

BANK OF UGANDA

ANNUAL SUPERVISION REPORT

December 2016 | Issue No. 7

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ISSN print: 2079-6293

ISSN web: 2079-6307

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ABBREVIATIONS

AFRITAC	Africa Regional Technical Assistance Centre
BCBS	Basel Committee on Banking Supervision
BCPs	Basel Core Principles
BOU	Bank of Uganda
COMESA	Common Market for Eastern and Southern Africa
CBR	Central bank rate
CDS	Central Depository System
CRB	Credit Reference Bureau
CRS	Credit Reference System
CSD	Central Securities Depository
DPF	Deposit Protection Fund
DSIB	Domestic Systemically Important Bank
EAC	East African Community
EAPS	East African Payment System
ECS	Electronic Clearing System
EFT	Electronic Funds Transfer
FCS	Financial Card System
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 für 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
NBFI	Non-Banking Financial Institution
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
RWA	Risk Weighted Assets
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
USh	Ugandan Shilling

FOREWORD

The 2016 Annual Supervision Report provides information on the supervisory activities conducted by the Bank of Uganda. It also provides an assessment of the performance of the financial system and potential risks to financial stability, as well as the reforms to the regulatory framework undertaken during the year.



The year 2016 was a very difficult one for the banking system. Loan quality deteriorated with the level of non-performing loans (NPLs) to total gross loans rising from 5.3 percent to 10.5 percent between December 2015 and December 2016. This led to a slowdown of private sector credit growth and a drop in bank profitability. In October 2016, Crane Bank, one of the largest banks in the market, was taken over by the BOU and placed under statutory management because its huge burden of non-performing loans placed depositors' funds at risk. Crane Bank was resolved in January 2017 with the transfer of the bulk of its assets and liabilities to DFCU Bank. The resolution of Crane Bank, despite its size, was achieved without any contagion to the rest of the banking market and without its depositors incurring any losses.

The key Financial Soundness Indicators show that commercial banks' performance declined in 2016. The ratio of Tier 1 capital to Risk weighted assets (RWA) held by commercial banks fell from 18.6 percent at the end of 2015 to 17.3 percent at the end of 2016, although the latter was still well above the regulatory minimum of 8 percent. The strong capital and liquidity buffers held by banks provide the banking system with a high degree of resilience to shocks such as losses on their loan portfolios.

Capital requirements will be enhanced in 2017, in line with the global strengthening of capital standards under the Basel III reforms. These requirements, which are being introduced in cooperation with our partners in the East African Community, include measures to address potential systemic risks, such as a capital conservation buffer and a capital surcharge for domestic systemically important banks. Following the enactment of the Financial Institutions Amendment Act (2016), the BOU has prepared implementing regulations for Agent Banking, Islamic Banking and Bancassurance which will be introduced in 2017.

A handwritten signature in blue ink, consisting of a stylized 'E' followed by a long horizontal stroke that curves upwards at the end.

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 examinations is to determine the financial condition of the SFIs and review their risk management systems using the risk based supervision methodology. BOU also assesses the FSI's level of compliance with all applicable laws, regulations, prudential guidelines, circulars and corrective actions stipulated by the BOU during these examinations.

Commercial banks

BOU exited the statutory management of former Imperial Bank Uganda Limited, now Exim Bank Uganda Limited on March 7, 2016 following the acquisition of majority shares in the bank by Exim Bank (Tanzania) Limited.

During 2016, BOU conducted on-site examinations of all the twenty five commercial banks using the risk based methodology focusing mainly on high risk areas. Some banks exhibited weaknesses in corporate governance practices as well as in the management of strategic, credit, operational and compliance risks as detailed below;

a) The major concerns in corporate governance and strategic risk centred on inadequate composition of the boards of directors, absence of adequate succession planning for the boards and senior management and delayed implementation of strategic initiatives and projects.

b) Key supervisory concerns regarding credit risk included; the rising level of non-performing advances and loan loss provisions arising from weaknesses in credit risk management coupled with the high concentration of the loan books amongst the top 20 borrowers.

c) Some of the weaknesses identified under operational risk included; lapses in Information communication technology systems and infrastructure of some banks, inadequate assessment of the money laundering/terrorism financing risks and weaknesses in banks' policies and procedures among others.

d) Supervisory concerns regarding compliance risk mainly arose from misreporting in the statutory returns as well as in the data submitted to the Credit Reference Bureau, instances of repeat findings and other non-compliance issues with the Financial Institutions Act 2004, and implementing regulations.

Specific directives were issued to the inspected banks to address the identified supervisory concerns and follow-up examinations were undertaken to assess compliance with these directives. Some banks were penalised for failing to comply with some of the BOU directives.

Two Commercial banks, namely; Crane Bank Limited and another bank which had fallen below the required minimum on-going capital adequacy ratios and minimum paid up capital of Shs.25bn respectively were directed by BOU to immediately inject fresh capital in order to re-capitalize the banks. Whereas the other institution complied, Crane Bank Limited failed to inject fresh capital. Hence the Bank of Uganda took over the management of Crane Bank Limited on October 20, 2016 due to its undercapitalization and subsequently transferred the majority of its

liabilities and assets to DFCU Bank following a vigorous bidding exercise that had attracted interest from over ten institutions.

Credit institutions

During 2016, BOU conducted full scope on-site examinations of two out of the four Credit Institutions (CIs) and two follow-up examinations of the remaining two institutions. The key examination findings established that whereas there was a notable improvement in the management of key risks facing Credit Institutions, weaknesses in corporate governance and management of strategic, credit and operational risks continued to pose some challenges to the institutions. BOU issued specific and time-bound directives to these institutions to address the identified weaknesses.

Microfinance Deposit-taking institutions

As at December 31, 2016 the overall financial condition and performance of the Microfinance Deposit-taking Institutions (MDIs) was rated *fair*.

During 2016, BOU conducted on-site examinations of four out of the five licensed MDIs. The fifth institution, Yako Microfinance Ltd. (MDI), begun operations during the period under review and was not yet due for an onsite examination.

In line with the risk based supervision approach, the on-site examinations focused on the areas that posed the highest risks to the MDIs. The key supervisory concerns highlighted in the on-site inspections related to high levels of risk in the operational and credit risk categories.

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

Foreign exchange bureaus and money remittance companies

The Forex Bureaus and Money Remittances sub-sector continued to be financially sound, profitable and adequately capitalized as at December 31, 2016. The number of foreign exchange bureau outlets stood at 267 compared to 280 as at December 31 2015, while the money remitters rose from 66 as at December 2015 to 69 in December 2016. Whereas 17 new Forex Bureau outlets were licenced, the licenses of 19 outlets were terminated while 11 outlets voluntarily exited the sector.

Forty seven on-site examinations and 30 follow-up examinations for foreign exchange bureaus and money remitters were conducted during the year. The major supervisory concerns related to lapses with regard to the internal controls over cash management, submission of large cash transaction reports, the identification and reporting of suspicious transactions, conducting proper customer due diligence for corporate clients and a limited understanding of the provisions of the Anti-Money Laundering Act, 2013 and Anti-Money Laundering Regulations, 2015. Directives were issued for the identified deficiencies to be rectified.

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 2016 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).

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

Bank of Uganda conducted off-site surveillance of SFIs through the collection and analysis of financial information submitted to it. **Off-site analysis plays**

a key role in the planning of scheduled on-site examinations of SFIs and in the implementation of the risk-based supervision methodology. It also ensures that the SFIs comply with statutory and prudential requirements.

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:

- Decline in net interest margin,
- Decrease in interest income on government securities,
- Depreciation of the Uganda Shilling against the United States dollar,
- Increase in non-performing loans and,
- A 100 percent loan loss of each bank's top 3 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 2016 are shown in Table 1.

Table 1: Stress test shock for quarter ended 31st December, 2016

Stress Test Variable	Number of banks ^{a)}	Aggregate 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	1	0.10
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	1	0.58
Increase in non-performing loans		
Increase in NPLs by 100 percent	7	34.79
Increase in NPLs by 200 percent	9	247.39
Loan loss of each bank's largest borrowers		
Default by single largest borrower	7	31.45
Default by 3 largest borrowers	13	513.86

Source: Bank of Uganda

Notes:

a) The number of banks which fail the stress test in each category. **NB:** Stress test is designed to quantify the impact of specific shocks/unfavourable financial scenarios on a bank's capital. A bank fails a stress test if occurrence of the shock would cause the bank's total capital ratio to fall below the statutory minimum on-going capital ratio of 12% or the bank's minimum paid-up share capital falls below Shs.25bn.

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, 13 banks would become under-capitalised with an aggregate capital shortfall of USh.513.86 billion. If NPLs were to increase by 200 percent, assuming the increase is in the loss category which requires full provisioning, 9 banks would become under-capitalised with an aggregate capital shortfall of Ush.247.39 billion. A decrease in interest income from government

securities 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

Bank branches and automated teller machines

Bank's provision of financial services continued despite a slight reduction in the number of bank branches, which decreased from 573 in 2015 to 570 in 2016, while the total number of automated teller machines (ATMs) operated by commercial banks increased from 842 in 2015 to 860 in 2016, an increase of 2.1 percent. However, 57.0 per cent of bank branches and 64.4 per cent of ATMs are located in the Kampala and Metro regions of Uganda respectively.

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

	2013	2014	2015	2016
Commercial bank branches	542	564	573	570
Bank ATMs	768	830	842	860
Foreign exchange bureaus	248	267	280	267*
Money remitters	186	204	225	241
MDIs branches	70	70	76	78
Credit institutions branches	52	55	57	61

Source: Bank of Uganda

* Whereas 17 new Forex Bureau outlets were licensed, 19 outlets were terminated owing to noncompliance with statutory provisions, while 11 outlets voluntarily exited the sector.

In addition, as at the end of December 2016, there were 14 institutions connected to the Inter-switch

network. Table 3 shows the change in the number of ATMs linked to Inter-switch over the last 5 years.

Table 3: Number of ATMs under Interswitch system

Bank Institution	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016
DFCU	29	33	46	46	40
Postbank Uganda	0	25	31	33	44
UBA Uganda	14	14	14	14	12
Cairo International Bank	3	3	4	4	6
Finance Trust Bank	6	7	7	8	12
Orient Bank	21	22	21	21	22
Imperial Bank	4	4	6	6	6
GT Bank	0	0	0	1	4
Commercial Bank of Africa Uganda	0	0	0	1	2
Centenary Bank	0	0	152	156	173
Opportunity	4	4	4	4	4

Bank Institution /	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016
Bank					
Housing Finance Bank	0	0	0	0	29
Exim Bank (U)	0	0	0	0	5
NC Bank Uganda	0	0	0	0	2
Smart point ATMs	0	0	0	0	11
Total	89	127	285	294	372

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.

