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Chief Executives of Commercial Banks and Credit Institutions

<u>Benchmarks for the Assessment of Financial Performance of Commercial Banks and Credit Institutions using the CAMELS Rating Methodology</u>

Bank of Uganda (BOU) revised its benchmarks for assessing the financial performance of Commercial Banks and Credit Institutions to bring them in tandem with changes in the country's economic and global environment. Accordingly, BOU has decided to share the revised benchmarks with the SFIs in order to improve transparency in the way BOU Supervised Financial Institutions (SFIs) are assessed and rated.

1. The revised benchmarks are not cast in stone but are a guide and are based only on quantitative measures. Therefore, in addition to these benchmarks, BOU takes into account other supplementary performance indicators that are not included here but which are reported under each CAMELS component in the datasheets distributed to SFIs on a quarterly basis when awarding a rating. In addition, consideration is given to qualitative measures such as the SFI's Risk Management Framework and other information that may be known about the SFI in arriving at the ultimate rating of the individual CAMELS components as well as the overall/composite rating of the SFI.

2. In order to harmonize the capital requirements in the region, the East African Community member states agreed to set the minimum Core and total Capital to Risk Weighted Assets ratios at 10% and 12%, respectively and to implement the Capital Conservation Buffer of 2.5% over and above the minimum capital requirements in accordance with the Basel III Capital Accord. Accordingly, the buffer enhanced core and total capital to risk weighted assets ratios will become 12.5% and 14.5%, respectively. Each capital adequacy benchmarks category will be adjusted upwards in accordance with the new capital requirements once the relevant statutory instruments are gazetted. In the meantime, SFIs are advised to embark on the process of beefing up their capital base in preparation to meet the enhanced capital requirements and benchmarks.

The purpose of this circular therefore is to forward to you the attached revised key benchmarks for your information and action.

Yours faithfully

J. Bagyenda (Mrs.)
Executive Director Supervision

Key Ratios	Approved Benchmarks (Earnings ratios are annualized)				
Capital ratios	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Core Capital/RWA	Above 20%	>12%-20%	>10%-12%	8%-10%	Below 8%
Total Capital/RWA	Above 24%	>16%-24%	>14%-16%	12%-14%	Below 12%
Capital ratios that will apply after gazetting of relevant Statutory Instruments for new capital requirements					
Core Capital/RWA	Above 24.5%	>16.5%-24.5%	>14.5%-16.5%	12.5%-14.5%	Below 12.5%
Total Capital/RWA	Above 26.5%	>18.5%-26.5%	>16.5%-18.5%	14.5%-16.5%	Below 14.5%
Asset Quality					
NPLs/Gross Loans	1% and below	>1%-4%	>4%-8%	>8%-10%	Above 10%
Earning Assets/Total Assets	Above 90%	80%-90%	70% < 80%	50% < 70%	Below 50%
Earnings ratios (annualized)					
Return on Assets	6% and above	2%<6%	1%<2%	0%<1%	Below 0%
Return on equity	Above 40%	20%<40%	10%<20%	0%<10%	Below 0%
Cost to income ratio	Below 50%	50%<70%	70%<80%	80%<100%	Above 100%
Liquidity ratios					
Liquid Assets/ deposits	Above 60%	30%<60%	25%<30%	20%<25%	Below 20%
Sensitivity to market risk					
Forex Exposure/Core Capital	Below 1%	1%-15%	>15%-25%	>25%-30%	Above 30%
Forex Loans/Forex Deposits	Below 75%	75%-80%	>80%-85%	>85%-90%	Above 90%

Credit Institutions' Earning Ratios

Return on Assets	> 4%	>1.5% - 4%	>0.5% - 1.5%	0 - 0.5%	< 0%
Return on equity	> 20%	>10% - 20%	>3% - 10%	0 - 3%	< 0%
Cost to income ratio	< 60%	60% < 70%	70% < 90%	90% - 100%	>100%

Bank of Uganda: Benchmarks for the assessment of financial performance of commercial banks and credit institutions