	64.5	57.3	145.2	193.3	119.8	154.3	189.8
Provisions for bad debts	56.3	79.0	77.8	205.9	247.9	212.2	217.7
Salaries, wages, staff costs	284.8	330.3	381.4	437.8	504.4	583.9	646.9
Premises, depreciation, transport	144.3	153.8	178.5	198.1	221.7	253.9	296.5
Other expenses	266.9	296.2	322.9	405.2	458.3	494.8	612.6
TOTAL EXPENSES	**1,005.4**	**1,113.4**	**1,372.8**	**1,841.7**	**1,958.9**	**1,925.4**	**2,213.5**
ADD: Extraordinary credits/charges	0.0	-0.4	-0.7	0.9	0.1	0.0	0.0
Net profit before tax	325.9	362.0	641.3	754.7	579.9	664.7	765.3
LESS: Corporation tax	89.8	93.3	153.0	199.9	165.9	179.5	224.1
NET PROFIT AFTER TAX	**236.1**	**268.7**	**488.3**	**544.8**	**414.0**	**485.2**	**541.2**

Source: Bank of Uganda

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

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
INCOME (Ushs. Billion)						
Interest on loans and advances	21.0	27.3	31.7	37.2	49.8	60.1
Interest on government securities	0.5	0.8	2.2	1.6	4.6	3.1
Other interest income	3.1	4.1	0.3	8.1	1.3	5.8
Total interest income	24.5	32.1	41.0	46.9	55.7	69.0
Total non-interest income	9.8	13.5	15.4	20.0	20.2	25.3
TOTAL INCOME	**34.3**	**45.6**	**56.4**	**66.9**	**75.9**	**94.3**
EXPENSES (Ushs. Billion)						
Total interest expense	2.3	3.8	4.6	6.6	7.8	12.2
Provisions for bad debts	1.1	1.6	2.8	6.3	4.2	8.0
Salaries & other staff costs	14.3	17.4	19.9	24.3	28.4	33.8
Other non-interest expense	16.2	19.5	21.9	24.4	29.3	36.7
TOTAL EXPENSES	**33.9**	**42.3**	**49.2**	**61.6**	**69.7**	**90.7**
Taxation	0.1	0.4	1.9	1.6	1.0	2.6
NET INCOME	**0.3**	**2.9**	**5.2**	**3.7**	**5.2**	**1.0**

Source: Bank of Uganda

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

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
INCOME (Ushs. Billion)							
Total credit income	51.2	57.0	79.1	99.0	82.5	97.8	110.0
Total other income	7.3	4.3	7.3	10.6	11.2	13.8	16.9
GROSS FINANCIAL INCOME	**58.5**	**61.3**	**86.3**	**109.6**	**93.7**	**111.6**	**126.9**
EXPENSES (Ushs. Billion)							
Total financial expenses of lending funds	6.2	5.6	9.4	15.7	12.0	15.8	16.9
Provision for bad debts	2.5	2.4	3.0	5.0	3.4	4.6	5.3
Net financial income	49.8	53.3	74.0	88.9	78.3	91.3	104.8
Total operating expenses on financial services	44.5	48.2	63.6	75.5	66.3	73.3	84.3
NET INCOME FROM OPERATIONS	**5.3**	**5.1**	**10.4**	**13.4**	**11.9**	**17.9**	**20.5**
Total grant income for financial services	0.4	0.3	1.1	1.1	1.7	2.9	0.8
Total grant income for non-financial services	-	-	-	-	-	-	-
Income from non-financial services	0.0	0.1	0.2	0.01	0.03	0.005	0.3
Total operating expenses on non-financial services	0.0	0.0	0.1	0.09	0.08	0.004	0.8
Net operating profit/loss from non-financial services	0.0	0.0	0.1	-0.1	-0.05	0.001	-0.5
NET PROFIT FOR THE PERIOD	**5.7**	**5.4**	**11.6**	**14.4**	**13.6**	**20.8**	**20.8**
Corporation tax	1.1	1.1	1.5	2.7	3.2	3.1	6.1
NET PROFIT AFTER TAX	**4.6**	**4.3**	**10.1**	**11.6**	**10.4**	**17.7**	**14.7**
RETAINED EARNINGS	4.6	4.3	10.1	11.6	10.4	17.7	14.7

Source: Bank of Uganda

APPENDIX 4: CREDIT REFERENCE BUREAU ACTIVITIES (CUMULATIVE FIGURES)

Quarter	Dec-2010	Dec-2011	Dec-2012	Dec-2013	Dec-2014	Dec-2015
Branches on FCS	505	528	547	590	600	617
Branches on CRB	503	525	542	579	580	593
Financial cards issued	478,568	667,412	802,906	948,936	1,093,107	1,235,845
Number of enquiries	146,435	682,459	1,154,690	1,723,191	2,335,086	2,948,915

Source: Bank of Uganda