In 2016, BOU sent two representatives for an attachment at the Reserve Bank of Malawi to participate in a joint Anti-Money Laundering and Combating Terrorism Financing (AML/CFT) inspection at one of the Commercial banks. This was part of the efforts by the BOU to build capacity in conducting of AML/CFT inspections. There was also an AML/CFT dialogue workshop held in Zimbabwe in July 2016 at which BOU was represented by the two delegates. All these initiative were geared towards enhancing the skills and capacity of the Bank Examiners to conduct AML/CFT inspections.

Consolidated Supervision

As decided 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, BOU implemented the approved procedures that were drafted with the assistance of the IMF and rolled out consolidated supervision in 2016 to all the banks that have group structures in addition to the initial pilot examination of KCB that was completed in 2015.

As a consequence all examinations of financial institutions with group structures in 2016 were conducted on a consolidated basis. Consolidated Supervision by BOU as a host regulator entails a review of Group Risk in accordance with the Financial Institutions (Consolidated Supervision) Regulations, 2010. Information with respect to other group entities is acquired from information sharing requests made to Home Regulators with whom BOU has signed Memoranda of Understanding as well as participation in periodic Supervisory Colleges meetings organised by the Home Supervisors.

The banks included; KCB Bank Uganda Ltd, Diamond Trust Bank Uganda Ltd, Bank of Baroda Uganda Ltd, Equity Bank Uganda Ltd, Standard Chartered Bank Uganda Ltd, Citibank Uganda Limited, Stanbic bank Uganda Ltd, DFCU Bank Uganda Ltd, GT Bank Uganda Ltd, Exim bank Uganda Ltd, Barclays bank Uganda Ltd, Bank of Africa Uganda Limited, Bank of India Uganda Ltd, NC Bank Uganda Ltd, United Bank for Africa Uganda Ltd and Commercial Bank of Africa Uganda Ltd.

FIA (2016) Amendments

At the beginning of 2016, BOU forwarded to the Honourable Minister of Finance, Planning and Economic Development for approval and subsequent gazetting the requisite regulations which will fully operationalize the Financial Institutions (Amendment) Act 2016.

The implementing regulations forwarded to the Minister include; Agent Banking, Islamic Banking and Bancassurance.

Islamic Banking regulations

Comments on Islamic Banking Regulations were sought and received from stakeholders and were incorporated in the draft regulations and they were submitted to the Ministry of Finance, a stakeholders meeting was held on 20 December, 2016.

Capital buffers

To further strengthen the banking sector, the capital requirements shall be enhanced in 2017, with Tier 1 capital to increase from 8 percent to 10 percent. A capital conservation buffer of 2.5 percent to apply to all banks and a countercyclical capital buffer of 2.5 percent to be triggered in circumstances of excessive credit growth to be introduced for all banks and an additional capital buffer ranging between 1-3 percent will be introduced for DSIBs only.

Market risk

Further reforms will be introduced during 2017 in the area of market risk following the completion of examination procedures for market risk developed with assistance from the IMF. The procedures will subsequently be incorporated into the onsite examination manual as part of the RBS methodology.

Enactment of the Tier IV Microfinance Institutions and Money Lenders Act, 2016

The NBF Department commenced preparations to supervise institutions that meet the criteria for supervision by the Central Bank. Staff attended a seminar organized by the Institute of Certified Public Accountants on issues underlying regulation

and supervision of Tier IV Institutions. The Department plans to carry out field visits of Tier IV Institutions in the last quarter of FY 2016/2017 to assess readiness for supervision.

MDI Act, 2003

Proposed amendments to the MDI Act, 2003, which were forwarded to the Ministry of Finance, Planning and Economic Development in 2015 for further action, are yet to be finalized.

Foreign Exchange Act and Regulations

Bank of Uganda issued External Auditor Appointment Guidelines for Forex Bureaus and Money Remitters. Under these guidelines which took effect on January 1, 2017, all Forex Bureaus and Money Remitters are required to obtain approval from Bank of Uganda for their nominated external auditors. Accordingly, Bank of Uganda published the list of pre-qualified Audit firms from which Forex Bureaus and Money Remitters will select their respective external auditors for the year 2017.

Bank of Uganda commenced the receipt of applications from Forex Bureaus and Money Remitters to operate as agents of mobile money operators.

2.3 Deposit Protection Fund (DPF)

During 2016, Bank of Uganda continued to administer the Deposit Protection Funds (DPF) for Commercial Banks and Credit Institutions (under the Financial Institutions Act, 2004 as amended in 2016) and Microfinance Deposit-taking Institutions (under the MDI Act, 2003). All institutions paid their annual premiums for the year and those whose performance was rated marginal and unsatisfactory paid the applicable risk-adjusted premiums.

The Financial Institutions Act, 2004 as amended paved way for the reform of the Deposit Protection Fund. Key highlights in the amended Act include; the merger of the Deposit Protection Fund (DPF) for Commercial Banks and Credit Institutions with the Microfinance Deposit-taking Institutions into a single Fund; the DPF to become a legal entity separate from the Central Bank; the DPF to act as a receiver or liquidator of a financial institution, if appointed for that purpose by the Central Bank.

During the year, Bank of Uganda embarked on the transitional arrangements to facilitate the creation of the legal entity to manage the Deposit Protection Fund. The Minister of Finance, Planning and Economic Development subsequently appointed the Board members of the DPF.

Deposit Protection Fund for Commercial banks and Credit Institutions

The market value of the DPF under the FIA 2004 amounted to Ushs. 405.5 billion as at December 31, 2016. This comprised of treasury bills (Ushs. 121.1 billion), treasury bonds (Ushs. 263.6 billion) and cash (Ushs. 20.8 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 US\$ 9.6 billion, comprising of treasury bills (US\$ 4.7 billion), treasury bonds (US\$ 4.7 billion) and cash (US\$ 0.2 million).

2.4 Credit Reference Bureau (CRB) Services

The number of financial cards delivered to Financial Institutions during 2016 stood at 142,484, raising the cumulative number of cards to 1,378,329 registered from 617 branches installed on the financial card system. A total of 616,620 credit enquiry records were recorded on the CRB, raising the cumulative number of credit enquiry records to

3,562,935 as at end December, 2016.

Following the enactment of the Financial Institutions (Amendment) Act 2016, the proposed expansion of the CRB system to other lenders outside the ambit of Bank of Uganda is ongoing. Bank of Uganda is finalising the draft Financial Institutions (Credit Reference Service) Regulations 2016 to regulate the competitive market environment and the Accredited Credit providers.

As part of the opening up the market to competition, the process of separating the Financial Card System from the Credit Reference System is ongoing. Bank of Uganda and the National Identification & Registration Authority (NIRA) are due to sign a Memorandum of Understanding (MoU) aimed at developing a mechanism to match the historical Financial Card System records with the National Identification Numbers in order to eventually make the National Identification Numbers the key identifier in all financial transactions. In addition, NIRA in liaison with National Information Technology Authority (NITA) are currently developing the Application Interface (API) to facilitate the online validation of identification numbers by financial institutions and Credit Reference Bureaus.

2.5 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 United Bank for Africa, Commercial Bank of Africa, Ecobank Standard Chartered Bank and Stanbic Bank.

The supervisory college meetings enable 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 resolution of these groups in a non-disruptive manner in the event of their failure.

Uganda Forex Bureau and Money Remittance Association

In conjunction with the Uganda Forex Bureau and Money Remittance Association and the Financial Intelligence Authority, a training workshop was held on October 20, 2016 for all forex bureaus and money remittance operators. The workshop covered among other things; new reporting requirements, compliance obligations and implications of the Anti-Money Laundering Act, 2013 and the Regulations thereunder.

Bank of Uganda set up a joint task force to address the challenges posed by unlicensed foreign exchange operators. The membership comprises of Bank of Uganda, President's Office, Uganda Police, Financial Intelligence Authority, Kampala Capital City Authority and Ministry of Local Government. Under this initiative, Bank of Uganda held sensitisation meetings with key stakeholders at the major border towns.

Bank of Uganda participated in the national risk assessment exercise for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) in Uganda spearheaded by the Financial Intelligence Authority. The exercise aimed at mapping the AML/CFT risks in the country and the possible mitigation strategies.

Oversight of Payment Systems

Payment systems are funds transfer systems that ensure the circulation of money in the economy, hence an integral part of the financial systems. However, payment systems failure as a whole, or that of a participant or component, can cause other areas of the system to fail and thus transmit shocks through the financial system.

It is therefore essential for BOU to mitigate risks in payment systems through oversight of the systems. In Uganda the objective of payment systems oversight is to promote safety and efficiency of the systems given that they are crucial for Bank of Uganda to execute its core mandates of fostering price stability and a sound financial stability. The oversight activities are mainly focused on monitoring the operational usage and efficiency of systemically important payment systems in Uganda.

2.6 Regional cooperation

Regulatory harmonisation in the East African Community

Pursuant to the decision of the East Africa Central Banks Governors taken during the Monetary Affairs Committee (MAC) of the East African Community (EAC) meeting which was held in Kampala, Uganda in May 2012, Bank of Rwanda organised a two day workshop on Peer Review of Compliance with Basel Core Principles (BCPs) for Effective Banking Supervision in Kigali – Rwanda 19th and 20th October 2016.

The peer review assessment established that Uganda is compliant with 17 BCPs, largely compliant with 11 BCPs, materially non-compliant with 1 BCP and non-compliant with none. The key recommendations from the workshop are noted below:

Recommendations:

Partner States' Central Banks were urged to pursue the following:-

1. To address identified gaps to comply with the 29 revised BCPs to ensure that the banking sector in the region is effectively regulated and supervised to foster safety and stability of the sector.

2. To seek the support of the Association of African Central Banks, to fast track the signing of MOUs with other Regulatory Authorities outside the EAC region. Bank of Tanzania was tasked to take lead in this endeavour.
3. To follow up with the Host supervisors outside the African region that includes the Financial Conduct Authority (FCA), and the Federal Reserve Bank and the State Bank of Pakistan among others to establish MOUs with these supervisory authorities.
4. To enhance the existing peer review methodology by conducting independent checks on the objectivity and credibility of the self-assessment on BCP compliance conducted by each Partner State Central Bank. Independent peer review teams should be tasked to review each of the Partner Central Banks' self-assessment ratings. Central Bank of Kenya to take the lead in coordinating the independent peer review which should be completed by December 2017.
5. To include as part of the harmonization of licensing requirements that promoters of the proposed banks must obtain and submit a commitment from the Home Supervisor to, among other things, establish MOUs with the Host Supervisor with the view to fostering consolidated supervision.
6. To continue to engage their respective Governments to expedite the enactment and amendment of future Banking Laws and Regulations.
7. To conduct regular sensitization programs on the BCPs amongst Bank Examiners and other stakeholders including Government Officials and Members of Parliament in order to facilitate effective implementation of the BCPs.
8. To continue with the efforts to ensure full implementation of BCP 21 on Country and Transfer Risk.
9. To strengthen the co-ordination and planning of supervisory activities by identifying common areas of interest prior to conducting Joint Inspections of cross border Banking Groups.
10. To ensure that the Supervision Departments are equipped with staff with IT skills and that banks put in place effective IT governance structures.
11. To continuously engage with Accounting/Auditing regulatory bodies in order to uphold professionalism of the External Auditors. In addition, the Examiners were implored to enhance collaboration with the External and Internal Auditors in their surveillance programs.
12. To prepare Status reports and progress made in terms of complying with the BCPs and the reports to be presented at the next MAC meeting.

The MAC meeting recommended that the next peer review workshop should be conducted in October 2018 with Bank of Tanzania (BoT) taking the lead.

PART II: ASSESSMENT OF FINANCIAL STABILITY

Chapter 3: Performance of the Banking Sector

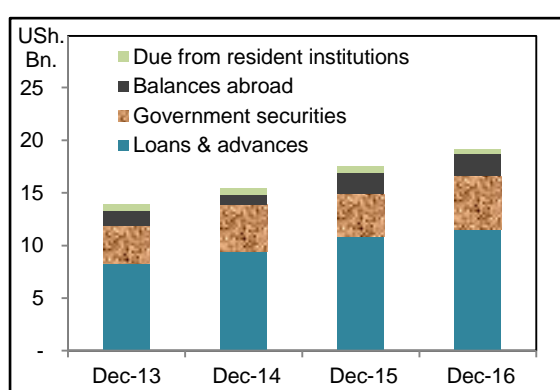
This chapter provides an overview of the performance of Uganda's Banking Sector during 2016. On the whole, Uganda's banking sector remained sound at the end of December 2016 with liquidity and capital buffers remaining well above the minimum requirement during that period. However, slow credit growth and a continued deterioration in asset quality reflect a rise in credit risk. Profitability of the sector also dropped owing to higher non-performing loans.

3.1 Changes in banks' assets and liabilities

The total assets of Uganda's banking sector grew by 9.1 percent from US\$21.7 trillion to US\$23.7 trillion between December 2015 and December 2016. However, this was lower than the growth of 10.9 percent in 2015. The increase in bank assets was mainly on account of increased banks' holdings of government securities by 25.6 percent from US\$4.1 trillion to US\$5.1 trillion during the same period.

Loans and advances grew at a slow pace of 6.1 percent during 2016, down from 14.9 percent in the previous year. This reflected banks' shift from riskier assets to safer assets driven by the decline in asset quality.

Figure 1: Changes in Banks' Asset portfolios



Source: Bank of Uganda

Table 4: Annual changes in Banks' major assets

	Dec 2013	Dec 2014	Dec 2015	Dec 2016
Assets				
Volumes (US\$ trillion)	17.3	19.6	21.7	23.7
Annual growth (%)	12.0	13.1	10.9	9.1
Government securities				
Volumes (US\$ trillion)	3.7	4.5	4.1	5.1
Annual growth (%)	19.5	22.3	-8.9	25.6
Loans				
Volumes (US\$ trillion)	8.3	9.4	10.8	11.5
Annual growth (%)	6.2	14.0	14.9	6.1
Off-Balance Sheet Items				
Volumes (US\$ trillion)	3.1	3.6	3.8	5.1
Annual growth (%)	-3.1	16.0	6.9	33.5

Source: Bank of Uganda

3.2 Adequacy of banks' capital

At the end of December 2016, the banking sector held sufficient capital levels, which were well above the minimum requirement, to withstand shocks. With the exception of one bank (which has since been resolved with some of its assets and liabilities transferred to another bank, all commercial banks met the regulatory capital adequacy requirements. The aggregate industry-wide tier 1 and total capital adequacy ratios were 17.3 percent and 19.8 percent respectively. However, both capital adequacy ratios were lower than levels held in the previous year. This was mainly due to a faster annual growth in risk weighted assets by 5 percent, while nominal capital levels declined by 0.7 percent for total capital and 2.2 percent for core capital during 2016. The decline in bank capital was also largely reflected by the accumulated losses recorded in the

statement of comprehensive income former Crane Bank Ltd. during the year.

The leverage ratio (the non-risk based capital requirement) was 9.6 percent at the end of December 2016, compared to 11.1 percent in the previous year.

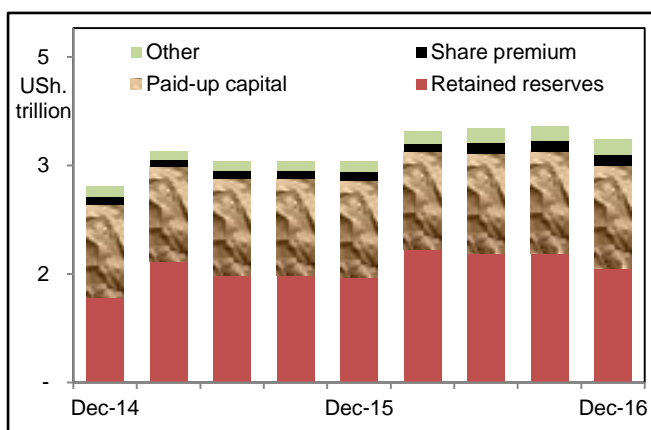
Table 5: Capital Adequacy Ratios

	Dec 2013	Dec 2014	Dec 2015	Dec 2016
Total Capital Adequacy Ratio	22.9	22.2	21.0	19.8
Tier 1 Capital Adequacy Ratio	19.9	19.7	18.6	17.3
Leverage Ratio	11.1	11.0	11.1	9.6

Source: Bank of Uganda

Total shareholders' equity of the banking system grew by only 1.9 percent from US\$3.6 trillion to US\$3.7 trillion in 2016. This was lower than 12.6 percent growth rate in the previous year. The slow growth in equity was due to banks' subdued capital generation from retained reserves during 2016. Retained reserves increased by 9.1 percent in 2016, compared to 23.2 percent in the previous year.

Figure 2: Composition of banks' capital



Source: Bank of Uganda

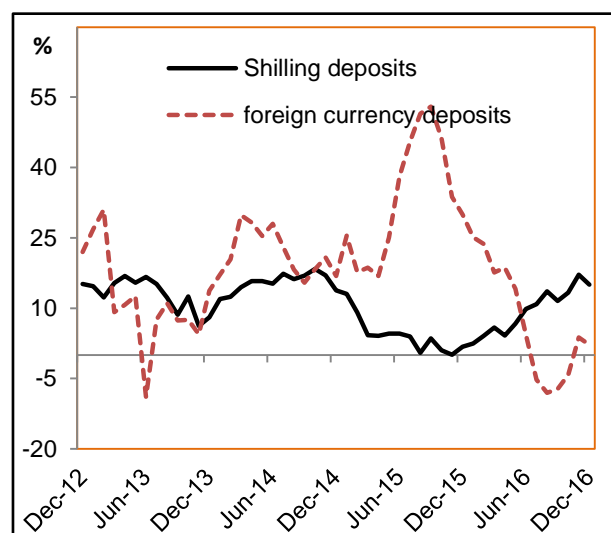
3.3 Funding and liquidity

Deposit Growth

Banks continued to be reliant on retail funding as in 2015. At the end of December 2016, customer deposits accounted for 81.1 percent of the total liabilities of the banking sector. Deposits grew at 9.5 percent in 2016, down from 12.1 percent in the year to December 2015.

Wholesale funding reduced during the year to 2016, accounting for 3.0 percent of total liabilities compared to the 3.5 percent in 2015.

Figure 3: Annual growth in Customer Deposits



Source: Bank of Uganda

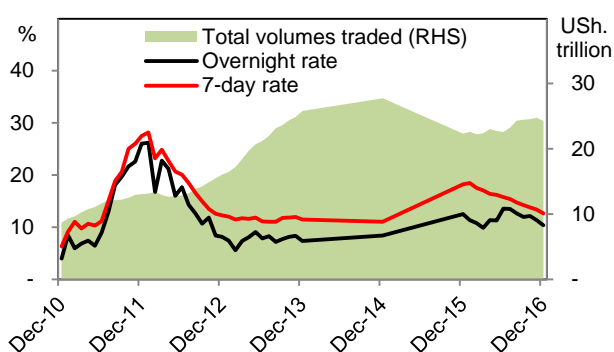
Interbank Activity

Activity in the interbank market increased during 2016. Total interbank volumes traded during 2016 amounted to US\$24.3 trillion, increasing from US\$22.3 trillion in 2015.

The reduced cost of borrowing, as indicated by a decline in interbank rates, also aided increase in transactions in the interbank market. The 7-day

weighted average and the overnight interbank rates were 12.6 percent and 10.4 percent respectively at the end of December 2016, down from 18.2 percent and 12.5 percent, respectively in the previous year.

Figure 4: Developments in the interbank market



Source: Bank of Uganda

Liquidity

Banking sector liquidity was satisfactory during 2016, as reflected by the liquid assets to total deposits ratio and the liquidity coverage ratio, (LCR). The ratio of liquid assets to total deposits increased from 46.4 percent in December 2015 to 51.5 percent in December 2016, and was well above the regulatory minimum of 20 percent. Commercial banks held US\$8.4 trillion in liquid assets at the end of December 2016, and this was 21.6 percent more than the level held in December 2015. The growth of liquid assets was largely due to an increase in banks' balances held with BOU and a rise in holdings of government securities, which grew by US\$0.9 trillion and US\$1.0 trillion respectively in 2016. The Liquidity Coverage Ratio (a measure of a bank's ability to withstand a 30-day stress scenario) shows that on average, the ratio for Uganda's banking sector was 350.3 percent at the end of December 2016. Two banks did not meet the minimum LCR requirement (Minimum LCR requirement is 100%) on a consolidated basis while

three banks failed to meet the liquidity requirement in local currency and foreign currency.

Table 6: Key Indicators of bank liquidity (percent)

	Dec 2013	Dec 2014	Dec 2015	Dec 2016
Liquid assets to total deposits	42.5	43.9	46.4	51.5
Liquid assets to total assets	28.2	29.7	31.7	35.3
Total loans to total deposits	71.9	71.4	73.1	70.8
Interbank borrowing to total deposits	4.1	2.6	2.7	2.0

Source: Bank of Uganda

Table 7: LCR for banks below minimum requirement (%)

	Consolidated	US\$	Fx.
Bank 1	438.3	99.8	441.7
Bank 2	497.3	578.4	27.6
Bank 3	11.3	20.7	3.2
Bank 4	88.4	-	-
Bank 5	90.0	82.6	121.1
Bank 6	238.9	367.8	80.9
Bank 7	181.63	68.3	134.9
Bank 8	259.8	171.9	31.0

Source: Bank of Uganda

3.4 Performance of credit

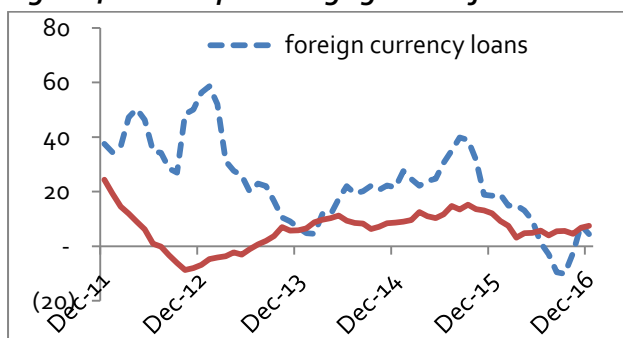
Lending activity

Total bank credit increased by 6.1 percent in 2016 to US\$11.5 trillion, lower than 14.9 percent in 2015. Shilling denominated loans grew by 7.5 percent to reach US\$ 6.4 trillion, while foreign currency denominated loans grew by 4.4 percent in 2016.

The reduction in loan growth was on account of banks' cautious lending strategy employed, following an increase in non-performing loans during the year under review. For example in December 2016, the value of loan approvals by banks amounted to 59.7 percent of the value of

applications received. This was lower than the 62.5 percent value approved in December 2015.

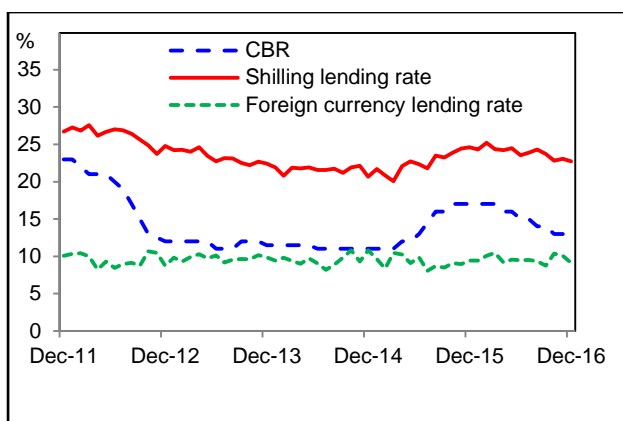
Figure 4: Annual percentage growth of loans



Source: Bank of Uganda

The cost of lending reduced slightly during 2016, following a reduction in the Central Bank Rate (CBR) from 17 percent in December 2015 to 12 percent in December 2016. The weighted average lending rate for shilling loans reduced from 24.6 percent during December 2015 to 22.7 percent in December 2016. Foreign currency loans lending rate remained relatively unchanged at 9.2 percent during that period.

Figure 5: Weighted average lending rates for commercial banks



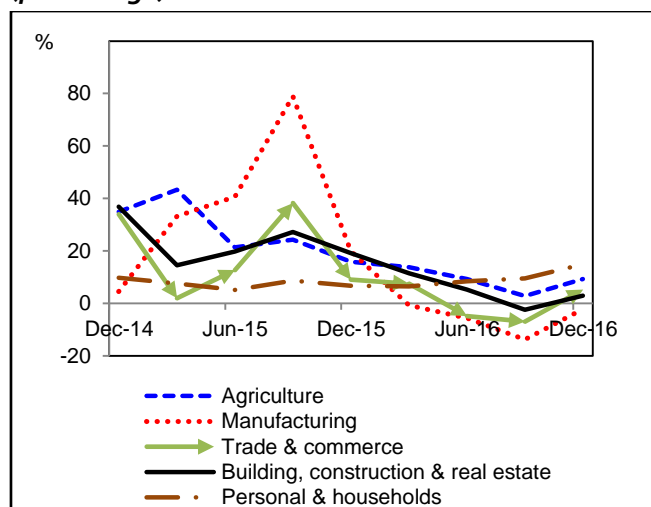
Source: Bank of Uganda

Sectoral analysis of bank lending shows that the building, construction and real estate sector held the largest share to total loans (23.4 percent) in December 2016. This was followed by the trade and commerce sector and the personal and household loans sector which accounted for 18.6 percent and

16.5 percent respectively, of the total loans extended.

Notably, loans to the personal and household sector increased by 14.9 percent to reach US\$1.9 trillion in December 2016. Conversely, total credit to the building, construction and real estate sector and the trade and commerce sector increased at a slower pace than in the previous year.

Figure 6: Annual growth of bank loans by sector (percentage)

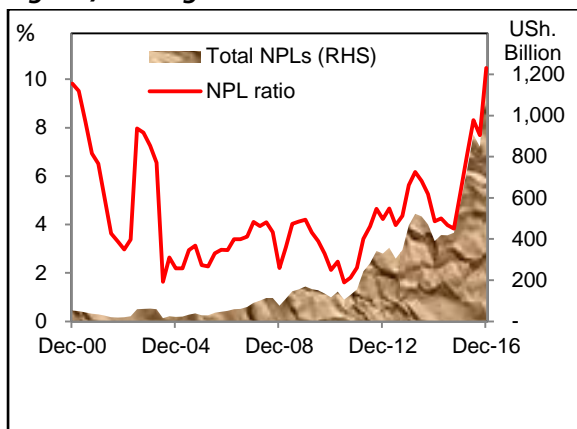


Source: Bank of Uganda

Loan quality and non-performing loans

The banking sector's overall asset quality continued to decline in 2016. The ratio of non-performing loans to total gross loans increased from 5.3 percent in December 2015 to 10.5 percent in December 2016. The increase in the NPL ratio was mainly on account of bad loans which more than doubled from US\$573.4 billion in December 2015 to US\$1,203.2 billion in December 2016.

Figure 7: Changes in banks' NPLs



Source: Bank of Uganda

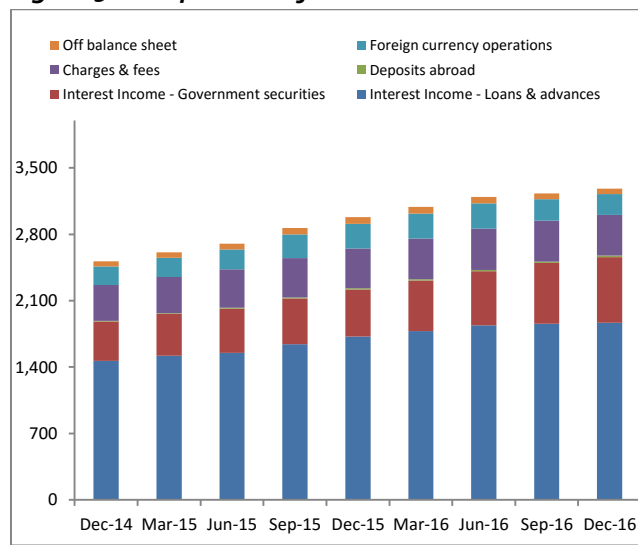
Examination of credit quality by currency indicates an increase in the industry's NPL ratio for both foreign currency denominated loans and shilling loans, from 5.6 percent and 5.0 percent respectively in December 2015, to 12.6 percent and 8.8 percent respectively at the end of December 2016. The shilling non-performing loans grew by US\$365.1 billion and the foreign currency non-performing loans grew by US\$264.7 billion in 2016.

3.5 Earnings and profitability

There was a drop in profitability of the banking sector in 2016. Annual after tax profits reduced by 44.2 percent or US\$239.1 billion from US\$541.2 billion in 2015 to US\$302.1 billion in 2016. Average return on total equity (ROE) dropped from 16.0 percent to 8.3 percent while return on assets (ROA) halved to 1.3 percent during that period.

Total expenses grew by 9.3 percent, mostly in the form of interest expense on deposits. Increased provisioning for bad debts also reduced the banking sector's earnings for the year under review. Provisions rose by more than 100 percent, by US\$419.4 billion to reach US\$637.2 billion in 2016.

Figure 9: Composition of banks' income



Source: Bank of Uganda

Table 8: Annual profitability indicators for the banking sector (percent)

	2013	2014	2015	2016
After tax profit	414.0	485.2	541.2	302.1
ROA	2.5	2.6	2.6	1.3
ROE	15.2	16.1	16.0	8.3
Cost to income	77.2	68.7	69.2	67.2

Source: Bank of Uganda

Nonetheless, banks' income grew by 12.7 percent in 2016, although this was lower than the 14.1 percent rate in the previous year. The earnings were majorly generated from loans and advances which contributed 51.9 percent of total banking sector income in 2016.

3.6 Sensitivity to market risk

At the end of December 2016, indicators show that sensitivity to market risk in Uganda's banking sector was low. The proportion of the banks' foreign currency assets to total assets reduced from 37.5 percent to 35.6 percent while the share of foreign currency deposits to total deposits declined from 42.5 percent to 39.6 percent between December 2015 and December 2016. The ratio of foreign currency exposure to regulatory tier 1 (core)

capital was at 8.5 percent at the end of December 2016 which was well within the regulatory requirement of +/-25 percent. The ratio of foreign currency loans to foreign currency deposits reduced from 62.5 percent as at end of December 2015 to at 57.0 percent as at the end of December 2016, and was within the statutory limit of 80 percent.

Table 9: 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-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
Dec-16	8.5	99.2	58.2	35.6

Source: Bank of Uganda

3.7 Conclusion

The Ugandan banking system faced a difficult year in 2016, mainly because of a rise in the ratio of

nonperforming loans (NPLs) to total loans from 5.3 percent in December 2015 to 10.5 percent in December 2016. Nevertheless, the banking sector held strong capital and liquidity buffers to withstand potential systemic threats. The ratio of liquid assets to total deposits increased from 46.4 percent in December 2015 to 51.5 percent in December 2016, and was well above the regulatory minimum of 20 percent

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 by US\$73.5 billion or 18.87 percent from US\$389.6 billion as at December, 2015 to US\$463.1 billion as at December, 2016. The increase was largely due to increased lending activity. Net loans and advances increased by US\$25.7 billion or 11.4 percent from US\$225.3 billion as at end December, 2015 to US\$251.0 billion as at end of December, 2016. Total deposits rose by US\$49.6 billion or 16.3 percent from US\$254.3 billion to US\$303.9 billion over the same period.

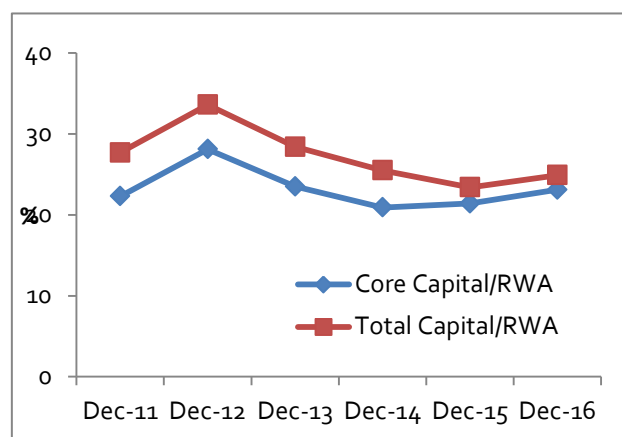
Indicators of financial soundness

Overall all CIs were well capitalized, liquid and generally financially sound during the year ended December 2016.

a) Capital adequacy

All the institutions maintained their paid-up capital above the statutory minimum of US\$1 billion. As at December 2016, the sector's core capital and total capital to risk weighted assets (RWA) ratios stood at 23.1 percent and 24.9 percent respectively. The core capital and total capital ratios improved from 21.4 and 23.4 percent as at end of December 2015. The overall core capital of the CIs stood at US\$75.9 billion while total capital amounted to US\$81.8 billion.

Figure 10: Capital adequacy ratios for credit institutions



Source: Bank of Uganda

b) Asset quality

In 2016 Credit Institutions' asset quality declined. Non-performing loans increased by 11.7 percent from US\$7.7 billion as at the end of December, 2015 to US\$8.6 billion as at the end December, 2016. However, a 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 loss of US\$0.17 billion during 2016 compared to profits of US\$1.0 billion earned during 2015. This was largely attributed to increases in loan loss provisions, staff redundancy costs in one of the institutions and a fairly new Credit Institution, which is yet to recover its start-up costs. Consequently, the ROA and ROE ratios stood at -0.04 percent and -0.20 percent respectively. Interest income continued to be the major source

of income for the CIs, contributing US\$82.0 billion during 2016.

d) Liquidity

The Credit Institutions' key liquidity indicators were satisfactory. Liquid assets stood at US\$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

As at December 31, 2016 the overall financial condition and performance of the Microfinance Deposit-taking Institutions (MDIs) was rated fair. All licensed MDIs remained adequately capitalized. Three MDIs were profitable while two recorded a loss. Gross loans extended by the sub-sector increased by US\$26.9 billion or 9.9 percent to US\$297.41 billion while total assets increased by US\$68.6 billion or 17.1 percent to US\$469.62 billion. Customer deposits held increased by US\$21.20 billion or 11.59 percent to US\$204.13 billion over the review period.

Indicators of financial soundness

Overall, MDIs were financially sound, profitable, well capitalised and liquid during 2016.

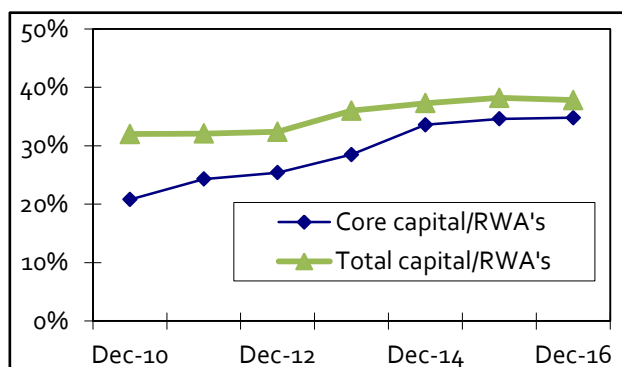
a) Capital adequacy

All MDIs maintained paid up capital which was above the statutory minimum requirement of US\$500 million. The core capital and total capital to risk weighted assets ratios stood at 34.8 percent and 37.8 percent respectively, relatively unchanged from 33.9 percent and 37.4 percent, as at end December, 2015 due to growth of similar magnitude in all three factors over the review period.

The aggregate total capital held grew by US\$18.9 billion or 15.3 percent from US\$123.6 billion as at

end December, 2015 to US\$142.5 billion for the year ended December, 2016.

Figure 11: Capital adequacy ratios for MDIs

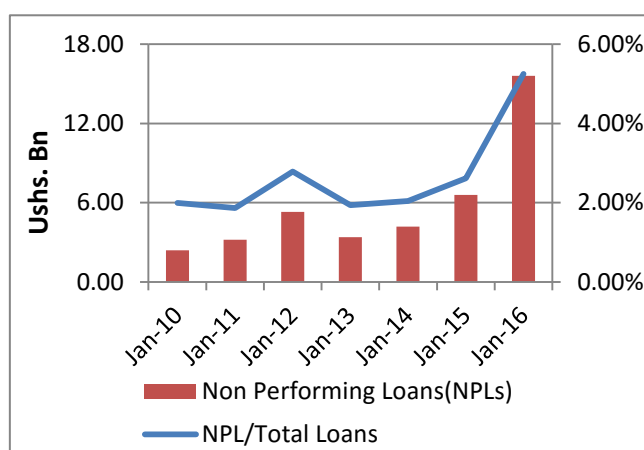


Source: Bank of Uganda

b) Asset quality

The MDIs registered deterioration in asset quality, with the volume of non-performing loans increasing by US\$8.1 billion or 109.5 percent from US\$7.5 billion to US\$15.6 billion. Correspondingly, the overall portfolio at risk increased to 5.3 percent compared to 2.8 percent as at end December, 2015. Deterioration in quality of assets notwithstanding, the volume of gross loans outstanding grew by US\$26.9 billion or 9.9 percent during the review period.

Figure 8: Asset quality ratios for MDIs



Source: Bank of Uganda

c) Earnings

The net after-tax profit was US\$14.2bn compared to US\$12.2 billion reported during the period December 31, 2015. Operating expenses reduced by Shs.2.3 billion or 13.7 percent coupled with an increase in interest income from advances by US\$20.1 billion or 19.8 percent. Annualised ROA and ROE ratios however remained comparatively unchanged at 3.1 percent and 10.5 percent on account of proportionate growth in total assets and equity over the review period.

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 US\$29.4 billion or 34.8 percent from US\$84.4 billion as at end December, 2015 to US\$113.8 billion as at end December, 2016. Liquid assets as a proportion of deposits increased to 55.7 percent from 46.1 percent as at December 31, 2015

4.3 Foreign Exchange Bureaus and Money Remittance Outlets

Overview

The Forex Bureaus and Money Remittances sub-sector continued to be financially sound, profitable and adequately capitalized as at December 31, 2016. The number of foreign exchange bureau outlets stood at 267 compared to 280 as at December 31 2015, while the money remitters rose from 66 as at December 2015 to 69 in December 2016. Whereas 17 new Forex Bureau outlets were licenced, 19 outlets were terminated while 11 outlets voluntarily exited the sector. The terminations were on account of the failure by the directors to meet the ongoing vetting requirements.

Key Indicators for foreign exchange bureaus and money remittance outlets

a) Profitability

There was a reduction in profitability of the sub-sector with profit after tax declining by 42.09 percent from Shs.10.6 billion in 2015 to Shs.6.16 billion in 2016. This was largely attributed to low foreign exchange volumes traded amidst high operating costs.

b) Assets

Total assets held by the sub-sector stood at Shs.111.4 billion as at December 31, 2016 depicting an increase of 11.7 percent from Shs.99.7 billion as at December 31, 2015. This growth was largely driven by increased cash and bank balances.

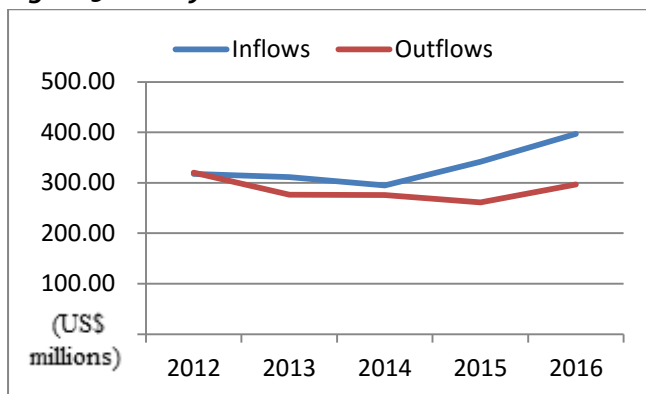
c) Capital and reserves

Total capital and reserves held by the sub sector as at December 31, 2016 stood at Shs.57.73 billion which depicted a marginal decrease of Shs.1.7 billion or 2.9 percent from Shs.58.0 billion as at December 31, 2015. The decrease in total capital and reserves was largely attributed to the closure of Jaffery Forex Bureau Ltd, which accounted for approximately 6% of the sector's total capital and reserves.

Money Remittances

Total inflows increased by US\$55.3 million or 16.2 percent from US\$341.9 million in 2015 to US\$397.2 million in 2016. The outflows on the other hand increased by US\$35.5 million or 13.6 percent from US\$261.1million in 2015 to US\$ 296.6 million in 2016.

Figure 9: Money remittances



Source: Bank of Uganda

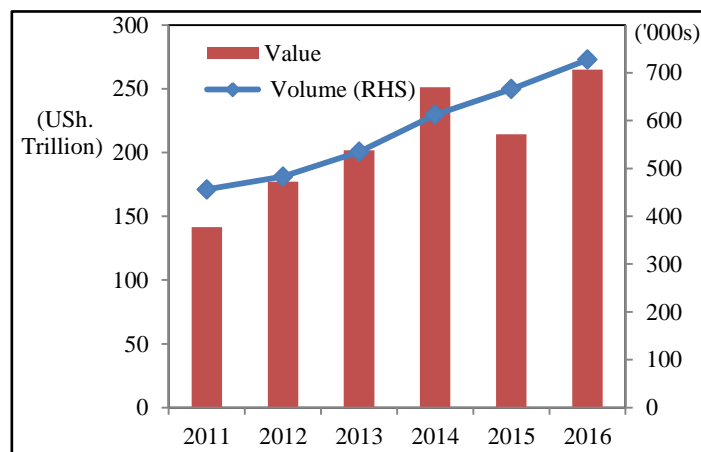
4.4 Oversight of payment systems

UNISS performance in Ugandan Shillings

During 2016, the UNISS was available except for one day on December 9, 2016, when UNISS and its back-up were unavailable for the entire day, which caused a significant disruption for interbank payments. The incident was caused by a power outage that affected the RTGS equipment. The real time gross settlement (RTGS) interbank payments for that day were settled the following day. Best practice requires that all RTGS payments are completed on the day they are initiated.

During the year, the volumes and value of Uganda shillings denominated transactions, through UNISS, continued to rise. The transaction volume for the year 2016 rose by 9.3 percent to 727,522 from 665,773 in the year 2015. The value of these transaction increased by 23.7 percent from USh.214.2 trillion to USh.264.9 trillion over the same period.

Figure 10: UNISS Annual Transactions by volume and value (in US\$. billions)



Source: Bank of Uganda

UNISS performance in foreign denominated currencies

The transactions in United States dollars (USD) were USD 7.1 billion settled in 115,021 transactions. However, this was a decrease from USD 7.6 billion settled in 104,633 transactions in the previous year, 2015. The Kenyan shilling (KES) recorded the second highest volume and value of transactions with an equivalent of USD 377.5 million settled in 5,678 transactions. Table 1 below summarizes the other currencies transacted through UNISS: Great Britain Pound (GBP), Euros (EUR), Tanzanian Shillings (TZS), and Rwandan Francs (RWF).

Table 10: UNISS volume and values transacted in foreign currencies

	2015	2016
Total value settled in all foreign currencies (USD equivalent; millions)	8,328	7,836
Proportion (%) by currency (value)		
USD	91.7	91.1
EUR	3.5	3.0
GBP	0.6	0.9
KES	4.1	4.8
TZS	0.0	0.0
RWF	0.0	0.2
Total volume settled	111,560	123,867
Proportion (%) by currency (volume)		
USD	93.8	92.9
EUR	2.0	1.7
GBP	0.6	0.6
KES	3.4	4.6
TZS	0.1	0.2
RWF	0.0	0.0

Source: Bank of Uganda

East African Payment System (EAPS)¹

The East African Payment System (EAPS) is a multicurrency system, which connects the real time gross settlement (RTGS) systems of the EAC member countries. The volumes and values of transactions continued to register significant growth compared to previous years. **Table 11** shows that in terms of value, the majority of EAPS transactions were made in Kenyan Shillings (KES) representing 83.3 percent for inward transactions

¹ note that all cross border transactions in KES and TZS are now considered as EAPS transactions. In previous classification, they were considered UNISS transactions.

and 85.6 percent for outward transactions. The Tanzania Shillings (TZS) was the least transacted in terms of value, while the Rwandan Francs ranked least transacted in terms of volume during 2016.

Table 11: Performance of EAPS (2015 – 2016)

	2015		2016	
	Inward	Outward	Inward	Outward
Total value settled (USh equivalent; Bns)	550.4	563.8	651.6	730.2
Proportion by currency (value)				
UGX (%)	15.2	14.1	12.8	10.4
KES (%)	83.7	84.7	83.3	85.6
TZS (%)	1.1	1.1	0.5	0.5
RWF (%)	0.01	0.03	3.4	3.5
Total volume settled	2,398	4,461	2,955	5,104
Proportion by currency (volume)				
UGX	64.5	37.5	56.3	21.1
KES	34.0	59.4	41.2	75.8
TZS	1.2	2.8	1.8	2.8
RWF	0.3	0.2	0.7	0.3

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. During 2016, there were 96 transactions made in United States Dollars, totalling USD 4.6 million. There were no Euro transactions during the same period.

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

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

performance of the ECS in Uganda Shillings is summarised in **Table 12** below.

Table 12: Performance of ECS and EFT in Uganda shillings

Mode of Transfer	2015		2016	
	No. of transactions (Mn)	Value of Transactions (Tn)	No. of transactions (Mn)	Value of Transactions (Tn)
ECS	1.2	6.2	1.1	5.7
EFT	7.6	15.7	7.9	17.2

Source: Bank of Uganda

Transactions in foreign currencies

During 2016, the ECS cleared 75,007 cheques and 65,122 EFTs in the main foreign currencies – USD, EUR, GBP and KES. The transactions made in US dollars registered the highest activity. USD denominated transactions dominated; with 74,602 cheques equivalent to USD 259.4 million and 64,115 EFT transactions valued at USD 762.2 million.

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.

As at December 31, 2016 there were seven mobile money service providers and these included; MTN, Airtel, Uganda Telecom, Africell, M-Cash and EzeeMoney and Micropay.

The number of registered mobile money telephone lines increased in the year 2016 by 1.9 percent from 21.1 million as at December 2015 to 21.5 million as at December 2016. Annual transactions were valued at US\$43.83 trillion, up from US\$32.7 trillion or 34.03% recorded in 2015. The number of transactions increased as well by 40.5 percent from 693.3 million transactions recorded in 2015 to 974.7 million transactions in 2016 as indicated in the table below:

Table 13: Performance of mobile money services

	Number of transactions ('000s)	Value of transactions (US\$ trillion)	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*	693,574	32.7	21,102,851
2016	974,746	43.83	21,585,484

Source: Bank of Uganda

NB: *The numbers as reported in the Annual Supervision Report 2015 have been amended.

Chapter 5: Macro-prudential Assessment and Outlook

This chapter presents an analysis of the systemic risks and outlook for the banking system and measures taken by Bank of Uganda to address them.

5.1 Introduction

The Ugandan banking system faced a difficult year in 2016. Systemic risks increased mainly from the macro economy and a rise in non-performing loans. The impact of these threats to systemic stability remained low because of the banking system's strong capital and liquidity buffers.

5.2 Risks from the macro economy

The outlook for economic growth remains uncertain both globally and in Uganda. In the world economic outlook (WEO) for October 2016, the IMF projected that global growth is expected to slow to 3.1 percent in 2016 before recovering to 3.4 percent in 2017. The forecast reflects a more subdued outlook for advanced economies, weaker-than-expected growth in the United States and the negative impact of weaker commodity prices on emerging market economies.

Moreover, the April 2017 World Economic Outlook (WEO) pointed out that economic growth in sub-Saharan Africa dropped to its lowest level in more than 20 years, reflecting the adverse external environment, a lackluster policy response and a heavy debt burden in many countries.

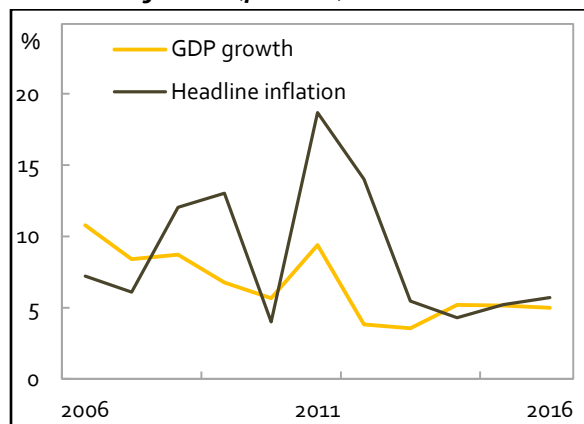
In Uganda, the forecast for GDP was reduced to 4.5 percent in 2017, with the downside risks to the projected growth path emanating from uncertain global economic developments, a drop in export performance and projected decline in private sector investment².

These developments are likely to affect the banking sector in several ways. The weak demand for commodities is likely to reduce agricultural export revenues and affect the household and corporate exporters' balance sheets. In addition, banks are likely to continue tightening lending as a cautious strategy to guard against high default rates that were witnessed during 2016. In the last BOU Bank Lending Survey of 2016, banks reported that the scarcity of long-term deposits, tight liquidity conditions in the market and volatility of the exchange rate are also likely to affect credit supply³. The majority of banks stated that credit growth may be affected by low economic activity persisting into the new the year.

² BOU Monetary Policy Statement for December 2016

³ BOU Bank Lending Survey Report, second quarter FY 2016/17

Chart 1: Annual changes in Uganda's GDP and headline inflation (percent)



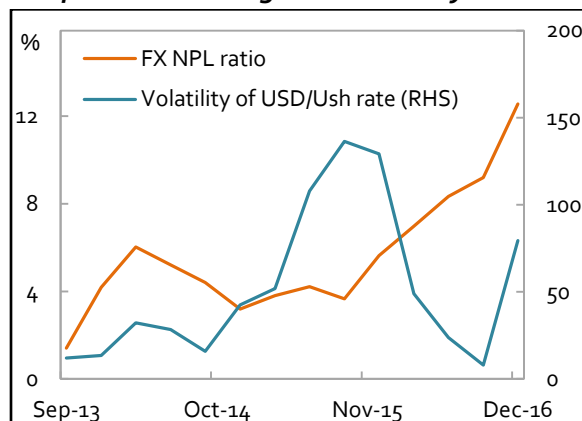
Source: UBOS

5.3 Risks from bank lending

Overall, credit risk heightened during 2016 as all major business sectors experienced a marked increase in default rates.

In our *Annual Supervision Report* for 2015, we raised concerns about risks arising from real estate lending. These concerns materialised in 2016 as loans to the building and construction sector deteriorated rapidly during 2016. In addition, data indicates that the rise in NPLs was strong for loans denominated in foreign currency. For example, some banks advanced foreign currency denominated loans, even though the borrowers were not actually earning foreign currency denominated income. In other cases, banks lent short-term funds to long-term projects, effectively straining the borrowers into default. The provisions necessitated by NPLs contributed to a decline in the banking systems' profitability.

Chart 2: NPL ratio for foreign currency loans compared to exchange rate volatility



Source: Bank of Uganda

5.4 Conclusion

Our overall assessment of financial stability is that, while risks increased in 2016 because of the worsening of credit quality, threats to systemic stability remain low because of the banking system's strong capital and liquidity buffers.

BOU conducted macro stress tests whose results indicated that the banking system is able to withstand plausible shocks to credit quality because it has adequate capital buffers. The core capital adequacy ratio was 17.3 percent as of December 2016, far higher than the statutory minimum of 8 percent, and this offers a high degree of resilience against systemic distress. The ratio of liquid assets to total deposits increased from 46.4 percent in December 2015 to 51.5 percent in December 2016, and was well above the regulatory minimum of 20 percent.

Nevertheless, going forward, risks from low GDP growth and high NPLs are likely to remain the major source of concern for stability.

In a bid to further strengthen bank capital buffers, BOU will implement the Basel III capital measures during 2017 i.e. the Capital Conservation Buffer and additional capital for Systemically Important Banks.

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: The Financial Institutions (Capital Adequacy Requirements) Regulations, 2017.

6.1 Background

Under the proposed Financial Institutions (Capital Adequacy Requirements) Regulations, 2017, Bank of Uganda revised the minimum capital requirements for commercial banks in Uganda, in line with the decision of the East African Community (EAC) Monetary Affairs Committee (MAC) to harmonise capital requirements in the region and implement Basel III capital buffers.

The global financial crisis demonstrated that bank capital levels were too low to enable banks to withstand severe shocks such as those caused by the defaults of subprime mortgages and the financial instruments backed by these mortgages.

In response to the glaring inadequacies in capital, Basel III introduced tighter capital requirements in comparison to Basel I and Basel II, additional capital to cover cyclical booms and bursts, Leverage and Liquidity restrictions to safeguard against excessive borrowings and to ensure that banks have sufficient liquidity during stressful conditions.

6.2 Minimum Capital requirements under Basel III

The proposed enhancement to the on-going capital requirements for financial institutions that will be implemented by BOU include;

- Increase in the ratio of the Tier 1 Capital Risk weighted Assets (RWA) from 8% to 10% in line with the East African Monetary Union convergence Criteria.
- Introduction of a Capital Conservation Buffer of 2.5 percent of Risk Weighted Assets (RWA) over and above the minimum capital requirements that will be met by all commercial banks.
- Introduction of additional capital requirements for Domestic Systematically important banks (D-SIBs), which will range from 1-3.5 percent of RWA over and above the minimum capital requirement and Capital conservation Buffer.

- A macro prudential 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.

The table below highlights the new capital buffers that shall be introduced.

Table 5: Minimum Capital Requirements for Banks in Uganda

Sector	Tier 1 Capital/RWA (%)	Total Capital/RWA (%)
Minimum Requirement (Harmonized in the EAC)	10	12
Add; Capital Conservation Buffer (all Banks)	12.5	14.5
Add: Capital for DSIBs - (1-3.5%).	13.5 – 16	15.5 - 18

Source: Bank of Uganda

6.3 Accounting Implications of the new Basel III Accord on the banks' Balance Sheet

The implementation of the Basel III capital Accord has wider ramifications because of the other equally important changes that will soon take effect in the areas of loan losses and accounting for leases under heightened rules already pronounced by the International Accounting Standards Board (IASB).

The IASB has already completed the final element of its comprehensive response to the financial crisis with the publication of **IFRS 9 Financial Instruments**. This follows the findings that during the financial crisis of 2007, the delayed recognition of **credit losses on loans** (and other financial instruments) was one of the identified fundamental weaknesses in the accounting standards.

The implementation of the standards particularly the IFRS 9 Financial Instruments which will completely replace IAS 39 Financial Instruments: Recognition and Measurements effective January

2018 is envisaged to increase the threshold of provisions for impairment losses thereby requiring banks to hold a more capital buffers to cushion the loan loss allowances following there implementation of IFRS 9.

6.4 Conclusion

The Financial Institutions (Capital Adequacy Requirements) Regulations, 2017 will undoubtedly foster bank resilience and strengthen banks to withstand negative shocks in the current global economy.

While banks have been encouraged to put in place transitional arrangements and plausible strategies in light of these coming fundamental changes to ensure that they meet the new capital requirements, Bank of Uganda's assessment is that the banks will be able to meet these heightened capital requirements.

PART IV: STATISTICAL APPENDICES

APPENDIX 1: FINANCIAL SOUNDNESS INDICATORS FOR SUPERVISED FINANCIAL INSTITUTIONS

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

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Capital Adequacy							
Regulatory capital to risk-weighted assets	20.2	20.3	21.9	22.9	22.2	21.0	19.8
Regulatory tier 1 capital to risk-weighted assets	17.5	17.9	18.8	19.9	19.7	18.6	17.3
Total qualifying capital to total assets	13.0	14.5	14.9	14.4	14.7	14.7	13.4
Asset quality							
NPLs to total gross loans	2.1	2.2	4.2	5.6	4.1	5.3	10.7
NPLs to total deposits	1.4	1.7	3.1	4.1	3.0	3.9	7.4
Specific provisions to NPLs	65.0	50.9	45.9	47.2	48.9	41.6	60.4
Earning assets to total assets	77.1	74.0	71.3	69.7	71.5	69.2	67.3
Large exposures to gross loans	35.7	34.6	34.6	36.3	38.3	41.0	42.4
Large exposures to total capital	124.4	120.9	104.7	105.2	113.2	123.5	153.6
Earnings & profitability							
Return on assets	2.7	4.0	3.9	2.5	2.6	2.6	-2.3
Return on equity	18.0	27.3	24.2	15.2	16.1	16.0	-12.8
Net interest margin	10.0	11.7	12.8	11.5	11.0	11.3	12.9
Cost of deposits	2.9	3.2	4.1	3.7	3.6	3.3	3.5
Cost to income	75.7	68.1	70.9	77.2	68.7	69.3	109.1
Overhead to income	53.1	43.9	40.1	46.7	40.0	42.0	49.6
Liquidity							
Liquid assets to total deposits	39.8	37.6	42.0	42.5	44.0	46.4	51.51
Total loans to total deposits	68.0	78.4	74.5	74.2	74.2	74.2	70.8
Market Sensitivity							
Foreign currency exposure to regulatory tier 1 capital	-1.6	-3.6	-0.6	-3.0	-7.0	-5.9	8.5
Foreign currency loans to foreign currency deposits	61.4	62.8	79.3	62.2	64.5	59.2	57.0
Foreign currency assets to foreign currency liabilities	98.0	100.2	105.0	96.8	97.1	101.8	98.8

Source: Bank of Uganda

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

	Dec-2011	Dec-2012	Dec-2013	Dec-2014	Dec-2015	Dec-2016
Capital Adequacy						
Core capital (Ushs. billion)	31.6	44.2	45.9	49.5	61.1	75.9
Total capital (Ushs. billion)	39.3	53.0	55.5	60.5	66.7	81.8
Risk-weighted assets (Ushs. billion)	141.4	157.6	195.6	236.8	285.5	328.7
Core capital to risk-weighted assets (% ratio)	22.3	28.1	23.5	20.9	21.4	23.1
Total capital to risk-weighted assets (% ratio)	27.7	33.6	28.4	25.5	23.4	24.9
Provisions to core capital (% ratio)	3.1	5.7	6.8	6.9	7.3	8.1
Asset Quality						
Loans and advances (Ushs. billion) (Net)	107.2	115.9	147.6	187.3	225.3	251.0
Total provisions (Ushs. billion)	1.0	2.5	3.2	3.4	4.5	6.2
Non-performing loans (Ushs. billion)	1.7	4.9	5.2	7.7	8.6	10.5
Non-performing loans to total loans (% ratio)	1.6	4.2	3.5	4.1	3.7	4.0
Profitability						
Year-to-date profit/loss (Ushs. billion)	2.9	5.2	3.7	5.0	1.0	(0.17)
Quarterly net profits (Ushs. billion)	1.2	0.9	4.6	0.4	0.3	(0.02)
Quarterly return on assets (% ratio)	0.6	0.4	1.7	0.2	0.1	0.00
Year-to-date return on assets (% ratio)	1.5	2.4	1.4	1.6	0.3	(0.04)
Liquidity						
Total public deposits (Ushs. billion)	121.6	133.0	164.9	195.1	254.3	303.9
Liquid assets (Ushs. billion)	58.3	76.8	83.1	82.5	117.7	158.8
Liquid assets to deposits (% ratio)	47.9	57.8	50.4	42.3	46.3	52.3
Loans to deposits (% ratio)	62.6	58.5	68.9	75.9	82.4	76.3

Source: Bank of Uganda

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

	Dec- 10	Dec- 11	Dec- 12	Dec - 13	Dec - 14	Dec -15	Dec- 16
Capital Adequacy							
Core capital (US\$. billion)	29.8	48.1	58	61.8	86.6	106.8	129.1
Total capital (US\$. billion)	45.9	63.6	73.7	77.9	96.1	117.9	140.6
Risk-weighted assets (US\$. billion)	143.6	197.9	227.5	216.6	257.6	308.6	371.1
Core capital to risk-weighted assets (% ratio)	20.8	24.3	25.4	28.5	33.6	34.6	34.8
Total capital to risk-weighted assets (% ratio)	32	32.1	32.4	36	37.3	38.2	37.81
Asset Quality							
Total loans (US\$. billion)	120.3	171.4	190.3	175.8	206	252.6	297.4
Non-performing loans (US\$. billion)	2.4	3.2	5.3	3.4	4.2	6.6	15.6
Total provisions (US\$. billion)	2.8	3.7	5.6	4	4.5	6.8	13.5
Portfolio at risk (% ratio)	2	1.9	2.7	1.9	2	2.7	5.3
Profitability							
Year-to-date profit/loss (US\$. billion)	4.3	10.1	11.6	10.4	17.7	14.7	14.2
Year-to-date return on assets (% ratio)	2.6	4.3	4.2	3.5	5.6	3.9	3.09
Year-to-date return on equity (% ratio)	8.6	17.2	17.2	12	20.3	13	10.47
Liquidity							
Liquid assets to deposits (% ratio)	49.3	51.6	58.5	62.4	55.1	43.8	55.75
Loans to deposits (% ratio)	75.1	77	69.9	78	72.4	83.1	79.17

Source: Bank of Uganda

APPENDIX 2: AGGREGATED BALANCE SHEETS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 2A: Commercial banks' aggregated balance sheet (US\$. Billions)

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
ASSETS							
Cash & cash assets	472.9	583.0	667.4	692.0	786.6	811.3	810.8
Balances with BOU	802.7	835.8	1,341.6	1,730.1	2,104.81	1,982.6	2,858.7
Due from financial institutions	1,317.8	1,736.5	1,622.2	2,043.7	1,692.8	2,634.8	2,645.5
Government securities	2,532.5	2,073.5	3,053.2	3,648.7	4,463.2	4,064.8	5,105.3
Total gross loans & advances	5,461.1	6,981.0	7,789.7	8,274.6	8,247.3	9,501.8	11,493.3
<i>LESS: Provisions</i>	-88.0	-89.5	-187.9	-261.7	-229.3	-285.6	-820.2
Net loans & advances	5,373.1	6,891.5	7,601.8	8,012.9	8,018.0	9,216.2	10,673.0
Net fixed assets	401.7	429.5	519.3	583.2	821.3	925.9	838.3
Other assets	409.9	432.6	660.4	610.3	671.6	691.9	757.4
TOTAL ASSETS	11,310.5	12,982.4	15,465.9	17,320.9	19,586.1	21,722.2	23,689.2
LIABILITIES							
Deposits	8,041.7	8,903.7	10,457.7	11,504.3	13,218.7	14,821.1	16,235.7
Due to financial institutions	529.1	730.2	513.7	825.9	563.4	630.1	595.5
Administered funds	309.6	339.9	359.1	1,033.2	1,187.6	1,255.9	1,063.3
Other liabilities	864.8	1,007.0	1,558.3	892.9	1,425.7	1,398.1	1,851.3
TOTAL LIABILITIES	9,745.2	10,980.8	12,888.8	14,463.8	16,395.4	18,129.1	19,746.3
SHAREHOLDERS' FUNDS							
Paid-up capital	591.9	789.6	973.6	1,272.3	1,287.4	1,346.8	1,414.6
Share premium	80.3	81.5	75.7	91.8	102.3	115.4	145.9
Retained reserves	534.1	581.2	830.6	914.3	1,174.3	1,446.6	1,578.5
Other reserves	90.3	61.0	152.7	159.7	139.2	143.2	500.0
Profit – Loss (current year)	268.7	488.3	544.5	414.0	487.4	541.1	303.9
TOTAL SHAREHOLDERS' FUNDS	1,565.3	2,001.6	2,577.0	2,857.1	2,857.1	2,857.1	3,942.9
OFF BALANCE SHEET ITEMS							
Letters of Credit	335.6	392.4	352.0	354.2	354.2	354.2	337.2
Guarantees & performance bonds	608.5	786.6	1,046.3	1,157.3	1,157.3	1,157.3	2,548.1
Unused loans/overdrafts commitment	678.4	802.2	1,023.3	1,092.8	1,092.8	1,092.8	2,079.0
Other off balance sheet items	334.9	1,000.2	765.1	483.5	483.5	483.5	736.8
TOTAL OFF BALANCE SHEET ITEMS	1,957.4	2,981.4	3,186.7	3,087.8	3,582.0	3,829.6	5,701.1

Source: Bank of Uganda

Table 2B: Aggregated balance sheet for credit institutions

	Dec- 2011	Dec- 2012	Dec- 2013	Dec - 2014	Dec- 2015	Dec- 2016
ASSETS (Ushs. billion)						
Cash	6.7	7.7	11.5	14.6	16.4	18.6
Balances with institutions in Uganda	41.0	55.9	63.1	56.2	70.3	117.3
Balances with commercial banks outside Uganda	0.2	0.7	0.5	0.3	1.0	1.5
Investments	10.5	12.5	7.9	11.4	29.9	20.2
of which Government securities	10.4	12.5	7.9	11.4	29.9	20.2
Loans and advances (Net)	107.2	115.9	147.6	187.3	225.3	251.0
of which Administered funds*	-	-	-	-	-	-
Premises and fixed assets (Net)	19.2	20.2	23.4	28.4	32.3	35.7
Other Assets	8.9	8.1	11.7	12.8	14.4	18.8
Total assets	193.7	221.1	265.7	311.0	389.6	463.1
LIABILITIES (Ushs. billion)						
Total deposit liabilities to depositors	121.6	133.0	164.9	195.1	254.3	303.9
Loan Insurance Fund	3.6	4.3	4.8	4.9	4.9	4.8
Balances due to commercial banks/associated companies/residents/non-residents	13.2	17.2	21.5	21.9	27.3	30.0
Borrowings at Bank of Uganda	0.7	0.6	0.6	0.4	0.3	0.2
Administered funds	-	-	-	-	-	-
Other Liabilities	16.0	14.5	16.3	22.4	17.5	25.6
Provisions	0.7	2.0	3.1	5.3	2.4	2.7
Capital	35.0	44.3	50.7	56.3	81.9	87.4
of which paid up capital	17.9	21.9	21.8	21.8	54.1	66.6
Profit for current year	2.9	5.2	3.7	5.0	1.0	(0.17)
Total liabilities	193.7	221.1	265.7	310.9	389.6	463.1

Source: Bank of Uganda

Table 2C: Aggregated balance sheet for microfinance deposit-taking institutions

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
ASSETS (Ushs. billion)							
Notes and coins	4.9	6.9	9.0	5.7	6.2	8.3	10.2
Balances with institutions in Uganda	23.7	25.8	48.7	52.2	73.9	70.1	106.8
Government securities	2.4	7.4	0.9	0.0	0.0	1.1	2.8
Net loans outstanding	118.7	169.3	186.5	173.6	203.1	248.3	286.7
Inter branch/ due from own offices	35.0	374.0	0.0	0.0	0.1	0.0	0.0
Net fixed assets	11.1	12.0	13.6	12.8	15.8	23.6	34.4
Long-term investments	-	-	-	-	-	-	-
Other assets	9.0	11.1	17.6	19.7	23.9	22.3	28.6
Total assets	169.9	232.9	276.3	264.0	323.0	374.2	469.7
LIABILITIES (Ushs. billion)							
Deposit liabilities	62.9	76.8	99.9	92.7	145.3	181.6	204.1
Loan insurance fund	12.1	13.5	14.0	16.9	12.1	9.2	7.3
Borrowings	28.5	52.4	57.2	46.9	32.3	24.9	70.5
Other liabilities	10.0	15.6	18.3	18.9	22.5	26.3	31.2
Grants/deferred income	1.8	6.0	7.4	5.5	5.5	6.8	6.3
Inter branch/ Due to own Offices	-	-	-	-	-	-	-
Other long-term Liabilities	-	0.1	0.1	0.1	0.3	0.0	0.0
Total liabilities	115.3	164.2	196.7	181.0	218.0	256.6	327.2
FINANCED BY: (Ushs. billion)							
Capital	33.2	56.4	66.8	69.9	99.0	102.8	128.3
Subordinated debt	21.4	12.2	12.7	13.1	6.0	7.7	7.7
Preference shares	-	-	-	-	-	-	-
Total liabilities & equity	169.9	232.9	276.3	264.0	323.0	374.2	469.7

Source: Bank of Uganda

APPENDIX 3: INCOME STATEMENTS FOR SUPERVISED FINANCIAL INSTITUTIONS

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

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
INCOME (USh. Billion)							
Interest income							
Advances	789.7	1,178.1	1,465.3	1,389.5	1,464.1	1,722.0	1,868.8
Government securities	182.9	210.7	296.5	349.8	416.1	497.6	689.3
Deposits abroad	10.7	22.2	49.3	29.5	8.6	12.0	17.3
Other	44.2	70.0	23.6	91.0	132.0	68.8	117.7
Charges, fees & commissions	214.7	252.6	326.9	335.3	376.1	419.3	429.9
Foreign exchange income	132.9	186.4	250.6	216.4	197.6	257.6	219.7
Other income	100.7	94.9	183.3	127.2	153.9	147.9	261.1
TOTAL INCOME	1,475.8	2,014.7	2,595.5	2,538.7	2,802.3	3,196.6	3,603.8
EXPENSES (USh. Billion)							
Interest expense on deposits	196.8	267.0	401.4	406.8	438.5	467.6	539.9
Other interest expenses	57.3	145.2	193.3	119.8	154.3	189.8	169.3
Provisions for bad debts	79.0	77.8	205.9	247.9	212.2	217.7	638.2
Salaries, wages, staff costs	330.3	381.4	437.8	504.4	583.9	646.9	723.9
Premises, depreciation, transport	153.8	178.5	198.1	221.7	253.9	296.5	322.2
Other expenses	296.2	322.9	405.2	458.3	494.8	612.6	664.6
TOTAL EXPENSES	1,113.4	1,372.8	1,841.7	1,958.9	1,925.4	2,213.5	3,057.8
ADD: Extraordinary credits/charges	-0.4	-0.7	0.9	0.1	0.0	0.0	0.0
Net profit before tax	362.0	641.3	754.7	579.9	664.7	765.3	546.0
LESS: Corporation tax	93.3	153.0	199.9	165.9	179.5	224.1	243.9
NET PROFIT AFTER TAX	268.7	488.3	544.8	414.0	485.2	541.2	302.1

Source: Bank of Uganda

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

	Dec- 2011	Dec- 2012	Dec- 2013	Dec- 2014	Dec- 2015	Dec- 2016
INCOME (Ushs. Billion)						
Interest on loans and advances	27.3	31.7	37.2	49.8	60.1	67.6
Interest on government securities	0.8	2.2	1.6	4.6	3.1	3.6
Other interest income	4.1	0.3	8.1	1.3	5.8	10.9
Total interest income	32.1	41.0	46.9	55.7	69.0	82.0
Total non-interest income	13.5	15.4	20.0	20.2	25.3	28.4
TOTAL INCOME	45.6	56.4	66.9	75.9	94.3	110.5
EXPENSES (Ushs. Billion)						
Total interest expense	3.8	4.6	6.6	7.8	12.2	15.8
Provisions for bad debts	1.6	2.8	6.3	4.2	8.0	6.4
Salaries & other staff costs	17.4	19.9	24.3	28.4	33.8	39.3
Other non-interest expense	19.5	21.9	24.4	29.3	36.7	47.4
TOTAL EXPENSES	42.3	49.2	61.6	69.7	90.7	108.9
Taxation	0.4	1.9	1.6	1.0	2.6	3.7
NET INCOME	2.9	5.2	3.7	5.2	1.0	(0.17)

Source: Bank of Uganda

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

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
INCOME (Ushs. Billion)							
Total credit income	57.0	79.1	99.0	82.5	97.8	110.0	138.6
Total other income	4.3	7.3	10.6	11.2	13.8	16.9	22.8
GROSS FINANCIAL INCOME	61.3	86.3	109.6	93.7	111.6	126.9	161.4
EXPENSES (Ushs. Billion)							
Total financial expenses of lending funds	5.6	9.4	15.7	12.0	15.8	16.9	31.4
Provision for bad debts	2.4	3.0	5.0	3.4	4.6	5.3	12.3
Net financial income	53.3	74.0	88.9	78.3	91.3	104.8	117.6
Total operating expenses on financial services	48.2	63.6	75.5	66.3	73.3	84.3	100.0
NET INCOME FROM OPERATIONS	5.1	10.4	13.4	11.9	17.9	20.3	17.6
Total grant income for financial services	0.3	1.1	1.1	1.7	2.9	0.8	1.3
Total grant income for non-financial services	-	-	-	-	-	-	-
Income from non-financial services	0.1	0.2	0.01	0.03	0.005	0.3	0.9
Total operating expenses on non-financial services	0.0	0.1	0.09	0.08	0.004	0.8	0.0
Net operating profit/loss from non-financial services	0.0	0.1	-0.1	-0.05	0.001	-0.5	0.9
NET PROFIT FOR THE PERIOD	5.4	11.6	14.4	13.6	20.8	18.3	21.8
Corporation tax	1.1	1.5	2.7	3.2	3.1	6.1	7.6
NET PROFIT AFTER TAX	4.3	10.1	11.6	10.4	17.7	12.2	14.1
RETAINED EARNINGS	4.3	10.1	11.6	10.4	17.7	12.2	14.1

Source: Bank of Uganda

APPENDIX 4: CREDIT REFERENCE BUREAU ACTIVITIES (CUMULATIVE FIGURES)

	Dec-2010	Dec-2011	Dec-2012	Dec-2013	Dec-2014	Dec-2015	Dec-2016
Branches on FCS	505	528	547	590	600	617	616
Branches on CRB	503	525	542	579	580	593	603
Financial cards issued	478,568	667,412	802,906	948,936	1,093,107	1,235,845	1,378,329
Number of enquiries	146,435	682,459	1,154,690	1,723,191	2,335,086	2,948,915	3,562,935

Source: Bank of Uganda